

TEEKAY CORP  
Form 20-F  
April 25, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 20-F**

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2011**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

**For the transition period from**                      **to**

**Commission file number 1-12874**

**TEEKAY CORPORATION**

**(Exact name of Registrant as specified in its charter)**

**Republic of The Marshall Islands**

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(Jurisdiction of incorporation or organization)

**4<sup>th</sup> floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

(Address of principal executive offices)

**Mark Cave**

**1. 4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda**

**Telephone: (441) 298-2530 Fax: (441) 292-3931**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

**Title of each class**

**Name of each exchange on which registered**

Common Stock, par value of \$0.001 per share

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

68,732,341 shares of Common Stock, par value of \$0.001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued

Other ☐

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by the International Accounting Standards Board "

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 " Item 18 "

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

" No x

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**PART I**

*This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.*

*Unless otherwise indicated, references in this Annual Report to Teekay, the Company, we, us and our and similar terms refer to Teekay Corporation and its subsidiaries.*

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words expect, intend, plan, believe, anticipate, estimate and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

our future financial condition or results of operations and future revenues and expenses;

tanker market conditions and fundamentals, including the balance of supply and demand in these markets and spot tanker charter rates and oil production;

offshore, liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) market conditions and fundamentals, including the balance of supply and demand in these markets;

our future growth prospects;

future capital expenditure commitments and the financing requirements for such commitments;

delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time-charter contracts;

our acquisition of the *Voyageur* floating, production, storage and offloading (or *FPSO*) unit and the estimated remaining cost to complete its upgrade;

the impact on the operating income of the *Petrojarl Banff* FPSO unit resulting from the storm damage to the unit which was incurred in December 2011;

potential newbuilding order cancellations;

the expected timing and costs of upgrades to any vessels;

the future valuation of goodwill;

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our expectations as to any impairment of our vessels;

the adequacy of restricted cash deposits to fund capital lease obligations;

our ability to fulfill our debt obligations;

compliance with financing agreements and the expected effect of restrictive covenants in such agreements;

declining market vessel values and the effect on our liquidity;

operating expenses, availability of crew and crewing costs, number of off-hire days, dry-docking requirements and durations and the adequacy and cost of insurance;

our ability to capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing forward freight agreements;

the effectiveness of our risk management policies and procedures and the ability of the counterparties to our derivative contracts to fulfill their contractual obligations;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term contracts;

the cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;

the impact of future regulatory changes or environmental liabilities;

taxation of our company and of distributions to our stockholders;

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the expected lifespans of our vessels;

the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;

anticipated funds for liquidity needs and the sufficiency of cash flows;

our hedging activities relating to foreign currency exchange and interest rate risks;

the condition of financial and economic markets, including interest rate volatility and the availability and cost of capital;

the growth of global oil demand;

our exemption from tax on our U.S. source international transportation income;

our expectation regarding uncertain tax positions;

the impact of the *Foinaven* FPSO unit's amended contract on our future operating results;

the expected return on our investment in first-priority ship mortgage loans;

our ability to competitively pursue new FPSO projects;

our competitive positions in our markets;

our business strategy and other plans and objectives for future operations; and

our ability to pay dividends on our common stock.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below in Item 3. Key Information Risk Factors and other factors detailed from time to time in other reports we file with the U.S. Securities and Exchange Commission (or SEC).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

Set forth below is selected consolidated financial and other data of Teekay for fiscal years 2007 through 2011, which have been derived from our consolidated financial statements. The data below should be read in conjunction with the consolidated financial statements and the notes thereto and the Reports of Independent Registered Public Accounting Firms therein with respect to fiscal years 2011, 2010, and 2009 (which are included herein) and Item 5. Operating and Financial Review and Prospects.

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

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|                                                                                     | Years Ended December 31,                        |              |              |              |              |
|-------------------------------------------------------------------------------------|-------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                                                     | 2007                                            | 2008         | 2009         | 2010         | 2011         |
|                                                                                     | (in thousands, except share and per share data) |              |              |              |              |
| <b>Income Statement Data:</b>                                                       |                                                 |              |              |              |              |
| Revenues                                                                            | \$ 2,387,625                                    | \$ 3,229,443 | \$ 2,181,605 | \$ 2,095,753 | \$ 1,953,782 |
| Total operating expenses <sup>(1)</sup>                                             | (2,028,595)                                     | (2,969,324)  | (2,011,817)  | (1,861,630)  | (1,855,670)  |
| Income from vessel operations                                                       | 359,030                                         | 260,119      | 169,788      | 234,123      | 98,112       |
| Interest expense                                                                    | (294,848)                                       | (290,933)    | (141,448)    | (136,107)    | (137,604)    |
| Interest income                                                                     | 101,199                                         | 97,111       | 19,999       | 12,999       | 10,078       |
| Realized and unrealized (loss) gain on non-designated derivative instruments        | (45,322)                                        | (567,074)    | 140,046      | (299,598)    | (342,722)    |
| Equity (loss) income from joint ventures                                            | (12,404)                                        | (36,085)     | 52,242       | (11,257)     | (35,309)     |
| Foreign exchange (loss) gain                                                        | (61,571)                                        | 24,727       | (20,922)     | 31,983       | 12,654       |
| (Loss) gain on notes repurchase                                                     | (947)                                           | 3,010        | (566)        | (12,645)     |              |
| Other income (loss)                                                                 | 23,170                                          | (6,945)      | 13,527       | 7,527        | 12,360       |
| Income tax recovery (expense)                                                       | 3,192                                           | 56,176       | (22,889)     | 6,340        | (4,290)      |
| Net income (loss)                                                                   | 72,446                                          | (459,894)    | 209,777      | (166,635)    | (386,721)    |
| Less: Net (income) loss attributable to non-controlling interests                   | (8,903)                                         | (9,561)      | (81,365)     | (100,652)    | 17,805       |
| Net income (loss) attributable to stockholders of Teekay Corporation <sup>(2)</sup> | 63,543                                          | (469,455)    | 128,412      | (267,287)    | (368,916)    |
| <b>Per Common Share Data:</b>                                                       |                                                 |              |              |              |              |
| Basic earnings (loss) attributable to stockholders of Teekay Corporation            | \$ 0.87                                         | (6.48)       | 1.77         | (3.67)       | (5.25)       |
| Diluted earnings (loss) attributable to stockholders of Teekay Corporation          | 0.85                                            | (6.48)       | 1.76         | (3.67)       | (5.25)       |
| Cash dividends declared                                                             | 0.9875                                          | 1.1413       | 1.2650       | 1.2650       | 1.2650       |
| <b>Balance Sheet Data (at end of year):</b>                                         |                                                 |              |              |              |              |
| Cash and cash equivalents                                                           | \$ 442,673                                      | \$ 814,165   | \$ 422,510   | \$ 779,748   | \$ 692,127   |
| Restricted cash                                                                     | 686,196                                         | 650,556      | 615,311      | 576,271      | 500,154      |
| Vessels and equipment                                                               | 6,846,875                                       | 7,267,094    | 6,835,597    | 6,771,375    | 7,868,361    |
| Net investments in direct financing leases                                          | 101,176                                         | 79,508       | 512,412      | 487,516      | 459,908      |
| Total assets                                                                        | 10,418,541                                      | 10,215,001   | 9,517,432    | 9,912,348    | 11,131,396   |
| Total debt (including capital lease obligations)                                    | 6,120,864                                       | 5,770,133    | 5,203,441    | 5,170,198    | 6,091,420    |
| Capital stock and additional paid-in capital                                        | 628,786                                         | 642,911      | 656,193      | 672,684      | 660,917      |
| Non-controlling interest                                                            | 544,339                                         | 583,938      | 855,580      | 1,353,561    | 1,863,798    |
| Total equity                                                                        | 3,200,293                                       | 2,652,405    | 3,095,670    | 3,332,008    | 3,293,494    |
| Number of outstanding shares of common stock                                        | 72,772,529                                      | 72,512,291   | 72,694,345   | 72,012,843   | 68,732,341   |
| <b>Other Financial Data:</b>                                                        |                                                 |              |              |              |              |
| Net revenues <sup>(3)</sup>                                                         | \$ 1,856,552                                    | \$ 2,471,055 | \$ 1,887,514 | \$ 1,850,656 | \$ 1,777,168 |
| EBITDA <sup>(4)</sup>                                                               | 592,016                                         | 96,554       | 791,291      | 390,838      | 173,703      |
| Adjusted EBITDA <sup>(4)</sup>                                                      | 660,485                                         | 892,616      | 563,217      | 696,876      | 638,161      |
| Total debt to total capitalization <sup>(5)</sup>                                   | 65.7%                                           | 68.5%        | 62.7%        | 60.8%        | 64.9%        |
| Net debt to total net capitalization <sup>(6)</sup>                                 | 60.9%                                           | 61.9%        | 57.4%        | 53.4%        | 59.8%        |
| <b>Capital expenditures:</b>                                                        |                                                 |              |              |              |              |
| Vessel and equipment purchases <sup>(7)</sup>                                       | \$ 910,304                                      | \$ 716,765   | \$ 495,214   | \$ 343,091   | \$ 755,045   |

(1) Total operating expenses include, among other things, the following:

|                                                                        | Years Ended December 31, |           |             |             |              |
|------------------------------------------------------------------------|--------------------------|-----------|-------------|-------------|--------------|
|                                                                        | 2007                     | 2008      | 2009        | 2010        | 2011         |
|                                                                        | (in thousands)           |           |             |             |              |
| Asset impairments and net gain (loss) on sale of vessels and equipment | \$ 16,531                | \$ 50,267 | (\$ 12,629) | (\$ 49,150) | (\$ 151,059) |

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|                                                     |           |              |             |             |              |
|-----------------------------------------------------|-----------|--------------|-------------|-------------|--------------|
| Unrealized (losses) gains on derivative instruments | (143)     | (8,325)      | 14,915      | (4,875)     | (790)        |
| Restructuring charges                               |           | (15,629)     | (14,444)    | (16,396)    | (5,490)      |
| Goodwill impairment charge                          |           | (334,165)    |             |             | (36,652)     |
| Bargain purchase gain                               |           |              |             |             | 58,235       |
|                                                     | \$ 16,388 | (\$ 307,852) | (\$ 12,158) | (\$ 70,421) | (\$ 135,756) |

- (2) In January 2009, we adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 810, *Consolidations*, which requires us to include the portion of net income (loss) that is attributable to the non-controlling interest as part of our total net income (loss).

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- (3) Consistent with general practice in the shipping industry, we use net revenues (defined as revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time-charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time-charters the charterer pays the voyage expenses, which are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, whereas under voyage-charter contracts the ship-owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship-owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call net revenues, are comparable across the different types of contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net revenues with revenues.

|                 | Years Ended December 31, |              |              |              |              |
|-----------------|--------------------------|--------------|--------------|--------------|--------------|
|                 | 2007                     | 2008         | 2009         | 2010         | 2011         |
|                 | (in thousands)           |              |              |              |              |
| Revenues        | \$ 2,387,625             | \$ 3,229,443 | \$ 2,181,605 | \$ 2,095,753 | \$ 1,953,782 |
| Voyage expenses | (531,073)                | (758,388)    | (294,091)    | (245,097)    | (176,614)    |
| Net revenues    | \$ 1,856,552             | \$ 2,471,055 | \$ 1,887,514 | \$ 1,850,656 | \$ 1,777,168 |

- (4) EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before restructuring charges, unrealized foreign exchange (gain) loss, asset impairments and net (gain) loss on sale of vessels and equipment, goodwill impairment charge, bargain purchase gain, amortization of in-process revenue contracts, unrealized (gains) losses on derivative instruments, realized losses (gains) on interest rate swaps, realized losses on interest rate swap amendments and terminations, and share of unrealized losses (gains) on interest rate swaps in non-consolidated joint ventures. EBITDA and Adjusted EBITDA are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below.

*Financial and operating performance.* EBITDA and Adjusted EBITDA assist our management and security holders by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our equity, or debt securities, as applicable.

*Liquidity.* EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses (which may vary significantly from period to period), EBITDA and Adjusted EBITDA provide a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including dividends on shares of our common stock and repayments under debt instruments.

Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

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The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net income (loss), and our historical consolidated Adjusted EBITDA to net operating cash flow.

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|                                                                                     | 2007      | 2008         | Years Ended December 31, |              |              | 2011 |
|-------------------------------------------------------------------------------------|-----------|--------------|--------------------------|--------------|--------------|------|
|                                                                                     |           |              | 2009                     | 2010         |              |      |
|                                                                                     |           |              | (in thousands)           |              |              |      |
| Income Statement Data:                                                              |           |              |                          |              |              |      |
| Reconciliation of EBITDA and Adjusted EBITDA to Net Income (Loss)                   |           |              |                          |              |              |      |
| Net income (loss)                                                                   | \$ 72,446 | \$ (459,894) | \$ 209,777               | \$ (166,635) | \$ (386,721) |      |
| Income tax (recovery) expense                                                       | (3,192)   | (56,176)     | 22,889                   | (6,340)      | 4,290        |      |
| Depreciation and amortization                                                       | 329,113   | 418,802      | 437,176                  | 440,705      | 428,608      |      |
| Interest expense, net of interest income                                            | 193,649   | 193,822      | 121,449                  | 123,108      | 127,526      |      |
| EBITDA                                                                              | 592,016   | 96,554       | 791,291                  | 390,838      | 173,703      |      |
| Restructuring charges                                                               |           | 15,629       | 14,444                   | 16,396       | 5,490        |      |
| Foreign exchange loss (gain)                                                        | 61,571    | (24,727)     | 20,922                   | (31,983)     | (12,654)     |      |
| Asset impairments and net (gain) loss on sale of vessels and equipment              | (16,531)  | (50,267)     | 12,629                   | 49,150       | 151,059      |      |
| Goodwill impairment charge                                                          |           | 334,165      |                          |              | 36,652       |      |
| Bargain purchase gain                                                               |           |              |                          |              | (58,235)     |      |
| Amortization of in-process revenue contracts                                        | (70,979)  | (74,425)     | (75,977)                 | (48,254)     | (46,436)     |      |
| Unrealized losses (gains) on derivative instruments                                 | 99,055    | 530,283      | (293,174)                | 140,187      | 70,822       |      |
| Realized (gains) losses on interest rate swaps                                      | (4,647)   | 32,445       | 127,936                  | 154,098      | 132,931      |      |
| Realized losses on interest rate swap amendments and terminations                   |           |              |                          |              | 149,666      |      |
| Unrealized losses (gains) on interest rate swaps in non-consolidated joint ventures |           | 32,959       | (34,854)                 | 26,444       | 35,163       |      |
| Adjusted EBITDA                                                                     | 660,485   | 892,616      | 563,217                  | 696,876      | 638,161      |      |
| Reconciliation of Adjusted EBITDA to Net Operating Cash Flow                        |           |              |                          |              |              |      |
| Net operating cash flow                                                             | 304,429   | 523,641      | 368,251                  | 411,750      | 107,193      |      |
| Expenditures for dry docking                                                        | 85,403    | 101,511      | 78,005                   | 57,483       | 55,620       |      |
| Interest expense, net of interest income                                            | 193,649   | 193,822      | 121,449                  | 123,108      | 127,526      |      |
| Change in operating assets and liabilities                                          | 43,871    | 28,816       | (148,655)                | (45,415)     | 84,347       |      |
| Gain on sale of marketable securities                                               | 9,577     | 4,576        |                          | 1,805        | 2,906        |      |
| Write-down of marketable securities                                                 |           | (20,157)     |                          |              |              |      |
| Write-down of equity accounted investments                                          |           |              |                          |              | (19,411)     |      |
| Loss on notes repurchase                                                            | (947)     | (1,310)      | (566)                    | (12,645)     |              |      |
| Equity (loss) income, net of dividends received                                     | (11,419)  | (30,352)     | 49,299                   | (11,257)     | (31,376)     |      |
| Other income (loss)                                                                 | 50,245    | 25,153       | (837)                    | (9,627)      | 4,368        |      |
| Employee stock option compensation                                                  | (9,676)   | (14,117)     | (11,255)                 | (15,264)     | (16,262)     |      |
| Restructuring charges                                                               |           | 15,629       | 14,444                   | 16,396       | 5,490        |      |
| Realized (gains) losses on interest rate swaps and foreign exchange contracts       | (4,647)   | 32,445       | 127,936                  | 154,098      | 132,931      |      |
| Realized losses on interest rate swap amendments and terminations                   |           |              |                          |              | 149,666      |      |
| Unrealized losses (gains) on interest rate swaps in non-consolidated joint ventures |           | 32,959       | (34,854)                 | 26,444       | 35,163       |      |
| Adjusted EBITDA                                                                     | 660,485   | 892,616      | 563,217                  | 696,876      | 638,161      |      |

(5) Total capitalization represents total debt and total equity.

(6) Net debt represents total debt less cash, cash equivalents and restricted cash. Total net capitalization represents net debt and total equity.

(7) Excludes vessels purchased in connection with our acquisitions of 50% of OMI Corporation (or *OMI*) in 2007, the remaining 35% of Teekay Petrojarl ASA (or *Teekay Petrojarl*) in 2008 and our acquisition of FPSO units and Investment in Sevan Marine ASA (or *Sevan*) in 2011. Please read Item 5. Operating and Financial Review and Prospects. The expenditures for vessels and equipment exclude non-cash investing activities. Please read Item 18. Financial Statements: Note 17 Supplemental Cash Flow Information.

**Risk Factors**

*The cyclical nature of the tanker industry may lead to volatile changes in charter rates, which may adversely affect our earnings.*

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of, and demand for, tanker capacity and changes in the supply of and demand for oil and oil products. If the tanker market is depressed, our earnings may decrease, particularly with respect to our spot tanker sub-segment, a subset of our conventional tanker segment, which accounted for approximately 9% and 13% of our net revenues during 2011 and 2010, respectively. The cyclical nature of the tanker industry may cause significant increases or decreases in the revenue we earn from our vessels and may also cause significant increases or decreases in the value of our vessels. The factors affecting the supply of and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

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Factors that influence demand for tanker capacity include:

demand for oil and oil products;

supply of oil and oil products;

regional availability of refining capacity;

global and regional economic and political conditions;

the distance oil and oil products are to be moved by sea; and

changes in seaborne and other transportation patterns.

Factors that influence the supply of tanker capacity include:

the number of newbuilding deliveries;

the scrapping rate of older vessels;

conversion of tankers to other uses;

the number of vessels that are out of service; and

environmental concerns and regulations.

Changes in demand for transportation of oil over longer distances and in the supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows.

***Changes in the oil and natural gas markets could result in decreased demand for our vessels and services.***

Demand for our vessels and services in transporting oil, petroleum products, LNG and LPG depend upon world and regional oil, petroleum and natural gas markets. Any decrease in shipments of oil, petroleum products, LNG or LPG in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, petroleum products, LNG or LPG, and competition from alternative energy sources. A slowdown of the U.S. and world economies may result in reduced consumption of oil, petroleum products and natural gas and decreased demand for our vessels and services, which would reduce vessel earnings.

***Changes in the spot tanker market may result in significant fluctuations in the utilization of our vessels and our profitability.***

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During 2011 and 2010, we derived approximately 9% and 13%, respectively, of our net revenues from the vessels in our spot tanker sub-segment (which includes vessels operating under charters with an initial term of less than one year). Our spot tanker sub-segment consists of conventional crude oil tankers and product carriers operating on the spot tanker market or subject to time charters, or contracts of affreightment priced on a spot-market basis or fixed-rate contracts with a term of less than one year. Part of our conventional Aframax and Suezmax tanker fleets and our large and medium product tanker fleets are among the vessels included in our spot tanker sub-segment. Our shuttle tankers may also trade in the spot tanker market when not otherwise committed to perform under time-charters or contracts of affreightment. Due to activity in the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. The successful operation of our vessels in the spot-charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. Future spot rates may not be sufficient to enable our vessels trading in the spot tanker market to operate profitably or to provide sufficient cash flow to service our debt obligations.

### ***Reduction in oil produced from offshore oil fields could harm our shuttle tanker and FPSO businesses.***

As at December 31, 2011, we had 36 vessels operating in our shuttle tanker fleet and seven FPSO units operating in our FPSO fleet. A majority of our shuttle tankers and all of our FPSO units earn revenue that depends upon the volume of oil we transport or the volume of oil produced from offshore oil fields. Oil production levels are affected by several factors, all of which are beyond our control, including:

geologic factors, including general declines in production that occur naturally over time;

the rate of technical developments in extracting oil and related infrastructure and implementation costs; and

operator decisions based on revenue compared to costs from continued operations.

Factors that may affect an operator's decision to initiate or continue production include: changes in oil prices; capital budget limitations; the availability of necessary drilling and other governmental permits; the availability of qualified personnel and equipment; the quality of drilling prospects in the area; and regulatory changes. In addition, the volume of oil we transport may be adversely affected by extended repairs to oil field installations or suspensions of field operations as a result of oil spills, operational difficulties, strikes, employee lockouts or other labor unrest. The rate of oil production at fields we service may decline from existing or future levels, and may be terminated, all of which could harm our business and operating results. In addition, if such a reduction or termination occurs, the spot tanker market rates, if any, in the conventional oil tanker trades at which we may be able to redeploy the affected shuttle tankers may be lower than the rates previously earned by the vessels under contracts of affreightment, which would also harm our business and operating results.

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***The redeployment risk of FPSO units is high given their lack of alternative uses and significant costs.***

FPSO units are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. Unless extended, certain of our FPSO production service agreements will expire during the next seven years. Our clients may also terminate certain of our FPSO production service agreements prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

***The duration of many of our shuttle tanker and FSO contracts is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, we will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels.***

Some of our shuttle tanker contracts have a life-of-field duration, which means that the contract continues until oil production at the field ceases. If production terminates for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker and floating storage and off-take (or FSO) contracts under which our vessels operate are subject to extensions beyond their initial term. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. If we are unable to promptly redeploy any affected vessels at rates at least equal to those under the contracts, if at all, our operating results will be harmed. Any potential redeployment may not be under long-term contracts, which may affect the stability of our business and operating results.

***Charter rates for conventional oil and product tankers may fluctuate substantially over time and may be lower when we are attempting to re-charter conventional oil or product tankers, which could adversely affect our operating results. Any changes in charter rates for LNG or LPG carriers, shuttle tankers or FSO or FPSO units could also adversely affect redeployment opportunities for those vessels.***

Our ability to re-charter our conventional oil and product tankers following expiration of existing time-charter contracts and the rates payable upon any renewal or replacement charters will depend upon, among other things, the state of the conventional tanker market. Conventional oil and product tanker trades are highly competitive and have experienced significant fluctuations in charter rates based on, among other things, oil, refined petroleum product and vessel demand. For example, an oversupply of conventional oil tankers can significantly reduce their charter rates. There also exists some volatility in charter rates for LNG and LPG carriers, shuttle tankers and FSO and FPSO units, which could also adversely affect redeployment opportunities for those vessels.

***Over time, the value of our vessels may decline, which could adversely affect our operating results.***

Vessel values for oil and product tankers, LNG and LPG carriers and FPSO and FSO units can fluctuate substantially over time due to a number of different factors. Vessel values may decline substantially from existing levels. If operation of a vessel is not profitable, or if we cannot re-deploy a chartered vessel at attractive rates upon charter termination, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings. Vessel values, particularly of tankers, have declined over the past few years, and have contributed to charges against our earnings.

***Our growth depends on continued growth in demand for LNG and LPG, and LNG and LPG shipping, as well as offshore oil transportation, production, processing and storage services.***

A significant portion of our growth strategy focuses on continued expansion in the LNG and LPG shipping sectors and on expansion in the shuttle tanker, FSO and FPSO sectors.

Expansion of the LNG and LPG shipping sectors depends on continued growth in world and regional demand for LNG and LPG and LNG and LPG shipping and the supply of LNG and LPG. Demand for LNG and LPG and LNG and LPG shipping could be negatively affected by a number of factors, such as increases in the costs of natural gas derived from LNG relative to the cost of natural gas generally, increases in the production of natural gas in areas linked by pipelines to consuming areas, increases in the price of LNG and LPG relative to other energy sources, the availability of new energy sources, and negative global or regional economic or political conditions. Reduced demand for LNG or LPG and LNG or LPG shipping would have a material adverse effect on future growth of our liquefied gas segment, and could harm that segment's results. Growth of the LNG and LPG markets may be limited by infrastructure constraints and community and environmental group resistance to new LNG and LPG infrastructure over concerns about the environment, safety and terrorism. If the LNG or LPG supply chain is disrupted or does not continue to grow, or if a significant LNG or LPG explosion, spill or similar incident occurs, it could have a material adverse effect on growth and could harm our business, results of operations and financial condition.

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Expansion of the shuttle tanker, FSO and FPSO sectors depends on continued growth in world and regional demand for these offshore services, which could be negatively affected by a number of factors, such as:

decreases in the actual or projected price of oil, which could lead to a reduction in or termination of production of oil at certain fields we service or a reduction in exploration for or development of new offshore oil fields;

increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;

decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;

availability of new, alternative energy sources; and

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negative global or regional economic or political conditions, particularly in oil consuming regions, which could reduce energy consumption or its growth.

Reduced demand for offshore marine transportation, production, processing or storage services would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

### ***The intense competition in our markets may lead to reduced profitability or expansion opportunities.***

Our vessels operate in highly competitive markets. Competition arises primarily from other vessel owners, including major oil companies and independent companies. We also compete with owners of other size vessels. Our market share is insufficient to enforce any degree of pricing discipline in the markets in which we operate and our competitive position may erode in the future. Any new markets that we enter could include participants that have greater financial strength and capital resources than we have. We may not be successful in entering new markets.

One of our objectives is to enter into additional long-term, fixed-rate time charters for our LNG and LPG carriers, shuttle tankers, FSO and FPSO units. The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. We expect substantial competition for providing services for potential LNG, LPG, shuttle tanker, FSO and FPSO projects from a number of experienced companies, including state-sponsored entities and major energy companies. Some of these competitors have greater experience in these markets and greater financial resources than do we. We anticipate that an increasing number of marine transportation companies, including many with strong reputations and extensive resources and experience will enter the LNG and LPG transportation, shuttle tanker, FSO and FPSO sectors. This increased competition may cause greater price competition for time-charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

### ***The loss of any key customer or its inability to pay for our services could result in a significant loss of revenue in a given period.***

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Three customers, international oil companies, accounted for an aggregate of 36%, or \$698.9 million, of our consolidated revenues during 2011 (2010 three customers for 37% or \$778.6 million, 2009 three customers for 33% or \$716.5 million). The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer, or the inability of a significant customer to pay for our services, could have a material adverse effect on our business, financial condition and results of operations.

### ***Future adverse economic conditions, including disruptions in the global credit markets, could adversely affect our results of operations.***

Economic downturns and financial crises in the global markets could produce illiquidity in the capital markets, market volatility, heightened exposure to interest rate and credit risks and reduced access to capital markets. If global financial markets and economic conditions significantly deteriorate in the future, we may face restricted access to the capital markets or bank lending, which may make it more difficult and costly to fund future growth. Decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

### ***Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.***

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination

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of our operations, including, in certain instances, seizure or detention of our vessels. For further information about regulations affecting our business and related requirements on us, please read Item 4. Information on the Company B. Operations Regulations.

***We may be unable to make or realize expected benefits from acquisitions, and implementing our strategy of growth through acquisitions may harm our financial condition and performance.***

A principal component of our strategy is to continue to grow by expanding our business both in the geographic areas and markets where we have historically focused as well as into new geographic areas, market segments and services. We may not be successful in expanding our operations and any expansion may not be profitable. Our strategy of growth through acquisitions involves business risks commonly encountered in acquisitions of companies, including:

interruption of, or loss of momentum in, the activities of one or more of an acquired company's businesses and our businesses;

additional demands on members of our senior management while integrating acquired businesses, which would decrease the time they have to manage our existing business, service existing customers and attract new customers;

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difficulties in integrating the operations, personnel and business culture of acquired companies;

difficulties of coordinating and managing geographically separate organizations;

adverse effects on relationships with our existing suppliers and customers, and those of the companies acquired;

difficulties entering geographic markets or new market segments in which we have no or limited experience; and

loss of key officers and employees of acquired companies.

Acquisitions may not be profitable to us at the time of their completion and may not generate revenues sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our results of operations and financial condition, including risks that we may: fail to realize anticipated benefits, such as cost-savings, revenue and cash flow enhancements and earnings accretion; decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions; incur additional indebtedness, which may result in significantly increased interest expense or financial leverage, or issue additional equity securities to finance acquisitions, which may result in significant shareholder dilution; incur or assume unanticipated liabilities, losses or costs associated with the business acquired; or incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

***The strain that growth places upon our systems and management resources may harm our business.***

Our growth has placed, and we believe it will continue to place, significant demands on our management, operational and financial resources. As we expand our operations, we must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. In addition, our three publicly traded subsidiaries have increased our complexity and placed additional demands on our management. Our future growth and financial performance will also depend on our ability to recruit, train, manage and motivate our employees to support our expanded operations and continue to improve our customer support, financial controls and information systems.

These efforts may not be successful and may not occur in a timely or efficient manner. Failure to effectively manage our growth and the system and procedural transitions required by expansion in a cost-effective manner could have a material adverse affect on our business.

***Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.***

The operation of oil and product tankers, LNG and LPG carriers, and FSO and FPSO units is inherently risky. Although we carry hull and machinery (marine and war risk) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, except for certain LNG carriers, we do not generally carry insurance on our vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill, marine disaster or natural disasters could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available may be significantly more expensive than our existing coverage.

***Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.***

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Our vessels and their cargoes are at risk of being damaged or lost because of events such as:

marine disaster;

bad weather or natural disasters;

mechanical failures;

grounding, fire, explosions and collisions;

piracy;

human error; and

war and terrorism.

An accident involving any of our vessels could result in any of the following:

death or injury to persons, loss of property or environmental damage or pollution;

delays in the delivery of cargo;

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loss of revenues from or termination of charter contracts;

governmental fines, penalties or restrictions on conducting business;

higher insurance rates; and

damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results.

### ***Our operating results are subject to seasonal fluctuations.***

We operate our conventional tankers in markets that have historically exhibited seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, our revenues have historically been weaker during the fiscal quarters ended June 30 and September 30, and stronger in our fiscal quarters ended March 31 and December 31.

Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is our primary existing offshore oil market, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in our results of operations, as oil production typically is lower in the fiscal quarters ended June 30 and September 30 in this region compared with production in the fiscal quarters ended March 31 and December 31. Because a number of our North Sea shuttle tankers operate under contracts of affreightment, under which revenue is based on the volume of oil transported, the results of our shuttle tanker operations in the North Sea under these contracts generally reflect this seasonal production pattern. When we redeploy affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for our North Sea shuttle tanker operations may be negatively affected if the rates in the conventional oil tanker markets are lower than the contract of affreightment rates. In addition, we seek to coordinate some of the general dry docking schedule of our fleet with this seasonality, which may result in lower revenues and increased dry docking expenses during the summer months.

### ***We expend substantial sums during construction of newbuildings and the conversion of tankers to FPSO or FSO units without earning revenue and without assurance that they will be completed.***

We are typically required to expend substantial sums as progress payments during construction of a newbuilding or vessel conversion, but we do not derive any revenue from the vessel until after its delivery. In addition, under some of our time charters if our delivery of a vessel to a customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double the hire rate during the delay. For prolonged delays, the customer may terminate the time charter and, in addition to the resulting loss of revenues, we may be responsible for additional substantial liquidated charges.

Our newbuilding financing commitments typically have been pre-arranged. However, if we were unable to obtain financing required to complete payments on any of our newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made. As of December 31, 2011, we had four shuttle tankers, one FPSO unit and the conversion of an existing Aframax tanker to an FPSO unit on order. The four shuttle tankers are scheduled for delivery in 2013 and the two FPSO units are scheduled to be delivered between 2012 and 2013. As of December 31, 2011, progress payments made towards these newbuildings, excluding payments made by our joint venture partners, totalled \$499.1 million.

In addition, conversion of tankers to FPSO and FSO units expose us to a numbers of risks, including lack of shipyard capacity and the difficulty of completing the conversion in a timely and cost effective manner. During conversion of a vessel, we do not earn revenue from it. In addition, conversion projects may not be successful.

### ***We make substantial capital expenditures to expand the size of our fleet. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our financial leverage could increase or our stockholders could be diluted.***

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We regularly evaluate and pursue opportunities to provide the marine transportation requirements for various projects, and we have currently submitted bids to provide transportation solutions for LNG and LPG, FSO and FPSO projects. We may submit additional bids from time to time. The award process relating to LNG and LPG transportation, FSO and FPSO opportunities typically involves various stages and takes several months to complete. If we bid on and are awarded contracts relating to any LNG and LPG, FSO and FPSO projects, we will need to incur significant capital expenditures to build the related LNG and LPG carriers, FSO and FPSO units.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in obtaining necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities. Issuing additional equity securities may result in significant stockholder dilution and would increase the aggregate amount of cash required to pay quarterly dividends.

### ***Exposure to currency exchange rate and interest rate fluctuations results in fluctuations in our cash flows and operating results.***

Substantially all of our revenues are earned in U.S. Dollars, although we are paid in Euros, Australian Dollars, Norwegian Kroner and British Pounds under some of our charters. A portion of our operating costs are incurred in currencies other than U.S. Dollars. This partial mismatch in operating

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revenues and expenses leads to fluctuations in net income due to changes in the value of the U.S. dollar relative to other currencies, in particular the Norwegian Kroner, the Australian Dollar, the Canadian Dollar, the Singapore Dollar, the Japanese Yen, the British Pound and the Euro. We also make payments under two Euro-denominated term loans. If the amount of these and other Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations.

Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to other currencies also result in fluctuations of our reported revenues and earnings. Under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant unrealized foreign currency exchange gains or losses each period. The primary source of these gains and losses is our Euro-denominated term loans.

***Many of our seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.***

A significant portion of our seafarers are employed under collective bargaining agreements. We may become subject to additional labor agreements in the future. We may suffer to labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or bi-annually for seafarers and annually for onshore operational staff and may increase our cost of operation. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.

***We may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.***

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. If crew costs increase, and we are not able to increase our rates to customers to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

***Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.***

Terrorist attacks, piracy and the current conflicts in the Middle East, and other current and future conflicts, may adversely affect our business, operating results, financial condition, and ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil facilities, shipyards, vessels, pipelines and oil fields could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate the charters and impact the use of shuttle tankers under contracts of affreightment, which would harm our cash flow and business.

***Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.***

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. In recent years, the frequency and severity of piracy incidents has significantly increased, particularly in the Gulf of Aden and Indian Ocean. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage can increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ on-board security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

***Our substantial operations outside the United States expose us to political, governmental and economic instability, which could harm our operations.***

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries to which we trade may limit trading activities with those countries, which could also harm our business and ability to make cash distributions. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results.

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### ***Maritime claimants could arrest, or port authorities could detain, our vessels, which could interrupt our cash flow.***

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another of our ships. In addition, port authorities may seek to detain our vessels in port, which could adversely affect our operating results or relationships with customers.

### ***Declining market values of our vessels could adversely affect our liquidity and result in breaches of our financing agreements.***

Market values of vessels fluctuate depending upon general economic and market conditions affecting relevant markets and industries and competition from other shipping companies and other modes of transportation. In addition, as vessels become older, they generally decline in value. Declining vessel values could adversely affect our liquidity by limiting our ability to raise cash by refinancing vessels. Declining vessel values could also result in a breach of loan covenants and events of default under certain of our credit facilities that require us to maintain certain loan-to-value ratios. If we are unable to pledge additional collateral in the event of a decline in vessel values, the lenders under these facilities could accelerate our debt and foreclose on our vessels pledged as collateral for the loans. As of December 31, 2011, the total outstanding debt under credit facilities with this type of covenant tied to conventional tanker values was \$204.2 million and to LNG carrier values was \$467.6 million. We have five financing arrangements that require us to maintain vessel value to outstanding loan principal balance ratios ranging from 105% to 115%. At December 31, 2011, we were in compliance with these required ratios.

### ***Climate change and greenhouse gas restrictions may adversely impact our operations and markets.***

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil and gas will lessen dramatically over the short-term, in the long-term climate change may reduce the demand for oil and gas or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

### ***We have substantial debt levels and may incur additional debt.***

As of December 31, 2011, our consolidated debt and capital lease obligations totalled \$6.1 billion and we had the capacity to borrow an additional \$0.8 billion under our credit facilities. These credit facilities may be used by us for general corporate purposes. Our consolidated debt and capital lease obligations could increase substantially. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and dividends to stockholders;

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our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and

our debt level may limit our flexibility in obtaining additional financing, pursuing other business opportunities and responding to changing business and economic conditions.

***Our ability to service our debt will depend on certain financial, business and other factors, many of which are beyond our control.***

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. In addition, we rely on distributions and other intercompany cash flows from our subsidiaries to repay our obligations. Financing arrangements between some of our subsidiaries and their respective lenders contain restrictions on distributions from such subsidiaries.

If we are unable to generate sufficient cash flow to service our debt service requirements, we may be forced to take actions such as:

restructuring or refinancing our debt;

seeking additional debt or equity capital;

seeking bankruptcy protection;

reducing distributions;

reducing or delaying our business activities, acquisitions, investments or capital expenditures; or

selling assets.

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Such measures might not be successful and might not enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms. In addition, our credit agreements and the indenture governing our debt securities may restrict our ability to implement some of these measures.

### ***Financing agreements containing operating and financial restrictions may restrict our business and financing activities.***

The operating and financial restrictions and covenants in our revolving credit facilities, term loans and in any of our future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements restrict our ability to:

pay dividends;

incur or guarantee indebtedness;

change ownership or structure, including mergers, consolidations, liquidations and dissolutions;

grant liens on our assets;

sell, transfer, assign or convey assets;

make certain investments; and

enter into a new line of business.

Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in the financing agreements, our obligations may become immediately due and payable, and the lenders' commitment under our credit facilities, if any, to make further loans may terminate. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

### ***Certain of Teekay LNG's lease arrangements contain provisions whereby it has provided a tax indemnification to third parties, which may result in increased lease payments or termination of favorable lease arrangements.***

Teekay LNG and a joint venture partner are the lessee under 30-year capital lease arrangements with a third party for three LNG carriers. Under the terms of these capital lease arrangements, the lessor claims tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. The rentals payable under the lease arrangements are predicated on the basis of certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect or there is a change in the applicable tax legislation or the interpretation thereof by the United Kingdom taxing authority, the lessor is entitled to increase the rentals so as to maintain its agreed after-tax margin. Teekay LNG does not have the ability to pass these increased rentals onto the charter party. However, the terms of the lease arrangements enable Teekay LNG and the joint venture partner jointly to terminate the lease arrangement on a voluntary basis at any time. In the event of an early termination of the lease arrangements, the joint venture may be obliged to pay termination sums to the lessor sufficient to repay its investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of tax depreciation, if any. Although the exact amount of any such payments upon termination would be negotiated between Teekay LNG and the lessor, we expect the amount would be significant.

Recently, the U.K. taxing authority has been urging lessors under capital lease arrangements that have tax benefits similar to the ones provided by the capital lease arrangements for our LNG carriers to terminate such capital lease arrangements and has in other circumstances challenged

the use of similar tax structures, although under facts we believe are different from ours. As a result, the lessor has requested that Teekay LNG enter into negotiations for a mutually agreed upon termination of these leases. Teekay LNG has declined the request to negotiate. Based on discussions with our counsel, we do not believe that the U.K. taxing authority would be able to successfully challenge the availability to the lessor of these benefits. This assessment is partially based on a January 2012 court decision, regarding a similar financial lease of an LNG carrier, that was ruled in favor of the taxpayer. However, it is possible that the U.K. taxing authority may appeal that decision. If the U.K. taxing authority were able to successfully challenge Teekay LNG's leases, the joint venture, in which Teekay LNG owns a 70% interest, could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. The estimate of Teekay LNG's 70% share of the potential exposure ranges from \$54 million to \$77 million.

In addition, the subsidiaries of another joint venture formed to service the Tangguh LNG project in Indonesia have entered into lease arrangements with a third party for two LNG carriers. Teekay LNG purchased our interest in this joint venture in 2009. The terms of the lease arrangements provide similar tax and change of law risk assumption by this joint venture as with the three LNG carriers above.

***Our joint venture arrangements impose obligations upon us but limit our control of the joint ventures, which may affect our ability to achieve our joint venture objectives.***

For financial or strategic reasons, we conduct a portion of our business through joint ventures. Generally, we are obligated to provide proportionate financial support for the joint ventures although our control of the business entity may be substantially limited. Due to this limited control, we generally have less flexibility to pursue our own objectives through joint ventures than we would with our own subsidiaries. There is no assurance that our joint venture partners will continue their relationships with us in the future or that we will be able to achieve our financial or strategic objectives relating to the joint ventures and the markets in which they operate. In addition, our joint venture partners may have business objectives that are inconsistent with ours, experience financial and other difficulties that may affect the success of the joint venture, or be unable or unwilling to fulfill their obligations under the joint ventures, which may affect our financial condition or results of operations.

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### **Tax Risks**

In addition to the following risk factors, you should read Item 4. Information on the Company Taxation of the Company and Item 10. Additional Information Material U.S. Federal Income Tax Considerations and Non-United States Tax Considerations for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our common stock.

***U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. holders.***

A non-U.S. entity taxed as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (or *PFIC*) for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of certain types of passive income, or at least 50% of the average value of the entity's assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties, other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. By contrast, income derived from the performance of services does not constitute passive income.

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the U.S. Internal Revenue Code of 1986, as amended (or the *Code*). However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-001) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS or a court of law, will accept our position, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to determine that we are or have been a PFIC for any taxable year, U.S. holders of our common stock will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those U.S. holders make certain elections available under the Code, such holders would be liable to pay tax at ordinary income tax rates plus interest upon certain distributions and upon any gain from the disposition of our common stock, as if such distribution or gain had been recognized ratably over the U.S. holder's holding period. Please read Item 10. Additional Information Material U.S. Federal Income Tax Considerations United States Federal Income Taxation of U.S. Holders Consequences of Possible PFIC Classification.

***The preferential tax rates applicable to qualified dividend income are temporary, and the absence of legislation extending the term would cause our dividends to be taxed at ordinary graduated tax rates.***

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to U.S. individual stockholders (and certain other U.S. stockholders). In the absence of legislation extending the term for these preferential tax rates or providing for some other treatment, all dividends received by such U.S. taxpayers in taxable years beginning after December 31, 2012 will be taxed at ordinary graduated tax rates. Please read Item 10. Additional Information Material U.S. Federal Income Tax Considerations United States Federal Income Taxation of U.S. Holders Distributions.

***We may be subject to taxes, which could affect our operating results.***

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations, which reduces our operating results. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing our operating results. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, changes in the ownership of our stock may cause us and certain of our subsidiaries to be unable to claim an exemption from U.S. federal income tax under Section 883 of the Code. If we were not exempt from tax under Section 883 of the Code, we or our subsidiaries that are currently claiming exemptions will be subject to U.S. federal income tax on shipping income attributable to our subsidiaries

transportation of cargoes to or from the U.S., the amount of which is not within our complete control. Also, jurisdictions in which we or our subsidiaries are organized, own assets or have operations may change their tax laws, or we may enter into new business transactions relating to such jurisdictions, which could result in increased tax liability and reduce our operating results. Please read Item 4. Information on the Company Taxation of the Company.

#### **Item 4. Information on the Company**

##### **A. Overview, History and Development**

###### **Overview**

We are a leading provider of international crude oil and gas marine transportation services and we also offer offshore oil production, storage and offloading services, primarily under long-term, fixed-rate contracts. Over the past decade, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included our expansion into the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors through our publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), further growth of our operations in the offshore production,

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storage and transportation sector through our publicly-listed subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) and through our 100% ownership interest in Teekay Petrojarl AS, and expansion of our conventional tanker business through our publicly-listed subsidiary, Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*). We are responsible for managing and operating consolidated assets of over \$11 billion, comprised of approximately 150 liquefied gas, offshore, and conventional tanker assets. With offices in 16 countries and approximately 6,400 seagoing and shore-based employees, Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies, and its reputation for safety, quality and innovation has earned it a position with its customers as The Marine Midstream Company.

Our shuttle tanker and FSO segment and our FPSO segment include our shuttle tanker operations, floating storage and off-take (or *FSO*) units, and our floating production, storage and offloading (or *FPSO*) units, which primarily operate under long-term fixed-rate contracts. As of December 31, 2011, our shuttle tanker fleet, including newbuildings on order, had a total cargo capacity of approximately 5.0 million deadweight tonnes (or *dwt*), which represented approximately 44% of the total tonnage of the world shuttle tanker fleet. Please read Item 4. Information on the Company: Our Fleet.

Our liquefied gas segment includes our LNG and LPG carriers. Substantially all of our LNG and LPG carriers are subject to long-term, fixed-rate charter contracts. As of December 31, 2011, this fleet, including newbuildings on order, had a total cargo carrying capacity of approximately 3.3 million cubic meters. Please read Item 4. Information on the Company: Our Fleet.

Our conventional tanker segment includes our conventional crude oil tankers and product carriers. In order to provide investors with additional information about our conventional tanker segment, we have divided this operating segment into the fixed-rate tanker sub-segment and the spot tanker sub-segment.

Our spot tanker sub-segment consists of conventional crude oil tankers and product tankers operating in the spot-tanker market or subject to time-charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. We consider contracts that have an original term of less than one year in duration to be short-term. Our conventional Aframax, Suezmax, and large and medium product tankers are among the vessels included in the spot tanker sub-segment. Our fixed-rate tanker sub-segment includes our conventional crude oil and product tankers on fixed-rate time-charter contracts with an initial duration of at least one year. Please read Item 4. Information on the Company: Our Fleet.

The Teekay organization was founded in 1973. We are incorporated under the laws of the Republic of The Marshall Islands as Teekay Corporation and maintain our principal executive headquarters at 4<sup>th</sup> floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530. Our principal operating office is located at Suite 2000, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2K2. Our telephone number at such address is (604) 683-3529.

## **Recent Business Acquisition**

### *Acquisition of FPSO Units and Investment in Sevan Marine ASA*

On November 30, 2011, we acquired from Sevan the FPSO unit Sevan Hummingbird (or *Hummingbird*) and its existing customer contract for approximately \$184 million (including an adjustment for working capital) and made an investment of approximately \$25 million to obtain a 40% ownership interest in a recapitalized Sevan. We also entered into a cooperation agreement with Sevan relating to joint marketing of offshore projects, the development of future projects, and the financing of such projects. Concurrently, our subsidiary, Teekay Offshore acquired from Sevan the FPSO unit Sevan Piranema (or *Piranema*) and its existing customer contract for approximately \$164 million (including an adjustment for working capital). The purchase price for the acquisitions of the *Hummingbird* and the *Piranema* and the investment in Sevan Marine were paid in cash and financed by a combination of new debt facilities, a private placement offering of Teekay Offshore common units and existing liquidity.

On November 30, 2011, we also entered into an agreement to acquire the FPSO unit Sevan Voyageur (or *Voyageur*) and its existing customer contract from Sevan. We will acquire the *Voyageur* once the existing upgrade project is completed and the *Voyageur* commences operations under its customer contract, currently expected to be in the fourth quarter of 2012. We will pay Sevan \$94.0 million to acquire the *Voyageur*, will assume the *Voyageur*'s existing \$230.0 million credit facility, which had an outstanding balance of \$220.0 million on November 30, 2011, and are responsible for all remaining upgrade costs, which are estimated to be between \$110 and \$130 million. We have control over the upgrade project and have guaranteed the repayment of the existing credit facility. The *Voyageur* has been consolidated by us effective November 30, 2011, as the *Voyageur* has been determined to be a variable interest entity (or *VIE*) and we have been determined to be the primary beneficiary.

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Please read Item 5. Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments in 2011 and Early 2012 for more information.

### Recent Equity Offerings and Transactions by Subsidiaries

#### *Equity Offerings and Transactions by Teekay Tankers*

During June 2009, Teekay Tankers completed a public offering of 7.0 million common shares of its Class A Common Stock at a price of \$9.80 per share, for gross proceeds of \$68.6 million. Teekay Tankers used the total net offering proceeds of approximately \$65.6 million to acquire a 2003-built Suezmax tanker from us for \$57.0 million and to repay a portion of its outstanding debt under its revolving credit facility.

During April 2010, Teekay Tankers completed a public offering of 8.8 million common shares of its Class A Common Stock (including 1.1 million common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.25 per share, for gross proceeds of \$107.5 million. Teekay Tankers used the net proceeds from the offering as partial consideration to acquire from us for a total purchase price of \$168.7 million the following three vessels: two Suezmax tankers, the *Yamuna Spirit* and the *Kaveri Spirit*, and one Aframax tanker, the *Helga Spirit*. As part of the purchase price for these vessels, Teekay Tankers concurrently issued to us 2.6 million unregistered shares of Class A Common Stock at the public offering price of \$12.25 per share.

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During October 2010, Teekay Tankers completed a public offering of 8.6 million common shares of its Class A Common Stock (including 395,000 common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.15 per share, for gross proceeds of \$104.4 million. Teekay Tankers used part of the net proceeds from the offering to repay a portion of its outstanding debt under a term loan.

During February 2011, Teekay Tankers completed a public offering of 9.9 million common shares of its Class A Common Stock (including 1.3 million common shares issued upon the exercise of the underwriter's overallotment option) at a price of \$11.33 per share, for gross proceeds of approximately \$112.1 million. Teekay Tankers used the net proceeds from the offering to prepay a portion of its outstanding debt under a revolving credit facility.

During February 2012, Teekay Tankers completed a public offering of 17.3 million common shares of its Class A common stock (including 2.3 million common shares issued upon the full exercise of the underwriter's overallotment option) at a price of \$4.00 per share, for gross proceeds of \$69 million. Please read Item 18. Financial Statements: Note 25(c) Subsequent Events. Teekay Tankers used the net proceeds from the offering to repay a portion of its outstanding debt under a revolving credit facility.

As a result of these transactions, our ownership of Teekay Tankers was reduced to 20.4% as of March 1, 2012. We maintain voting control of Teekay Tankers through our ownership of shares of Class A and Class B Common Stock and continue to consolidate this subsidiary. Please read Item 18. Financial Statements: Note 5 Equity Offerings by Subsidiaries.

During April 2012, Teekay Tankers reached an agreement to acquire from Teekay, a fleet of 13 double-hull conventional oil and product tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$455 million. Please read Item 18. Financial Statements: Note 25(f) Subsequent Events. As a result of this transaction, our ownership in Teekay Tankers will increase from approximately 20% to approximately 25%. The transaction is subject to final documentation, receiving relevant third party consents, as well as other customary closing conditions, and is expected to be completed in the second quarter of 2012.

### *Equity Offerings and Transactions by Teekay Offshore and the Sale of Remaining Interest in OPCO to Teekay Offshore*

During August 2009, Teekay Offshore completed a public offering of 7.5 million common units (including 975,000 units issued upon the exercise of the underwriter's overallotment option) at a price of \$14.32 per unit, for total gross proceeds of \$107.0 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the net proceeds from the offering to reduce amounts outstanding under one of its revolving credit facilities.

During March 2010, Teekay Offshore completed a public offering of 5.1 million common units (including 660,000 units issued upon the exercise of the underwriter's overallotment option) at a price of \$19.48 per unit, for gross proceeds of \$100.6 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the net proceeds from the offering to repay the vendor financing of \$60.0 million we provided for the acquisition from us of the FPSO unit, the *Petrojarl Varg* and to finance a portion of the April 2010 acquisition from us of the FSO unit, the *Falcon Spirit*, for \$44.1 million.

During August 2010, Teekay Offshore completed a public offering of 6.0 million common units (including 787,500 units issued upon the exercise of the underwriter's overallotment option) at a price of \$22.15 per unit, for gross proceeds of \$136.5 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the net proceeds from the offering to repay a portion of its outstanding debt under one of its revolving credit facilities.

During December 2010, Teekay Offshore completed a public offering of 6.4 million common units (including 840,000 units issued upon the exercise of the underwriter's overallotment option) at a price of \$27.84 per unit, for gross proceeds of \$182.9 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the net proceeds from the offering to repay a portion of its outstanding debt under one revolving credit facility.

During March 2011, we sold our 49% interest in OPCO to Teekay Offshore for a combination of \$175 million in cash (less \$15 million in distributions made by OPCO to us between December 31, 2010 and the date of acquisition) and 7.6 million of Teekay Offshore's common units. In addition, Teekay Offshore's general partner made a proportionate capital contribution to maintain its 2% general partner interest. The sale increased Teekay Offshore's ownership of OPCO from 51% to 100%.

During July 2011, 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 of approximately \$20.4 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the proceeds from the issuance of common units to partially fund the acquisition of four newbuilding shuttle tankers to be

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chartered under long-term fixed-rate charters with a subsidiary of BG Group plc (or *BG*) to provide shuttle tanker services in Brazil.

During November 2011, Teekay Offshore completed a private placement of 7.3 million common units at a price of \$23.90 to a group of institutional investors for gross proceeds of approximately \$173.5 million (including the general partner's 2% proportionate capital contribution). Teekay Offshore used the proceeds from the issuance of common units to finance its acquisition from Sevan in November 2011 of the Piranema and four BG newbuilding shuttle tankers that are scheduled to deliver in mid-2013.

During November 2011, Teekay Offshore acquired a 100% interest in the *Piranema* from Sevan. The total purchase price of \$164.3 million (including an adjustment for working capital) was paid in cash and was financed through the concurrent issuance of 7.3 million common units in a private placement with third-party investors. The 2007-built *Piranema Spirit* FPSO unit is currently operating under a long-term charter to Petroleo Brasileiro S.A. (or *Petrobras*) on the Piranema field located offshore Brazil. The charter includes a firm contract period through March 2018, with up to 11 one-year extension options and includes cost escalation clauses.

As a result of these transactions, our ownership of Teekay Offshore was reduced to 33.0% (including our 2% general partner interest) as of March 1, 2012. We maintain control of Teekay Offshore by virtue of our control of the general partner and will continue to consolidate this subsidiary.

### *Equity Offerings, Unit Issuances and Transactions by Teekay LNG*

During March 2009, Teekay LNG completed a public offering of 4.0 million of its common units at a price of \$17.60 per unit, for gross proceeds of \$71.8 million (including the general partner's 2% proportionate capital contribution). Teekay LNG used the net proceeds from the offering to prepay amounts outstanding on two of its revolving credit facilities.

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During November 2009, Teekay LNG completed a public offering of 4.0 million of its common units (including 450,650 units issued upon the exercise of the underwriter's overallotment option) at a price of \$24.40 per unit, for gross proceeds of \$98.3 million (including the general partner's 2% proportionate capital contribution). Teekay LNG used the net proceeds from the offering to prepay amounts outstanding under its revolving credit facilities.

During July 2010, Teekay LNG completed a direct equity placement of 1.7 million common units at a price of \$29.18 per unit, for gross proceeds of \$51 million (including the general partner's 2% proportionate capital contribution).

During November 2010, Teekay LNG acquired a 50% interest in companies that own two LNG carriers (collectively the *Exmar Joint Venture*) from Exmar NV for a total purchase price of approximately \$72.5 million net of assumed debt. Teekay LNG paid \$37.3 million of the purchase price by issuing to Exmar NV 1.1 million of its common units and the balance was financed by borrowing under one of its revolving credit facilities.

During April 2011, Teekay LNG completed a public offering of 4.3 million of its common units (including 551,800 million units issued upon the partial exercise of the underwriters' overallotment option) at a price of \$38.88 per unit, for gross proceeds of \$168.7 million (including the general partner's 2% proportionate capital contribution). Teekay LNG used the net proceeds from the offering to fund the equity purchase price of its acquisition from Teekay of a 33% interest in four newbuilding LNG carriers to provide services to the Angola LNG Project.

During November 2011, Teekay LNG completed a public offering of 5.5 million of its common units at a price of \$33.40 per unit, for gross proceeds of \$187.4 million (including the general partner's 2% proportionate capital contribution). Teekay LNG used the proceeds from the offering to partially finance the acquisition, through a joint venture with Marubeni Corporation (or *Marubeni*), of six LNG carriers from A.P. Moller-Maersk A/S (or *Maersk*).

During February 2012, Teekay LNG and Marubeni acquired, through their joint venture (or the *Teekay LNG-Marubeni Joint Venture*), a 100% interest in the six LNG carriers from Maersk for an aggregate purchase price of approximately \$1.3 billion. Teekay LNG and Marubeni have 52% and 48% economic interests, respectively, but share control in the joint venture that was formed to hold the ownership interests in these LNG carriers. The Teekay LNG-Marubeni Joint Venture's share of the equity contribution was approximately \$138 million.

As a result of these transactions, our ownership of Teekay LNG has been reduced to 40.1% (including our 2% general partner interest) as of March 1, 2012. We maintain control of Teekay LNG by virtue of our control of the general partner and will continue to consolidate this subsidiary. Please read Item 18. Financial Statements: Note 5 Equity Offerings by Subsidiaries.

Please read Item 5. Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments in 2011 and Early 2012 for more information on recent transactions.

## **B. Operations**

Our organization is divided into the following key areas: the shuttle tanker and FSO segment (included in our Teekay Shuttle and Offshore business unit), the FPSO segment (included in our Teekay Petrojarl business unit), the liquefied gas segment (included in our Teekay Gas Services business unit) and the conventional tanker segment, consisting of the spot tanker sub-segment and fixed-rate tanker sub-segment (both included in our Teekay Tanker Services business unit). These centers of expertise work closely with customers to ensure a thorough understanding of our customers' requirements and to develop tailored solutions.

The Teekay Shuttle and Offshore and Teekay Petrojarl business units provide marine transportation, production and storage services to the offshore oil industry, including shuttle tanker, FSO and FPSO services. Our expertise and partnerships with third parties allow us to create solutions for customers producing crude oil from offshore installations.

The Teekay Gas Services business unit provides gas transportation services, primarily under long-term fixed-rate contracts to major energy and utility companies. These services currently include the transportation of LNG and LPG.

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The Teekay Tanker Services business unit is responsible for the commercial management of our conventional crude oil and product tanker transportation services. We offer a full range of shipping solutions through our worldwide network of commercial offices.

### **Shuttle Tanker and FSO Segment and FPSO Segment**

The main services our shuttle tanker and FSO segment and our FPSO segment provide to customers are:

offloading and transportation of cargo from oil field installations to onshore terminals via dynamically positioned, offshore loading shuttle tankers;

floating storage for oil field installations via FSO units; and

floating production, processing and storage services via FPSO units.

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### *Shuttle Tankers*

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea as an alternative to pipelines. The first cargo from an offshore field in the North Sea was shipped in 1977, and the first dynamically positioned shuttle tankers were introduced in the early 1980s. Shuttle tankers are often described as "floating pipelines" because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor.

Our shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts or bareboat charter contracts for a specific offshore oil field, where a vessel is hired for a fixed period of time, or under contracts of affreightment for various fields, where we commit to be available to transport the quantity of cargo requested by the customer from time to time over a specified trade route within a given period of time. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel's manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the North Sea. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers can be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms.

As of December 31, 2011, there were approximately 95 vessels in the world shuttle tanker fleet (including 28 newbuildings), the majority of which operate in the North Sea. Shuttle tankers also operate in Africa, Brazil, Canada, Russia and the United States Gulf. As of December 31, 2011, we had ownership interests in 36 shuttle tankers (including four newbuildings) and chartered-in an additional four shuttle tankers. Other shuttle tanker owners include Knutsen NYK Offshore Tankers AS, Transpetro, Viken Shipping and J. Lauritzen which, as of December 31, 2011, controlled small fleets of 3 to 22 shuttle tankers each. We believe that we have significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of our vessels combined with our market share in the North Sea.

### *FSO Units*

FSO units provide on-site storage for oil field installations that have no storage facilities or that require supplemental storage. An FSO unit is generally used in combination with a jacked-up fixed production system, floating production systems that do not have sufficient storage facilities or as supplemental storage for fixed platform systems, which generally have some on-board storage capacity. An FSO unit is usually of similar design to a conventional tanker, but has specialized loading and off-take systems required by field operators or regulators. FSO units are moored to the seabed at a safe distance from a field installation and receive the cargo from the production facility via a dedicated loading system. An FSO unit is also equipped with an export system that transfers cargo to shuttle or conventional tankers. Depending on the selected mooring arrangement and where they are located, FSO units may or may not have any propulsion systems. FSO units are usually conversions of older single-hull conventional oil tankers. These conversions, which include installation of a loading and off-take system and hull refurbishment, can generally extend the lifespan of a vessel as an FSO unit by up to 20 years over the normal conventional tanker lifespan of 25 years.

Our FSO units are generally placed on long-term, fixed-rate time-charters or bareboat charters as an integrated part of the field development plan, which provides more stable cash flow to us. Under a bareboat charter, the customer pays a fixed daily rate for a fixed period of time for the full use of the vessel and is responsible for all crewing, management and navigation of the vessel and related expenses.

As of December 2011, there were approximately 98 FSO units operating and five FSO units on order in the world fleet. As at December 31, 2011, we had ownership interests in five FSO units. The major markets for FSO units are Asia, the Middle East, the North Sea, South America and West Africa. Our primary competitors in the FSO market are conventional tanker owners, who have access to tankers available for conversion, and oil field services companies and oil field engineering and construction companies who compete in the floating production system market. Competition in the FSO market is primarily based on price, expertise in FSO operations, management of FSO conversions and relationships with shipyards, as well as the ability to access vessels for conversion that meet customer specifications.

### *FPSO Units*

FPSO units are offshore production facilities that are ship-shaped or cylindrical-shaped and store processed crude oil in tanks located in the hull of the vessel. FPSO units are typically used as production facilities to develop marginal oil fields or deepwater areas remote from existing pipeline infrastructure. Of four major types of floating production systems, FPSO units are the most common type. Typically, the other types of floating production systems do not have significant storage and need to be connected into a pipeline system or use an FSO unit for storage. FPSO units are less weight-sensitive than other types of floating production systems and their extensive deck area provides flexibility in process

plant layouts. In addition, the ability to utilize surplus or aging tanker hulls for conversion to an FPSO unit provides a relatively inexpensive solution compared to the new construction of other floating production systems. A majority of the cost of an FPSO comes from its top-side production equipment and thus FPSO units are expensive relative to conventional tankers. An FPSO unit carries on board all the necessary production and processing facilities normally associated with a fixed production platform. As the name suggests, FPSO units are not fixed permanently to the seabed but are designed to be moored at one location for long periods of time. In a typical FPSO unit installation, the untreated well-stream is brought to the surface via subsea equipment on the sea floor that is connected to the FPSO unit by flexible flow lines called risers. The risers carry oil, gas and water from the ocean floor to the vessel, which processes it on board. The resulting crude oil is stored in the hull of the vessel and subsequently transferred to tankers either via a buoy or tandem loading system for transport to shore.

Traditionally for large field developments, the major oil companies have owned and operated new, custom-built FPSO units. FPSO units for smaller fields have generally been provided by independent FPSO contractors under life-of-field production contracts, where the contract s duration is for the useful life of the oil field. FPSO units have been used to develop offshore fields around the world since the late 1970s. As of December 2011 there were approximately 160 FPSO units operating and 40 FPSO units on order in the world fleet. At December 31, 2011, we had ownership interests in nine FPSO units (including one newbuilding under construction and one unit in conversion). Most independent FPSO contractors have backgrounds in marine energy transportation, oil field services or oil field engineering and construction. Other major independent FPSO contractors are SBM Offshore NV, BW Offshore, MODEC, Bluewater, Bumi Armada and Maersk FPSOs.

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During 2011, a total of approximately 55% of our net revenues were earned by the vessels in our shuttle tankers and FSO segment and FPSO segment, compared to approximately 53% in 2010 and 47% in 2009. Please read Item 5. Operating and Financial Review and Prospects: Results of Operations.

### **Liquefied Gas Segment**

The vessels in our liquefied gas segment compete in the LNG and LPG markets. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts with durations between 20 and 25 years, and with charter rates payable to the owner on a monthly basis. LNG shipping historically has been transacted with these long-term, fixed-rate time-charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the level of spot voyages (typically consisting of a single voyage), short-term time-charters and medium-term time charters have grown in the past few years.

In the LNG markets, we compete principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. Other major operators of LNG carriers are BW Gas, Golar LNG, Kawasaki Kisen Kaisha, Malaysian International Shipping, Mitsui O.S.K., NYK Line and Qatar Gas Transport.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is super-cooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1 / 600<sup>th</sup> of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. LNG carriers include a sophisticated containment system that holds and insulates the LNG so it maintains its liquid form. The LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or *regasified*) and then shipped by pipeline for distribution to natural gas customers.

LPG carriers are mainly chartered to carry LPG on time charters of three to five years, on contracts of affreightment or spot voyage charters. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives.

Most new LNG carriers, including all of our vessels, are being built with a membrane containment system. These systems consist of insulation between thin primary and secondary barriers and are designed to accommodate thermal expansion and contraction without overstressing the membrane. New LNG carriers are generally expected to have a lifespan of approximately 40 years. New LPG carriers are generally expected to have a lifespan of approximately 30 to 35 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG and LPG carriers after they reach a certain age. As at December 31, 2011, there were approximately 373 vessels in the world LNG fleet, with an average age of approximately 10 years, and an additional 60 LNG carriers under construction or on order for delivery through 2015. As of December 31, 2011, the worldwide LPG tanker fleet consisted of approximately 1,219 vessels with an average age of approximately 16 years and approximately 80 additional LPG vessels were on order for delivery through 2014. LPG carriers range in size from approximately 250 to approximately 85,000 cubic meters (or *cbm*). Approximately 54% (in terms of vessel numbers) of the worldwide fleet is less than 5,000 *cbm*.

Our liquefied gas segment primarily consists of LNG and LPG carriers subject to long-term, fixed-rate charter contracts. As at December 31, 2011, we had ownership interests in 20 LNG carriers, as well as an additional newbuilding LNG carrier on order which commenced operations upon delivery in January 2012 under a long-term fixed-rate time-charter in which our interest is 33%. In addition, as at December 31, 2011, we had ownership interests in five LPG carriers.

During 2011, approximately 15% of our net revenues were earned by the vessels in our liquefied gas segment, compared to approximately 13% in 2010, and 13% in 2009. Please read Item 5. Operating and Financial Review and Prospects: Results of Operations.

**Conventional Tanker Segment**

**a) Spot Tanker Sub-Segment**

Our spot tanker sub-segment consists of conventional crude oil tankers and product tankers operating in the spot-tanker market or subject to time-charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts. We consider contracts that have an original term of less than one year in duration to be short-term. The vessels in our spot tanker sub-segment compete primarily in the Aframax and Suezmax tanker markets. In these markets, international seaborne oil and other petroleum products transportation services are provided by two main types of operators: captive fleets of major oil companies (both private and state-owned) and independent ship-owner fleets. Many major oil companies and other oil trading companies, the primary charterers of our vessels, also operate their own vessels and transport their own oil and oil for third-party charterers in direct competition with independent owners and operators. Competition for charters in the Aframax and Suezmax spot charter market is intense and is based upon price, location, the size, age, condition and acceptability of the vessel, and the reputation of the vessel's manager.

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We compete principally with other owners in the spot-charter market through the global tanker charter market. This market is comprised of tanker broker companies that represent both charterers and ship-owners in chartering transactions. Within this market, some transactions, referred to as market cargoes, are offered by charterers through two or more brokers simultaneously and shown to the widest possible range of owners; other transactions, referred to as private cargoes, are given by the charterer to only one broker and shown selectively to a limited number of owners whose tankers are most likely to be acceptable to the charterer and are in position to undertake the voyage.

Certain of our vessels in the spot tanker sub-segment operate pursuant to pooling arrangements. Under a pooling arrangement, different vessel owners pool their vessels, which are managed by a pool manager, to improve utilization and reduce expenses. In general, revenues generated by the vessels operating in a pool, less related voyage expenses (such as fuel and port charges) and pool administrative expenses, are pooled and allocated to the vessel owners according to a pre-determined formula. As of December 31, 2011, we participated in three main pooling arrangements. These include an Aframax tanker pool, an LR2 product tanker pool (or the *Taurus Pool*) and a Suezmax tanker pool (or the *Gemini Pool*). As of December 31, 2011, 13 of our Aframax tankers operated in the Aframax tanker pool, three of our LR2 tankers operated in the Taurus pool and nine of our Suezmax tankers operated in the Gemini Pool. Each of these pools is either solely or jointly managed by us.

Our competition in the Aframax (80,000 to 119,999 dwt) market is also affected by the availability of other size vessels that compete in that market. Suezmax (120,000 to 199,999 dwt) vessels and Panamax (55,000 to 79,999 dwt) vessels can compete for many of the same charters for which our Aframax tankers compete. Similarly, Aframax tankers and Very Large Crude Carriers (200,000 to 319,999 dwt) (or *VLCCs*) can compete for many of the same charters for which our Suezmax vessels compete. Because VLCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades or of Suezmax vessels into Aframax trades would heighten the already intense competition.

We believe that we have competitive advantages in the Aframax and Suezmax tanker market as a result of the quality, type and dimensions of our vessels and our market share in the Indo-Pacific and Atlantic Basins. As of December 31, 2011, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 10 years and our Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately five years. This compares to an average age for the world oil tanker fleet of approximately 8.4 years, for the world Aframax tanker fleet of approximately 8.1 years and for the world Suezmax tanker fleet of approximately 7.7 years.

As of December 31, 2011, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 58 Aframax vessels), Sovcomflot (approximately 49 vessels), the Sigma Pool (approximately 47 vessels) and the Aframax International Pool (approximately 39 Aframax vessels). Other large operators of Suezmax tonnage (including newbuildings on order) included the Orion Tankers Pool (approximately 30 vessels), the Stena Sonangol Pool (approximately 29 vessels), the Blue Fin Pool (approximately 19 vessels) and Sovcomflot (approximately 18 vessels).

We have chartering staff located in Tokyo, Japan; Singapore; London, England; Houston, Texas; and Stamford, Connecticut. Each office serves our clients headquartered in that office's region. Fleet operations, vessel positions and charter market rates are monitored around the clock. We believe that monitoring such information is critical to making informed bids on competitive brokered business.

During 2011, approximately 9% of our net revenues were earned by the vessels in our spot tanker sub-segment, compared to approximately 13% in 2010 and 20% in 2009. Please read Item 5. Operating and Financial Review and Prospects: Results of Operations.

### **b) Fixed-Rate Tanker Sub-Segment**

The vessels in our fixed-rate tanker sub-segment primarily consist of Aframax and Suezmax tankers that are employed on long-term time-charters. We consider contracts that have an original term of less than one year duration to be short-term. The only difference between the vessels in the spot tanker sub-segment and the fixed-rate tanker sub-segment is the duration of the contracts under which they are employed. During 2011, approximately 21% of our net revenues were earned by the vessels in the fixed-rate tanker sub-segment, compared to approximately 20% in 2010 and 20% in 2009. Please read Item 5. Operating and Financial Review and Prospects: Results of Operations.

### **Our Fleet**

As at December 31, 2011, our fleet (excluding vessels managed for third parties) consisted of 151 vessels, including chartered-in vessels, and newbuildings/conversions on order. The following table summarizes our fleet as at December 31, 2011:



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|                                       | Number of Vessels  |                         |                               |            |
|---------------------------------------|--------------------|-------------------------|-------------------------------|------------|
|                                       | Owned<br>Vessels   | Chartered-in<br>Vessels | Newbuildings /<br>Conversions | Total      |
| <b>Shuttle Tanker and FSO Segment</b> |                    |                         |                               |            |
| Shuttle Tankers                       | 30 <sup>(1)</sup>  | 4 <sup>(2)</sup>        | 4                             | 38         |
| FSO Units                             | 4 <sup>(3)</sup>   |                         |                               | 4          |
| Total Shuttle Segment                 | 34                 | 4                       | 4                             | 42         |
| <b>FPSO Segment</b>                   |                    |                         |                               |            |
| Shuttle Tankers                       | 2 <sup>(1)</sup>   |                         |                               | 2          |
| FSO Unit                              | 1 <sup>(3)</sup>   |                         |                               | 1          |
| FPSO Units                            | 7 <sup>(4)</sup>   |                         | 2 <sup>(5)</sup>              | 9          |
| Total FPSO Segment                    | 10                 |                         | 2                             | 12         |
| <b>Liquefied Gas Segment</b>          |                    |                         |                               |            |
| LNG Carriers                          | 20 <sup>(6)</sup>  |                         | 1 <sup>(7)</sup>              | 21         |
| LPG Carriers                          | 5                  |                         |                               | 5          |
| Total Liquefied Gas Segment           | 25                 |                         | 1                             | 26         |
| <b>Spot Tanker Sub-Segment</b>        |                    |                         |                               |            |
| Suezmax Tankers                       | 8 <sup>(8)</sup>   | 1                       |                               | 9          |
| Aframax Tankers                       | 9 <sup>(9)</sup>   | 11                      |                               | 20         |
| Large Product Tankers                 | 2                  | 1                       |                               | 3          |
| Total Spot Tanker Sub-Segment         | 19                 | 13                      |                               | 32         |
| <b>Fixed-Rate Tanker Sub-Segment</b>  |                    |                         |                               |            |
| Conventional Tankers                  | 34 <sup>(10)</sup> | 4                       | 1 <sup>(11)</sup>             | 39         |
| Total Fixed-Rate Tanker Sub-Segment   | 34                 | 4                       | 1                             | 39         |
| <b>Total</b>                          | <b>122</b>         | <b>21</b>               | <b>8</b>                      | <b>151</b> |

The following footnotes indicate the vessels in the table above that are owned or chartered-in by non-wholly owned subsidiaries of Teekay or have been or will be offered by us to Teekay LNG, Teekay Offshore or Teekay Tankers:

- (1) Includes 32 vessels owned by Teekay Offshore (including six through 50% controlled subsidiaries and three through 67% controlled subsidiaries).
- (2) All four vessels chartered-in by Teekay Offshore.
- (3) Includes four FSO units owned 100% by Teekay Offshore and one FSO unit owned through an 89% subsidiary of Teekay Offshore.
- (4) Includes four FPSO units owned 100% by Teekay Petrojarl. Teekay is required to offer to sell to Teekay Offshore any of these units that are servicing contracts in excess of three years in length. Three FPSO units are owned 100% by Teekay Offshore. Certain of our FPSO contracts include the services of shuttle tankers and an FSO unit, and as such, these vessels are included in the FPSO segment.
- (5) Includes one Aframax tanker being converted to an FPSO unit which is scheduled to be delivered in mid-2012.
- (6) Includes the following interests of Teekay LNG: a 100% interest in nine LNG carriers, a 70% interest in two LNG carriers, a 40% interest in four LNG carriers, a 50% interest in two LNG carriers, and a 33% interest in three LNG carriers.
- (7) Includes Teekay's 33% interest in one LNG newbuilding. In March 2011, Teekay LNG agreed to acquire Teekay's interest in this vessel. This vessel delivered in January 2012.
- (8) Includes three Suezmax tankers owned by Teekay Tankers.
- (9)

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Includes six vessels owned 100% by Teekay Offshore, all of which are chartered to Teekay, and three vessels owned 100% by Teekay Tankers.

(10) Includes eleven vessels owned 100% by Teekay LNG, four vessels owned 100% by Teekay Offshore, and nine vessels owned 100% by Teekay Tankers.

(11) Includes Teekay Tanker's 50% interest in one VLCC newbuilding.

Our vessels are of Bahamian, Belgian, Cayman Islands, Isle of Man, Liberian, Marshall Islands, Norwegian, Norwegian International Ship, Panamanian, Singapore, and Spanish registry.

Many of our Aframax and Suezmax vessels and some of our shuttle tankers have been designed and constructed as substantially identical sister ships. These vessels can, in many situations, be interchanged, providing scheduling flexibility and greater capacity utilization. In addition, spare parts and technical knowledge can be applied to all the vessels in the particular series, thereby generating operating efficiencies.

As of December 31, 2011, we had four shuttle tankers, one FPSO unit and the conversion of an existing Aframax tanker to an FPSO on order. In addition, we had a 33% interest in one LNG newbuilding and a 50% interest in one VLCC newbuilding on order. Please read Item 5. Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 18. Financial Statements: Notes 16(a) and 16(b) Commitments and Contingencies Vessels Under Construction and Joint Ventures.

Please read Item 18. Financial Statements: Note 8 Long-Term Debt for information with respect to major encumbrances against our vessels.

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### **Safety, Management of Ship Operations and Administration**

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2008, we introduced the Quality Assurance and Training Officers Program to conduct rigorous internal audits of our processes and provide our seafarers with on-board training. In 2007, we introduced a behavior-based safety program called "Safety in Action" to improve the safety culture in our fleet. We are also committed to reducing our emissions and waste generation.

Key performance indicators facilitate regular monitoring of our operational performance. Targets are set on an annual basis to drive continuous improvement, and indicators are reviewed monthly to determine if remedial action is necessary to reach the targets.

We, through certain of our subsidiaries, assist our operating subsidiaries in managing their ship operations. All vessels are operated under our comprehensive and integrated Safety Management System that complies with the International Safety Management Code (or *ISM Code*), the International Standards Organization's (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and Occupational Health and Safety Advisory Services (or *OHSAS*) 18001. The management system is certified by Det Norske Veritas (or *DNV*), the Norwegian classification society. It has also been separately approved by the Australian and Spanish Flag administrations. Although certification is valid for five years, compliance with the above mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and certain flag states.

We provide, through certain of our subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. Our subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to administrative services agreements.

Ship management services are provided by our Teekay Marine Management (or *TMM*) and Innovation, Technology and Projects (or *ITP*) divisions, located in various offices around the world. These include such critical ship management functions as:

vessel maintenance (including repairs and dry docking) and certification;

crewing by competent seafarers;

procurement of stores, bunkers and spare parts;

management of emergencies and incidents;

supervision of shipyard and projects during new-building and conversions;

insurance; and

financial management services.

Integrated on-board and on-shore systems support the management of maintenance, inventory control and procurement, crew management and training and assist with budgetary controls.

Our day-to-day focus on cost efficiencies is applied to all aspects of our operations. We believe that the generally uniform design of some of our existing and new-building vessels and the adoption of common equipment standards provides operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering. In addition, we and two other shipping

companies have a purchasing alliance, Teekay Bergesen Worldwide, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals.

### **Risk of Loss and Insurance**

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil, petroleum products, LNG and LPG is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collision, grounding and weather. Protection and indemnity insurance indemnifies us against liabilities incurred while operating vessels, including injury to our crew or third parties, cargo loss and pollution. The current available amount of our coverage for pollution is \$1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism) and, for some of our LNG carriers, loss of revenues resulting from vessel off-hire time due to a marine casualty. We believe that our current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage. However, we cannot guarantee that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. More stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

We use in our operations a thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations.

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We have achieved certification under the standards reflected in ISO 9001 for quality assurance, ISO 14001 for environment management systems, OHSAS 18001, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

### **Operations Outside of the United States**

Because our operations are primarily conducted outside of the United States, we are affected by currency fluctuations and by changing economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Past political conflicts in that region, particularly in the Arabian Gulf, have included attacks on tankers, mining of waterways and other efforts to disrupt shipping in the area. Vessels trading in the region have also been subject to acts of piracy. In addition to tankers, targets of terrorist attacks could include oil pipelines, LNG facilities and offshore oil fields. The escalation of existing, or the outbreak of future, hostilities or other political instability in this region or other regions where we operate could affect our trade patterns, increase insurance costs, increase tanker operational costs and otherwise adversely affect our operations and performance. In addition, tariffs, trade embargoes, and other economic sanctions by the United States or other countries against countries in the Indo-Pacific Basin or elsewhere as a result of terrorist attacks or otherwise may limit trading activities with those countries, which could also adversely affect our operations and performance.

### **Customers**

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Our customers include major energy and utility companies, major oil traders, large oil and LNG consumers and petroleum product producers, government agencies, and various other entities that depend upon marine transportation. Two customers, international oil companies, accounted for a total of 27%, or \$508.6 million, of our consolidated revenues during 2011 (2010 three customers for 38% or \$778.6 million, 2009 two customers for 26% or \$564.5 million). No other customer accounted for more than 10% of our consolidated revenues during 2011, 2010, or 2009. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on our business, financial condition and results of operations.

### **Flag, Classification, Audits and Inspections**

Our vessels are registered with reputable Flag states, and the hull and machinery of all of our vessels have been Classed by one of the major classification societies and members of International Association of Classification Societies Ltd (IACS): DNV, Lloyd's Register of Shipping or American Bureau of Shipping.

The applicable classification society certifies that the vessel's design and build conforms to the applicable Class rules and meets the requirements of the applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. Class also verifies throughout the vessel's life that it continues to be maintained in accordance with those rules. In order to validate this, the vessels are surveyed by the class society (under Authority of the Flag state), in accordance to the classification society rules, which in the case of our vessels follows a comprehensive five-year Special Survey cycle, renewed every fifth year. During each five-year period, the vessel undergoes Annual and Intermediate surveys, the scrutiny and intensity of which is primarily dictated by the age of the vessel. As our vessels are modern and we have enhanced the resiliency of the underwater coatings of each vessel hull and marked the hull to facilitate underwater inspections by divers, their underwater areas are inspected in a dry dock at five-year intervals. In-water inspection is carried out during the second or third annual inspection (i.e., during an *Intermediate Survey*).

In addition to Class surveys, the vessel's Flag state also verifies the condition of the vessel during annual Flag State inspections, either independently or by additional authorization to Class. Also, Port State Authorities of a vessel's port of call are authorized under international conventions to undertake regular and spot checks of vessels calling their jurisdiction.

Processes on board followed are audited by either the Flag state or the classification society acting on behalf of the Flag state to ensure that they meet the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (*ISM Code*). In our case, DNV as the certifying authority of our Safety Management System typically carries out this task. We also follow an internal process of internal audits undertaken at each office and vessel annually.

We follow a comprehensive inspections scheme supported by our sea staff, shore-based operational and technical specialists and members of our QATO program. We carry out a minimum of two such inspections, which helps us to ensure that:

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our vessels and operations adhere to our operating standards;

the structural integrity of the vessel is being maintained; for this we use a comprehensive Structural Integrity Management System we developed. The system closely monitors the condition of the hulls of our vessels to ensure that structural strength and integrity are maintained throughout a vessel's life;

machinery and equipment is being maintained to give full reliability in service;

we are optimizing performance in terms of speed and fuel consumption; and

the vessel's appearance supports our brand and meets customer expectations.

Our customers also often carry out inspections under the Ship inspection Report Program, which is a significant safety initiative introduced by Oil Companies International Marine Forum to specifically address concerns about sub-standard shipping. The inspection results permit charterers to screen a vessel to ensure that it meets their general and specific risk-based shipping requirements.

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We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater scrutiny, inspection and safety requirements on all vessels in the oil tanker and LNG and LPG carrier markets and will accelerate the scrapping or phasing out of older vessels throughout these markets.

Overall we believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

## **Regulations**

### ***General***

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

### ***International Maritime Organization (or IMO)***

The IMO is the United Nations agency for maritime safety. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, be of a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*). Under this convention, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g., crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner's actual fault or when the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Security Code for Ports and Ships (or *ISPS*), the ISM Code, the International Convention on Load Lines of 1966, and, specifically with respect to LNG and LPG carriers, the International Code for Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the *IGC Code*). The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning (*DP*) systems, which would apply to shuttle tankers and DP-assisted FSO units and FPSO units. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states which have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS, the IGC Code for LNG and LPG carriers, and the specific requirements for shuttle tankers, FSO units and FPSO units under the NPD (Norway) and HSE (United Kingdom) regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports. The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner's development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

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LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG and LPG carriers is currently IGC Code certified, and each of the shipbuilding contracts for our LNG newbuildings, and for the LPG newbuildings requires IGC Code compliance prior to delivery.

Annex VI to the IMO's International Convention for the Prevention of Pollution from Ships (or *Annex VI*) sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions.

In addition, the IMO has proposed that all tankers of the size we operate that are built starting in 2012 contain ballast water treatment systems, and that all other similarly sized tankers install treatment systems by their first intermediate or renewal survey after 2016. This convention has not yet been ratified, but when it becomes effective, we estimate that the installation of ballast water treatment systems on our tankers may cost between \$2 million and \$3 million per vessel.

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### ***European Union (or EU)***

Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled. On May 17, 2011 the European commission carried out a number of dawn raids, or unannounced inspections, at the offices of some of the world's largest container line operators starting an antitrust investigation. We are not directly affected by this investigation and believe that we are compliant with antitrust rules. Nevertheless, it is possible that the investigation could be widened and new companies and practices come under scrutiny within the EU.

The EU has also adopted legislation (directive 2009/16/EU Port State Control) which is in force from January 1, 2011 that: bans from European waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years, after July 2003); creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies.

Two new regulations were introduced by the European Commission in September 2010, as part of the implementation of the Port State Control Directive. These came into force on January 1, 2011 and introduce a ranking system (published on a public website and updated daily) displaying shipping companies operating in the EU with the worst safety records. The ranking is judged upon the results of the technical inspections carried out on the vessels owned by a particular shipping company. Those shipping companies that have the most positive safety records are rewarded by subjecting them to fewer inspections, whilst those with the most safety shortcomings or technical failings recorded upon inspection will in turn be subject to a greater frequency of official inspections to their vessels.

The EU has, by way of Directive 2005/35/EC, which has been amended by Directive 2009/123/EC created a legal framework for imposing criminal penalties in the event of discharges of oil and other noxious substances from ships sailing in its waters, irrespective of their flag. This relates to discharges of oil or other noxious substances from vessels. Minor discharges shall not automatically be considered as offences, except where repetition leads to deterioration in the quality of the water. The persons responsible may be subject to criminal penalties if they have acted with intent, recklessly or with serious negligence and the act of inciting, aiding and abetting a person to discharge a polluting substance may also lead to criminal penalties.

Several regulatory requirements to use low sulfur fuel are in force or upcoming. The EU Directive 33/2005 (or the *Directive*) came into force on January 1, 2010. Under this legislation, vessels are required to burn fuel with sulfur content below 0.1% while berthed or anchored in an EU port. The California Air Resources Board will require vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California as of January 1, 2014. As of January 1, 2015, all vessels operating within Emissions Control Areas worldwide must comply with 0.1% sulfur requirements. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil (or *LSMGO*). Certain modifications were necessary in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or *HFO*). In addition, LSMGO is more expensive than HFO and this impacts the costs of operations. However, for vessels employed on fixed term business, all fuel costs, including any increases, are borne by the charterer. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. All required vessels in our fleet trading to and within regulated low sulfur areas are able to comply with fuel requirements.

### ***North Sea and Brazil***

Our shuttle tankers primarily operate in the North Sea and Brazil. In addition to the regulations imposed by the IMO and EU, countries having jurisdiction over North Sea areas impose regulatory requirements in connection with operations in those areas, including HSE in the United Kingdom and NPD in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea.

In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions (or *VOC equipment*) on most shuttle tankers serving the Norwegian continental shelf. Oil companies bear the cost to install and operate the VOC equipment on board the shuttle tankers.

In Brazil, Petrobras serves in a regulatory capacity, and has adopted standards similar to those in the North Sea.

### ***United States***

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The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, bareboat charterers, and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances rather than oil and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products and LNG and LPG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG or LPG carriers and other vessels might fall within its scope.

Under OPA 90, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

natural resources damages and the related assessment costs;

real and personal property damages;

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net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage;

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and

loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel's pollution liability coverage in the maximum coverage amount of \$1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our tankers are double-hulled.

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or *Coast Guard*) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to provide guaranties through self-insurance or obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U. S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters, are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge ;

describe crew training and drills; and

identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

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OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG or LPG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction.

The U.S. Clean Water Act also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or *EPA*) titled the Vessel General Permit and comply with a range of best management practices, reporting, inspections and other requirements. The Vessel General Permit incorporates Coast Guard requirements for ballast water exchange and includes specific technology-based requirements for vessels. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards. We believe that the EPA may add requirements related to ballast water treatment technology to the Vessel General Permit requirements between 2012 and 2016 to correspond with the IMO's adoption of similar requirements as discussed above.

Since 2009, several environmental groups and industry associations have filed challenges in U.S. federal court to the EPA's issuance of the Vessel General Permit. The EPA issued a revised Vessel General Permit in 2011, and has stated that it expects to take final action with respect to the revised Vessel General Permit to be issued by November 2012.

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### ***Greenhouse Gas Regulation***

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the *Kyoto Protocol*) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. The IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The EU also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. In the United States, the EPA issued an endangerment finding regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

### ***Vessel Security***

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. The United States implemented ISPS with the adoption of the Maritime Transportation Security Act of 2002 (or *MTSA*), which requires vessels entering U.S. waters to obtain certification by the Coast Guard of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and MTSA.

## **C. Organizational Structure**

Our organizational structure includes, among others, our interests in Teekay Offshore, Teekay LNG and Teekay Tankers, which are our publicly listed subsidiaries. We created Teekay Offshore and Teekay LNG primarily to hold our assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these two limited partnerships was to:

- illuminate higher value of fixed-rate cash flows to Teekay investors;

- realize advantages of a lower cost of equity when investing in new offshore or LNG projects; and

- enhance returns to Teekay through fee-based revenue and ownership of the limited partnership's incentive distribution rights, which entitle the holder to disproportionate distributions of available cash as cash distribution levels to unit holders increase.

We also established Teekay Offshore, Teekay LNG and Teekay Tankers to increase our access to capital to grow each of our businesses in the offshore, LNG, and conventional tanker markets.

The following chart provides an overview of our organizational structure as at March 1, 2012. Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as at March 1, 2012.

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- (1) The partnership is controlled by its general partner. Teekay Corporation has a 100% beneficial ownership in the general partner. However in certain limited cases, approval of a majority or supermajority of the common unit holders is required to approve certain actions.
- (2) Proportion of voting power held is 51.2%.
- (3) Including our 100% interest in Teekay Petrojarl.

Teekay LNG is a Marshall Islands limited partnership formed by us in 2005 as part of our strategy to expand our operations in the LNG and LPG shipping sectors. Teekay LNG provides LNG, LPG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies. As of December 31, 2011, Teekay LNG operated a fleet of 20 LNG carriers, five LPG carriers, ten Suezmax tankers and one product tanker. Teekay LNG's ownership interests in these vessels range from 33% to 100%.

Teekay Offshore is a Marshall Islands limited partnership formed by us in 2006 as part of our strategy to expand our operations in the offshore oil marine transportation, processing and storage sectors. As of December 31, 2011, Teekay Offshore owned and operated a fleet of 40 shuttle tankers (including four chartered-in vessels and four newbuildings), five FSO units, 10 conventional Aframax tankers and three FPSO units. Teekay Offshore's ownership interests in its owned vessels range from 50% to 100%. Most of Teekay Offshore's vessels operate under long-term, fixed-rate contracts. At December 31, 2011, we owned 33.0% of Teekay Offshore, including our 2% general partner interest. Pursuant to an omnibus agreement we entered into in connection with Teekay Offshore's initial public offering in 2006, we have agreed to offer to Teekay Offshore FPSO units that are servicing contracts in excess of three years in length.

In December 2007, we added Teekay Tankers to our structure. Teekay Tankers is a Marshall Islands corporation formed by us to facilitate the growth of our conventional tanker business. As of December 31, 2011, Teekay Tankers owned a fleet of nine double-hull Aframax tankers, six double-hull Suezmax tankers and one VLCC newbuilding, which trade either in the spot tanker market or under short- or medium-term, fixed-rate time-charter contracts. Teekay Tankers owns 100% of its fleet other than a 50% interest in the VLCC and the time-charter in of two Aframax tankers from third parties. Teekay Tanker's primary objective is to grow through the acquisition of conventional tanker assets from third parties and from us. Through a wholly-owned subsidiary, we provide Teekay Tankers with commercial, technical, administrative, and strategic services under a long-term management agreement. In exchange, Teekay Tankers has agreed to pay us both a market-based fee and a performance fee under certain circumstances to motivate us to increase Teekay Tankers' cash available for distribution to its stockholders. In February 2012, Teekay Tankers completed a public offering of 17.3 million common shares of its Class A common stock (including 2.3 million common shares issued upon the full exercise of the underwriter's overallotment option) at a price of \$4.00 per share, for gross proceeds of \$69 million. Please read Item 18. Financial Statements: Note 25(c) Subsequent Events.

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We entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when we, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units. In addition, Teekay Tankers has agreed that we may pursue business opportunities attractive to both parties.

### **D. Properties**

Other than our vessels, we do not have any material property.

### **E. Taxation of the Company**

*The following discussion is a summary of the principal tax laws applicable to us. The following discussion of tax matters, as well as the conclusions regarding certain issues of tax law that are reflected in such discussion, are based on current law. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future factual matters and circumstances will in fact occur. Our views have no binding effect or official status of any kind, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.*

#### **United States Taxation**

The following discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), legislative history, applicable U.S. Treasury Regulations promulgated thereunder (or *Treasury Regulations*), judicial authority and administrative interpretations, as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations.

**Taxation of Operating Income.** A significant portion of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or *Transportation Income*) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time-charter or bareboat charter income.

Transportation Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States (or *U.S. Source International Transportation Income*) will be considered to be 50% derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (or *U.S. Source Domestic Transportation Income*) will be considered to be 100% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations will be considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally will not be subject to U.S. federal income tax.

We believe that we have not earned any U.S. Source Domestic Transportation Income, and we except that we will not earn any such income in future years. However, certain of our subsidiaries which have made special U.S. tax elections to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes are potentially engaged in activities which could give rise to U.S. Source International Transportation Income. Unless the exemption from tax under Section 883 of the Code (or the *Section 883 Exemption*) applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis tax and the branch profits tax or the 4% gross basis tax, all of which are discussed below. Certain of our other subsidiaries also are engaged in activities which could give rise to U.S. Source International Transportation Income and rely on our ability to claim exemption under the Section 883 Exemption.

**The Section 883 Exemption.** In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the *Section 883 Regulations*), it will not be subject to the net basis and branch profits taxes or 4% gross basis tax described below on its U.S. Source International Transportation Income. As discussed below, we believe the Section 883 Exemption will apply and we will not be taxed on our U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if it is organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States (or an *Equivalent Exemption*), it meets one of three ownership tests described in the Section 883 Regulations (or the *Ownership Test*), and it meets certain substantiation, reporting and other requirements (or the *Substantiation Requirements*).

We are organized under the laws of the Republic of The Marshall Islands. The U.S. Treasury Department has recognized the Republic of The Marshall Islands as a jurisdiction that grants an Equivalent Exemption. We also believe that we will be able to satisfy the Substantiation

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Requirements necessary to qualify for the Section 883 Exemption. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our subsidiaries that have properly elected to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes) will be exempt from U.S. federal income taxation provided we satisfy the Ownership Test. We believe that we should satisfy the Ownership Test because our stock is primarily and regularly traded on an established securities market in the United States within the meaning of Section 883 of the Code and the Section 883 Regulations. We can give no assurance, however, that changes in the ownership of our stock subsequent to the date of this report will permit us to continue to qualify for the Section 883 exemption.

***The Net Basis Tax and Branch Profits Tax.*** If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, such income may be treated as effectively connected with the conduct of a trade or business in the United States (or *Effectively Connected Income*) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of income derived from bareboat charters, is attributable to a fixed place of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is derived from bareboat charters attributable to a fixed place of business in the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income.

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U.S. Source Domestic Transportation Income generally will be treated as Effectively Connected Income. However, we do not anticipate that any of our income has or will be U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 35%). In addition, if we earn income that is treated as Effectively Connected Income, a 30% branch profits tax imposed under Section 884 of the Code generally would apply to such income, and a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis corporate income tax and to the 30% branch profits tax with respect to our gain not in excess of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

**The 4% Gross Basis Tax.** If the Section 883 Exemption does not apply and the net basis tax does not apply, we would be subject to a 4% U.S. federal income tax on the U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions. For 2011, we estimate that, if the Section 883 Exemption and the net basis tax did not apply, the U.S. federal income tax on such U.S. Source International Transportation Income would have been approximately \$2.5 million. In addition, we estimate that certain of our subsidiaries that are unable to claim the Section 883 Exemption were subject to less than \$400,000 in the aggregate of U.S. federal income tax on the U.S. source portion of their U.S. Source International Transportation Income for 2011 and we estimate that these subsidiaries will be subject to less than \$400,000 in the aggregate of U.S. federal income tax on the U.S. source portion of their U.S. Source International Transportation Income in subsequent years. The amount of such tax for which we or our subsidiaries may be liable for in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

## **Marshall Islands Taxation**

We believe that neither we nor our subsidiaries will be subject to taxation under the laws of the Marshall Islands, or that distributions by our subsidiaries to us will be subject to any taxes under the laws of the Marshall Islands.

## **Other Taxation**

We and our subsidiaries are subject to taxation in certain non- U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions. We intend that our business and the business of our subsidiaries will be conducted and operated in a manner that minimizes taxes imposed upon us and our subsidiaries. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read Item 18. Financial Statements: Note 21 Income Taxes.

## **Item 4A. Unresolved Staff Comments**

None.

## **Item 5. Operating and Financial Review and Prospects**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.*

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

Teekay Corporation (or *Teekay*) is a leading provider of international crude oil and gas marine transportation services and we also offer offshore oil production, storage and offloading services, primarily under long-term, fixed-rate contracts. Over the past decade, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included our expansion into the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors through our publicly listed subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*), further growth of our operations in the offshore production, storage and transportation sector through our publicly listed subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*) and through our 100% ownership interest in Teekay Petrojarl AS (or *Teekay Petrojarl*), and expansion of our conventional tanker

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business through our publicly listed subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*). We are responsible for managing and operating a fleet of approximately 150 liquefied gas, offshore, and conventional tanker assets with a combined value of over \$11 billion. With offices in 16 countries and approximately 6,400 seagoing and shore-based employees, Teekay provides a comprehensive set of marine services to the world's leading oil and gas companies, and its reputation for safety, quality and innovation has earned it a position with its customers as The Marine Midstream Company.

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### **SIGNIFICANT DEVELOPMENTS IN 2011 AND EARLY 2012**

#### **Public Offerings by Teekay Tankers**

During February 2011, our publicly traded subsidiary Teekay Tankers Ltd. (NYSE: TNK) (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. Teekay Tankers used the net offering proceeds to repay a portion of its outstanding debt under its revolving credit facility and the balance for general corporate purposes. As a result of the transaction, our ownership of Teekay Tankers was reduced to 26.0%.

During February 2012, Teekay Tankers completed a public offering of 17.3 million shares of its Class A Common Stock (including 2.3 million shares issued upon the exercise of the underwriters' overallotment option) at a price of \$4.00 per share, for gross proceeds of approximately \$69.0 million. Teekay Tankers used the net offering proceeds to repay a portion of its outstanding debt under a revolving credit facility. As a result of the transaction our ownership of Teekay Tankers was reduced to 20.4%. We maintain majority voting control of Teekay Tankers through our ownership of shares of Class A and Class B Common Stock and consolidate this subsidiary.

#### **First Priority Ship Mortgage Loan**

In February 2011, we made a \$70 million loan to a third party ship-owner. The loan bears interest at an interest rate of 9% per annum and has a fixed term of three years, which is repayable in full on maturity and is collateralized by a first-priority mortgage on one 2011-built Very Large Crude Carrier (or VLCC).

#### **Acquisition of Vessels by Teekay Tankers**

In April 2012, Teekay Tankers reached an agreement to acquire from Teekay, a fleet of 13 double-hull conventional oil and product tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$455 million. The transaction will be partially financed with the issuance to Teekay of \$25 million of newly issued shares of Teekay Tankers Class A common stock, and the remaining amount will be financed through a combination of cash payments to Teekay and the assumption by Teekay Tankers of existing debt secured by the acquired vessels. As a result of this share issuance, Teekay's economic interest in Teekay Tankers will increase from approximately 20% to approximately 25% and its voting interest as a result of its combined ownership of Class A and Class B shares will increase from approximately 51% to approximately 53%.

As part of this transaction, Teekay and Teekay Tankers will enter into a non-competition agreement, which will provide Teekay Tankers with a right of first refusal to participate in any future conventional crude oil tanker and product tanker opportunities developed by Teekay for a period of three years from the closing date of this transaction. The transaction is subject to final documentation, receiving relevant third party consents, and other customary closing conditions and is expected to be completed in the second quarter of 2012.

#### **Sale of Remaining Interest in OPCO to Teekay Offshore**

In March 2011, we sold our remaining 49% interest in Teekay Offshore Operating L.P. (or *OPCO*), a subsidiary of Teekay Offshore, to Teekay Offshore for a combination of \$175 million in cash (less \$15 million in distributions made by OPCO to us between December 31, 2010 and the date of acquisition) and 7.6 million Teekay Offshore common units issued to us in a private placement. In addition, Teekay Offshore issued to its general partner for cash a sufficient general partner interest in order for it to maintain its 2% general partner interest. The sale increased Teekay Offshore's ownership of OPCO from 51% to 100%. As a result of the transaction, our ownership of Teekay Offshore increased to 36.9% (including our 2% general partner interest).

#### **Private Placements by Teekay Offshore**

In July 2011, 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 2% proportionate capital contribution) of approximately \$20.4 million. Teekay Offshore used the proceeds from the issuance of common units to partially fund the acquisition of the four newbuilding shuttle tankers to be chartered under long-term fixed-rate charters with a subsidiary of BG Group plc (or *BG*) to provide shuttle tanker services in Brazil. These vessels are scheduled to deliver during mid to late 2013. As a result of the private placement, our ownership of Teekay Offshore was reduced to 36.5% (including our 2% general partner interest).

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In November 2011, Teekay Offshore sold approximately 7.1 million common units in a private placement to a group of institutional investors for proceeds of approximately \$170 million (excluding the general partner's 2% proportionate capital contribution). Teekay Offshore used the proceeds from the sale of common units to partially finance its acquisition from Sevan Marine ASA (or *Sevan*) in November 2011 of the Sevan *Piranema* (or *Piranema*) FPSO unit and of the four BG newbuilding shuttle tankers. As a result of this private placement, our ownership of Teekay Offshore was reduced to 33.0% (including our 2% general partner interest). We maintain control of Teekay Offshore by virtue of our control of the general partner and will continue to consolidate the subsidiary.

### Public Offerings of Senior Unsecured Bonds

In January 2012, Teekay Offshore issued NOK 600 million in senior unsecured bonds that mature in January 2017 in the Norwegian bond market. The aggregate principal amount of the bonds is equivalent to approximately \$100.0 million U.S. dollars and all interest and principal repayments were swapped into U.S. dollars and interest payments were fixed. The proceeds of the bonds were used by Teekay Offshore for general corporate purposes.

In April 2012, Teekay LNG issued NOK 700 million in senior unsecured bonds that mature in May 2017 in the Norwegian bond market and all interest and principal payments will be swapped into U.S. dollars. The proceeds of the bonds, which will be available to Teekay LNG upon settlement in early May 2012, are expected to be used for general corporate purposes. Teekay LNG will apply for listing of the bonds on the Oslo Stock Exchange.

### Public Offerings by Teekay LNG

In April 2011, 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 2% proportionate capital contribution) of approximately \$168.7 million. Teekay LNG used the net offering proceeds to fund the equity purchase price of its acquisition from Teekay of a 33% interest in three newbuilding LNG carriers to provide service to the Angola LNG Project. Between August and October 2011, three of the Angola LNG carriers delivered and commenced their charter contracts. The fourth Angola LNG carrier delivered in January 2012. As a result of the public offering, our ownership of Teekay LNG was reduced to 43.6% (including our 2% general partner interest).

In November 2011, Teekay LNG completed a public offering of 5.5 million common units at a price of \$33.40 per unit, for net proceeds (including the general partner's 2% proportionate capital contribution) of approximately \$179.5 million. Teekay LNG used the proceeds from the common units to partially finance the acquisition, through its joint venture with Marubeni Corporation, of six LNG carriers from A.P. Moller-Maersk A/S discussed below. As a result of the public offering, our ownership of Teekay LNG was reduced to 40.1% (including our 2% general partner interest). We maintain control of Teekay LNG by virtue of our control of the general partner and will continue to consolidate the subsidiary.

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### **Recent Offshore Business Developments**

In October 2011, we entered into an agreement with Sevan and holders of more than two-thirds of each of Sevan's bond loans for Teekay to acquire three FPSO units from Sevan and to make an equity investment in a recapitalized Sevan. Under the terms of the agreement, we agreed to: (a) acquire from Sevan three FPSO units, the Sevan Piranema (or *Piranema*), the Sevan Hummingbird (or *Hummingbird*) and the Sevan Voyageur (or *Voyageur*), along with their existing charter contracts, for an aggregate purchase price of \$668 million plus the remaining cost required to complete the upgrade of the *Voyageur*, which is estimated to be \$110 to \$130 million; (b) invest \$25 million in a new issuance of Sevan equity, which was expected to provide us with a 40% ownership interest in a recapitalized Sevan; and (c) enter into a cooperation agreement whereby, among other things, we will have the right to acquire future FPSO projects developed by Sevan. In November 2011, we acquired the *Hummingbird* for approximately \$184 million (including an adjustment for working capital) and made an investment of approximately \$25 million to obtain a 40% ownership interest in a recapitalized Sevan. Teekay Offshore acquired the *Piranema* directly from Sevan in November 2011 for approximately \$164 million (including an adjustment for working capital). Our purchase of the *Voyageur* is expected to be completed in the fourth quarter of 2012. Please read Item 18. Financial Statements: Note 3 Acquisition of FPSO Units and Investment in Sevan Marine ASA.

We recently entered into an agreement with Odebrecht Oil & Gas S.A. (or *Odebrecht*) to jointly pursue FPSO projects in Brazil. We are currently working with Odebrecht on potential project opportunities and in 2012 agreed with Odebrecht to be a 50% partner in the Tiro and Sidon FPSO project. Odebrecht is a well-established Brazil-based company that operates globally in the engineering and construction, petrochemical, bio-energy, energy, oil and gas, real estate and environmental engineering sectors.

In June 2011, we entered into long-term, fixed-rate charters with BG to provide shuttle tanker services in Brazil. Under the terms of the contract, we will provide four Suezmax newbuilding shuttle tankers to be constructed by Samsung Heavy Industries (or *Samsung*) in South Korea. As at December 31, 2011, payments made towards these commitments totalled \$44.6 million and the remaining payments required to be made under these newbuilding contracts were \$78.1 million (2012) and \$323.3 million (2013). Upon delivery, which is scheduled for mid- to late-2013, the vessels will commence operations under 10-year time-charters. The contract with BG also includes certain extension options and vessel purchase options.

In addition, in June 2011, we entered into an agreement with BG Norge Limited (or *BG Norge*) to provide an FPSO unit for the Knarr oil and gas field located in the North Sea. Under the terms of the contract, we will provide a newly-built FPSO unit to be constructed by Samsung in South Korea for an estimated fully built-up project cost of approximately \$1 billion. The FPSO unit, which will have a maximum design production capacity of 63,000 barrels per day, is scheduled to deliver late 2013, after which time it will commence operations under its charter contract with BG Norge for a firm period of either six or ten years plus extension options for a total period of up to 20 years. Under the terms of the agreement, BG Norge has until the end of 2012 to decide on the firm period of the charter contract.

### **Acquisition of LNG carriers by Teekay LNG**

In October 2011, Teekay LNG Partners and the Marubeni Corporation (or *Marubeni*) entered into an agreement to acquire, through a joint venture, ownership interests in six LNG carriers from Denmark-based A.P. Moller-Maersk A/S (or *Maersk*) for an aggregate purchase price of approximately \$1.3 billion. Teekay LNG and Marubeni have 52% and 48% economic interests, respectively, but share control in the joint venture (or the *Teekay LNG-Marubeni Joint Venture*). On February 28, 2012, Teekay LNG-Marubeni Joint Venture acquired a 100% interest in the six LNG carriers (or the *Maersk LNG Carriers*). Four of the six Maersk LNG Carriers are currently operating under long-term, fixed-rate time-charter contracts, with an average remaining firm contract period of approximately 17 years, plus extension options. The other two vessels are currently operating under medium-term, fixed-rate time-charters with an average remaining firm contract period of approximately three years. Since control of the Teekay LNG-Marubeni Joint Venture will be shared jointly between Teekay LNG and Marubeni, Teekay LNG expects to account for the Teekay LNG-Marubeni Joint Venture using the equity method.

The Teekay LNG-Marubeni Joint Venture financed approximately \$1.06 billion of its acquisition from secured loan facilities, and the \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has a 52% economic interest in the Teekay-Marubeni Joint Venture and consequently its share of the equity contribution was approximately \$138 million. Teekay LNG financed its equity contribution from its November 2011 equity offering.

Teekay Corporation will take over technical management of the acquired vessels after a transition period. Please read Item 18. Financial Statements: Note 25(d) Subsequent Events.

### **OTHER SIGNIFICANT PROJECTS AND DEVELOPMENTS**

**Angola LNG Project**

We have a 33% interest in a joint venture to charter four newbuilding 160,400-cubic meter 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. 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 to construct the four LNG carriers at a total cost of approximately \$906.0 million (of which our 33% portion is \$299.0 million) excluding capitalized interest and other miscellaneous construction costs. In February 2011, we offered to sell to Teekay LNG our 33% ownership interest in these vessels and related charter contracts, in accordance with existing agreements. In March 2011, the transaction was approved by the Board of Directors of Teekay LNG's general partner and by its Conflicts Committee. From August to October 2011, three of the Angola LNG carriers delivered and commenced their 20 year fixed-rate charter contracts. The fourth Angola LNG carrier delivered in January 2012. Please read Item 18. Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.

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### **Storm Damage to Banff FPSO Unit**

On December 7, 2011 the Petrojarl Banff FPSO unit (or *Banff FPSO*), which operates on the Banff field in the U.K. sector of the North Sea, encountered a severe storm event and sustained damage to its moorings, turret and subsea equipment which necessitated the shutdown of production on the unit. Due to damage incurred, on December 8, 2011 we declared force majeure and the Banff FPSO commenced a period of off hire which is currently expected to continue until the second quarter of 2013 while repairs are assessed and completed. As a result, for the year ended December 31, 2011 we experienced a loss of revenue of approximately \$3 million. In addition, we expect to incur a loss of operating cash flow of approximately \$35 million and \$15 million in 2012 and 2013, respectively. Following repairs, the Banff FPSO unit is expected to resume production on the Banff field where it is expected to remain under contract until the end of 2018.

We are insured against all damage to the Banff FPSO and associated equipment related to this incident, subject to a \$0.8 million deductible. We expect repair costs to the Banff FPSO and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event, will be reimbursed through our insurance coverage subject to the terms and conditions of the applicable policies.

### **IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS**

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

**Revenues.** Revenues primarily include revenues from voyage charters, pool arrangements, time-charters accounted for under operating and direct financing leases, contracts of affreightment and FPSO contracts. Revenues are affected by hire rates and the number of days a vessel operates and the daily production volume on FPSO units. Revenues are also affected by the mix of business between time-charters, voyage charters, contracts of affreightment and vessels operating in pool arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

**Forward Freight Agreements.** We are exposed to freight rate risk for vessels in our spot tanker sub-segment from changes in spot tanker market rates for vessels. In certain cases, we use forward freight agreements (or *FFAs*) to manage this risk. FFAs involve contracts to provide a fixed number of theoretical voyages at fixed rates, thus hedging a portion of our exposure to the spot-charter market. These agreements are recorded as assets or liabilities and measured at fair value. We have not designated these 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 income (loss).

**Voyage Expenses.** Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time-charters and FPSO service contracts and by us under voyage charters and contracts of affreightment.

**Net Revenues.** Net revenues represent revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the form of the charter, we use net revenues to improve the comparability between periods of reported revenues that are generated by the different forms of charters and contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under United States generally accepted accounting principles (or *GAAP*).

**Vessel Operating Expenses.** Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase as our fleet matures and to the extent that it expands.

**Income from Vessel Operations.** To assist us in evaluating our operations by segment, we analyze our income from vessel operations for each segment, which represents the income we receive from the segment after deducting operating expenses, but prior to the deduction of interest expense, realized and unrealized gains (losses) on non-designated derivative instruments, income taxes, foreign currency and other income and losses.

**Dry docking.** We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, we dry dock each of our vessels every two and a half to five years, depending upon the type of vessel and its age. In addition, a shipping society classification intermediate survey is performed on our LNG carriers between the second and third year of the five-year dry docking period. We capitalize a substantial portion of the costs incurred during dry docking and for

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the survey and amortize those costs on a straight-line basis from the completion of a dry docking or intermediate survey over the estimated useful life of the dry dock. We expense as incurred costs for routine repairs and maintenance performed during dry docking that do not improve or extend the useful lives of the assets and annual class survey costs for our FPSO units. The number of dry dockings undertaken in a given period and the nature of the work performed determine the level of dry docking expenditures.

***Depreciation and Amortization.*** Our depreciation and amortization expense typically consists of:

charges related to the depreciation and amortization of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;

charges related to the amortization of dry docking expenditures over the useful life of the dry dock; and

charges related to the amortization of intangible assets, including the fair value of the time-charters, contracts of affreightment and customer relationships where amounts have been attributed to those items in acquisitions; these amounts are amortized over the period in which the asset is expected to contribute to our future cash flows.

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***Time-Charter Equivalent (TCE) Rates.*** Bulk shipping industry freight rates are commonly measured in the shipping industry at the net revenues level in terms of time-charter equivalent (or *TCE*) rates, which represent net revenues divided by revenue days.

***Revenue Days.*** Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with major repairs, dry dockings or special or intermediate surveys. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when the vessel is available for the vessel to earn revenue, yet is not employed, are included in revenue days. We use revenue days to explain changes in our net revenues between periods.

***Calendar-Ship-Days.*** Calendar-ship-days are equal to the total number of calendar days that our vessels were in our possession during a period. As a result, we use calendar-ship-days primarily in explaining changes in vessel operating expenses, time-charter hire expense and depreciation and amortization.

***Restricted Cash Deposits.*** Under the terms of the tax leases for four of our LNG carriers, we are required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases, including the obligations to purchase the LNG carriers at the end of the lease periods, where applicable. During vessel construction, however, the amount of restricted cash approximates the accumulated vessel construction costs. In December 2011, the capital lease on one of the four LNG carriers expired and the purchase obligation was fully funded with restricted cash deposits. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and loans from our joint venture partners. Please read Item 18. Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash.

## **ITEMS YOU SHOULD CONSIDER WHEN EVALUATING OUR RESULTS**

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

***Our revenues are affected by cyclicity in the tanker markets.*** The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot market. This could affect the amount of dividends, if any, we pay on our common stock from period to period.

***Tanker rates also fluctuate based on seasonal variations in demand.*** Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere but weaker in the summer months as a result of lower oil consumption in the Northern Hemisphere and increased refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended December 31 and March 31.

***The size of our fleet continues to change.*** Our results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries, vessel dispositions and changes to the number of vessels we charter in. Please read Results of Operations below for further details about vessel dispositions, deliveries and vessels chartered in. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.

***Vessel operating expenses and other costs are facing industry-wide cost pressures.*** The oil shipping industry and offshore services market continues to experience a global manpower shortage of qualified seafarers due to growth in the world fleet, which in turn has resulted in upward pressure on manning costs. Going forward we expect that there will be increases in crew compensation which will result in higher crewing costs as we keep pace with market conditions. In addition, factors such as pressure on raw material prices and changes in regulatory requirements could also increase operating expenditures. Although we continue to take measures to improve operational efficiencies and mitigate the impact of inflation and price escalations, future increases to operational costs are likely to occur.

*Our net income is affected by fluctuations in the fair value of our derivative instruments.* Our cross currency and interest rate swap agreements and some of our foreign currency forward contracts are not designated as hedges for accounting purposes. Although we believe these derivative instruments are economic hedges, the changes in their fair value are included in our statements of income (loss) as unrealized gains or losses on non-designated derivatives. The changes in fair value do not affect our cash flows or liquidity.

*The amount and timing of dry dockings of our vessels can affect our revenues between periods.* Our vessels are off hire at various times due to scheduled and unscheduled maintenance. During 2011 and 2010 we incurred 617 and 1,083 off-hire days relating to dry docking, respectively. The financial impact from these periods of off hire, if material, is explained in further detail below in Results of Operations . Fourteen vessels are scheduled for dry docking in 2012.

## RESULTS OF OPERATIONS

In accordance with GAAP, we report gross revenues in our consolidated income statements and include voyage expenses among our operating expenses. However, ship-owners base economic decisions regarding the deployment of their vessels upon anticipated TCE rates, and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time-charter contracts and FPSO contracts the customer usually pays the voyage expenses, while under voyage charters and contracts of affreightment the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on net revenues and TCE rates of our four reportable segments where applicable.

We manage our business and analyze and report our results of operations on the basis of four segments: the shuttle tanker and FSO segment, the FPSO segment, the liquefied gas segment, and the conventional tanker segment. In order to provide investors with additional information about our conventional tanker segment, we have divided this operating segment into the fixed-rate tanker sub-segment and the spot tanker sub-segment. Please read Item 18. Financial Statements: Note 2 Segment Reporting.

**Table of Contents****Year Ended December 31, 2011 versus Year Ended December 31, 2010*****Shuttle Tanker and FSO Segment***

Our shuttle tanker and FSO segment (which includes our *Teekay Shuttle and Offshore* business unit) includes our shuttle tankers and FSO units. The shuttle tanker and FSO segment had four shuttle tankers under construction as at December 31, 2011. The four shuttle tankers are scheduled for delivery in 2013. Please read Item 18. Financial Statements: Note 16(a) Commitments and Contingencies Vessels Under Construction. We use our shuttle tankers and FSO units to provide transportation and storage services to oil companies operating offshore oil field installations. All of these shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. Our shuttle tankers service the conventional spot market from time to time.

The following table presents our shuttle tanker and FSO segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker and FSO segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2011                       | 2010    |          |
| Revenues                                                                  | 613,768                    | 622,195 | (1.4)    |
| Voyage expenses                                                           | 97,743                     | 111,003 | (11.9)   |
| Net revenues                                                              | 516,025                    | 511,192 | 0.9      |
| Vessel operating expenses                                                 | 196,536                    | 182,614 | 7.6      |
| Time-charter hire expense                                                 | 74,478                     | 89,768  | (17.0)   |
| Depreciation and amortization                                             | 129,293                    | 127,438 | 1.5      |
| General and administrative <sup>(1)</sup>                                 | 60,359                     | 51,281  | 17.7     |
| Asset impairments and net loss on sale of vessels and equipment           | 43,356                     | 19,480  | 122.6    |
| Restructuring charges                                                     | 5,351                      | 704     | 660.1    |
| Income from vessel operations                                             | 6,652                      | 39,907  | (83.3)   |
| <b>Calendar-Ship-Days</b>                                                 |                            |         |          |
| Owned Vessels                                                             | 13,053                     | 11,221  | 16.3     |
| Chartered-in Vessels                                                      | 2,007                      | 2,626   | (23.6)   |
| Total                                                                     | 15,060                     | 13,847  | 8.8      |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the shuttle tanker and FSO segment based on estimated use of corporate resources). For further discussion, please read Other Operating Results General and Administrative Expenses.

The average fleet size of our shuttle tanker and FSO segment (including vessels chartered-in), as measured by calendar-ship-days, increased during 2011 compared to 2010, primarily due to an increase in owned shuttle tankers with the delivery of four newbuilding shuttle tankers, being the *Amundsen Spirit* and the *Nansen Spirit* (together, the *2010 Newbuilding Shuttle Tanker Acquisitions*), and the *Peary Spirit* and the *Scott Spirit* (together, the *2011 Newbuilding Shuttle Tanker Acquisitions*) in July 2010, October 2010, June 2011 and October 2011, respectively. This increase in shuttle tankers was partially offset by the sale of the *Karratha Spirit* FSO unit in March 2011.

**Net Revenues.** Net revenues increased to \$516.0 million for 2011, from \$511.2 million for 2010, primarily due to:

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an increase of \$38.5 million for 2011 due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions;

an increase of \$16.4 million for 2011 due to an increase in revenues in our time-chartered-out fleet from entering into a new contract and increases in rates as provided in certain bareboat and time-charter-out contracts,

an increase of \$1.8 million for 2011 related to an increase in reimbursable bunker costs as provided for in new contracts during 2010, partially offset by higher bunkers costs during 2011 as compared to the prior year; and

an increase of \$0.7 million for 2011 from short-term offshore projects in the North Sea, which require the use of shuttle tankers; partially offset by

a decrease of \$24.4 million for 2011 due to lower revenues from our contract of affreightment shuttle tanker fleet from the declining oil production at mature oil fields in the North Sea compounded by fewer opportunities compared to the prior period to trade this excess capacity in the fleet in the conventional spot tanker market as a result of decreased demand for conventional crude transportation;

a decrease of \$11.7 million for 2011 due to lower revenues related to the sale of the *Karratha Spirit* in March 2011;

decrease of \$10.0 million for 2011, due to the redelivery of one vessel to us in March 2011 upon termination of the time-charter-out contract;

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a decrease of \$4.2 million for 2011 due to a lower charter rate on the *Navion Saga* in accordance with the charter contract, which took effect during the second quarter of 2010; and

a decrease of \$0.9 million due to more off-hire days in our time-chartered-out fleet for 2011 as compared to 2010.

Vessel Operating Expenses. Vessel operating expenses increased to \$196.5 million for 2011, from \$182.6 million for 2010, primarily due to:

an increase of \$15.6 million for 2011 due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions;

an increase of \$8.3 million for 2011 in crew and manning costs as compared to the prior year resulting primarily from planned increases in wages; and

an increase of \$3.3 million for 2011 due to an increase in the number of vessels dry docked, and costs related to services and spares (certain repair and maintenance items are more efficient to complete while a vessel is in dry dock; consequently, repair and maintenance costs will typically increase in periods when there is an increase in the number of vessels dry docked); partially offset by

a decrease of \$8.8 million for 2011 related to the sale of the *Karratha Spirit* in March 2011;

a decrease of \$3.5 million relating to the layup of one of our vessels in July 2011 as it awaits suitable projects;

a decrease of \$1.1 million for 2011 relating to the settlement of a claim with a customer in 2010; and

a decrease of \$1.1 million for 2011 relating to the net realized and unrealized changes in fair value of our foreign currency forward contracts that are or have been designated as hedges for accounting purposes.

Time-Charter Hire Expense. Time-charter hire expense decreased to \$74.5 million for 2011, from \$89.8 million for 2010, primarily due to:

a decrease of \$13.5 million for 2011 due to the redelivery of three time-chartered-in vessels to their owners in October 2011, February 2010 and November 2010;

a decrease of \$2.3 million due to the acquisition of one previously chartered-in vessel in February 2010; and

a decrease of \$1.2 million due to decreases in rates on certain contracts in the time-chartered-in fleet during 2011; partially offset by

an increase of \$1.2 million due to increased spot in-chartering during 2011; and

an increase of \$0.5 million due to less offhire in the in-chartered fleet during 2011.

**Depreciation and Amortization.** Depreciation and amortization expense increased to \$129.3 million for 2011, from \$127.4 million for 2010, primarily due to the 2010 and 2011 Newbuilding Shuttle Tanker Acquisitions, partially offset by adjustments to the carrying value of certain capitalized dry docking expenditures in 2010, the write-down of one of our shuttle tankers in 2010, and the sale of the Karratha Spirit in March 2011.

**Asset Impairments and Net Loss on Sale of Vessels and Equipment.** Asset impairments and net loss on the sale of vessels and equipment were \$43.4 million for 2011. The impairments primarily relate to three 1992-built shuttle tankers, all of which will be 20-years old in 2012, and one FSO unit. We determined these vessels were impaired and wrote down the carrying values of these vessels to their estimated fair value, which is either the estimated sales price of the vessel or the estimated scrap value. We identified the following indicators of impairment related to these vessels: the age of the vessels, the requirements of operating in the North Sea, a change in the operating plans for certain vessels, escalating dry dock costs, a continued decline in the fair market value of vessels, and a general decline in the future outlook for shipping and the global economy combined with delayed optimism on when the recovery may occur. Asset impairments and net loss on the sale of vessels and equipment for 2010 were \$19.5 million, resulting from the write-down of certain shuttle equipment, as the carrying value exceeded its estimated fair value, and the impairment of a 1992-built shuttle tanker, as the shuttle tanker net carrying value exceeded the net undiscounted cash flows expected to be generated over its remaining useful life. Due to the termination of the vessel's charter contract and recent economic developments it was determined in 2010 that the shuttle tanker may not generate the future cash flows that were anticipated when originally purchased. The vessel was written down to its estimated fair value. The shuttle tanker equipment was originally purchased for use in future shuttle tanker conversions or new shuttle tankers.

**Restructuring Charges.** During 2011 and 2010, we incurred restructuring charges of \$5.4 million and \$0.7 million, respectively, in connection with the termination of employment for certain of the crew members of the *Karratha Spirit* following the sale of the vessel in March 2011, as well as the termination of the time-charter-out contract of one of our shuttle tankers. The restructuring charges from 2010 primarily resulted from the completion of the reflagging of certain vessels and a change in the nationality mix of our crews.

**Table of Contents****FPSO Segment**

Our FPSO segment (which includes our *Teekay Petrojarl* business unit) includes our FPSO units and other vessels used to service our FPSO contracts. We use these units and vessels to provide transportation, production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term, fixed-rate time-charter contracts, contracts of affreightment or FPSO service contracts. Historically, the utilization of FPSO units and other vessels in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to offshore oil platforms, which generally reduces oil production.

The following table presents our FPSO segment's operating results and also provides a summary of the changes in calendar-ship-days for our FPSO segment:

|                                                                           | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | 2011                       | 2010    |          |
| Revenues                                                                  | 464,810                    | 463,931 | 0.2      |
| Vessel operating expenses                                                 | 242,332                    | 209,283 | 15.8     |
| Depreciation and amortization                                             | 96,915                     | 95,784  | 1.2      |
| General and administrative <sup>(1)</sup>                                 | 52,854                     | 42,714  | 23.7     |
| Gain on sale of vessels and equipment                                     | (4,888)                    |         | (100.0)  |
| Bargain purchase gain                                                     | (58,235)                   |         | (100.0)  |
| Income from vessel operations                                             | 135,832                    | 116,150 | 16.9     |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels                                                             | 2,982                      | 2,920   | 2.1      |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FPSO segment based on estimated use of corporate resources). For further discussion, please read **Other Operating Results** General and Administrative Expenses.

The average fleet size of our FPSO segment, as measured by calendar-ship-days, increased during 2011 compared to 2010 due to the acquisition of the *Hummingbird* FPSO unit by Teekay and the *Piranema* FPSO unit by Teekay Offshore (or the *Sevan Acquisitions*) on November 30, 2011.

**Revenues.** Revenues increased to \$464.8 million for 2011, from \$463.9 million for 2010, primarily due to:

an increase of \$28.3 million due to supplemental efficiency and tariff payments received under the amended *Petrojarl Foinaven* FPSO contract;

an increase of \$14.5 million due to the *Sevan Acquisitions*;

an increase of \$6.7 million due to increased rates on the *Rio das Ostras* FPSO unit effective April 2011, concurrent with starting a new contract on the Aruana field off of Brazil;

an increase of \$4.4 million due to a planned maintenance shutdown of the *Petrojarl Foinaven* FPSO unit in the third quarter of 2010;

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an increase of \$4.0 million due to foreign currency exchange differences in 2011 as compared to 2010;

an increase of \$3.5 million relating to back-pay negotiated payments to us for services previously rendered to the charterer of the *Rio das Ostras* FPSO unit; and

an increase of \$3.1 million due to a planned maintenance shutdown for 13 days on the *Petrojarl Varg* FPSO unit in the third quarter of 2010;  
partially offset by

a decrease of \$59.2 million for one-time payments received in 2010 under the amended operating contract for the *Petrojarl Foinaven* related to operations in previous years and recognized in 2010; and

a decrease of \$3.2 million due to the weather related incident involving the *Banff* FPSO unit. Please read Other Significant Projects and Developments.

As part of our acquisition of Teekay Petrojarl in July 2008 and Sevan in November 2011, we assumed certain FPSO service contracts that had less favorable terms than prevailing market terms at the time of the acquisitions. This contract value liability, which was initially recognized on the date of acquisition, is being amortized to revenue over the remaining firm period of the current FPSO contracts on a weighted basis, based on the projected revenue to be earned under the contracts. The amount of amortization relating to these contracts included in revenue for 2011 was \$46.2 million (2010 \$47.6 million). The decrease in 2011, compared to 2010, was due to increases in the amortization periods resulting from operating contract amendments and changes to expected contract durations for two of our FPSO units. Please read Item 18. Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

Vessel Operating Expenses. Vessel operating expenses increased to \$242.3 million for 2011, from \$209.3 million for 2010, primarily due to:

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an increase of \$10.3 million due to increased inspections, repairs, crew and travel costs in 2011 relating to the *Petrojarl I* FPSO unit compared to 2010;

an increase of \$6.9 million due to higher repairs and maintenance costs associated with the *Apollo Spirit*, an FSO unit used to service the *Petrojarl Banff* FPSO unit, due to a scheduled dry dock in 2011;

an increase of \$6.7 million due to the Sevan Acquisitions;

an increase of \$6.4 million due to the weakening of the U.S. Dollar against the Norwegian Kroner in 2011 compared to 2010;

an increase of \$3.2 million due to increased repairs on the *Rio das Ostras* FPSO unit while on yard stay and higher consumables and spares in 2011 compared to 2010; and

an increase of \$3.1 million due to planned crew and manning wage increases during 2011;  
partially offset by

a decrease of \$3.9 million due to a planned maintenance shutdown for 13 days on the *Petrojarl Varg* FPSO unit in the third quarter of 2010.

**Depreciation and Amortization.** Depreciation and amortization expense increased to \$96.9 million for 2011, from \$95.8 million for 2010, primarily due capital upgrades on the *Rio das Ostras* FPSO unit for the Aruana field in the first quarter of 2011 and the Sevan Acquisitions.

**Gain on Sale of Vessels and Equipment.** Gain on sale of vessels and equipment of \$4.9 million for 2011 relates to a gain on sale of equipment related to the Tiro and Sidon FPSO project.

**Bargain purchase gain.** As part of the acquisition of FPSO units by us and Teekay Offshore from Sevan and our 40% equity investment in Sevan, we recognized a bargain purchase gain on acquisition of \$58.2 million. Please read Item 18. Financial Statements Note 3: Acquisition of FPSO Units from and investment in Sevan Marine ASA.

***Liquefied Gas Segment***

Our liquefied gas segment (which includes our *Teekay Gas Services* business unit) consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. We expect our liquefied gas segment to increase due to Teekay LNG's 52% interest in the Teekay-Marubeni Joint Venture and its acquisition on February 28, 2012 of the six LNG carriers from Maersk.

The following table presents our liquefied gas segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our liquefied gas segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2011                       | 2010    |          |
| Revenues                                                                  | 272,041                    | 248,378 | 9.5      |
| Voyage expenses                                                           | 4,862                      | 29      | 16,665.5 |

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|                                                        |         |         |         |
|--------------------------------------------------------|---------|---------|---------|
| Net revenues                                           | 267,179 | 248,349 | 7.6     |
| Vessel operating expenses                              | 48,158  | 46,497  | 3.6     |
| Depreciation and amortization                          | 63,641  | 62,904  | 1.2     |
| General and administrative <sup>(1)</sup>              | 20,586  | 20,147  | 2.2     |
| Gain on sale of vessels and equipment                  |         | (4,340) | 100.0   |
| Restructuring charges                                  |         | 394     | (100.0) |
| Income from vessel operations                          | 134,794 | 122,747 | 9.8     |
| Calendar-Ship-Days                                     |         |         |         |
| Owned Vessels and Vessels under Direct Financing Lease | 5,126   | 5,051   | 1.5     |

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

The increase in the average fleet size of our liquefied gas segment, as measured by calendar-ship-days, was primarily due to the deliveries of two Multigas carriers, the *Norgas Unikum* and *Norgas Vision*, on June 15, 2011 and October 17, 2011, respectively, and the delivery of an LPG carrier, the *Norgas Camilla*, on September 15, 2011 (collectively, the *2011 Gas Carrier Deliveries*); partially offset by the sale of an LPG carrier, the *Dania Spirit*, on November 5, 2010.

During 2011, two of our LNG carriers, the *Arctic Spirit* and *Polar Spirit*, were off hire for approximately 11 days and 50 days, respectively, relating to scheduled dry dockings, compared to 288 off-hire days in 2010, of which 44 days were related to scheduled dry dockings of the two vessels, with the remainder due to the *Arctic Spirit* being idle with no contract.

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Net Voyage Revenues. Net voyage revenues increased to \$267.2 million for 2011, from \$248.3 million for 2010, primarily due to:

an increase of \$15.6 million due to an increase in the hire rates under new charter contracts for the *Arctic Spirit* and *Polar Spirit* during 2011 as compared to the prior year;

an increase of \$5.3 million due to the 2011 Gas Carrier Deliveries;

an increase of \$4.1 million due to the effect on our Euro-denominated revenues from the strengthening of the Euro against the U.S. Dollar during 2011 compared to the prior year; and

an increase of \$0.9 million, due to operating expense recovery adjustments during 2011 in the charter-hire rates for the Tangguh LNG Carriers;  
partially offset by

a decrease of \$4.0 million due to the sale of the *Dania Spirit* on November 5, 2010; and

a decrease of \$1.2 million for 2011 due to the *Arctic Spirit* and *Polar Spirit* being offhire for 11 days and 13 days, respectively, in the second quarter of 2011 for scheduled dry dockings.

Vessel Operating Expenses. Vessel operating expenses increased to \$48.2 million for 2011, from \$46.5 million for 2010, primarily due to:

an increase of \$2.9 million due to the scope and extent of service and maintenance activities performed in 2011 compared to 2010 and an increase in manning costs for certain of our LNG carriers;

an increase of \$0.8 million due to unemployment for the *Arctic Spirit* for most of 2010. As a result, we were able to operate the vessel throughout 2010 with a reduced average number of crew on board and we reduced the amount of repair and maintenance activities performed; and

an increase of \$0.7 million due to the effect on our Euro-denominated crew manning expenses from the strengthening of the Euro against the U.S. Dollar during 2011 compared to 2010 (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew);  
partially offset by

a decrease of \$2.3 million due to the sale of the *Dania Spirit* on November 5, 2010; and

a decrease of \$1.0 million due to lower insurance rates upon renewal in 2011.

Depreciation and Amortization. Depreciation and amortization increased to \$63.6 million for 2011, from \$62.9 million for 2010, primarily due to:

an increase of \$1.5 million due to the 2011 Gas Carrier Deliveries; and

an increase of \$1.2 million as a result of amortization of dry-dock expenditures incurred during 2011; partially offset by

a decrease of \$0.9 million due to the sale of the *Dania Spirit* on November 5, 2010.

Gain on Sale of Vessels and Equipment. The \$4.3 million gain on sale of vessel in 2010 relates to the sale of the *Dania Spirit* in November 2010.

### **Conventional Tanker Segment**

Our conventional tanker segment (which includes our *Teekay Tankers Services* business unit) consists of conventional crude oil and product tankers that (i) are subject to long-term, fixed-rate time-charter contracts (which have an original term of one year or more), (ii) operate in the spot tanker market, or (iii) are subject to time-charters or contracts of affreightment that are priced on a spot market basis or are short-term, fixed-rate contracts (which have an original term of less than one year).

#### ***a) Fixed-Rate Tanker Sub-Segment***

Our fixed-rate tanker sub-segment, a subset of our conventional tanker segment, includes conventional crude oil and product tankers on fixed-rate time charters with an original duration of more than one year. In addition, we have a 50% interest in a VLCC under construction that is scheduled for delivery in 2013, which will be accounted for under the equity basis. Upon delivery, this vessel will commence operation under a time-charter for a term of five years. Please read Item 18. Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.

The following table presents our fixed-rate tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our fixed-rate tanker sub-segment:

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| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2011                       | 2010    |          |
| Revenues                                                                  | 369,849                    | 382,577 | (3.3)    |
| Voyage expenses                                                           | 4,406                      | 4,446   | (0.9)    |
| Net revenues                                                              | 365,443                    | 378,131 | (3.4)    |
| Vessel operating expenses                                                 | 123,027                    | 109,483 | 12.4     |
| Time-charter hire expense                                                 | 33,623                     | 60,466  | (44.4)   |
| Depreciation and amortization                                             | 84,256                     | 82,746  | 1.8      |
| General and administrative <sup>(1)</sup>                                 | 44,618                     | 43,147  | 3.4      |
| Asset impairments and net loss on sale of vessels and equipment           | 58,252                     | 154     | 37,726.0 |
| Goodwill impairment                                                       | 10,809                     |         | 100.0    |
| Restructuring charges                                                     | 16                         | 330     | (95.2)   |
| Income from vessel operations                                             | 10,842                     | 81,805  | (86.7)   |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels                                                             | 12,199                     | 11,919  | 2.4      |
| Chartered-in Vessels                                                      | 1,911                      | 2,626   | (27.2)   |
| Total                                                                     | 14,110                     | 14,545  | (3.0)    |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the fixed-rate tanker sub-segment based on estimated use of corporate resources. For further discussion, please read **Other Operating Results** **General and Administrative Expenses**.

The average fleet size of our fixed-rate tanker sub-segment (including vessels chartered-in), as measured by calendar-ship-days, decreased for 2011 compared to the prior year, primarily due to:

the transfer to the spot-rate tanker sub-segment of two Aframax tankers, on a net basis, (consisting of the transfer-in of three owned vessels from the spot tanker sub-segment, and the transfer-out of three owned vessels and two in-chartered vessels to the spot tanker sub-segment);

an overall decrease in the number of in-chartered vessel days during 2011;

the sale of one product tanker in August 2010; and

the redelivery by us of one VLCC and one Aframax tanker to their owners during 2011 upon expiration of in-charters; partially offset by

the transfer of one Suezmax tanker from the spot tanker sub-segment in April 2010; and

the deliveries of two product tankers in April 2011.

The collective impact from the above noted fleet changes are referred to below as the *Net Fleet Reduction*.

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Net Revenues. Net revenues decreased to \$365.4 million in 2011, from \$378.1 million for 2010, primarily due to:

a decrease of \$14.4 million from the redeliveries of in-chartered vessels; and

a decrease of \$9.0 million from the sale of a product tanker in August 2010;  
partially offset by

an increase of \$11.5 million resulting from interest income from our investment in term loans, as discussed below.  
We earned interest income of \$16.8 million and \$5.3 million, respectively, for 2011 and 2010 from our investment in three term loans which totalled \$187 million as at December 31, 2011, which are collateralized by first-priority mortgages on three modern VLCCs.

Vessel Operating Expenses. Vessel operating expenses increased to \$123.0 million in 2011, from \$109.5 million in 2010, primarily due to \$12.7 million related to the addition of two product tankers and \$5.5 million related to an increase in manning for certain of our conventional tankers and the timing of services and maintenance. These increases were partially offset by \$4.5 million as a result of the Net Fleet Reduction.

Time-Charter Hire Expense. Time-charter hire expense decreased to \$33.6 million in 2011, from \$60.5 million in 2010, primarily due to a net decrease in the number of in-chartered vessel days as vessels were redelivered to their owners upon expiration of in-charter contracts, and vessels transferring to the spot tanker sub-segment.

Depreciation and Amortization. Depreciation and amortization expense increased to \$84.3 million in 2011, from \$82.7 million in 2010, primarily due to an increase in capitalized dry docking expenditures incurred during 2011.

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**Asset Impairments and Net loss on Sale of Vessels and Equipment.** Asset impairments and net loss on sale of vessels and equipment were \$58.3 million for 2011. The impairments relate to three vessels built in 2000, 2004 and 2005. We determined these vessels were impaired and wrote down the carrying values of these vessels to their estimated fair value, which is either the estimated sales price of the vessel or the estimated scrap value. We identified the following indicators of impairment related to these vessels: a change in the operating plans for certain vessels, escalating dry dock costs, a continued decline in the fair market value of vessels, and a general decline in the future outlook for shipping and the global economy combined with delayed optimism on when the recovery may occur. Please read Item 18. Financial Statements: Note 18(b) Write-downs and Note 11(a) Fair Value Measurements.

**Goodwill Impairment.** Goodwill impairment was \$10.8 million for 2011 as a result of a write-down of goodwill relating to Suezmax tankers. 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. Please read Item 18. Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

**b) Spot Tanker Sub-Segment**

Our spot tanker sub-segment, a subset of our conventional tanker segment, consists of conventional crude oil tankers and product tankers operating on the spot tanker market or subject to time-charters or contracts of affreightment that are priced on a spot market basis or are short-term, fixed-rate contracts. We consider contracts that have an original term of less than one year in duration to be short-term. Certain of our conventional Aframax, Suezmax, and large and medium product tankers are among the vessels included in the spot tanker sub-segment.

Our spot tanker market operations contribute to the volatility of our revenues, cash flow from operations and net income (loss). Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, spot tanker markets historically have exhibited seasonal variations in charter rates. Spot tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling.

The following table presents our spot tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our spot tanker sub-segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |           | % Change |
|---------------------------------------------------------------------------|----------------------------|-----------|----------|
|                                                                           | 2011                       | 2010      |          |
| Revenues                                                                  | 233,314                    | 378,672   | (38.4)   |
| Voyage expenses                                                           | 69,603                     | 129,619   | (46.3)   |
| Net revenues                                                              | 163,711                    | 249,053   | (34.3)   |
| Vessel operating expenses                                                 | 67,634                     | 82,670    | (18.2)   |
| Time-charter hire expense                                                 | 106,078                    | 135,758   | (21.9)   |
| Depreciation and amortization                                             | 54,503                     | 71,833    | (24.1)   |
| General and administrative <sup>(1)</sup>                                 | 45,199                     | 36,454    | 24.0     |
| Asset impairments and net loss on sale of vessels and equipment           | 54,339                     | 33,856    | 60.5     |
| Goodwill impairment                                                       | 25,843                     |           | 100.0    |
| Restructuring charge                                                      | 123                        | 14,968    | (99.2)   |
| Loss from vessel operations                                               | (190,008)                  | (126,486) | 50.2     |
| Calendar-Ship-Days                                                        |                            |           |          |
| Owned Vessels                                                             | 7,367                      | 8,185     | (10.0)   |
| Chartered-in Vessels                                                      | 5,555                      | 6,372     | (12.8)   |
| Total                                                                     | 12,922                     | 14,557    | (11.2)   |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses allocated to the spot tanker sub-segment based on estimated use of corporate resources. For further discussion, please read **Other Operating Results** **General and Administrative Expenses**.

The average size of our spot tanker fleet (including vessels chartered-in), as measured by calendar-ship-days, decreased for 2011, compared to the prior year, primarily due to:

the sale of two Aframax tankers in 2010 and one in 2011;

the redelivery by us of four Aframax tankers and six Suezmax tankers to their owners during 2011 upon expiration of in-charters;  
and

the transfer of one Suezmax tanker to the fixed-rate tanker sub-segment in April 2010;  
partially offset by

the transfer to the spot-rate tanker sub-segment of two Aframax tankers, on a net basis, (consisting of the transfer-out of three owned vessels to the fixed tanker sub-segment, and the transfer-in of three owned vessels and two in-chartered vessels from the fixed tanker sub-segment); and

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the transfer by us of one in-chartered VLCC from the fixed-rate tanker sub-segment in February 2011 before redelivery to its owner in May 2011.

The collective impact from the above noted fleet changes are referred to below as the *Net Spot Fleet Reductions*.

**Tanker Market and TCE Rates**

Crude tanker rates strengthened during the fourth quarter of 2011 due to seasonal factors and an increase in global oil production to record highs. In the Atlantic, weather in the North Sea and Baltic Sea and transit delays through the Turkish Straits led to an increase in European Aframax and Suezmax rates. The return of Libyan oil production to approximately 1.0 million barrels per day (*mb/d*) by the end of the year also provided support to tanker rates in the Mediterranean. In the Pacific, an increase in Asian oil imports to meet peak winter demand caused rates to firm up, particularly in the large crude oil tanker sectors. Weather disruptions in the Atlantic have continued to give support to crude tanker rates in early 2012.

The world tanker fleet grew by 26.1 million deadweight tonnes (*mdwt*), or 5.8%, during 2011, compared to an increase of 17.7 *mdwt*, or 4.1 %, during 2010. A total of 39.6 *mdwt* of new tankers entered the global fleet in 2011, a decrease from 41.5 *mdwt* in the prior year. A total of 13.6 *mdwt* of tankers were removed for scrapping or conversion during 2011, a decrease from 23.8 *mdwt* in the prior year. Approximately 50 *mdwt* of tankers are scheduled for delivery during 2012; however, we anticipate an order book slippage rate of around 33% due to construction delays and order cancellations and estimate actual deliveries of approximately 33.5 *mdwt*. Assuming scrapping of 12 *mdwt* occurs, we estimate that the tanker fleet will grow by approximately 21.5 *mdwt*, or 4.5%, during 2012.

Based on the average range of forecasts from the International Energy Agency (*IEA*), the Energy Information Agency (*EIA*) and the Organization of Petroleum Exporting Countries (*OPEC*), global oil demand is expected to grow by 1.0 *mb/d* in 2012, with growth expected to be driven entirely by non-OECD regions. This increase in oil demand is expected to increase demand for tankers through 2012. In addition, we anticipate that average voyage distances will lengthen during 2012 due to a narrowing in the price spread between crude oil produced in the Atlantic such as Brent and Middle Eastern grades, which we expect will make Atlantic basin crude more attractive to Asian buyers.

With tanker supply growth expected to exceed demand growth for at least the first half of 2012, the current seasonal strength is expected to give way to spot tanker rate weakness and volatility similar to that experienced in 2011. These conditions are expected to persist through much of 2012 before an anticipated reduction in tanker supply growth begins to provide support for potentially stronger rates in the latter part of the year.

| Vessel Type                  | December 31, 2011     |         |            | Year Ended<br>December 31, 2010 |         |            | December 31, 2009     |         |            |
|------------------------------|-----------------------|---------|------------|---------------------------------|---------|------------|-----------------------|---------|------------|
|                              | Net                   | Revenue | TCE        | Net                             | Revenue | TCE        | Net                   | Revenue | TCE        |
|                              | Revenues<br>(\$000 s) |         | Rate<br>\$ | Revenues<br>(\$000 s)           |         | Rate<br>\$ | Revenues<br>(\$000 s) |         | Rate<br>\$ |
| Spot Fleet <sup>(1)</sup>    |                       | Days    |            |                                 | Days    |            |                       | Days    |            |
| Suezmax Tankers              | 64,529                | 4,387   | 14,709     | 116,986                         | 4,983   | 23,477     | 118,279               | 4,851   | 24,382     |
| Aframax Tankers              | 76,606                | 6,332   | 12,098     | 110,437                         | 7,006   | 15,763     | 208,437               | 11,650  | 17,892     |
| Large/Medium Product Tankers | 23,486                | 1,832   | 12,820     | 26,020                          | 1,768   | 14,717     | 45,091                | 2,748   | 16,409     |
| Other <sup>(2)</sup>         | (850)                 |         |            | (4,390)                         |         |            | 3,078                 |         |            |
| Totals                       | 163,771               | 12,551  | 13,048     | 249,053                         | 13,757  | 18,104     | 374,885               | 19,249  | 19,476     |

(1) Spot fleet includes short-term time-charters and fixed-rate contracts of affreightment with an initial term of less than one year.

(2) Includes the cost of spot in-charter vessels servicing fixed-rate contract of affreightment cargoes, the amortization of in-process revenue contracts and the cost of fuel while off hire.

Average spot tanker TCE rates decreased for 2011 compared to the prior year. The TCE rates generally reflect continued weak global oil demand caused by the global economic slowdown. Partially in response to this global economic slowdown, we reduced our exposure to the spot tanker market through the sale of certain vessels that were trading on the spot market, entered into fixed-rate time charters for certain tankers that were previously trading in the spot market, and re-delivered in-chartered vessels. This shift away from our spot tanker employment to fixed-rate employment provided increased cash flow stability in light of a volatile spot tanker market.

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**Net Revenues.** Net revenues decreased to \$163.7 million in 2011, from \$249.1 million for 2010, primarily due to decreases of \$65.2 million from decreases in our average spot tanker TCE rates due to the relative weakening of the spot tanker market and \$19.3 million from the Net Spot Fleet Reductions.

**Vessel Operating Expenses.** Vessel operating expenses decreased to \$67.6 million in 2011, from \$82.7 million for 2010, primarily due to \$15.9 million from the Net Spot Fleet Reductions.

**Time-Charter Hire Expense.** Time-charter hire expense decreased to \$106.1 million for 2011, from \$135.8 million for 2010, primarily due to redeliveries of previously chartered-in vessels upon expiration of their in-charter contracts and a decrease in average in-charter contract hire rates.

**Depreciation and Amortization.** Depreciation and amortization expense decreased to \$54.5 million in 2011, from \$71.8 million for 2010, primarily due to a decrease of amortization of certain intangible contracts that were fully amortized in 2010 and the Net Spot Fleet Reductions.

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**Asset Impairments and Net loss on Sale of Vessels and Equipment.** Asset impairments and net loss on sale of vessels and equipment were \$54.3 million for 2011. The impairments relate to two 1992-built vessels, one 1993-built vessel, one 1994-built vessel and one 1997-built vessel. We determined these vessels were impaired and wrote down the carrying values of these vessels to their estimated fair value, which is either the estimated sales price of the vessel or the estimated scrap value. We identified the following indicators of impairment related to these vessels: a change in the operating plans for certain vessels, escalating dry dock costs, a continued decline in the fair market value of vessels, and a general decline in the future outlook for shipping and the global economy combined with delayed optimism on when the recovery may occur. Asset impairments and net loss on sale of vessels and equipment for 2010 of \$33.9 million, were primarily due to write-downs of \$31.7 million for certain customer contracts and three vessel purchase options which either expired unexercised or were unlikely to be exercised by us and a \$1.9 million loss on the sale of a 1995-built Aframax tanker in August 2010.

**Goodwill Impairment.** Goodwill impairment was \$25.8 million for 2011 as a result of a write-off of goodwill relating to Suezmax tankers. 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. Please read Item 18. Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

**Restructuring Charges.** Restructuring charges for 2011 and 2010 primarily relate to costs incurred for certain vessel crew changes. We changed the crew operations being managed by an external management company to our own international seafarers in order to reduce future crewing costs.

### Other Operating Results

The following table compares our other operating results for 2011 and 2010.

| (in thousands of U.S. dollars, except percentages)                      | Year Ended<br>December 31, |           | % Change |
|-------------------------------------------------------------------------|----------------------------|-----------|----------|
|                                                                         | 2011                       | 2010      |          |
| General and administrative                                              | (223,616)                  | (193,743) | 15.4     |
| Interest expense                                                        | (137,604)                  | (136,107) | 1.1      |
| Interest income                                                         | 10,078                     | 12,999    | (22.5)   |
| Realized and unrealized losses on non-designated derivative instruments | (342,722)                  | (299,598) | 14.4     |
| Equity loss                                                             | (35,309)                   | (11,257)  | 213.7    |
| Foreign exchange gain                                                   | 12,654                     | 31,983    | (60.4)   |
| Loss on notes repurchase                                                |                            | (12,645)  | (100.0)  |
| Other income                                                            | 12,360                     | 7,527     | 64.2     |
| Income tax (expense) recovery                                           | (4,290)                    | 6,340     | (167.7)  |

**General and Administrative Expenses.** General and administrative expenses increased to \$223.6 million for 2011, from \$193.7 million for 2010, primarily due to:

an increase of \$30.9 million in salaries and benefits primarily due to a one-time pension expense of \$11.0 million related to the retirement of our former President and Chief Executive Officer on March 31, 2011, \$1.7 million from the weakening of the U.S. Dollar against the Norwegian Kroner, Canadian dollar, Australian dollar, and other currencies, \$4.9 million from an increase in the average number of employees, and \$2.8 million from salary increases effective April 2011;

an increase of \$7.2 million in corporate expenses due to higher business development and consulting fees, primarily in our Shuttle Tanker and FSO and FPSO segments, and an increase in directors' fees;

an increase of \$3.9 million in travel related primarily to increased business development activities; and

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an increase of \$1.1 million in acquisition costs related to the Sevan Acquisition;  
partially offset by

a decrease of \$6.3 million in lower short-term incentive compensation.

Interest Expense. Interest expense increased to \$137.6 million for 2011, from \$136.1 million for 2010, primarily due to an increase in average debt balance from \$4.4 billion in 2010 to \$4.9 billion in 2011, and

an increase of \$7.9 million due to the effect of the November 2010 issuance of the 600 million Norwegian Kroner-denominated senior unsecured bonds due November 2013; and

an increase of \$2.8 million due to increased EURIBOR rates relating to Euro-denominated debt;  
partially offset by

a decrease due to the retirement at maturity of 8.875% senior unsecured notes due in July 2011;

a decrease of \$7.6 million due to capitalized interest on the Tiro and Sidon FPSO project and Knarr FPSO unit; and

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a decrease of \$1.8 million from the scheduled capital lease repayments on the *Madrid Spirit* (the *Madrid Spirit* was financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in the interest income from restricted cash). During the fourth quarter of 2011 the *Madrid Spirit* lease expired and the purchase obligation was fully funded with restricted cash deposits.

The debt repayments under long-term revolving credit facilities that contributed to a decrease in interest expense for 2011 were primarily funded with net proceeds from the issuance of equity securities by our publicly listed subsidiaries and from the sale of assets to our public company subsidiaries and to third parties. When one of our publicly listed subsidiaries acquires an asset from us, a significant portion of the acquisition typically has been financed through the issuance to the public or private investors of equity securities by the subsidiary. To the extent that there are no immediate investment opportunities, we have generally applied the proceeds from the equity issuances and from the sale of assets to these subsidiaries and third parties towards debt reduction or increasing our cash balances. Please read Item 4. Information on the Company Recent Equity Offerings and Transactions by Subsidiaries.

**Interest Income.** Interest income decreased to \$10.1 million for 2011, compared to \$13.0 million for 2010, primarily due to lower cash account balances and a scheduled capital lease repayment on one of our LNG carriers that was funded from restricted cash deposits that earn interest.

**Realized and Unrealized Losses on Non-designated Derivative Instruments.** Realized and unrealized losses related to derivative instruments that are not designated as hedges for accounting purposes are included as a separate line item in the consolidated statements of income (loss). The realized (losses) gains relate to the amounts we actually received or paid to settle such derivative instruments and the unrealized (losses) gains relate to the change in fair value of such derivative instruments. Net realized and unrealized losses on non-designated derivatives were \$342.7 million for 2011, compared to net realized and unrealized losses on non-designated derivatives of \$299.6 million for 2010, as detailed in the table below:

| (in thousands of U.S. Dollars)                                                | Year Ended<br>December 31, |           |
|-------------------------------------------------------------------------------|----------------------------|-----------|
|                                                                               | 2011                       | 2010      |
| Realized (losses) gains relating to:                                          |                            |           |
| Interest rate swap agreements                                                 | (132,931)                  | (154,098) |
| Interest rate swap agreement amendments and terminations                      | (149,666)                  |           |
| Foreign currency forward contracts                                            | 9,965                      | (2,274)   |
| Forward freight agreements, bunker fuel swaps and other                       | 36                         | (7,914)   |
|                                                                               | (272,596)                  | (164,286) |
| Unrealized gains (losses) relating to:                                        |                            |           |
| Interest rate swaps                                                           | (58,405)                   | (146,780) |
| Foreign currency forward contracts                                            | (11,399)                   | 6,307     |
| Forward freight agreements, bunker fuel swaps and other                       | (322)                      | 5,161     |
|                                                                               | (70,126)                   | (135,312) |
| Total realized and unrealized losses on non-designated derivative instruments | (342,722)                  | (299,598) |

The total realized and unrealized losses on non-designated derivative instruments were \$342.7 million and \$299.6 million for 2011 and 2010, respectively. The realized losses relate to amounts we actually realized or paid to settle such derivative instruments, or for interest rate swap agreement amendments and terminations. The unrealized losses on interest rate swaps for 2011 were primarily due to changes in the forward interest swap rates.

During 2011 and 2010, we had interest rate swap agreements with aggregate average net outstanding notional amounts of approximately \$3.0 billion and \$2.7 billion, respectively, with average fixed rates of approximately 3.5% and 4.1%, respectively. Short-term variable benchmark interest rates during these periods were generally less than 1.1% and, as such, we incurred realized losses of \$132.9 million and \$154.1 million, respectively, during 2011 and 2010 under the interest rate swap agreements. We incurred realized losses of \$149.7 million and \$nil, respectively, during 2011 and 2010 for amending the terms of five interest rate swaps to reduce the weighted average fixed interest rate from 5.1% to 2.5%, and for the termination of two interest rate swaps.

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As a result of significant decreases in long-term benchmark interest rates in 2011 and 2010, we recognized unrealized losses of \$70.1 million in 2011 and \$135.3 million in 2010. Please see Item 5. Operating and Financial Review and Prospects: Valuation of Derivative Instruments, which explains how our derivative instruments are valued, including a description of significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized (losses) gain on derivative instruments.

**Equity Loss.** Equity losses were \$35.3 million and \$11.3 million for 2011 and 2010, respectively. The loss was primarily comprised of our share of the earnings (loss) from the Angola LNG Project, the RasGas 3 Joint Venture and from the Exmar Joint Venture. Please read Item 18. Financial Statements: Note 23 Equity Accounted Investments. Of the equity loss for 2011, \$35.3 million relates to our share of unrealized loss on interest rate swaps for 2011. This compares to unrealized loss on interest rate swaps of \$26.3 million included in equity loss for 2010. In addition, the equity loss for 2011 includes the impairment of an investment in a joint venture of \$19.4 million.

**Foreign Exchange Gain.** Foreign exchange gains were \$12.7 million and \$32.0 million for 2011 and 2010, respectively. These foreign currency exchange gains, substantially all of which were unrealized, are due primarily to the relevant period end revaluation of our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes. Gains reflect a strengthening U.S. Dollar against the Euro on the date of revaluation. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation.

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**Other Income.** Other income of \$12.4 million for 2011 was primarily comprised of leasing income of \$2.9 million in 2011, a \$3.4 million gain in 2011 related to a gain on sale of marketable securities, and \$6.1 million in miscellaneous income.

**Income Tax Recovery (Expense).** Income tax expense was \$4.3 million for 2011, compared to an income tax recovery of \$6.3 million for 2010. The increase to income tax expense was primarily due to taking a full valuation allowance against the deferred tax asset relating to Norwegian tax losses carried forward, partially offset by an increase in deferred income tax recovery relating to unrealized foreign exchange translation losses and a tax loss on the sale of a vessel.

**Net Loss.** As a result of the foregoing factors, net loss amounted to \$386.7 million for 2011, compared to net loss of \$166.6 million for 2010.

**Year Ended December 31, 2010 versus Year Ended December 31, 2009****Shuttle Tanker and FSO Segment**

The following table presents our shuttle tanker and FSO segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our shuttle tanker and FSO segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2010                       | 2009    |          |
| Revenues                                                                  | 622,195                    | 583,320 | 6.7      |
| Voyage expenses                                                           | 111,003                    | 86,499  | 28.3     |
| Net revenues                                                              | 511,192                    | 496,821 | 2.9      |
| Vessel operating expenses                                                 | 182,614                    | 173,463 | 5.3      |
| Time-charter hire expense                                                 | 89,768                     | 113,786 | (21.1)   |
| Depreciation and amortization                                             | 127,438                    | 122,630 | 3.9      |
| General and administrative <sup>(1)</sup>                                 | 51,281                     | 50,923  | 0.7      |
| Asset impairments and net loss on sale of vessels and equipment           | 19,480                     | 1,902   | 924.2    |
| Restructuring charges                                                     | 704                        | 7,032   | (90.0)   |
| Income from vessel operations                                             | 39,907                     | 27,085  | 47.3     |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels                                                             | 11,221                     | 10,950  | 2.5      |
| Chartered-in Vessels                                                      | 2,626                      | 2,727   | (3.7)    |
| Total                                                                     | 13,847                     | 13,677  | 1.2      |

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the shuttle tanker and FSO segment based on estimated use of corporate resources). For further discussion, please read Other Operating Results General and Administrative Expenses.

The average fleet size of our shuttle tanker and FSO segment (including vessels chartered-in), as measured by calendar-ship-days, increased during 2010 compared to 2009. This was primarily due to an FSO unit commencing operations in December 2009, the acquisition of a shuttle tanker in February 2010, the delivery of two shuttle tankers, and partially offset by a decrease in the number of chartered-in shuttle tankers.

**Net Revenues.** Net revenues increased to \$511.2 million for 2010, from \$496.8 million for 2009, primarily due to:

an increase of \$16.5 million due to increased rates on certain bareboat and time-charter contracts and contracts of affreightment, primarily as a result of contract renewals at higher rates;

an increase of \$10.6 million due to the inclusion of the *Falcon Spirit* FSO unit commencing in December 2009;

an increase of \$4.6 million due to the delivery of the two new shuttle tankers, the *Amundsen Spirit* and the *Nansen Spirit*, commencing in July 2010 and October 2010, respectively;

an increase of \$3.8 million due to foreign currency exchange differences as compared to 2009;

an increase of \$1.0 million from an increase in the number of cargo liftings due to increased oil production at the *Heidrun* field, a mature oil field in the North Sea that is serviced by certain shuttle tankers on contracts of affreightment; and

an increase of \$0.8 million due to a payment made to us by a joint venture partner as the number of dry dock days for the applicable vessel exceeded the maximum allowed under our agreement with this joint venture partner;  
partially offset by

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a net decrease of \$16.5 million from fewer shuttle tanker revenue days due to declining oil production at mature oil fields in the North Sea, a decrease in revenue days in the conventional spot market from decreased demand for conventional crude transportation, partially offset by an increase in revenues from certain projects; and

a decrease of \$6.3 million due to the redelivery of one in-chartered vessel in June 2009 as it completed its time-charter contract.  
Vessel Operating Expenses. Vessel operating expenses increased to \$182.6 million for 2010, from \$173.5 million for 2009, primarily due to:

an increase of \$6.8 million due to the acquisition of a previously in-chartered shuttle tanker in February 2010;

an increase of \$4.3 million due to the delivery of the two new shuttle tankers, the *Amundsen Spirit* and the *Nansen Spirit*, commencing in July 2010 and October 2010, respectively;

an increase of \$4.3 million relating to repairs and maintenance performed during 2010 on certain vessels, crew training costs and port costs;

an increase of \$3.3 million due to the inclusion of the *Falcon Spirit* FSO unit in December 2009; and

an increase of \$3.2 million due to weakening of the U.S. Dollar against the Australian Dollar compared to 2009; partially offset by

a decrease of \$7.0 million relating to the net realized and unrealized changes in fair value of our foreign currency forward contracts that are or have been designated as hedges for accounting purposes;

a decrease of \$3.2 million in crew and manning costs resulting primarily from cost saving initiatives that commenced in 2009, as described below under restructuring charges;

a decrease of \$2.2 million due to decreases in the cost of services, spares and consumables during 2010; and

a decrease of \$2.0 million due to the redelivery of one in-chartered vessel in June 2009 as it completed its time-charter agreement.  
Time-Charter Hire Expense. Time-charter hire expense decreased to \$89.8 million for 2010, from \$113.8 million for 2009, primarily due to:

a decrease of \$24.0 million primarily resulting from the redelivery of three in-chartered shuttles to their owners in June 2009, November 2009 and February 2010, upon expiration of their in-charter contracts; and

a decrease of \$12.6 million due to the acquisition of a previously in-chartered shuttle tanker in February 2010; partially offset by

an increase of \$11.9 million due to less off hire in the in-chartered fleet and an increase in spot in-chartering of vessels; and

an increase of \$0.7 million due to higher dry docking amortization relating to one of our in-chartered vessels.

**Depreciation and Amortization.** Depreciation and amortization expense increased to \$127.4 million for 2010, from \$122.6 million for 2009, primarily due to capitalized dry dock and vessel upgrade costs incurred in the second half of 2009, depreciation on a shuttle tanker acquired in February 2010, and two shuttle tankers that delivered in July and October 2010, partially offset by lower amortization on our FSO units as certain conversion costs were fully depreciated at the end of a fixed-term contract in April 2010.

**Asset Impairments and Net Loss on Sale of Vessels and Equipment.** Asset impairments and net loss on sale of vessels and equipment for 2010 of \$19.5 million was due to the write-down of certain shuttle equipment and a 1992-built shuttle tanker, as both the shuttle equipment and shuttle tanker carrying values exceeded their estimated fair values. The shuttle tanker equipment was purchased for use in future shuttle tanker conversions or new shuttle tankers.

**Restructuring Charges.** During 2010 and 2009, we incurred restructuring charges of \$0.7 million and \$7.0 million, respectively, primarily resulting from the completion of the reflagging of certain vessels and a change in the nationality mix of our crews. We expect the restructuring will result in a reduction in future crewing costs for these vessels.

#### ***FPSO Segment***

The following table presents our FPSO segment's operating results and also provides a summary of the changes in calendar-ship-days for our FPSO segment:

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| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2010                       | 2009    |          |
| Revenues                                                                  | 463,931                    | 390,576 | 18.8     |
| Vessel operating expenses                                                 | 209,283                    | 200,856 | 4.2      |
| Depreciation and amortization                                             | 95,784                     | 102,316 | (6.4)    |
| General and administrative <sup>(1)</sup>                                 | 42,714                     | 34,276  | 24.6     |
| Income from vessel operations                                             | 116,150                    | 53,128  | 118.6    |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels                                                             | 2,920                      | 3,101   | (5.8)    |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the FPSO segment based on estimated use of corporate resources). For further discussion, please read **Other Operating Results** **General and Administrative Expenses**.

The average fleet size of our FPSO segment, as measured by calendar-ship-days, decreased during 2010 compared to 2009. This was the result of one shuttle tanker, which was previously being held for a possible conversion to an FPSO unit, being converted to an FSO unit and transferred to the shuttle tanker and FSO segment in the fourth quarter of 2009.

**Revenues.** Revenues increased to \$463.9 million for 2010, from \$390.6 million for 2009, primarily due to:

an increase of \$59.2 million from payments received under the amended operating contract for our *Petrojarl Foinaven* FPSO unit related to operations in previous years;

an increase of \$27.0 million due to supplemental efficiency and tariff payments received under the amended *Petrojarl Foinaven* FPSO contract; and

a net increase of \$6.2 million from the *Petrojarl Varg* FPSO unit commencing operations under a new four-year fixed-rate contract extension beginning in the third quarter of 2009, partially offset by a decrease in revenues resulting from a planned maintenance shutdown of the unit in the third quarter of 2010;

partially offset by

a decrease of \$20.1 million from the decrease in amortization of contract value liabilities relating to FPSO service contracts (as discussed below).

As part of our acquisition of Teekay Petrojarl, we assumed certain FPSO service contracts that had terms that were less favorable than prevailing market terms at the time of acquisition. This contract value liability, which was initially recognized on the date of acquisition, is being amortized to revenue over the remaining firm period of the current FPSO contracts on a weighted basis, based on the projected revenue to be earned under the contracts. The amount of amortization relating to these contracts included in revenue for 2010 was \$47.6 million (2009 \$67.7 million). The decrease in 2010, compared to 2009, was due to increases in the amortization periods resulting from operating contract amendments and changes to expected contract durations for two of our FPSO units. Please read Item 18 **Financial Statements: Note 6** **Goodwill, Intangible Assets and In-Process Revenue Contracts**.

**Vessel Operating Expenses.** Vessel operating expenses increased to \$209.3 million for 2010, from \$200.9 million for 2009, primarily due to increases in crewing costs related to changes in crew classifications and wage increases and an increase in services and repairs due to the timing of certain projects, which were incurred during scheduled maintenance shutdowns during 2010.

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**Depreciation and Amortization.** Depreciation and amortization expense decreased to \$95.8 million for 2010, from \$102.3 million for 2009, primarily due to a reassessment of the estimated residual value of the FPSO units in 2010.

### ***Liquefied Gas Segment***

The following table presents our liquefied gas segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our liquefied gas segment:

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| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2010                       | 2009    |          |
| Revenues                                                                  | 248,378                    | 246,472 | 0.8      |
| Voyage expenses                                                           | 29                         | 1,018   | (97.2)   |
| Net revenues                                                              | 248,349                    | 245,454 | 1.2      |
| Vessel operating expenses                                                 | 46,497                     | 50,704  | (8.3)    |
| Depreciation and amortization                                             | 62,904                     | 59,868  | 5.1      |
| General and administrative <sup>(1)</sup>                                 | 20,147                     | 20,007  | 0.7      |
| Gain on sale of vessels and equipment                                     | (4,340)                    |         |          |
| Restructuring charges                                                     | 394                        | 4,177   | (90.6)   |
| Income from vessel operations                                             | 122,747                    | 110,698 | 10.9     |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels and Vessels under Direct Financing Lease                    | 5,051                      | 4,637   | 8.9      |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the liquefied gas segment based on estimated use of corporate resources). For further discussion, please read Other Operating Results General and Administrative Expenses.

The increase in the average fleet size of our liquefied gas segment, as measured by calendar-ship-days, was primarily due to the deliveries of one LNG carrier in March 2009 (the *Tangguh LNG Delivery*) and two new LPG carriers in April 2009 and November 2009 (the *LPG Deliveries*), partially offset by the sale of one LPG carrier in November 2010.

During 2010, two of our vessels, the *Arctic Spirit* and the *Dania Spirit*, were off hire for a total of 288 days, of which approximately 44 days were related to scheduled dry dockings of the two vessels, with the remainder due to the *Arctic Spirit* being off hire with no charter contract. The *Arctic Spirit* commenced a new time-charter contract during the fourth quarter of 2010.

Net Revenues. Net revenues increased to \$248.4 million for 2010, from \$245.5 million for 2009, primarily due to:

an increase of \$11.0 million due to the commencement of the time-charter related to the *Tangguh LNG Delivery* and an increase in the time-charter rate for the *Tangguh Hiri* relating to the operating element of the time-charter;

an increase of \$4.1 million due to the commencement of the time-charters related to the *LPG Deliveries*, respectively; and

an increase of \$4.0 million due to the absence of off-hire days in 2010 for the *Galicia Spirit* and *Madrid Spirit* compared to 53 off-hire days for these vessels in 2009 for scheduled dry docks;  
partially offset by

a decrease of \$11.6 million due to the *Arctic Spirit* being off hire during the majority of 2010 primarily due to the completion of its time-charter contract in December 2009 and in part due to a scheduled dry docking;

a decrease of \$2.9 million due to the effect on our Euro-denominated revenues from the weakening of the Euro against the U.S. Dollar compared to 2009;

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a decrease of \$0.9 million due to a decrease in the hire rate for the *Polar Spirit* as compared to 2009 as a result of crewing rate adjustments; and

a decrease of \$0.7 million due to the sale of an LPG carrier in November 2010.

Vessel Operating Expenses. Vessel operating expenses decreased to \$46.5 million for 2010, from \$50.7 million for 2009, primarily due to:

a decrease of \$3.2 million due to the *Arctic Spirit* being laid up for most of 2010 and as a result, operating with a reduced number of crew on board and with reduced repair and maintenance activities, as well as decreased crew and manning costs upon the change of manning agency services of the *Arctic Spirit* and *Polar Spirit* LNG carriers in October 2009;

a decrease of \$1.7 million as a result of our decision to cancel our loss-of-hire insurance coverage in 2009 and a reduction in manning levels for certain of our LNG carriers; and

a decrease of \$1.1 million due to the effect on our Euro-denominated expenses from the weakening of the Euro against the U.S. Dollar compared to 2009;

partially offset by

an increase of \$1.5 million due to additional crew training expenses and crew manning relating to the delivery of the *Tangguh Sago* and the *Tangguh Hiri* during 2009.

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Depreciation and Amortization. Depreciation and amortization increased to \$62.9 million for 2010, from \$59.9 million for 2009, primarily due to:

an increase of \$3.0 million relating to depreciation of dry dock expenditures incurred during the third and fourth quarters of 2009 and the first quarter of 2010; and

an increase of \$1.1 million from the LPG Deliveries;  
partially offset by

a decrease of \$0.9 million from the delivery of the *Tangguh Sago* in March 2009, prior to the commencement of the external time-charter contract in May 2009, which is accounted for as a direct financing lease.

Gain on Sale of Vessels and Equipment. The \$4.3 million gain on sale of vessels in 2010 relates to the sale of the *Dania Spirit*, a 2000-built LPG carrier, in November 2010 for proceeds of \$21.5 million.

**Conventional Tanker Segment**

Effective January 1, 2010, the operating results of vessels that were employed on fixed rate time-charters and contracts of affreightment that had an original duration of more than one year but less than three years were included in the fixed-rate tanker sub-segment of the conventional tankers segment. Previously, these operating results were included in our spot tanker sub-segment.

**a) Fixed-Rate Tanker Sub-Segment**

The following table presents our fixed-rate tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our fixed-rate tanker sub-segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |         | % Change |
|---------------------------------------------------------------------------|----------------------------|---------|----------|
|                                                                           | 2010                       | 2009    |          |
| Revenues                                                                  | 382,577                    | 385,283 | (0.7)    |
| Voyage expenses                                                           | 4,446                      | 5,505   | (19.2)   |
| Net revenues                                                              | 378,131                    | 379,778 | (0.4)    |
| Vessel operating expenses                                                 | 109,483                    | 96,160  | 13.9     |
| Time-charter hire expense                                                 | 60,466                     | 75,470  | (19.9)   |
| Depreciation and amortization                                             | 82,746                     | 67,044  | 23.4     |
| General and administrative <sup>(1)</sup>                                 | 43,147                     | 40,631  | 6.2      |
| Asset impairments and net loss on sale of vessels and equipment           | 154                        | 14,044  | (98.9)   |
| Restructuring charges                                                     | 330                        | 1,044   | (68.4)   |
| Income from vessel operations                                             | 81,805                     | 85,385  | (4.2)    |
| Calendar-Ship-Days                                                        |                            |         |          |
| Owned Vessels                                                             | 11,919                     | 10,944  | 8.9      |
| Chartered-in Vessels                                                      | 2,626                      | 3,225   | (18.6)   |
| Total                                                                     | 14,545                     | 14,169  | 2.7      |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the fixed-rate tanker sub-segment based on estimated use of corporate resources). For further discussion, please read *Other Operating Results* *General and Administrative Expenses*.

The average fleet size of our fixed-rate tanker sub-segment (including vessels chartered-in), as measured by calendar-ship-days, increased in 2010 compared to 2009. This increase was primarily the result of:

the delivery of two new Suezmax tankers in June 2009 (the *Suezmax Deliveries*);

the purchase of a 2007-built product tanker which commenced a 10-year fixed-rate time-charter contract to Caltex Australia Petroleum Pty Ltd. in September 2009;

the transfer of five Suezmax tankers from the spot tanker sub-segment between September 2009 and April 2010 (the *Suezmax Transfers*); and

the transfer of one Aframax tanker, on a net basis, from the spot tanker sub-segment in each of 2009 and 2010 upon commencement of long-term time-charters, which have an original term of one year or more (the *Aframax Transfers*);  
partially offset by

the transfer of two product tankers to the spot tanker sub-segment in July 2009 and January 2010 (the *Product Tanker Transfers*);

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the sale of two product tankers in October 2009 and August 2010 and the sale of two Aframax tankers in November 2009 and January 2010 (collectively, the *Vessel Sales*); and

an overall decrease in the number of in-chartered vessels.

The Aframax Transfers, discussed above, consist of the transfer of five owned vessels and three in-chartered vessels from the spot tanker sub-segment, and the transfer of four owned vessels and three in-chartered vessels to the spot tanker sub-segment. The effect of the transactions are to increase the fixed tanker sub-segment's net revenues, time-charter hire expense, vessel operating expenses, and depreciation and amortization.

Net Revenues. Net revenues decreased to \$378.1 million for 2010, from \$379.8 million for 2009, primarily due to:

a decrease of \$29.5 million from the Vessel Sales;

a decrease of \$24.9 million from the redelivery of in-chartered vessels to their owners upon the expiration of the related in-charter contracts;

a decrease of \$4.7 million from the Product Tanker Transfers; and

a decrease of \$3.8 million due to the *Tenerife Spirit*, the *Algeciras Spirit* and the *Toledo Spirit* being off hire for 73, 63 and 15 days in 2010 for scheduled dry dockings; partially offset by

an increase of \$35.9 million from the Aframax Transfers and the Suezmax Transfers;

an increase of \$10.2 million from the Suezmax Deliveries;

an increase of \$9.2 million from the purchase of a product tanker in September 2009; and

an increase of \$5.3 million resulting from interest income from an investment in term loans, as discussed below.

We earned interest income from an investment in term loans of \$115 million. This investment earns a total yield of approximately 10%. Our subsidiary Teekay Tankers entered into this transaction in July 2010. Please read Item 18. Financial Statements: Note 4 Investment in Term Loans.

Vessel Operating Expenses. Vessel operating expenses increased to \$109.5 million for 2010, from \$96.2 million for 2009, primarily due to:

an increase of \$19.8 million from the Aframax Transfers, Product Tanker Transfers, and Suezmax Transfers;

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an increase of \$5.1 million from the purchase of a product tanker and the increased costs associated with certain vessels being changed to Australian crewing as part of new time-charter contracts with a customer in Australia; and

an increase of \$1.5 million from the Suezmax Deliveries;  
partially offset by

a decrease of \$9.4 million from the Vessel Sales; and

a decrease of \$2.0 million relating to lower crewing costs and the timing of repairs and maintenance costs.

Time-Charter Hire Expense. Time-charter hire expense decreased to \$60.5 million for 2010, from \$75.5 million for 2009, primarily due to a decrease in the number of in-chartered vessel days as vessels were redelivered to their owners upon expiration of in-charter contracts.

Depreciation and Amortization. Depreciation and amortization expense increased to \$82.7 million for 2010, from \$67.0 million for 2009, primarily due to:

an increase of \$20.7 million from the Aframax and Suezmax Transfers;

an increase of \$2.8 million from the Suezmax Deliveries;

an increase of \$0.9 million from the purchase of a product tanker in September 2009; and

a net increase of \$0.8 million from an increase in amortization of capitalized vessels and equipment costs, partially offset by a decrease in amortization of capitalized dry docking expenditures;  
partially offset by

a decrease of \$5.6 million from the Vessel Sales and Product Tanker Transfers; and

a decrease of \$3.9 million due to certain intangible assets related to time-charter contracts being fully amortized in 2009.

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The following table presents our spot tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days by owned and chartered-in vessels for our spot tanker sub-segment:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Year Ended<br>December 31, |               | % Change   |
|---------------------------------------------------------------------------|----------------------------|---------------|------------|
|                                                                           | 2010                       | 2009          |            |
| <b>Revenues</b>                                                           | 378,672                    | 575,954       | (34.3)     |
| Voyage expenses                                                           | 129,619                    | 201,069       | (35.5)     |
| <b>Net revenues</b>                                                       | 249,053                    | 374,885       | (33.6)     |
| Vessel operating expenses                                                 | 82,670                     | 94,581        | (12.6)     |
| Time-charter hire expense                                                 | 135,758                    | 249,621       | (45.6)     |
| Depreciation and amortization                                             | 71,833                     | 85,318        | (15.8)     |
| General and administrative <sup>(1)</sup>                                 | 36,454                     | 52,999        | (31.2)     |
| Asset impairments and net loss (gain) on sale of vessels and equipment    | 33,856                     | (3,317)       | (1,120.7)  |
| Restructuring charge                                                      | 14,968                     | 2,191         | 583.2      |
| <br>Loss from vessel operations                                           | <br>(126,486)              | <br>(106,508) | <br>18.8   |
| <b>Calendar-Ship-Days</b>                                                 |                            |               |            |
| Owned Vessels                                                             | 8,185                      | 10,001        | (18.2)     |
| Chartered-in Vessels                                                      | 5,167                      | 9,177         | (43.7)     |
| <br>Total                                                                 | <br>13,352                 | <br>19,178    | <br>(30.4) |

- (1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to the spot tanker sub-segment based on estimated use of corporate resources). For further discussion, please read Other Operating Results General and Administrative Expenses.

The average size of our spot tanker sub-segment (including vessels chartered-in), as measured by calendar-ship-days, decreased in 2010 compared to 2009, primarily due to:

an overall decrease in the number of in-chartered vessels;

the sale of two product tankers in May 2009 and two Aframax tankers in April 2010 and August 2010 (the *Spot Vessel Sales*);

the transfer of five Suezmax tankers to the fixed-rate tanker sub-segment between September 2009 and April 2010 (the *Spot Suezmax Transfers*); and

the transfer of one Aframax tanker, on a net basis, to the fixed-rate tanker sub-segment in each of 2009 and 2010 (the *Spot Aframax Transfers*);  
partially offset by

the delivery of five new Suezmax tankers between January 2009 to December 2009 (the *Spot Suezmax Deliveries*); and

the transfer of two product tankers from the fixed-rate tanker sub-segment in July 2009 and January 2010 (the *Product Tanker Transfers*).

Net Revenues. Net revenues decreased to \$249.1 million for 2010, from \$374.9 million for 2009, primarily due to:

a decrease of \$88.7 million from a decrease in the number of in-chartered vessels, as we continued to reduce our exposure to the spot tanker market by redelivering in-chartered vessels to their owners upon the expiration of in-charter contracts;

a decrease of \$29.2 million from the Spot Aframax Transfers and Spot Suezmax Transfers;

a decrease of \$12.3 million primarily from decreases in our average spot tanker TCE rates due to the relative weakening of the spot tanker market, a decrease in the amortization of contract value liabilities relating to certain spot tanker contracts and an increase in the cost of fuel for off-hire vessels;

a decrease of \$11.9 million from an increase in the number of days our vessels were off hire due to regularly scheduled maintenance; and

a decrease of \$11.8 million from the Spot Vessel Sales;  
partially offset by

an increase of \$21.7 million from the Spot Suezmax Deliveries; and

an increase of \$6.4 million from the Product Tanker Transfers.

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**Vessel Operating Expenses.** Vessel operating expenses decreased to \$82.7 million for 2010, from \$94.6 million for 2009, primarily due to:

a decrease of \$12.5 million from the Spot Aframax Transfers and Spot Suezmax Transfers;

a decrease of \$5.7 million from the Spot Vessel Sales; and

a decrease of \$4.4 million from lower crewing costs due to the positive impact of foreign currency exchange rate fluctuations, a reduction in the number of crew on some vessels, as well as lower repairs and maintenance and consumable costs resulting from the review and renegotiation of several key supplier contracts during 2009;  
partially offset by

an increase of \$4.4 million from the Product Tanker Transfers; and

an increase of \$6.3 million from the Spot Suezmax Deliveries.

**Time-Charter Hire Expense.** Time-charter hire expense decreased to \$135.8 million for 2010, from \$249.6 million for 2009, primarily due to primarily due to the decrease in the number of in-chartered vessels due to redelivery of these vessels to their owners upon expiration of in-charter contracts.

**Depreciation and Amortization.** Depreciation and amortization expense decreased to \$71.8 million for 2010, from \$85.3 million for 2009, primarily due to:

a decrease of \$17.4 million from the Spot Aframax Transfers and Spot Suezmax Transfers; and

a decrease of \$2.8 million from the Spot Vessel Sales;  
partially offset by

an increase of \$5.8 million from the Spot Suezmax Deliveries; and

an increase of \$1.8 million from capitalized dry docking expenditures incurred during 2010, partially offset by a decrease in amortization of capitalized vessels and equipment costs.

**Asset Impairments and Net Loss on Sale of Vessels and Equipment.** The \$33.9 million loss in 2010 is primarily due to write-downs of \$31.7 million for certain customer contracts and three vessel purchase options which either expired unexercised or were unlikely to be exercised by us and a \$1.9 million loss on the sale of a 1995-built Aframax tanker in August 2010.

**Restructuring Charges.** During 2010, we incurred restructuring charges of \$15.0 million primarily relating to costs incurred for certain vessel crew changes relating to three of our vessels. We changed the crew operations being managed by an external management company to our own international seafarers in order to reduce future crewing costs.

## **Other Operating Results**

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The following table compares our other operating results for 2010 and 2009.

| (in thousands of U.S. dollars, except percentages)                              | Year Ended<br>December 31, |           | % Change |
|---------------------------------------------------------------------------------|----------------------------|-----------|----------|
|                                                                                 | 2010                       | 2009      |          |
| General and administrative                                                      | (193,743)                  | (198,836) | (2.6)    |
| Interest expense                                                                | (136,107)                  | (141,448) | (3.8)    |
| Interest income                                                                 | 12,999                     | 19,999    | (35.0)   |
| Realized and unrealized (losses) gains on non-designated derivative instruments | (299,598)                  | 140,046   | (313.9)  |
| Equity (loss) income from joint ventures                                        | (11,257)                   | 52,242    | (121.5)  |
| Foreign exchange gain (loss)                                                    | 31,983                     | (20,922)  | (252.9)  |
| Loss on notes repurchase                                                        | (12,645)                   | (566)     | 2,134.1  |
| Other income                                                                    | 7,527                      | 13,527    | (44.4)   |
| Income tax recovery (expense)                                                   | 6,340                      | (22,889)  | (127.7)  |

General and Administrative Expenses. General and administrative expenses decreased to \$193.7 million for 2010, from \$198.8 million for 2009, primarily due to:

a decrease of \$5.0 million in salaries and benefits due to a decrease in average head-count relating to completion of the 2009 cost savings initiatives discussed below;

a decrease of \$3.4 million due to a favorable increase in unrealized and realized losses on foreign currency forward contracts; and

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partially offset by a decrease of \$1.1 million in equity-based compensation for management;

an increase of \$1.9 million from increased travel activity compared to 2009 levels due to the 2009 cost saving initiatives as discussed below;

an increase of \$1.6 million from our short-term incentive program for employees and management; and

an increase of \$1.3 million from higher personnel expenses associated with relocation and hiring costs in Norway. General and administrative expenses of \$13.6 million relating to certain crew training expenses for 2009 were reclassified from general administrative expenses to vessel operating expenses to conform to the presentation adopted in the current period.

During 2009, we initiated a company-wide review of our general and administrative expenses. We implemented various cost reduction initiatives, including the relocation of shore-based positions to lower cost jurisdictions. These initiatives, as well as a reduction in business development activities, also contributed to the decreases in corporate-related expenses in 2009 compared to the prior periods.

Interest Expense. Interest expense decreased to \$136.1 million for 2010, from \$141.4 million for 2009, primarily due to:

a decrease of \$22.4 million primarily due to repayments of debt drawn under long-term revolving credit facilities and term loans and a decrease in interest rates relating to long-term debt, which is explained in further detail below;

a decrease of \$7.8 million from the scheduled loan payments on the LNG carrier *Catalunya Spirit*, and scheduled capital lease repayments on the LNG carrier *Madrid Spirit* (the *Madrid Spirit* is financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in the interest income from restricted cash);

a decrease of \$1.2 million due to the effect on our Euro-denominated debt from the weakening of the Euro against the U.S. Dollar compared to 2009; and

partially offset by a decrease of \$0.2 million from declining interest rates on our five Suezmax tanker capital lease obligations;

an increase of \$25.6 million due to the effect of the January 2010 public offering of our 8.5% senior unsecured notes due January 2020, with a principal amount of \$450 million, partially offset by the January 2010 repurchase of a majority of our then-outstanding 8.875% senior notes due July 2011; and

an increase of \$0.7 million due to the effect of the November 2010 issuance of the 600 million Norwegian Kroner-denominated senior unsecured bonds due November 2013. Please read Item 18. Financial Statements: Note 8 Long-Term Debt. The debt repayments under long-term revolving credit facilities that contributed to our decreased interest expense for the year ended December 31, 2010 were primarily funded with net proceeds from the issuance of equity securities by our publicly listed subsidiaries and from

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the sale of assets to our public company subsidiaries and to third parties. When one of our publicly listed subsidiaries acquires an asset from us, a significant portion of the acquisition typically has been financed through the issuance to the public of equity securities by the subsidiary. To the extent that there are no immediate investment opportunities, we have generally applied the proceeds from the issuance of these equity offerings and from the sale of assets to these subsidiaries and third parties towards debt reduction or increasing our cash balances. Please read Item 4. Information on the Company Recent Equity Offerings and Transactions by Subsidiaries.

Interest Income. Interest income decreased to \$13.0 million for 2010, compared to \$20.0 million for 2009, primarily due to:

a decrease of \$4.8 million due to scheduled capital lease repayments on one of our LNG carriers which was funded from restricted cash;

a decrease of \$1.5 million due to decreases in LIBOR rates relating to the restricted cash used to fund capital lease payments for the RasGas II LNG Carriers (please read Item 18. Financial Statements: Note 10 Capital Leases and Restricted Cash );

a decrease of \$0.3 million primarily relating to changes in interest rates and our bank account balances compared to the same periods last year; and

a decrease of \$0.3 million due to the weakening of the Euro against the U.S. Dollar compared to the same period last year.

Realized and Unrealized (Losses) Gains on Non-designated Derivative Instruments. Realized and unrealized (losses) gains related to derivative instruments that are not designated as hedges for accounting purposes are included as a separate line item in the consolidated statements of income (loss). The realized (losses) gains relate to the amounts we actually received or paid to settle such derivative instruments and the unrealized (losses) gains relate to the change in fair value of such derivative instruments.

Net realized and unrealized (losses) gains on non-designated derivatives was a loss of \$299.6 million for 2010, compared to net realized and unrealized gains on non-designated derivatives of \$140.0 million for 2009, as detailed in the table below:

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| (in thousands of U.S. Dollars)                                                        | Year Ended<br>December 31, |           |
|---------------------------------------------------------------------------------------|----------------------------|-----------|
|                                                                                       | 2010                       | 2009      |
| Realized losses relating to:                                                          |                            |           |
| Interest rate swap agreements                                                         | (154,098)                  | (127,936) |
| Foreign currency forward contracts                                                    | (2,274)                    | (8,984)   |
| Forward freight agreements, bunker fuel swaps and other                               | (7,914)                    | (1,293)   |
|                                                                                       | (164,286)                  | (138,213) |
| Unrealized gains (losses) relating to:                                                |                            |           |
| Interest rate swaps                                                                   | (146,780)                  | 258,710   |
| Foreign currency forward contracts                                                    | 6,307                      | 14,797    |
| Forward freight agreements, bunker fuel swaps and other                               | 5,161                      | 4,752     |
|                                                                                       | (135,312)                  | 278,259   |
| Total realized and unrealized (losses) gains on non-designated derivative instruments | (299,598)                  | 140,046   |

**Equity (Loss) Income from Joint Ventures.** Equity (loss) income from joint ventures was a loss of \$11.3 million for 2010, compared to income of \$52.2 million in 2009. The income or loss was primarily comprised of our share of the earnings (loss) from the Angola LNG Project and from the RasGas 3 Joint Venture. Please read Item 18. Financial Statements: Note 23 Joint Ventures. Of the equity loss for 2010, \$26.3 million relates to our share of unrealized income (loss) on interest rate swaps for 2010. This compares to unrealized gains on interest rate swaps of \$32.4 million included in equity income (loss) for 2009.

**Foreign Exchange Gain (Loss).** Foreign exchange gain (loss) was a gain of \$32.0 million for 2010, compared to a loss of \$20.9 million for 2009. The changes in our foreign exchange gains (losses) are primarily attributable to the revaluation of our Euro-denominated term loans at the end of each period for financial reporting purposes, and substantially all of the gains or losses are unrealized. Gains reflect a stronger U.S. Dollar against the Euro on the date of revaluation. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation. As of the date of this Annual Report, our Euro-denominated revenues generally approximate our Euro-denominated operating expenses and our Euro-denominated interest and principal repayments.

**Other Income.** Other income of \$7.5 million for 2010 was primarily comprised of leasing income of \$4.7 million from our volatile organic compound emissions equipment and a \$1.8 million gain on sale of marketable securities.

**Income Tax Recovery (Expense).** Income tax recovery was \$6.3 million for 2010, compared to an expense of \$22.9 million for 2009. The decrease to income tax expense of \$29.2 million for 2010 was primarily due to an increase in deferred income tax recovery relating to unrealized foreign exchange translation losses.

**Net (Loss) Income.** As a result of the foregoing factors, net loss amounted to \$166.6 million for 2010, compared to net income of \$209.8 million for 2009.

**LIQUIDITY AND CAPITAL RESOURCES****Liquidity and Cash Needs**

Our primary sources of liquidity are cash and cash equivalents, cash flows provided by our operations, our undrawn credit facilities, proceeds from the sale of vessels, and capital raised through equity offerings by our publicly listed subsidiaries. Our short-term liquidity requirements are for the payment of operating expenses, debt servicing costs, dividends, scheduled repayments of long-term debt, as well as funding our working capital requirements. As at December 31, 2011, our total cash and cash equivalents were \$692.1 million, compared to \$779.7 million as at December 31, 2010. Our total liquidity, including cash and undrawn credit facilities, was \$1.5 billion as at December 31, 2011 and \$2.4 billion at December 31, 2010.

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Our spot tanker market operations contribute to the volatility of our net operating cash flow. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, spot tanker markets historically have exhibited seasonal variations in charter rates. Spot tanker markets are typically stronger in the winter months as a result of increased oil consumption in the Northern Hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling.

As at December 31, 2011, we had \$401.4 million of scheduled debt repayments and \$47.2 million of capital lease obligations coming due within the next 12 months. The capital lease obligations coming due within the next 12 months include a \$39.0 million lease obligation for one Suezmax tanker that we are obligated to purchase upon the termination of the lease agreement, which may occur in 2012. While this is unlikely to occur in 2012, as we do not expect the lessor to exercise its right to terminate the leases, such exercise would require us to satisfy the purchase price either by assuming the existing vessel financing, if the lender consents, or by financing the purchase using existing liquidity or by obtaining new debt or equity financing. We believe that our existing cash and cash equivalents and undrawn long-term borrowings, in addition to other sources of cash such as cash from operations and other debt and equity financings, will be sufficient to meet our existing liquidity needs for at least the next 12 months.

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Our operations are capital intensive. We finance the purchase of our vessels primarily through a combination of borrowings from commercial banks or our joint venture partners, the issuance of equity securities and publicly traded debt instruments and cash generated from operations. In addition, we may use sale and lease-back arrangements as a source of long-term liquidity. Occasionally, we use our revolving credit facilities to temporarily finance capital expenditures until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under revolving credit facilities. We are currently in the process of obtaining debt financing for our remaining capital commitments relating to our portion of newbuildings on order as at December 31, 2011.

In October 2011, Teekay LNG entered into an agreement with Marubeni to acquire, through the Teekay LNG-Marubeni Joint Venture, six LNG carriers from Maersk for an aggregate purchase price of approximately \$1.3 billion. On February 28, 2012, Teekay LNG-Marubeni Joint Venture acquired a 100% interest in six LNG carriers. The Teekay LNG-Marubeni Joint Venture financed approximately \$1.06 billion of its acquisition from secured loan facilities, and the remaining \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has a 52% economic interest in the Teekay-Marubeni Joint Venture and consequently its share of the equity contribution was approximately \$138 million. Teekay LNG financed its equity contribution from its November 2011 equity offering. Please read Item 18. Financial Statements: Note 25(d) Subsequent Events.

As part of the November 2011 transaction with Sevan, Teekay Offshore acquired the *Piranema* FPSO unit for a total purchase price of \$165 million. This FPSO unit was financed using the net proceeds from the November 2011 private placement of Teekay Offshore units. The other two Sevan FPSO units, the *Hummingbird*, which was purchased by us with our existing revolving credit facility, and the *Voyageur*, which we have agreed to acquire and expect to occur in the fourth quarter of 2012, have an aggregate purchase price of approximately \$503 million plus the cost to upgrade the *Voyageur* (which conversion we anticipate will cost between \$110 million and \$130 million), which we anticipate will be financed through a combination of the assumption of an existing \$230 million debt facility relating to the *Voyageur*, a new \$200 million debt facility and our existing liquidity.

Our pre-arranged newbuilding debt facilities are in addition to our undrawn credit facilities. We continue to consider strategic opportunities, including the acquisition of additional vessels and expansion into new markets. We may choose to pursue such opportunities through internal growth, joint ventures or business acquisitions. We intend to finance any future acquisitions through various sources of capital, including internally generated cash flow, existing credit facilities, additional debt borrowings, or the issuance of additional debt or equity securities or any combination thereof.

As at December 31, 2011, our revolving credit facilities provided for borrowings of up to \$3.0 billion, of which \$0.8 billion was undrawn. The amount available under these revolving credit facilities reduces by \$349.6 million (2012), \$749.6 million (2013), \$791.8 million (2014), \$226.4 million (2015), \$146.4 million (2016) and \$784.0 million (thereafter). The revolving credit facilities are collateralized by first-priority mortgages granted on 63 of our vessels, together with other related security, and are guaranteed by Teekay or our subsidiaries.

Our outstanding term loans reduce in monthly, quarterly or semi-annual payments with varying maturities through 2023. Some of the term loans also have bullet or balloon repayments at maturity and are collateralized by first-priority mortgages granted on 34 of our vessels, together with other related security, and are generally guaranteed by Teekay or our subsidiaries. We repaid our unsecured 8.875% Senior Notes on July 15, 2011.

Among other matters, our long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and certain loan agreements with outstanding amounts totalling \$671.8 million as at December 31, 2011, require the maintenance of market value to loan ratios. Certain loan agreements require that we maintain a minimum level of free cash and as at December 31, 2011, this amount was \$100.0 million. Certain of the loan agreements also require that we 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 and as at December 31, 2011, this amount was \$318.3 million. We were in compliance with all our loan covenants at December 31, 2011. For additional information about our credit facilities, please read Item 18. Financial Statements: Note 8 Long-Term Debt.

We conduct our funding and treasury activities within corporate policies designed to minimize borrowing costs and maximize investment returns while maintaining the safety of the funds and appropriate levels of liquidity for our purposes. We hold cash and cash equivalents primarily in U.S. Dollars, with some balances held in Australian Dollars, British Pounds, Canadian Dollars, Euros, Japanese Yen, Norwegian Kroner and Singapore Dollars.

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, spot tanker market rates for vessels and bunker fuel prices. We use forward foreign currency contracts, cross currency and interest rate swaps, forward freight agreements and bunker fuel swap contracts to manage currency, interest rate, spot tanker rates and bunker fuel price risks. With the exception of some of our forward freight agreements, we do not use these financial instruments for trading or speculative purposes. Please read Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Cash Flows

The following table summarizes our cash and cash equivalents provided by (used for) operating, financing and investing activities for the years presented:

|                          | Year ended December 31, |           |           |
|--------------------------|-------------------------|-----------|-----------|
|                          | 2011                    | 2010      | 2009      |
|                          | (\$000 s)               | (\$000 s) | (\$000 s) |
| Net operating cash flows | 107,193                 | 411,750   | 368,251   |
| Net financing cash flows | 976,645                 | 358,702   | (452,782) |
| Net investing cash flows | (1,171,459)             | (413,214) | (307,124) |

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### **Operating Cash Flows**

Our net cash flow from operating activities fluctuates primarily as a result of changes in tanker utilization and TCE rates, changes in interest rates, fluctuations in working capital balances, the timing and amount of dry docking expenditures, repairs and maintenance activities, vessel additions and dispositions, and foreign currency rates. Our exposure to the spot tanker market historically has contributed significantly to fluctuations in operating cash flows historically as a result of highly cyclical spot tanker rates and more recently as a result of the reduction in global oil demand that was caused by a slow-down in global economic activity that began in the latter part of 2008.

Net cash flow from operating activities in 2011 decreased to \$107.2 million from \$411.8 million for 2010. This decrease was primarily due to a \$102.5 million net decrease in operating earnings before depreciation, amortization, gains/losses from asset disposals and write-downs of our four reportable segments. In addition, there was a \$129.8 million decrease in the change in operating assets and liabilities in 2011 compared to 2010, and a \$132.9 million increase in interest expense (including interest income and realized losses on interest rate swaps). The \$129.8 million decrease in the change in operating assets and liabilities in 2011 compared to 2010 was primarily the result of an increase in accounts receivable due to increased activity in our conventional tanker pools, a decrease in accrued interest and a decrease in deferred revenues. Of the \$132.9 million increase in interest expense, \$92.7 million was paid 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 has been reflected as a reduction in the outstanding liability of the interest rate swaps, which are accounted for at fair value. These factors resulting in decreases to cash flows from operating activities were partially offset by a \$15.5 million increase in dividends received from our joint ventures and a \$20.2 million increase from realized gains on foreign currency forward contracts, bunker fuel swap contracts and forward freight agreements in 2011 compared to 2010.

Net cash flow from operating activities in 2010 increased to \$411.8 million from \$368.3 million for 2009. This increase was primarily due to a \$127.6 million net increase in operating earnings before depreciation, amortization, gains/losses from asset disposals and write-downs of our four reportable segments and a \$20.5 million decrease in dry-dock expenditures, due to the timing of scheduled vessel dry docks. These increases were partially offset by a \$103.3 million decrease in the change in operating assets and liabilities in 2010 compared to 2009 and a \$27.8 million increase in interest expense (including interest income and realized losses on interest rate swaps). The \$103.3 million decrease in the change in operating assets and liabilities in 2010 compared to 2009 was primarily the result of an increase in accounts receivable due to increased activity in our conventional tanker pools and certain lump sum charter-hire payments received in 2009.

The results of our four reportable segments and the reduction in interest costs are explained in further detail in [Results of Operations](#).

### **Financing Cash Flows**

We have three publicly traded subsidiaries, Teekay LNG, Teekay Offshore and Teekay Tankers, in which we have less than 100% ownership interests (collectively the *Daughter Companies*). It is our intention that the Daughter Companies hold most of our liquefied gas transportation assets (Teekay LNG), our offshore assets, including shuttle tankers, FPSO units and FSO units, (Teekay Offshore) and our conventional tanker assets (Teekay Tankers). From and including the respective initial public offerings of these subsidiaries, Teekay has been selling assets that are a part of these lines of businesses to the Daughter Companies. The Daughter Companies distribute operating cash flows to their owners in the form of distributions or dividends. Consequently, in order to finance new acquisitions, the Daughter Companies typically finance acquisitions, including acquisitions of assets from Teekay Corporation, with a combination of debt and new equity from the public or private investors. The Daughter Companies raised net proceeds from issuances of new equity to the public and to third-party investors of \$631.1 million in 2011, \$645.6 million in 2010 and \$326.6 million in 2009. As the size of the Daughter Companies have grown through acquisitions, whether from Teekay Corporation or otherwise, the amount of the operating cash flows generally have increased, which has resulted in larger aggregate distributions. Consequently, distributions from our publicly listed subsidiaries to non-controlling interests have increased to \$201.9 million in 2011, from \$159.8 million in 2010 and from \$109.9 million in 2009.

We use our revolving credit facilities to finance capital expenditures. Occasionally we will do this until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under the revolving credit facilities. Our proceeds from the issuance of long-term debt, net of debt issuance costs and prepayments of long-term debt were \$1,223.0 million in 2011, \$218.7 million in 2010, and (\$401.6) million in 2009. During September 2008, we temporarily borrowed \$310.0 million under our revolving credit facilities as a proactive measure in response to the credit crisis. This was repaid in 2009. The net proceeds from the issuance of long-term debt increased in 2011 as a result of capital expenditures incurred on our newbuilding projects and our acquisition of FPSO units from Sevan. Net proceeds from the issuance of long-term debt declined in 2010 and 2009 as result of less cash required for investing activities.

We actively manage the maturity profile of our outstanding financing arrangements. Our scheduled repayments of long-term debt were \$449.6 million in 2011, \$210.0 million in 2010, and \$156.3 million in 2009. The increase in scheduled repayments in 2011 from 2010 and 2009 was the result of the retirement of debt on the *Madrid Spirit* and the *Stena Spirit* of \$215.0 million and \$30.0 million, respectively, which was

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subsequently re-drawn from different facilities.

In October 2010, Teekay announced a \$200 million share repurchase program. During 2011, we repurchased 3.9 million shares of our common stock for \$122.2 million at an average price of \$31.15, pursuant to share repurchase programs. During 2010, we repurchased 1.2 million shares of our common stock for \$40.1 million, at an average cost of \$32.40 per share, pursuant to the share repurchase programs. We repurchased no shares of common stock during 2009. As at December 31, 2011, \$37.7 million remained for share repurchases under the program. Please read Item 18. Financial Statements: Note 12 Capital Stock.

Dividends paid during 2011, 2010 and 2009 were \$93.5 million, \$92.7 million and \$91.7 million, respectively, or \$1.265 per share. These amounts include approximately \$5.0 million, \$0.4 million and \$nil, respectively of dividends paid on our common shares repurchased under our share repurchase programs during 2011, 2010 and 2009. Subject to financial results and declaration by the Board of Directors, we currently intend to continue to declare and pay a regular quarterly dividend on our common stock. We have paid a quarterly dividend since 1995.

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In January 2012, Teekay Offshore issued NOK 600 million in senior unsecured bonds that mature in January 2017 in the Norwegian bond market. The aggregate principal amount of the bonds is equivalent to approximately \$100 million. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. In connection with the bond issuance, Teekay Offshore entered into a cross currency rate swap, to swap all interest and principal payments into USD, with the interest payments fixed at a rate of 7.49%. The proceeds of the bonds were used for general purposes. Please read Item 18. Financial Statements: Note 25(a) Subsequent Events.

In February 2012, Teekay Tankers completed a follow-on public offering of 17.3 million shares of Class A common stock at \$4.00 per share. Please read Item 18. Financial Statements: Note 25(c) Subsequent Events.

In April 2012, Teekay LNG issued NOK 700 million in senior unsecured bonds that mature in May 2017 in the Norwegian bond market. The aggregate principal amount of the bonds is equivalent to approximately \$120 million. The proceeds of the bonds are expected to be used for general corporate purposes. Please read Item 18. Financial Statements: Note 25(g) Subsequent Events.

**Investing Cash Flows**

During 2011, we incurred capital expenditures for vessels and equipment of \$755.0 million, primarily for capitalized vessel modifications and shipyard construction installment payments on our newbuilding shuttle tankers and the installment payments and conversion costs of our FPSO units under construction/conversion. In addition, we: invested \$70.0 million in a term loan that bears interest at an interest rate of 9% per annum and has a fixed term of three years, repayable in full on maturity and is collateralized by a first priority mortgage on a 2011-built VLCC; received net proceeds of \$33.4 million from the sale of a 1988-built FSO unit, the sale of a 1993-built Aframax tanker and the sale of equipment related to the Tiro and Sidon FPSO project; and invested \$322.5 million to acquire FPSO units from Sevan and make a 40% equity investment in a recapitalized Sevan. Please read Item 18. Financial Statements: Note 3 Acquisition of FPSO Units and Investment in Sevan Marine ASA.

During 2010, we incurred capital expenditures for vessels and equipment of \$343.1 million, primarily for capitalized vessel modifications and shipyard construction installment payments on our newbuilding shuttle tankers. In addition, we invested \$115.6 million in two term loans, received net proceeds of \$71.0 million from the sale of three Aframax tankers, one product tanker and one LPG carrier, and invested \$45.5 million in joint ventures.

During 2009, we incurred capital expenditures for vessels and equipment of \$495.2 million, primarily for the acquisition of one product tanker and shipyard construction installment payments on our newbuilding Suezmax tankers, shuttle tankers and LNG and LPG carriers. In addition, we received proceeds of \$170.8 million from the sale of four product tankers, received proceeds of \$32.7 million from the sale of a 1993-built Aframax tanker through a sale-leaseback agreement, and received proceeds of \$16.3 million from the sale of a 1992-built Aframax tanker.

**COMMITMENTS AND CONTINGENCIES**

The following table summarizes our long-term contractual obligations as at December 31, 2011:

| In millions of U.S. Dollars                       | Total          | 2012           | 2013 and<br>2014 | 2015 and<br>2016 | Beyond<br>2016 |
|---------------------------------------------------|----------------|----------------|------------------|------------------|----------------|
| <b>U.S. Dollar-Denominated Obligations:</b>       |                |                |                  |                  |                |
| Long-term debt <sup>(1)</sup>                     | 5,095.5        | 387.9          | 2,045.3          | 597.1            | 2,065.2        |
| Chartered-in vessels (operating leases)           | 250.8          | 125.1          | 91.2             | 25.1             | 9.4            |
| Commitments under capital leases <sup>(2)</sup>   | 201.1          | 58.9           | 108.2            | 7.1              | 26.9           |
| Commitments under capital leases <sup>(3)</sup>   | 1,001.1        | 24.0           | 48.0             | 48.0             | 881.1          |
| Commitments under operating leases <sup>(4)</sup> | 431.4          | 25.0           | 50.0             | 50.0             | 306.4          |
| Newbuilding installments <sup>(5) (6)</sup>       | 1,308.4        | 570.5          | 737.9            |                  |                |
| Purchase obligation <sup>(7)</sup>                | 185.8          | 185.8          |                  |                  |                |
| Asset retirement obligation                       | 21.1           |                |                  |                  | 21.1           |
| <b>Total U.S. Dollar-denominated obligations</b>  | <b>8,495.2</b> | <b>1,377.2</b> | <b>3,080.6</b>   | <b>727.3</b>     | <b>3,310.1</b> |

|                                                     |                |                |                |              |                |
|-----------------------------------------------------|----------------|----------------|----------------|--------------|----------------|
| <b>Euro-Denominated Obligations:</b> <sup>(8)</sup> |                |                |                |              |                |
| Long-term debt <sup>(9)</sup>                       | 348.9          | 13.5           | 30.1           | 34.6         | 270.7          |
| <b>Total Euro-denominated obligations</b>           | <b>348.9</b>   | <b>13.5</b>    | <b>30.1</b>    | <b>34.6</b>  | <b>270.7</b>   |
| <b>Total</b>                                        | <b>8,844.1</b> | <b>1,390.7</b> | <b>3,110.7</b> | <b>761.9</b> | <b>3,580.8</b> |

- (1) Excludes expected interest payments of \$124.9 million (2012), \$178.0 million (2013 and 2014), \$118.0 million (2015 and 2016) and \$158.1 million (beyond 2016). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR plus margins that ranged up to 3.25% at December 31, 2011 (variable-rate loans). The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our floating-rate debt. In November 2011, we agreed to acquire the *Voyageur* FPSO unit upon completion of its upgrade. The *Voyageur* has been determined to be a VIE and we have been determined to be the primary beneficiary. As a result, we have consolidated the *Voyageur* including its existing U.S. Dollar-denominated term loan outstanding, which totalled \$220.5 million as at December 31, 2011. Subsequent to December 31, 2011, we amended this debt facility, which resulted in payments due beyond 2012 and has been reflected in the table above.
- (2) Includes, in addition to lease payments, amounts we are required to pay to purchase certain leased vessels at the end of the lease terms. The lessor has the option to sell these vessels to us at any time during the remaining lease term however, they have agreed to delay their option to sell these vessels to us until at least 2013. During 2011, the lessors extended four of the five leases and have delayed their option to sell these vessels to us until 2013. The purchase price will be based on the unamortized portion of the vessel construction financing costs for the vessels, which we expect to range from \$31.7 million to \$39.2 million per vessel. We expect to satisfy the purchase price by assuming the existing vessel financing, although we may be required to obtain separate debt or equity financing to complete the purchases if the lenders do not consent to our assuming the financing obligations. Please read Item 18. Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash.

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- (3) Existing restricted cash deposits of \$476.1 million, together with the interest earned on the deposits, are expected to be sufficient to repay the remaining amounts we currently owe under the lease arrangements.
- (4) We have corresponding leases whereby we are the lessor and expect to receive approximately \$390.3 million for these leases from 2012 to 2029. Please read Item 18. Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash.
- (5) Represents remaining construction costs (excluding capitalized interest and miscellaneous construction costs) for one FPSO unit, the conversion of an existing Aframax tanker to an FPSO unit and four shuttle tankers as of December 31, 2011. Please read Item 18. Financial Statements: Note 16(a) Commitments and Contingencies Vessels Under Construction.
- (6) We have a 33% interest in a joint venture that has entered into agreements for the construction of one LNG carrier (which delivered in January 2012) and a 50% interest in a joint venture that has entered into an agreement for the construction of one VLCC. As at December 31, 2011, the remaining commitments on these vessels, excluding capitalized interest and other miscellaneous construction costs, totalled \$214.3 million of which our share is \$84.0 million. Please read Item 18. Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.
- (7) Represents remaining cost to acquire and upgrade the *Voyageur* FPSO unit as of December 31, 2011, net of debt assumed. Please read Item 18. Financial Statements: Note 16(c) Commitments and Contingencies Purchase Obligation.
- (8) Euro-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as at December 31, 2011.
- (9) Excludes expected interest payments of \$9.4 million (2012), \$17.7 million (2013 and 2014), \$15.9 million (2015 and 2016) and \$18.3 million (beyond 2016). Expected interest payments are based on EURIBOR at December 31, 2011, plus margins that ranged up to 2.25%, as well as the prevailing U.S. Dollar/Euro exchange rate as of December 31, 2011. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our floating-rate debt.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources. Our equity accounted investments are described in Item 18. Financial Statements: Note 23 Equity Accounted Investments.

### **Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews our accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read Item 18. Financial Statements: Note 1. Summary of Significant Accounting Policies.

### **Revenue Recognition**

*Description.* We recognize voyage revenue using the percentage of completion method. Under such method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words, voyage revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for the next voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage.

*Judgments and Uncertainties.* In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. We use this method of revenue recognition for all spot voyages and voyages servicing contracts of affreightment, with an exception for our shuttle tankers servicing contracts of affreightment with offshore oil fields. In this case a voyage commences with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. However we do not begin recognizing revenue for any of our vessels until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

*Effect if Actual Results Differ from Assumptions.* Our revenues could be overstated or understated for any given period to the extent actual results are not consistent with our estimates in applying the percentage of completion method.

### **Vessel Lives and Impairment**

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*Description.* The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation and impairment charges. We depreciate the original cost, less an estimated residual value, of our vessels on a straight-line basis over each vessel's estimated useful life. The carrying values of our vessels may not represent their market value at any point in time because the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature.

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We review vessels and equipment for impairment whenever events or circumstances indicate the carrying value of an asset, including the carrying value of the charter contract, if any, under which the vessel is employed, may not be recoverable, which occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter. If the estimated future undiscounted cash flows of an asset exceed the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset are less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value is calculated as the net present value of estimated future cash flows, which, in certain circumstances, will approximate the estimated market value of the vessel.

The following table presents by segment the aggregate market values and carrying values of certain of our vessels that we have determined have a market value that is less than their carrying value as of December 31, 2011. Specifically, the following table reflects all such vessels, except those operating on contracts where the remaining term is significant and the estimated future undiscounted cash flows relating to such contracts are sufficiently greater than the carrying value of the vessels such that we consider it unlikely an impairment would be recognized in the following year. Consequently, the vessels included in the following table generally include those vessels employed on single-voyage, or spot charters, as well as those vessels near the end of existing charters or other operational contracts. While the market values of these vessels are below their carrying values, no impairment has been recognized on any of these vessels as the estimated future undiscounted cash flows relating to such vessels are greater than their carrying values.

We would consider the vessels reflected in the following table to be at a higher risk of future impairment. The estimated future undiscounted cash flows of certain vessels reflected in the following table may be significantly greater than their respective carrying values. Consequently, in these cases the following table would not necessarily represent vessels that would likely be impaired in the next twelve months, and the recognition of an impairment in the future for those vessels may primarily depend upon our deciding to dispose of the vessel instead of continuing to operate it. The estimated future undiscounted cash flows of certain other vessels in the following table may only be marginally greater than their respective carrying values. Consequently, in these cases the recognition of an impairment in the future may be more likely given the number of potential events that could result in our reducing our estimate of future undiscounted cash flows.

| (in thousands of U.S. dollars, except number of vessels) |                   |                              |                 |
|----------------------------------------------------------|-------------------|------------------------------|-----------------|
| Reportable Segment                                       | Number of Vessels | Market Values <sup>(1)</sup> | Carrying Values |
| Shuttle Tanker and FSO Segment                           | 13                | \$ 281,100                   | \$ 397,023      |
| FPSO Segment                                             |                   |                              |                 |
| Liquefied Gas Segment                                    |                   |                              |                 |
| Conventional Tanker Segment                              | 30                | 947,000                      | 1,408,899       |

- (1) Market values are based on second-hand market comparables or using a depreciated replacement cost approach. Since vessel values can be highly volatile, our estimates of market value may not be indicative of either the current or future prices we could obtain if we sold any of the vessels. In addition, the determination of estimated market values for our shuttle tankers, FSO and FPSO units involve considerable judgment, given the illiquidity of the second-hand market for these types of vessels.

*Judgments and Uncertainties.* Depreciation is calculated using an estimated useful life of 25 years for conventional tankers and shuttle tankers, 20 to 25 years for FPSO units, 20 to 35 years for FSO units, and 30 years for LPG carriers and 35 years for LNG carriers, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in quarterly depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. Our estimates of future cash flows involve assumptions about future charter rates, vessel utilization, operating expenses, dry-docking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated charter rates are based on rates under existing vessel contracts and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time and the estimated amount of time our shuttle tankers may spend operating in the spot tanker market when not being used in their capacity as shuttle tankers, are based on historical experience and our projections of the number of future shuttle tanker voyages. Our estimates of operating expenses and dry-docking expenditures are based on historical operating and dry-docking costs and our expectations of future inflation and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in our depreciation calculations.

In our experience, certain assumptions relating to our estimates of future cash flows are more predictable by their nature, including estimated revenue under existing contract terms, on-going operating costs and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate.

*Effect if Actual Results Differ from Assumptions.* If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The written-down amount becomes the new lower cost basis and will result in a lower annual depreciation expense than for periods before the vessel impairment.

#### ***Dry docking***

*Description.* We capitalize a substantial portion of the costs we incur during dry docking and amortize those costs on a straight-line basis over the useful life of the dry dock. We expense costs related to routine repairs and maintenance incurred during dry docking that do not improve operating efficiency or extend the useful lives of the assets and for annual class survey costs on our FPSO units. When significant dry-docking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original dry-docking cost and any unamortized intermediate survey costs are expensed in the period of the subsequent dry dockings.

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*Judgments and Uncertainties.* Amortization of capitalized dry dock expenditures requires us to estimate the period of the next dry docking and useful life of dry dock expenditures. While we typically dry dock each vessel every two and a half to five years and have a shipping society classification intermediate survey performed on our LNG and LPG carriers between the second and third year of the five-year dry docking period, we may dry dock the vessels at an earlier date, with a shorter life resulting in an increase in the depreciation

*Effect if Actual Results Differ from Assumptions.* If we change our estimate of the next dry dock date for a vessel, we will adjust our annual amortization of dry docking expenditures.

### ***Goodwill and Intangible Assets***

*Description.* We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as time-charter contracts, are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill or intangible assets. Accordingly, the allocation of the purchase price to intangible assets and goodwill may significantly affect our future operating results. Goodwill and indefinite-lived assets are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis.

*Judgments and Uncertainties.* The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting units was estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

During 2011, we determined there were indicators of impairment present within our conventional tanker reporting unit. Consequently, we recorded an impairment charge of \$36.7 million in our consolidated statement of loss for 2011 and as of December 31, 2011, the carrying value of goodwill for this reporting unit was nil. Key assumptions that impact the fair value of the reporting unit include our ability to utilize the vessels in the fleet and the charter rates the vessels earn when employed. Other key assumptions include the operating life of our vessels and our cost of capital.

As of December 31, 2011, we had two reporting units with goodwill attributable to them. As of the date of this Annual Report, we do not believe that there is a reasonable possibility that the goodwill attributable to our two remaining reporting units with goodwill attributable to them might be impaired within the next year as described below.

*Effect if Actual Results Differ from Assumptions.* As of the date of this Annual Report, we do not believe that there is a reasonable possibility that the goodwill attributable to our two reporting units with goodwill attributable to them might be impaired within the next year. However, certain factors that impact our goodwill impairment tests are inherently difficult to forecast and as such we cannot provide any assurances that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. Please read Part I Forward-Looking Statements.

### ***Valuation of Derivative Financial Instruments***

*Description.* Our risk management policies permit the use of derivative financial instruments to manage foreign currency fluctuation, interest rate, bunker fuel price and spot tanker market rate risk. Changes in fair value of derivative financial instruments that are not designated as cash flow hedges for accounting purposes are recognized in earnings in the consolidated statement of income (loss). Changes in fair value of derivative financial instruments that are designated as cash flow hedges for accounting purposes are recorded in other comprehensive income (loss) and are reclassified to earnings in the consolidated statement of income (loss) when the hedged transaction is reflected in earnings. Ineffective portions of the hedges are recognized in earnings as they occur. During the life of the hedge, we formally assess whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If we determine that a hedge has ceased to be highly effective, we will discontinue hedge accounting prospectively.

*Judgments and Uncertainties.* A substantial majority of the fair value of our derivative instruments and the change in fair value of our derivative instruments from period to period result from our use of interest rate swap agreements. The fair value of our derivative instruments is the estimated amount that we would receive or pay to terminate the agreements in an arms length transaction under normal business conditions at

the reporting date, taking into account current interest rates, foreign exchange rates and the current credit worthiness of ourselves and the swap counterparties. The estimated amount is the present value of estimated future cash flows, being equal to the difference between the benchmark interest rate and the fixed rate in the interest rate swap agreement, multiplied by the notional principal amount of the interest rate swap agreement at each interest reset date.

The fair value of our interest rate swap agreements at the end of each period is most significantly impacted by the interest rate implied by the benchmark interest rate yield curve, including its relative steepness. Interest rates have experienced significant volatility in recent years in both the short and long term. While the fair value of our interest rate swap agreements is typically more sensitive to changes in short-term rates, significant changes in the long-term benchmark interest rate also materially impact our interest rate swap agreements.

The fair value of our interest rate swap agreements is also impacted by changes in our specific credit risk included in the discount factor. We discount our interest rate swap agreements with reference to the credit default swap spreads of similarly rated global industrial companies and by considering any underlying collateral. The process of determining credit worthiness requires significant judgment in determining which source of credit risk information most closely matches our risk profile.

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The benchmark interest rate yield curve and our specific credit risk are expected to vary over the life of the interest rate swap agreements. The larger the notional amount of the interest rate swap agreements outstanding and the longer the remaining duration of the interest rate swap agreements, the larger the impact of any variability in these factors will be on the fair value of our interest rate swaps. We economically hedge the interest rate exposure on a significant amount of our long-term debt and for long durations. As such, we have historically experienced, and we expect to continue to experience, material variations in the period-to-period fair value of our derivative instruments.

*Effect if Actual Results Differ from Assumptions.* Although we measure the fair value of our derivative instruments utilizing the inputs and assumptions described above, if we were to terminate the agreements at the reporting date, the amount we would pay or receive to terminate the derivative instruments may differ from our estimate of fair value. If the estimated fair value differs from the actual termination amount, an adjustment to the carrying amount of the applicable derivative asset or liability would be recognized in earnings for the current period. Such adjustments could be material. See Item 18. Financial Statements: Note 15 Derivative Instruments and Hedging Activities for the effects on the change in fair value of our derivative instruments on our consolidated statements of income (loss).

**Recent Accounting Pronouncements Not Yet Adopted**

In May 2011, the FASB issued amendments to FASB ASC 820, *Fair Value Measurement*, which clarify or change the application of existing fair value measurements, including; that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. These amendments are effective for us on January 1, 2012. We are currently assessing the potential impacts, if any, of these amendments on its consolidated financial statements.

**Item 6. Directors, Senior Management and Employees****Directors and Senior Management**

Our directors and executive officers as of the date of this Annual Report and their ages as of March 1, 2012 are listed below:

| <b>Name</b>           | <b>Age</b> | <b>Position</b>                                                    |
|-----------------------|------------|--------------------------------------------------------------------|
| C. Sean Day           | 62         | Director and Chair of the Board                                    |
| Peter Evensen         | 53         | Director, President and Chief Executive Officer <sup>(1)</sup>     |
| Axel Karlshoej        | 71         | Director and Chair Emeritus                                        |
| Dr. Ian D. Blackburne | 66         | Director                                                           |
| Bill Berry            | 59         | Director                                                           |
| Peter S. Janson       | 64         | Director                                                           |
| Thomas Kuo-Yuen Hsu   | 65         | Director                                                           |
| Eileen A. Mercier     | 64         | Director                                                           |
| Bjorn Moller          | 54         | Director <sup>(1)</sup>                                            |
| Tore I. Sandvold      | 64         | Director                                                           |
| Arthur Bensler        | 57         | Executive Vice President, Secretary and General Counsel            |
| Bruce Chan            | 39         | President, Teekay Tanker Services, a division of Teekay            |
| David Glendinning     | 58         | President, Teekay Gas Services, a division of Teekay               |
| Kenneth Hvid          | 43         | Executive Vice President and Chief Strategy Officer <sup>(1)</sup> |
| Vincent Lok           | 43         | Executive Vice President and Chief Financial Officer               |
| Peter Lytzen          | 54         | President, Teekay Petrojarl AS, a subsidiary of Teekay             |
| Ingvild Saether       | 43         | President, Teekay Shuttle and Offshore, a division of Teekay       |
| Lois Nahirney         | 49         | Executive Vice President, Corporate Resources                      |
| Geir Sekkesaeter      | 50         | Senior Vice President, Teekay Marine Management                    |
| Graham Westgarth      | 57         | Executive Vice President, Innovation, Technology and Projects      |

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- (1) Until March 31, 2011, Bjorn Moller served as President and Chief Executive Officer, Peter Evensen served as Executive Vice President and Chief Strategy Officer and Kenneth Hvid served as President of Teekay Shuttle and Offshore, a division of Teekay. Certain biographical information about each of these individuals is set forth below:

**C. Sean Day** has served as a Teekay director since 1998 and as our Chairman of the Board since 1999. Mr. Day also serves as Chairman of Teekay GP L.L.C., the general partner of Teekay LNG, Chairman of Teekay Offshore GP L.L.C., the general partner of Teekay Offshore, and Chairman of Teekay Tankers. From 1989 to 1999, he was President and Chief Executive Officer of Navios Corporation, a large bulk shipping company based in Stamford, Connecticut. Prior to Navios, Mr. Day held a number of senior management positions in the shipping and finance industries. He is currently serving as a director of Kirby Corporation and is Chairman of Compass Diversified Holdings. Mr. Day is engaged as a consultant to Kattegat Limited, the parent company of Resolute Investments, Ltd., our largest shareholder, to oversee its investments, including that in the Teekay group of companies.

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**Peter Evensen** joined Teekay in 2003 as Senior Vice President, Treasurer and Chief Financial Officer. He was appointed Executive Vice President and Chief Financial Officer in 2004 and was appointed Executive Vice President and Chief Strategy Officer in 2006. Effective April 1, 2011, he became a Teekay director and Teekay's President and Chief Executive Officer. Mr. Evensen also serves as Chief Executive Officer and Chief Financial Officer and a director of each of Teekay GP L.L.C. and Teekay Offshore GP L.L.C., and as a director of Teekay Tankers. Mr. Evensen has over 20 years of experience in banking and shipping finance. Prior to joining Teekay, Mr. Evensen was Managing Director and Head of Global Shipping at J.P. Morgan Securities Inc. and worked in other senior positions for its predecessor firms. His international industry experience includes positions in New York, London and Oslo.

**Axel Karlshoej** has served as a Teekay director since 1989, was Chairman of the Teekay Board from 1994 to 1999, and has been Chairman Emeritus since stepping down as Chairman. Mr. Karlshoej is President and serves on the compensation committee of Nordic Industries, a California general construction firm with which he has served for the past 30 years. He is the older brother of the late J. Torben Karlshoej, Teekay's founder. Please read Item 7. Major Shareholders and Certain Relationships and Related Party Transactions.

**Dr. Ian D. Blackburne** has served as a Teekay director since 2000. Dr. Blackburne has over 25 years of experience in petroleum refining and marketing, and in 2000 he retired as Managing Director and Chief Executive Officer of Caltex Australia Limited, a large petroleum refining and marketing conglomerate based in Australia. He is currently serving as Chairman of Aristocrat Leisure Limited, and is a former Chairman of CSR Limited and director of both Suncorp-Metway Ltd. and Symbion Health Limited (formerly Mayne Group Limited), Australian public companies in the diversified industrial and financial sectors. Dr. Blackburne was also previously the Chairman of the Australian Nuclear Science and Technology Organization.

**Bill Berry** joined the Teekay Board in June of 2011. From 1976 until his retirement in 2008, Mr. Berry held various positions with ConocoPhillips and its predecessors, including the position of Executive Vice President of Exploration and Production, Worldwide from 2002 to 2005 and Executive Vice President, Exploration and Production, Europe, Asia, Africa and Middle East from 2005 to 2008. Mr. Berry also serves on the boards of directors of Nexen Inc. and Willbros Group, Inc., and serves as an Honorary Consul to the Embassy of the Republic of Kazakhstan.

**Peter S. Janson** has served as a Teekay director since 2005. From 1999 to 2002, Mr. Janson was the Chief Executive Officer of Amec Inc. (formerly Agra Inc.), a publicly traded engineering and construction company. From 1986 to 1994 he served as the President and Chief Executive Officer of Canadian operations for Asea Brown Boveri Inc., a company for which he also served as Chief Executive Officer for U.S. operations from 1996 to 1999. Mr. Janson has also served as a member of the Business Round Table in the United States, and as a member of the National Advisory Board on Sciences and Technology in Canada. He is a director of IEC Holden Inc.

**Thomas Kuo-Yuen Hsu** has served as a Teekay director since 1993. He is presently a director of CNC Industries, an affiliate of the Expedo Group of Companies that manages a fleet of six vessels of 70,000 dwt. He has been a Committee Director of the Britannia Steam Ship Insurance Association Limited since 1988. Please read Item 7 Major Shareholders and Certain Relationships and Related Party Transactions.

**Eileen A. Mercier** has served as a Teekay director since 2000. She has over 39 years of experience in a wide variety of financial and strategic planning positions, including Senior Vice President and Chief Financial Officer for Abitibi-Price Inc. from 1990 to 1995. She formed her own management consulting company, Finvoy Management Inc. and acted as president from 1995 to 2003. She currently serves as Chairman of the Ontario Teachers' Pension Plan, lead director for ING Bank of Canada, trustee of The University Health Network and as a director and Chair of Governance for CGI Group Inc. and Intact Financial Corporation.

**Bjorn Moller** became a Teekay director in 1998. Mr. Moller also served as our President and Chief Executive Officer from 1998 until March 31, 2011. Also until March 31, 2011, Mr. Moller served as Vice Chairman of each of Teekay GP L.L.C. and Teekay Offshore GP L.L.C., and as Chief Executive Officer of Teekay Tankers. Mr. Moller remains a director of Teekay Tankers. Mr. Moller has over 25 years' experience in the shipping industry, and has served as Chairman of the International Tanker Owners Pollution Federation since December 2006. He served in senior management positions with Teekay for more than 15 years and headed our overall operations from 1997, following his promotion to the position of Chief Operating Officer. Prior to that, Mr. Moller headed our global chartering operations and business development activities.

**Tore I. Sandvold** has served as a Teekay director since 2003. He has over 30 years of experience in the oil and energy industry. From 1973 to 1987 he served in the Norwegian Ministry of Industry, Oil & Energy in a variety of positions in the areas of domestic and international energy policy. From 1987 to 1990 he served as the Counselor for Energy in the Norwegian Embassy in Washington, D.C. From 1990 to 2001 Mr. Sandvold served as Director General of the Norwegian Ministry of Oil & Energy, with overall responsibility for Norway's national and international oil and gas policy. From 2001 to 2002 he served as Chairman of the Board of Petoro, the Norwegian state-owned oil company that is the largest oil asset manager on the Norwegian continental shelf. From 2002 to the present, Mr. Sandvold, through his company, Sandvold Energy AS, has acted as advisor to companies and advisory bodies in the energy industry. Mr. Sandvold serves on other boards, including those of Schlumberger Limited., Lambert Energy Advisory Ltd., Energy Policy Foundation of Norway, and Njord Gas Infrastructure.

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**Arthur Bensler** joined Teekay in 1998 as General Counsel. He was promoted to the position of Vice President in 2002 and became our Corporate Secretary in 2003. He was appointed Senior Vice President in 2004 and Executive Vice President in 2006. Prior to joining Teekay, Mr. Bensler was a partner in a large Vancouver, Canada, law firm, where he practiced corporate, commercial and maritime law from 1987 until joining Teekay.

**Bruce Chan** joined Teekay in 1995. Since then, Mr. Chan has held a number of finance and accounting positions with Teekay, including Vice President, Strategic Development from 2004 until his promotion to the position of Senior Vice President, Corporate Resources in 2005. In 2008, Mr. Chan was appointed President of the Company's Teekay Tanker Services division, which is responsible for the commercial management of Teekay's conventional crude oil and product tanker transportation services. Effective April 1, 2011, Mr. Chan also assumed the position of Chief Executive Officer of Teekay Tankers. Prior to joining Teekay, Mr. Chan worked as a Chartered Accountant in the Vancouver, Canada office of Ernst & Young LLP.

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**David Glendinning** joined Teekay in 1987. Since then, he has held a number of senior positions, including Vice President, Marine and Commercial Operations from 1995 until his promotion to Senior Vice President, Customer Relations and Marine Project Development in 1999. In 2003, Mr. Glendinning was appointed President of our Teekay Gas Services division, which is responsible for our initiatives in the LNG business and other areas of gas activity. Prior to joining Teekay, Mr. Glendinning, who is a Master Mariner, had 18 years of sea service on oil tankers of various types and sizes.

**Kenneth Hvid** joined Teekay in 2000 and was responsible for leading our global procurement activities until he was promoted in 2004 to Senior Vice President, Teekay Gas Services. During this time, Mr. Hvid was involved in leading Teekay through its entry and growth in the LNG business. He held this position until the beginning of 2006, when he was appointed President of our Teekay Shuttle and Offshore division. In that role he was responsible for our global shuttle tanker business as well as initiatives in the floating storage and off-take business and related offshore activities. Effective April 1, 2011, Mr. Hvid became Chief Strategy Officer and an Executive Vice President of Teekay and a director of each of Teekay GP L.L.C. and Teekay Offshore GP L.L.C. Mr. Hvid has 22 years of global shipping experience, 12 of which were spent with A.P. Moller in Copenhagen, San Francisco and Hong Kong.

**Vincent Lok** has served as Teekay's Executive Vice President and Chief Financial Officer since 2007. He has held a number of finance and accounting positions with Teekay Corporation, including Controller from 1997 until his promotions to the positions of Vice President, Finance in 2002 and Senior Vice President and Treasurer in 2004, and Senior Vice President and Chief Financial Officer in 2006. Mr. Lok has served as the Chief Financial Officer of Teekay Tankers since 2007. Prior to joining Teekay Corporation, Mr. Lok worked as a Chartered Accountant with Deloitte & Touche LLP. Mr. Lok is also a Chartered Financial Analyst.

**Peter Lytzen** joined Teekay Petrojarl as President and Chief Executive Officer in 2007. Mr. Lytzen's experience includes over 20 years in the oil and gas industry and he joined Teekay Petrojarl from Maersk Contractors, where he most recently served as Vice President of Production. In that role, he held overall responsibility for Maersk Contractors' technical tendering, construction and operation of FPSO and other offshore production solutions. He first joined Maersk in 1987 and held progressively responsible positions throughout the organization.

**Lois Nahirney** joined Teekay in 2008 and is responsible for shore-based Human Resources, Corporate Communications, Corporate Services, and IT. Ms. Nahirney brings to the role more than 25 years of global experience as a senior executive and consultant in human resources, strategy, organization change and information systems. Prior to joining Teekay, she held the position of Acting Chief Human Resources Officer with B.C. Hydro in Vancouver, Canada, and Partner with Western Management Consultants.

**Ingvild Sæther** joined Teekay in 2002 as a result of Teekay's acquisition of Navion AS from Statoil ASA. Ms. Sæther held various management positions in Teekay's conventional tanker business until 2007, when she assumed the commercial responsibility for Teekay's shuttle tanker activities in the North Sea. In her role as Vice President, Teekay Navion Shuttle Tankers she managed the growth of Teekay's shuttle fleet. Effective April 1, 2011, Ms. Sæther assumed the position of President, Teekay Shuttle and Offshore. Ms. Sæther holds an Executive MBA in Shipping Management and has over 20 years of industry experience.

**Geir Sekkesaeter** joined Teekay in 2008 as a leader in Teekay's fleet operations. In 2011, he was appointed Senior Vice President of the Teekay Marine Management unit, which oversees Teekay's global ship management operations. Prior to joining Teekay, Mr. Sekkesaeter held the position of President at Wilhelmsen Ship Management in Oslo. Mr. Sekkesaeter brings more than 20 years of global experience from ship classification as well as ship management activities. His international experience includes positions in Japan, China, South Korea, UK and Norway.

**Graham Westgarth** joined Teekay in 1999 as Vice President, Marine Operations. Later the same year, he was promoted to the position of Senior Vice President, Marine Operations. In 2003, Mr. Westgarth was appointed President of the Teekay Marine Services division, with responsibility for the marine and technical operations of Teekay's fleet, and also newbuild construction. In 2011, he assumed his new role as Executive Vice President for Innovation, Technology and Projects, which is responsible for innovation and technology as well as the supervision of newbuild construction and vessel conversion. Mr. Westgarth has 40 years of industry experience, which includes 18 years of sea service, with five years in a command position. Prior to joining Teekay, he was General Manager of Maersk Company (UK). In November 2009, Mr. Westgarth was elected Chairman of the International Association of Independent Tanker Owners (INTERTANKO). He is a member of the North of England P&I Association Board of Directors, and the ABS Council. In June 2011, Mr. Westgarth was one of three recipients of the Dr. Winterbottom Fellowship Award from South Tyneside College in the United Kingdom.

## **Compensation of Directors and Senior Management**

### *Director Compensation*

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During 2011, the nine non-employee directors received, in the aggregate, approximately \$1.2 million in cash fees for their service as directors, plus reimbursement of their out-of-pocket expenses. Each non-employee director, other than the Chair of the Board, receives an annual cash retainer of \$90,000. The Chairman of the Board receives an annual cash retainer of \$375,000. Members of the Audit Committee, Compensation and Human Resources Committee, and Nominating and Governance Committee each receive an annual cash fee of \$10,000. The Chairs of the Audit Committee, Compensation and Human Resources Committee, and Nominating and Governance Committee each receive an annual cash fee of \$20,000, \$17,500 and \$15,000, respectively.

Each non-employee director, other than the Chair of the Board, also received a \$90,000 annual retainer to be paid by way of a grant of, at the director's election, restricted stock or stock options under our 2003 Equity Incentive Plan. Pursuant to this annual retainer, during 2011 we granted stock options to purchase an aggregate of 7,759 shares of our common stock at an exercise price of \$34.93 per share and 15,462 shares of restricted stock. During 2011 the Chairman of the Board received a \$495,000 retainer in the form of 14,171 shares of restricted stock under our 2003 Equity Incentive Plan. The stock options described above expire March 14, 2021, ten years after the date of their grant. The stock options and restricted stock vest as to one third of the shares on each of the first three anniversaries of their respective grant date.

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### *Annual Executive Compensation*

The aggregate compensation earned by Teekay's 11 executive officers listed above (or the *Executive Officers*) for 2011 was \$8.2 million. This is comprised of base salary (\$4.8 million), annual bonus (\$2.8 million) and pension and other benefits (\$0.6 million). These amounts were paid primarily in Canadian Dollars, but are reported here in U.S. Dollars using an exchange rate of 1.0213 Canadian Dollars for each U.S. Dollar, the exchange rate on December 31, 2011. Teekay's annual bonus plan considers both company performance, through comparison to established targets and individual performance.

### *Long-Term Incentive Program*

Teekay's long-term incentive program focuses on the returns realized by our shareholders and is intended to acknowledge and retain those executives who can influence our long-term performance. The long-term incentive plan provides a balance against short-term decisions and encourages a longer time horizon for decisions. This program consists of stock option grants, restricted stock units and performance share units. All grants in 2011 were made under our 2003 Equity Incentive Plan.

During March 2011, we granted stock options to purchase an aggregate of 11,484 shares of our common stock at an exercise price of \$34.93, 216,635 shares of restricted stock, and 73,349 performance shares to the Executive Officers under our 2003 Equity Incentive Plan. The stock options expire March 14, 2021, ten years after the date of the grant. The stock options and restricted stock vest as to one third of the shares on each of the first three anniversaries of their grant dates. Performance shares have a bullet vesting at the end of the three year performance cycle.

During March 2012, we granted stock options to purchase an aggregate of 264,127 shares of our common stock at an exercise price of \$27.69, 127,577 shares of restricted stock, and 67,870 performance shares to the Executive Officers under our 2003 Equity Incentive Plan. The stock options expire March 6, 2022, ten years after the date of the grant. The stock options and restricted stock vest as to one third of the shares on each of the first three anniversaries of their grant dates. Performance shares have a bullet vesting at the end of the three year performance cycle.

### **Options to Purchase Securities from Registrant or Subsidiaries**

As at December 31, 2011, we had reserved pursuant to our 1995 Stock Option Plan, which was terminated with respect to new grants effective September 10, 2003, and our 2003 Equity Incentive Plan, which was adopted effective on the same date (together, the *Plans*), 4,895,787 shares of common stock for issuance upon exercise of options granted or to be granted. During 2011, 2010, and 2009 we granted options under the Plans to acquire up to 95,604, 733,167, and 1,517,900 shares of common stock, respectively, to eligible officers, employees and directors. Each option under the Plans has a 10-year term and vests equally over three years from the grant date. The outstanding options under the Plans are exercisable at prices ranging from \$11.84 to \$60.96 per share, with a weighted-average exercise price of \$32.47 per share, and expire between March 11, 2012 and March 14, 2021.

### **Board Practices**

As at December 31, 2011, the Board of Directors consisted of ten members. The Board of Directors is divided into three classes, with members of each class elected to hold office for a term of three years in accordance with the classification indicated below or until his or her successor is elected and qualified.

Directors Thomas Kuo-Yuen Hsu, Axel Karlshøj, Bjorn Moller, and Peter Evensen have terms expiring in 2014. Directors Dr. Ian D. Blackburne, Bill Berry, and C. Sean Day have terms expiring in 2015. Directors Peter S. Janson, Eileen A. Mercier and Tore I. Sandvold have terms expiring in 2013.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board of Directors has determined that each of the current members of the Board, other than Bjorn Moller, our President and Chief Executive Officer until April 1, 2011, and Peter Evensen, our current President and Chief Executive Officer, has no material relationship with Teekay (either directly or as a partner, shareholder or officer of an organization that has a relationship with Teekay), and is independent within the meaning of our director independence standards, which reflect the New York Stock Exchange (or *NYSE*) director independence standards as currently in effect and as they may be changed from time to time. In making this determination the Board considered the relationships of Thomas Kuo-Yuen Hsu, Axel Karlshøj and C. Sean Day with our largest shareholder and concluded these relationships do not materially affect their independence as current directors. Please read Item 7. Major Shareholders and Certain Relationships and Related Party Transactions.

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The Board of Directors has three committees: Audit Committee, Compensation and Human Resources Committee, and Nominating and Governance Committee. The membership of these committees during 2011 and the function of each of the committees are described below. Each of the committees is currently comprised of independent members and operates under a written charter adopted by the Board. All of the committee charters are available under "Corporate Governance" in the Investor Centre of our website at [www.teekay.com](http://www.teekay.com). During 2011, the Board held seven meetings. Each director attended all Board meetings. Each committee member attended all applicable committee meetings.

Our Audit Committee is composed entirely of directors who satisfy applicable NYSE and SEC audit committee independence standards. Our Audit Committee includes Eileen A. Mercier (Chairman), Peter S. Janson, and Bill Berry (effective June 2011 upon J. Rod Clark's retirement from the Board). All members of the committee are financially literate and the Board has determined that Ms. Mercier qualifies as an audit committee financial expert.

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of:

the integrity of our financial statements;

our compliance with legal and regulatory requirements;

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the independent auditors' qualifications and independence; and

the performance of our internal audit function and independent auditors.

During 2011, our Compensation and Human Resources Committee included Peter S. Janson (Chairman), C. Sean Day, Axel Karlshoej and Ian D. Blackburne.

The Compensation and Human Resources Committee:

reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of these goals and objectives and determines the Chief Executive Officer's compensation;

reviews and approves the evaluation process and compensation structure for executive officers, other than the Chief Executive Officer, evaluates their performance and sets their compensation based on this evaluation;

reviews and makes recommendations to the Board regarding compensation for directors;

establishes and administers long-term incentive compensation and equity-based plans; and

oversees our other compensation plans, policies and programs.

During 2011, our Nominating and Governance Committee included Ian D. Blackburne (Chairman), Tore I. Sandvold, Eileen A. Mercier and Thomas Kuo-Yuen Hsu.

The Nominating and Governance Committee:

identifies individuals qualified to become Board members;

selects and recommends to the Board director and committee member candidates;

develops and recommends to the Board corporate governance principles and policies applicable to us, monitors compliance with these principles and policies and recommends to the Board appropriate changes; and

oversees the evaluation of the Board and management.

## **Crewing and Staff**

As at December 31, 2011, we employed approximately 5,500 seagoing and 1,000 shore-based personnel, compared to approximately 5,500 seagoing and 900 shore-based personnel as at December 31, 2010, and 5,400 seagoing and 900 shore-based personnel as at December 31, 2009.

We regard attracting and retaining motivated seagoing personnel as a top priority. Through our global manning organization comprised of offices in Glasgow, Scotland, Manila, Philippines, Mumbai, India, Sydney, Australia, and Madrid, Spain, we offer seafarers what we believe are competitive employment packages and comprehensive benefits. We also intend to provide opportunities for personal and career development, which relate to our philosophy of promoting internally.

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During fiscal 1996, we entered into a collective bargaining agreement with the Philippine Seafarers' Union, an affiliate of the International Transport Workers' Federation (or *ITF*), and an agreement with ITF London that cover substantially all of our junior officers and seamen. We are also party to collective bargaining agreements with various Australian maritime unions that cover officers and seamen employed through our Australian operations. Our officers and seamen for our Spanish-flagged vessels are covered by a collective bargaining agreement with Spain's Union General de Trabajadores and Comisiones Obreras. We believe our relationships with these labor unions are good.

We see our commitment to training as fundamental to the development of the highest caliber seafarers for our marine operations. Our cadet training program is designed to balance academic learning with hands-on training at sea. We have relationships with training institutions in Canada, Croatia, India, Norway, Philippines, Turkey and the United Kingdom. After receiving formal instruction at one of these institutions, the cadets' training continues on board a Teekay vessel. We also have an accredited Teekay-specific competence management system that is designed to ensure a continuous flow of qualified officers who are trained on our vessels and are familiar with our operational standards, systems and policies. We believe that high-quality manning and training policies will play an increasingly important role in distinguishing larger independent tanker companies that have in-house, or affiliate, capabilities from smaller companies that must rely on outside ship managers and crewing agents.

### Share Ownership

The following table sets forth certain information regarding beneficial ownership, as of March 1, 2012, of our common stock by the directors and Executive Officers as a group. The information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares that the person or entity (a) has or shares voting or investment power or (b) has the right to acquire as of April 30, 2012 (60 days after March 1, 2012) through the exercise of any stock option or other right. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table. Information for certain holders is based on information delivered to us.

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| Identity of Person or Group                                      | Shares Owned             | Percent of Class    |
|------------------------------------------------------------------|--------------------------|---------------------|
| All directors and Executive Officers (20 persons) <sup>(1)</sup> | 3,925,138 <sup>(3)</sup> | 5.5% <sup>(2)</sup> |

- (1) Includes 3,137,948 shares of common stock subject to stock options exercisable by April 30, 2012 under the Plans with a weighted-average exercise price of \$32.98 that expire between March 10, 2013 and March 14, 2021. Excludes (a) 528,814 shares of common stock subject to stock options exercisable after April 30, 2012 under the Plans with a weighted average exercise price of \$26.75, that expire between March 8, 2020 and March 6, 2022 and (b) 379,565 shares of restricted stock which vest after April 30, 2012, and (c) 232,144 performance shares which vest after April 30, 2012.
- (2) Based on a total of approximately 68.7 million outstanding shares of our common stock as of March 1, 2012. Each director and Executive Officer beneficially owns less than 1% of the outstanding shares of common stock.
- (3) Each director is expected to have acquired shares having a value of at least four times the value of the annual cash retainer paid to them for their Board service (excluding fees for Chair or Committee service) no later than April 30, 2012 or the fifth anniversary of the date on which the director joined the Board, whichever is later. In addition, each Executive Officer is expected to acquire shares of Teekay's common stock equivalent in value to one to three times their annual base salary by 2013 or, for executive officers subsequently joining Teekay or achieving a position covered by the guidelines, within five years after the guidelines become applicable to them.

**Item 7. Major Shareholders and Certain Relationships and Related Party Transactions****Major Shareholders**

The following table sets forth information regarding beneficial ownership, as of March 1, 2012, of Teekay's common stock by each person we know to beneficially own more than 5% of the common stock. Information for certain holders is based on their latest filings with the SEC or information delivered to us. The number of shares beneficially owned by each person or entity is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person or entity beneficially owns any shares as to which the person or entity has or shares voting or investment power. In addition, a person or entity beneficially owns any shares that the person or entity has the right to acquire as of April 30, 2012 (60 days after March 1, 2012) through the exercise of any stock option or other right. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table.

| Identity of Person or Group               | Shares Owned | Percent of Class <sup>(3)</sup> |
|-------------------------------------------|--------------|---------------------------------|
| Resolute Investments, Ltd. <sup>(1)</sup> | 31,260,780   | 45.5%                           |
| Neuberger Berman Group LLC <sup>(2)</sup> | 5,152,318    | 7.5%                            |

- (1) Includes shared voting and shared dispositive power. The ultimate controlling person of Resolute Investments, Ltd. (or *Resolute*) is Path Spirit Limited (or *Path*), which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity. This information is based on the Schedule 13D/A (Amendment No. 5) filed by Resolute and Path with the SEC on November 14, 2011. Resolute's beneficial ownership was 42.3% on March 15, 2011, and 41.9% on March 15, 2010. One of our directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of our directors, Axel Karlshøj, is among the directors of Path. Our Chairman, C. Sean Day, is engaged as a consultant to Kattegat Limited, the parent company of Resolute, to oversee its investments, including that in the Teekay group of companies.
- (2) Includes shared voting power and shared dispositive power. This information is based on the Schedule 13G/A filed by this investor with the SEC on February 7, 2012.
- (3) Based on a total of 68.7 million outstanding shares of our common stock as of March 1, 2012.
- Our major shareholders have the same voting rights as our other shareholders. No corporation or foreign government or other natural or legal person owns more than 50% of our outstanding common stock. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of Teekay.

Teekay and certain of its subsidiaries have relationships or are parties to transactions with other Teekay subsidiaries, including Teekay's publicly traded subsidiaries Teekay LNG, Teekay Offshore and Teekay Tankers. Certain of these relationships and transactions are described below.

**Our Major Shareholder**

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As of March 1, 2012, Resolute owned approximately 45.5% of our outstanding common stock. The ultimate controlling person of Resolute is Path, which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity. One of our directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of our directors, Axel Karlshøj, is among the directors of Path. Our Chairman, C. Sean Day, is engaged as a consultant to Kattegat Limited, the parent company of Resolute, to oversee its investments, including that in the Teekay group of companies. Please read Item 18. Financial Statements: Note 13 Related Party Transactions.

### **Our Directors and Executive Officers**

C. Sean Day, the Chairman of Teekay's board of directors, is also the Chairman of Teekay Tankers, Teekay Offshore GP L.L.C. (the general partner of Teekay Offshore) and Teekay GP L.L.C. (the general partner of Teekay LNG). Bjorn Moller, Teekay's Chief Executive Officer until April 1, 2011 and one of Teekay's current directors, was also the Chief Executive Officer until April 1, 2011 and is a director of Teekay Tankers. Mr. Moller also served as a Vice Chairman and director of each of Teekay Offshore GP L.L.C. and Teekay GP L.L.C., until April 1, 2011 when he resigned. Peter Evensen, a Teekay director and President and Chief Executive Officer of Teekay as of April 1, 2011, is a director of Teekay Tankers and the Chief Executive Officer and Chief Financial Officer and a director of each of Teekay Offshore GP L.L.C. and Teekay GP L.L.C.

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Vincent Lok, Teekay's Executive Vice President and Chief Financial Officer, is also the Chief Financial Officer of Teekay Tankers. Kenneth Hvid is Teekay's Executive Vice President and Chief Strategy Officer and is a director of each of Teekay GP L.L.C. and Teekay Offshore GP L.L.C. Bruce Chan is the Chief Executive Officer of Teekay Tankers Ltd. and President of Teekay Tanker Services, a division of Teekay. Because the executive officers of Teekay Tankers and of the general partners of Teekay Offshore and Teekay LNG are employees of Teekay or other of its subsidiaries, their compensation (other than any awards under the respective long-term incentive plans of Teekay Tankers, Teekay Offshore and Teekay LNG) is set and paid by Teekay or such other applicable subsidiaries.

Pursuant to agreements with Teekay, each of Teekay Tankers, Teekay Offshore and Teekay LNG have agreed to reimburse Teekay or its applicable subsidiaries for time spent by the executive officers on management matters of such public company subsidiaries. For 2011, these reimbursement obligations totalled approximately \$1.7 million, \$3.0 million, and \$2.4 million, respectively, for Teekay Tankers, Teekay Offshore and Teekay LNG, and are included in amounts paid as strategic fees under the management agreement for Teekay Tankers and the services agreements for Teekay Offshore and Teekay LNG described below. For 2009 and 2010, these reimbursement obligations for Teekay Tankers, Teekay Offshore and Teekay LNG totalled \$1.3 million and \$1.5 million, \$1.3 million and \$1.0 million, and \$1.7 million and \$1.4 million, respectively.

## **Relationships with Our Public Company Subsidiaries**

### **Teekay Tankers**

Teekay Tankers is a NYSE-listed, Marshall Islands corporation, which we formed to acquire from us a fleet of double-hull oil tankers in connection with Teekay Tanker's initial public offering in December 2007. Teekay Tanker's business is to own oil tankers and employ a chartering strategy that seeks to capture upside opportunities in the spot market while using fixed-rate time charters to reduce downside risks. Its operations are managed by our subsidiary Teekay Tankers Management Services Ltd.

As of March 1, 2012, we owned shares of Teekay Tankers' Class A and Class B common stock that represented an ownership interest of 20.4% and voting power of 51.2% of Teekay Tankers' outstanding common stock.

Teekay Tankers distributes to its stockholders on a quarterly basis all of its Cash Available for Distribution, subject to any reserves the board of directors may from time to time determine are required for the prudent conduct of the business. Cash Available for Distribution represents Teekay Tankers' net income (loss) plus depreciation and amortization, unrealized losses from derivatives, non-cash items and any write-offs or other non-recurring items less unrealized gains from derivatives and net income attributable to the historical results of vessels acquired by Teekay Tankers from us, prior to their acquisition by Teekay Tankers, for the period when these vessels were owned and operated by us. We received distributions from Teekay Tankers of \$23.4 million, \$19.9 million and \$13.4 million, respectively, with respect to 2009, 2010, and 2011.

### **Teekay Offshore and Teekay LNG**

Teekay Offshore is a NYSE-listed, Marshall Islands limited partnership, which we formed to further develop our operations in the offshore market. Teekay Offshore is an international provider of marine transportation and storage services to the offshore oil industry. We own and control Teekay Offshore's general partner, and as of March 1, 2012, we owned a 31.0% limited partner and a 2% general partner interest in Teekay Offshore. Teekay Offshore owns a majority of its fleet through OPCO, which was owned 51.0% by Teekay Offshore and 49.0% by us until we sold such 49% interest to Teekay Offshore in March 2011. Please read Item 5. Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments in 2011 and Early 2012.

Teekay LNG is a NYSE-listed, Marshall Islands limited partnership, which we formed to expand our operations in the LNG shipping sector. Teekay LNG is an international provider of marine transportation services for LNG, LPG and crude oil. We own and control Teekay LNG's general partner, and as of March 1, 2012, we owned a 38.1% limited partner and a 2% general partner interest in Teekay LNG.

### ***Quarterly Cash Distributions***

We are entitled to distributions on our general and limited partner interests in Teekay Offshore and Teekay LNG, respectively. The general partner of each of Teekay Offshore and Teekay LNG is also entitled to distributions payable with respect to incentive distribution rights. Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. In general, each of Teekay Offshore and Teekay LNG pays quarterly cash distributions in the following manner:

first, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder has received a total of \$0.4025 (Teekay Offshore) or \$0.4625 (Teekay LNG) per unit for that quarter;

second, 85% to all unitholders, and 15% to the general partner, until each unitholder has received a total of \$0.4375 (Teekay Offshore) or \$0.5375 (Teekay LNG) per unit for that quarter;

third, 75% to all unitholders, and 25% to the general partner, until each unitholder has received a total of \$0.525 (Teekay Offshore) or \$0.65 (Teekay LNG) per unit for that quarter; and

thereafter, 50% to all unitholders and 50% to the general partner.

Teekay received total distributions, including incentive distributions, from Teekay Offshore of \$29.2 million, \$32.2 million, and \$48.7 million, respectively, with respect to 2009, 2010, and 2011.

Teekay received total distributions, including incentive distributions, from Teekay LNG of \$64.0 million, \$71.2 million, and \$76.0 million, respectively, with respect to 2009, 2010, and 2011.

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### **Competition with Teekay Tankers, Teekay Offshore and Teekay LNG**

Teekay has entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when Teekay, Teekay LNG, and Teekay Offshore may compete with each other and providing for rights of first offer on the transfer or rechartering of certain LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units. Subject to applicable exceptions, the omnibus agreement generally provides that (a) neither Teekay nor Teekay LNG will own or operate offshore vessels (i.e. dynamically positioned shuttle tankers, FSO units and FPSO units) that are subject to contracts with a duration of three years or more, excluding extension options, (b) neither Teekay nor Teekay Offshore will own or operate LNG carriers and (c) neither Teekay LNG nor Teekay Offshore will own or operate crude oil tankers.

In addition, Teekay Tankers has agreed that Teekay may pursue business opportunities attractive to both parties and of which either party becomes aware. These business opportunities may include, among other things, opportunities to charter out, charter in or acquire oil tankers or to acquire tanker businesses.

### **Sales of Vessels and Project Interests by Teekay to Teekay Tankers, Teekay Offshore and Teekay LNG**

From time to time Teekay has sold to Teekay Tankers, Teekay Offshore and Teekay LNG vessels or interests in vessel owning subsidiaries or joint ventures. These transactions include those described under Item 5. Operating and Financial Review and Prospects Management's Discussion and Analysis of Financial Condition and Results of Operations.

Teekay currently has committed to the following vessel transactions with its public company subsidiaries:

Teekay has agreed to offer the *Petrojarl Foinaven* FPSO unit to Teekay Offshore prior to July 9, 2012. The purchase price for the *Foinaven* FPSO would be its fair market value plus any additional tax or other similar costs to Teekay Petrojarl that would be required to transfer the FPSO unit to Teekay Offshore.

In October 2010, we announced that we had signed a contract with Petroleo Brasileiro SA (or Petrobras) to provide a FPSO unit for the Tiro and Sidon fields located in the Santos Basin offshore Brazil. The contract with Petrobras will be serviced by a newly converted FPSO unit, to be named the *Petrojarl Cidade de Itajai*, which is currently under conversion from an existing Aframax tanker, for a total estimated cost of approximately \$378 million, of which our 50% share is approximately \$189 million. The new FPSO unit is scheduled to deliver mid-2012, when it will commence operations under a nine-year, fixed-rate time-charter-out contract to Petrobras with six additional one-year extension options exercisable by Petrobras. Pursuant to the omnibus agreement, Teekay Corporation is obligated to offer to Teekay Offshore its interest in this FPSO unit at Teekay Corporation's fully built-up cost within 365 days after the commencement of the charter to Petrobras.

### **Time Chartering and Bareboat Chartering Arrangements**

Teekay charters in from or out to its public company subsidiaries certain vessels, including the following charter arrangements:

During 2011, nine of Teekay Offshore's conventional tankers were chartered out to Teekay subsidiaries under long-term time charters. Two of Teekay Offshore's shuttle tankers are chartered out to Teekay subsidiaries under long-term bareboat charters. Pursuant to these charter contracts, Teekay Offshore earned voyage revenues of \$127.1 million, \$119.8 million, and \$140.9 million, respectively, for 2009, 2010, and 2011.

Two of Teekay Offshore's FSO units are chartered out to Teekay subsidiaries under long-term bareboat charters. Pursuant to these charter contracts, Teekay offshore earned voyage revenues of \$11.2 million, \$11.2 million, and \$11.0 million, respectively, for 2009, 2010, and 2011.

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From December 2008 to June 2009, Teekay Offshore entered into a bareboat charter contract to in-charter one shuttle tanker from a subsidiary of Teekay. Pursuant to the charter contract, Teekay Offshore incurred time-charter hire expenses of \$0.2 million, \$nil and \$nil, respectively, for 2009, 2010 and 2011.

Starting in August 2008, Teekay had been chartering in from Teekay Tankers the tanker *Nassau Spirit* under a fixed-rate time charter that expired in July 2010 and was replaced by a 12-month time-charter contract with a third party, which started immediately after the expiration of the time-charter contract with Teekay. During 2009, 2010 and 2011, Teekay Tankers earned revenues of \$13.4 million, \$6.9 million, and nil respectively, under this time-charter contract.

Starting in April 2008, Teekay has been chartering in from Teekay LNG the LNG carriers *Arctic Spirit* and *Polar Spirit* under a fixed-rate time charter for a period of ten years, plus options exercisable by Teekay to extend up to an additional 15 years. During 2009, 2010 and 2011, Teekay LNG earned revenues of \$38.9 million, \$36.5 million, and \$35.1 million respectively, under these time-charter contracts.

### **Services, Management and Pooling Arrangements**

*Services Agreements.* In connection with their initial public offerings in May 2005 and December 2006, respectively, and subsequent thereto, Teekay LNG and Teekay Offshore and certain of their subsidiaries have entered into services agreements with certain other subsidiaries of Teekay, pursuant to which the other Teekay subsidiaries provide to Teekay LNG, Teekay Offshore and their subsidiaries administrative, advisory and technical and ship management services. These services are provided in a commercially reasonable manner and upon the reasonable request of the general partner or subsidiaries of Teekay LNG or Teekay Offshore, as applicable. The other Teekay subsidiaries that are parties to the services agreements provide these services directly or subcontract for certain of these services with other entities, including other Teekay subsidiaries. Teekay LNG and Teekay Offshore pay arm s-length fees for the services that include reimbursement of the reasonable cost of any direct and indirect expenses the other Teekay subsidiaries incur in providing these services. During 2009, 2010 and 2011, Teekay LNG and Teekay Offshore incurred expenses of \$38.8 million, \$45.4 million, and \$48.6 million, and \$40.4 million, \$43.0 million, and \$54.6 million, respectively, for these services.

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*Management Agreement.* In connection with its initial public offering, Teekay Tankers entered into the long-term management agreement with Teekay Tankers Management Services Ltd., a subsidiary of Teekay (the *Manager*). Subject to certain limited termination rights, the initial term of the management agreement will expire on December 31, 2022. If not terminated, the agreement will automatically renew for five-year periods. Termination fees are required for early termination by Teekay Tankers under certain circumstances. Pursuant to the management agreement, the Manager provides to Teekay Tankers the following types of services: commercial (primarily vessel chartering), technical (primarily vessel maintenance and crewing), administrative (primarily accounting, legal and financial) and strategic (primarily advising on acquisitions, strategic planning and general management of the business). The Manager has agreed to use its best efforts to provide these services upon Teekay Tankers' request in a commercially reasonable manner and may provide these services directly to Teekay Tankers or subcontract for certain of these services with other entities, primarily other Teekay subsidiaries.

In return for services under the management agreement, Teekay Tankers pays the Manager an agreed-upon fee for commercial services (other than for Teekay Tankers vessels participating in pooling arrangements), a technical services fee equal to the average rate Teekay charges third parties to technically manage their vessels of a similar size, and fees for administrative and strategic services that reimburse the Manager for its related direct and indirect expenses in providing such services and which includes a profit margin. During 2009, 2010, and 2011, Teekay Tankers incurred \$5.7 million, \$5.6 million, and \$7.5 million, respectively, for these services.

The management agreement also provides for the payment of a performance fee in order to provide the Manager an incentive to increase cash available for distribution to Teekay Tankers' stockholders. Teekay Tankers did not incur any performance fees for 2011, 2010 or 2009.

*Pooling Arrangements.* Certain Aframax and Suezmax tankers of Teekay Tankers participate in vessel pooling arrangements managed by other Teekay subsidiaries. The pool managers provide commercial services to the pool participants and administer the pools in exchange for a fee currently equal to 1.25% of the gross revenues attributable to each pool participant's vessels and a fixed amount per vessel per day which ranges from \$275 (for the Suezmax tanker pool) to \$350 (for the Aframax tanker pool). Voyage revenues and voyage expenses of Teekay Tankers vessels operating in these pool arrangements are pooled with the voyage revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Teekay Tankers incurred pool management fees during 2009, 2010 and 2011 of \$2.6 million, \$1.9 million and \$1.8 million, respectively.

## **Item 8. Financial Information**

### **Consolidated Financial Statements and Notes**

Please read Item 18 below.

### **Legal Proceedings**

From time to time we have been, and we expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations. For information about a recent legal proceeding, please read Item 18. Financial Statements: Note 16(d) Legal Proceedings and Claims.

### **Dividend Policy**

Commencing with the quarter ended September 30, 1995, we declared and paid quarterly cash dividends in the amount of \$0.1075 per share on our common stock. We increased our quarterly dividend from \$0.1375 to \$0.2075 per share in the fourth quarter of 2005, from \$0.2075 to \$0.2375 in the fourth quarter of 2006, from \$0.2375 to \$0.275 in the fourth quarter of 2007, and from \$0.275 to \$0.31625 in the fourth quarter of 2008. Subject to financial results and declaration by the Board of Directors, we currently intend to continue to declare and pay a regular quarterly dividend in such amount per share on our common stock. Pursuant to our dividend reinvestment program, holders of common stock are permitted to choose, in lieu of receiving cash dividends, to reinvest any dividends in additional shares of common stock at then-prevailing market prices, but without brokerage commissions or service charges.

The timing and amount of dividends, if any, will depend, among other things, on our results of operations, financial condition, cash requirements, restrictions in financing agreements and other factors deemed relevant by our Board of Directors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends on the common stock depends on the earnings and cash flow of our subsidiaries.

**Significant Changes**

Please read Item 18. Financial Statements: Note 25 Subsequent Events.

**Item 9. The Offer and Listing**

Our common stock is traded on the NYSE under the symbol TK . The following table sets forth the high and low sales prices for our common stock on the NYSE for each of the periods indicated.

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| Years |                  |                  |                  |                  |                  |
|-------|------------------|------------------|------------------|------------------|------------------|
| Ended | Dec. 31,<br>2011 | Dec. 31,<br>2010 | Dec. 31,<br>2009 | Dec. 31,<br>2008 | Dec. 31,<br>2007 |
| High  | \$ 37.93         | \$ 33.96         | \$ 24.94         | \$ 53.30         | \$ 62.66         |
| Low   | 20.67            | 20.42            | 11.10            | 11.51            | 42.52            |

| Quarters |                  |                  |                   |                  |                  |                  |                   |                  |
|----------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|
| Ended    | Mar. 31,<br>2012 | Dec. 31,<br>2011 | Sept. 30,<br>2011 | June 30,<br>2011 | Mar. 31,<br>2011 | Dec. 31,<br>2010 | Sept. 30,<br>2010 | June 30,<br>2010 |
| High     | \$ 35.52         | \$ 28.50         | \$ 31.78          | \$ 37.93         | \$ 37.19         | \$ 33.96         | \$ 29.03          | \$ 29.76         |
| Low      | 24.89            | 20.67            | 21.37             | 29.81            | 31.55            | 26.09            | 23.60             | 22.39            |

| Months Ended |                  |                  |                  |                  |                  |                  |  |
|--------------|------------------|------------------|------------------|------------------|------------------|------------------|--|
| High         | Mar. 31,<br>2012 | Feb. 29,<br>2012 | Jan. 31,<br>2012 | Dec. 31,<br>2011 | Nov. 30,<br>2011 | Oct. 31,<br>2011 |  |
|              | \$ 35.52         | \$ 28.98         | \$ 27.52         | \$ 28.09         | \$ 28.50         | \$ 26.94         |  |
| Low          | 27.50            | 26.28            | 24.89            | 25.45            | 24.62            | 20.67            |  |

**Item 10. Additional Information****Memorandum and Articles of Association**

Our Amended and Restated Articles of Incorporation, as amended, have been filed as exhibits 1.1 and 1.2 to our Annual Report on Form 20-F (File No. 1-12874), filed with the SEC on April 7, 2009, and are hereby incorporated by reference into this Annual Report. Our Bylaws have previously been filed as exhibit 1.3 to our Report on Form 6-K (File No. 1-12874), filed with the SEC on August 31, 2011, and are hereby incorporated by reference into this Annual Report.

The rights, preferences and restrictions attaching to each class of our capital stock are described in the section entitled "Description of Capital Stock" of our Rule 424(b) prospectus (Registration No. 333-52513), filed with the SEC on June 10, 1998, and hereby incorporated by reference into this Annual Report, provided that since the date of such prospectus (1) the par value of our capital stock has been changed to \$0.001 per share, (2) our authorized capital stock has been increased to 725,000,000 shares of common stock and 25,000,000 shares of Preferred Stock, (3) we have been domesticated in the Republic of The Marshall Islands and (4) we have adopted a staggered Board of Directors, with directors serving three-year terms.

The necessary actions required to change the rights of holders of our capital stock and the conditions governing the manner in which annual and special meetings of shareholders are convened are described in our Bylaws filed as exhibit 1.3 to our Report on Form 6-K (File No. 1-12874), filed with the SEC on August 31, 2011, and hereby incorporated by reference into this Annual Report.

We have in place a rights agreement that would have the effect of delaying, deferring or preventing a change in control of Teekay. The amended and restated rights agreement has been filed as part of our Form 8-A/A (File No. 1-12874), filed with the SEC on July 2, 2010, and hereby incorporated by reference into this Annual Report.

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities imposed by the laws of the Republic of The Marshall Islands or by our Articles of Incorporation or Bylaws.

**Material Contracts**

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries, other than our publicly listed subsidiaries, is a party, for the two years immediately preceding the date of this Annual Report:

- (a) Indenture dated June 22, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida (formerly U.S. Trust Company of Texas, N.A.) for U.S. \$250,000,000 8.875% Senior Notes due 2011.

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- (b) First Supplemental Indenture dated as of December 6, 2001, among Teekay Corporation and The Bank of New York Trust Company of Florida, N.A. for U.S. \$100,000,000 8.875% Senior Notes due 2011.
- (c) Agreement, dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks.
- (d) Agreement, dated September 1, 2004 for a U.S. \$500,000,000 Credit Facility Agreement to be made available to Teekay Nordic Holdings Incorporated by Nordea Bank Finland PLC, New York Branch.
- (e) Supplemental Agreement dated September 30, 2004 to Agreement, dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks.
- (f) Agreement, dated May 26, 2005 for a U.S. \$550,000,000 Credit Facility Agreement to be made available to Avalon Spirit LLC et al by Nordea Bank Finland PLC and others.
- (g) Agreement, dated October 2, 2006 for a U.S. \$940,000,000 Secured Reducing Revolving Loan Facility among Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.

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- (h) Agreement, dated August 23, 2006 for a U.S. \$330,000,000 Secured Reducing Revolving Loan Facility among Teekay LNG Partners L.P., ING Bank N.V. and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.
- (i) Agreement, dated November 28, 2007 for a U.S. \$845,000,000 Secured Reducing Revolving Loan Facility among Teekay Corporation, Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks. Please read Note 8 to the Consolidated Financial Statements of Teekay Corporation included herein for a summary of certain contract terms relating to our revolving loan facilities.
- (j) Agreement dated May 16, 2007 for a U.S. \$700,000,000 Credit Facility Agreement to be made available to Teekay Acquisition Holdings LLC et al by HSH NordBank AG and others.
- (k) Annual Executive Bonus Plan.
- (l) Vision Incentive Plan.
- (m) 2003 Equity Incentive Plan.
- (n) Amended 1995 Stock Option Plan.
- (o) Amended and Restated Rights Agreement, dated as of July 2, 2010, between Teekay Corporation and The Bank of New York, as Rights Agent.
- (p) Amended and Restated Omnibus Agreement dated as of December 19, 2006, among Teekay Corporation, Teekay GP L.L.C., Teekay LNG Partners L.P., Teekay LNG Operating L.L.C., Teekay Offshore GP L.L.C., Teekay Offshore Partners L.P., Teekay Offshore Operating GP L.L.C. and Teekay Offshore Operating L.P. govern, among other things, when Teekay Corporation, Teekay LNG L.P. and Teekay Offshore L.P. may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.
- (q) Indenture dated January 27, 2010 among Teekay Corporation and The Bank of New York Mellon Trust Company, N.A. for U.S. \$450,000,000 8.5% Senior Unsecured Notes due 2020.

### **Exchange Controls and Other Limitations Affecting Security Holders**

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in the Republic of The Marshall Islands that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of The Marshall Islands or our Articles of Incorporation and Bylaws.

### **Taxation**

Teekay Corporation was incorporated in the Republic of Liberia on February 9, 1979 and was domesticated in the Republic of The Marshall Islands on December 20, 1999. Its principal executive headquarters are located in Bermuda. The following provides information regarding taxes to which a U.S. Holder of our common stock may be subject.

## Material U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to stockholders. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), legislative history, applicable U.S. Treasury Regulations promulgated thereunder (or *Treasury Regulations*), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to *we*, *our* or *us* are references to Teekay Corporation.

This discussion is limited to stockholders who hold their common stock as a capital asset for tax purposes. This discussion does not address all tax considerations that may be important to a particular stockholder in light of the stockholder's circumstances, or to certain categories of stockholders that may be subject to special tax rules, such as:

dealers in securities or currencies,

traders in securities that have elected the mark-to-market method of accounting for their securities,

persons whose functional currency is not the U.S. dollar,

persons holding our common stock as part of a hedge, straddle, conversion or other synthetic security or integrated transaction,

certain U.S. expatriates,

financial institutions,

insurance companies,

persons subject to the alternative minimum tax,

persons that actually or under applicable constructive ownership rules own 10% or more of our common stock; and

entities that are tax-exempt for U.S. federal income tax purposes.

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If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our common stock, you should consult your own tax advisor about the U.S. federal income tax consequences of owning and disposing of the common stock.

This discussion does not address any U.S. estate tax considerations or tax considerations arising under the laws of any state, local or non-U.S. jurisdiction. Each stockholder is urged to consult its own tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of our common stock.

### ***United States Federal Income Taxation of U.S. Holders***

As used herein, the term *U.S. Holder* means a beneficial owner of our common stock that is a U.S. citizen or U.S. resident alien, a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate whose income is subject to U.S. federal income taxation regardless of its source, or a trust that either is subject to the supervision of a court within the United States and has one or more U.S. persons with authority to control all of its substantial decisions or has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

### ***Distributions***

Subject to the discussion of passive foreign investment companies (or *PFICs*) below, any distributions made by us with respect to our common stock to a U.S. Holder generally will constitute dividends, which may be taxable as ordinary income or qualified dividend income as described in more detail below, to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in its common stock and thereafter as capital gain. U.S. Holders that are corporations for U.S. federal income tax purposes generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock generally will be treated as passive category income or, in the case of certain types of U.S. Holders, general category income for purposes of computing allowable foreign tax credits for U.S. federal income tax purposes.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (or a *U.S. Individual Holder*) will be treated as qualified dividend income that currently is taxable to such U.S. Individual Holder at preferential capital gain tax rates provided that: (i) our common stock is readily tradable on an established securities market in the United States (such as the New York Stock Exchange on which our common stock is traded); (ii) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (we intend to take the position that we are not now and have never been a PFIC, as discussed below); (iii) the U.S. Individual Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; (iv) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property; and (v) certain other conditions are met. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any dividends paid on our common stock not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder. In the absence of legislation extending the term of the preferential tax rates for qualified dividend income, all dividends received by a taxpayer in taxable years beginning after December 31, 2012 will be taxed at ordinary graduated tax rates.

Special rules may apply to any extraordinary dividend paid by us. An extraordinary dividend is, generally, a dividend with respect to a share of stock if the amount of the dividend is equal to or in excess of 10% of a stockholder's adjusted basis (or fair market value in certain circumstances) in such stock. If we pay an extraordinary dividend on our common stock that is treated as qualified dividend income, then any loss derived by a U.S. Individual Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

Certain U.S. Individual Holders will be subject to pay a 3.8% tax on, among other things, dividends for taxable years beginning after December 31, 2012. U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their ownership of our common stock.

### ***Sale, Exchange or Other Disposition of Common Stock***

Assuming we do not constitute a PFIC for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Subject to the discussion of extraordinary dividends above, such gain

or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition, and subject to preferential capital gain tax rates. Such capital gain or loss generally will be treated as U.S.-source gain or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

Certain U.S. Individual Holders will be subject to a 3.8% tax on, among other things, capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their disposition of our common stock.

*Consequences of Possible PFIC Classification*

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a "look through" rule, either: (i) at least 75% of its gross income is "passive" income; or (ii) at least 50% of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income. For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties, other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. By contrast, income derived from the performance of services does not constitute "passive income."

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There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Code. However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-001) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our and our subsidiaries' current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS, or a court of law, will accept our position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our or our subsidiaries' assets, income or operations.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes a timely and effective election to treat us as a Qualified Electing Fund (a *QEF election*). As an alternative to making a QEF election, a U.S. Holder should be able to make a mark-to-market election with respect to our common stock, as discussed below.

**Taxation of U.S. Holders Making a Timely QEF Election.** If a U.S. Holder makes a timely QEF election (an *Electing Holder*), the Electing Holder must report each taxable year for U.S. federal income tax purposes the Electing Holder's pro rata share of our ordinary earnings and net capital gain, if any, for our taxable years that end with or within the Electing Holder's taxable year, regardless of whether or not the Electing Holder received distributions from us in that year. Such pro rata share would not exceed the income allocable to dividends on our shares, although ordinary earnings could be allocated to a shareholder in a taxable year before the dividend is paid. Such income inclusions would not be eligible for the preferential tax rates applicable to qualified dividend income. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in common stock and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with the holder's timely filed U.S. federal income tax return (including extensions).

If a U.S. Holder has not made a timely QEF election with respect to the first year in the holder's holding period of our common stock during which we qualified as a PFIC, the holder may be treated as having made a timely QEF election by filing a QEF election with the holder's timely filed U.S. federal income tax return (including extensions) and, under the rules of Section 1291 of the Code, a deemed sale election to include in income as an excess distribution (described below) the amount of any gain that the holder would otherwise recognize if the holder sold the holder's common stock on the qualification date. The qualification date is the first day of our taxable year in which we qualified as a qualified electing fund with respect to such U.S. Holder. In addition to the above rules, under very limited circumstances, a U.S. Holder may make a retroactive QEF election if the holder failed to file the QEF election documents in a timely manner. If a U.S. Holder makes a timely QEF election for one of our taxable years, but did not make such election with respect to the first year in the holder's holding period of our common stock during which we qualified as a PFIC and the holder did not make the deemed sale election described above, the holder also will be subject to the more adverse rules described below.

A U.S. Holder's QEF election will not be effective unless we annually provide the holder with certain information concerning our income and gain, calculated in accordance with the Code, to be included with the holder's U.S. federal income tax return. We have not provided our U.S. Holders with such information in prior taxable years and do not intend to provide such information in the current taxable year. Accordingly, U.S. Holders will not be able to make an effective QEF election at this time. If, contrary to our expectations, we determine that we are or will be a PFIC for any taxable year, we will provide U.S. Holders with the information necessary to make an effective QEF election with respect to our common stock.

**Taxation of U.S. Holders Making a Mark-to-Market Election.** If we were to be treated as a PFIC for any taxable year and, as we anticipate, our stock were treated as marketable stock, then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a mark-to-market election with respect to our common stock, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made for the first year a U.S. Holder holds or is deemed to hold our common stock and for which we are a PFIC, the U.S. Holder generally would include as ordinary income in each taxable year that we are a PFIC the excess, if any, of the fair market value of the U.S. Holder's common stock at the end of the taxable year over the holder's adjusted tax basis in the common stock. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common stock over the fair market value thereof at the end of the taxable year that we are a PFIC, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in the holder's common

stock would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common stock in taxable years that we are a PFIC would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of the common stock in taxable years that we are a PFIC would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. Because the mark-to-market election only applies to marketable stock, however, it would not apply to a U.S. Holder's indirect interest in any of our subsidiaries that were also determined to be PFICs.

If a U.S. Holder makes a mark-to-market election for one of our taxable years and we were a PFIC for a prior taxable year during which such holder held our common stock and for which (i) we were not a QEF with respect to such holder and (ii) such holder did not make a timely mark-to-market election, such holder would also be subject to the more adverse rules described below in the first taxable year for which the mark-to-market election is in effect and also to the extent the fair market value of the U.S. Holder's common stock exceeds the holder's adjusted tax basis in the common stock at the end of the first taxable year for which the mark-to-market election is in effect.

**Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election.** If we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a mark-to-market election for that year (a *Non-Electing Holder*) would be subject to special rules resulting in increased tax liability with respect to (i) any excess distribution (*i.e.*, the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (ii) any gain realized on the sale, exchange or other disposition of the stock. Under these special rules:

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the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common stock;

the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income in the current taxable year;

the amount allocated to each of the other taxable years would be subject to U.S. federal income tax at the highest rate of tax in effect for the applicable class of taxpayers for that year; and

an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

If we were treated as a PFIC for any taxable year and a Non-Electing Holder who is an individual dies while owning our common stock, such holder's successor generally would not receive a step-up in tax basis with respect to such stock. In addition, a U.S. Holder is required to file an annual report with the IRS for each taxable year after 2010 in which we are treated as a PFIC with respect to the U.S. Holder's common stock.

**U.S. Holders are urged to consult their own tax advisors regarding the applicability, availability and advisability of, and procedure for, making QEF, Mark-to-Market Elections and other available elections with respect to us and our subsidiaries, and the U.S. federal income tax consequences of making such elections.**

### *Consequences of Possible Controlled Foreign Corporation Classification*

If CFC Shareholders (generally, U.S. Holders who each own, directly, indirectly or constructively, 10% or more of the total combined voting power of our outstanding shares entitled to vote) own directly, indirectly or constructively more than 50% of either the total combined voting power of our outstanding shares entitled to vote or the total value of all of our outstanding shares, we generally would be treated as a controlled foreign corporation (or a CFC).

CFC Shareholders are treated as receiving current distributions of their shares of certain income of the CFC without regard to any actual distributions and are subject to other burdensome U.S. federal income tax and administrative requirements but generally are not also subject to the requirements generally applicable to shareholders of a PFIC. In addition, a person who is or has been a CFC Shareholder may recognize ordinary income on the disposition of shares of the CFC. Although we do not believe we are or will become a CFC, U.S. persons owning a substantial interest in us should consider the potential implications of being treated as a CFC Shareholder in the event we become a CFC in the future.

The U.S. federal income tax consequences to U.S. Holders who are not CFC Shareholders would not change in the event we become a CFC in the future.

### *U.S. Return Disclosure Requirements for U.S. Individual Holders*

U.S. Individual Holders who hold certain specified foreign assets with values in excess of certain dollar thresholds are required to report such assets on IRS Form 8938 with their U.S. federal income tax return subject to certain exceptions, including an exception for foreign assets held in accounts maintained by U.S. financial institutions. Stock in a foreign corporation, including our stock, is a specified foreign asset for this purpose. Penalties apply for failure to properly complete and file Form 8938. You are encouraged to consult with your tax advisor regarding the filing of this form.

### *United States Federal Income Taxation of Non-U.S. Holders*

A beneficial owner of our common stock (other than a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a *Non-U.S. Holder*.

### *Distributions*

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Distributions we make to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, distributions we make will be subject to U.S. federal income tax to the extent those distributions constitute income effectively connected with that Non-U.S. Holder's U.S. trade or business. However, distributions made to a Non-U.S. Holder that is engaged in a trade or business may be exempt from taxation under an income tax treaty if the income represented thereby is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

### *Sale, Exchange or Other Disposition of Common Stock*

The U.S. federal income taxation of Non-U.S. Holders on any gain resulting from the disposition of our common stock generally is the same as described above regarding distributions. However, an individual Non-U.S. Holder may be subject to tax on gain resulting from the disposition of our common stock if the holder is present in the United States for 183 days or more during the taxable year in which such disposition occurs and meet certain other requirements.

### ***Backup Withholding and Information Reporting***

In general, payments of distributions or the proceeds of a disposition of common stock to a non-corporate U.S. Holder will be subject to information reporting requirements. These payments to a non-corporate U.S. Holder also may be subject to backup withholding if the non-corporate U.S. Holder:

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fails to timely provide an accurate taxpayer identification number;

is notified by the IRS that it has failed to report all interest or distributions required to be shown on its U.S. federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding on payments within the United States, or through a U.S. payor by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a stockholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and a refund of any amounts withheld in excess of such liability) by accurately completing and timely filing a return with the IRS.

### **Non-United States Tax Consequences**

***Marshall Islands Tax Consequences.*** Because Teekay and our subsidiaries do not, and do not expect that we or they will, conduct business or operations in the Republic of The Marshall Islands, and because all documentation related to issuances of shares of our common stock was executed outside of the Republic of The Marshall Islands, under current Marshall Islands law, no taxes or withholdings will be imposed by the Republic of The Marshall Islands on distributions made to holders of shares of our common stock, so long as such persons do not reside in, maintain offices in, or engage in business in the Republic of The Marshall Islands. Furthermore, no stamp, capital gains or other taxes will be imposed by the Republic of The Marshall Islands on the purchase, ownership or disposition by such persons of shares of our common stock.

### **Documents on Display**

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at 4<sup>th</sup> Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Those documents electronically filed via the Electronic Data Gathering, Analysis, and Retrieval (or *EDGAR*) system may also be obtained from the SEC's website at [www.sec.gov](http://www.sec.gov), free of charge, or from the Public Reference Section of the SEC at 100F Street, NE, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, bunker fuel prices and spot tanker market rates for vessels. We use foreign currency forward contracts, cross currency and interest rate swaps, bunker fuel swap contracts and forward freight agreements to manage currency, interest rate, bunker fuel price and spot tanker market rate risks but we do not use these financial instruments for trading or speculative purposes, except as noted below under Spot Tanker Market Rate Risk. Please read Item 18. Financial Statements: Note 15 Derivative Instruments and Hedging Activities.

#### **Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. Transactions in this market generally utilize the U.S. Dollar. Consequently, a substantial majority of our revenues and most of our operating costs are in U.S. Dollars. We incur certain voyage expenses, vessel operating expenses, dry docking and overhead costs in foreign currencies, the most significant of which are the Australian Dollar, British Pound, Canadian Dollar, Euro, Norwegian Kroner and Singapore Dollar. There is a risk that currency fluctuations will have a negative effect on the value of cash flows.

We reduce our exposure by entering into foreign currency forward contracts. In most cases, we hedge a substantial majority of our net foreign currency exposure for the following 12 months. We generally do not hedge our net foreign currency exposure beyond three years forward.

As at December 31, 2011, we had the following foreign currency forward contracts:

|                                                  | Expected Maturity Date |          |          |                           |
|--------------------------------------------------|------------------------|----------|----------|---------------------------|
|                                                  | 2012                   | 2013     | Total    | Total                     |
|                                                  | Contract               | Contract | Contract | Fair value <sup>(1)</sup> |
|                                                  | Amount                 | Amount   | Amount   | Asset (Liability)         |
|                                                  | (1)                    | (1)      | (1)      |                           |
| Norwegian Kroner:                                | \$ 141.3               | \$ 32.8  | \$ 174.1 | \$ (1.0)                  |
| Average contractual exchange rate <sup>(2)</sup> | 6.09                   | 5.94     | 6.07     |                           |
| Euro:                                            | \$ 40.9                | \$ 5.8   | \$ 46.7  | \$ (1.7)                  |
| Average contractual exchange rate <sup>(2)</sup> | 0.75                   | 0.75     | 0.75     |                           |
| Canadian Dollar:                                 | \$ 31.8                | \$ 4.6   | \$ 36.4  | \$ (0.5)                  |
| Average contractual exchange rate <sup>(2)</sup> | 1.01                   | 1.03     | 1.02     |                           |
| British Pounds:                                  | \$ 46.5                | \$ 7.8   | \$ 54.3  | \$ (1.2)                  |
| Average contractual exchange rate <sup>(2)</sup> | 0.65                   | 0.64     | 0.64     |                           |

(1) Contract amounts and fair value amounts in millions of U.S. Dollars.

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

Although the majority of our transactions, assets and liabilities are denominated in U.S. Dollars, certain of our subsidiaries have foreign currency-denominated liabilities. There is a risk that currency fluctuations will have a negative effect on the value of our cash flows. We have not entered into any forward contracts to protect against the translation risk of our foreign currency-denominated liabilities. As at December 31, 2011, we had Euro-denominated term loans of 269.2 million Euros (\$348.9 million). We receive Euro-denominated revenue from certain of our time-charters. These Euro cash receipts generally are sufficient to pay the principal and interest payments on our Euro-denominated term loans. Consequently, we have not entered into any foreign currency forward contracts with respect to our Euro-denominated term loans, although there is no assurance that our exposure to fluctuations in the Euro will not increase in the future.

**Table of Contents****Interest Rate Risk**

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR or EURIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to repay our debt. We use interest rate swaps to reduce our exposure to market risk from changes in interest rates. Generally our approach is to hedge a substantial majority of floating-rate debt associated with our vessels that are operating on long-term fixed-rate contracts. We manage the rest of our debt based on our outlook for interest rates and other factors.

In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The table below provides information about our financial instruments at December 31, 2011, which are sensitive to changes in interest rates, including our debt and capital lease obligations and interest rate swaps. For long-term debt and capital lease obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

|                                                 | Expected Maturity Date                            |         |       |       |       |            |         | Fair Value Asset / (Liability) | Rate <sup>(1)</sup> |
|-------------------------------------------------|---------------------------------------------------|---------|-------|-------|-------|------------|---------|--------------------------------|---------------------|
|                                                 | 2012                                              | 2013    | 2014  | 2015  | 2016  | Thereafter | Total   |                                |                     |
|                                                 | (in millions of U.S. dollars, except percentages) |         |       |       |       |            |         |                                |                     |
| <b>Long-Term Debt:</b>                          |                                                   |         |       |       |       |            |         |                                |                     |
| Variable Rate (\$U.S.) <sup>(2)</sup>           | 343.2                                             | 1,005.2 | 950.8 | 282.3 | 225.9 | 1,452.3    | 4,259.3 | (3,837.5)                      | 1.8%                |
| Variable Rate (Euro) <sup>(3) (4)</sup>         | 13.5                                              | 14.5    | 15.6  | 16.7  | 17.9  | 270.7      | 348.9   | (312.7)                        | 2.7%                |
| Fixed-Rate (\$U.S.)                             | 44.7                                              | 44.7    | 44.7  | 44.7  | 44.7  | 612.7      | 836.2   | (922.0)                        | 6.9%                |
| Average Interest Rate                           | 5.2%                                              | 5.2%    | 5.2%  | 5.2%  | 5.2%  | 7.5%       | 6.9%    |                                |                     |
| <b>Capital Lease Obligations <sup>(5)</sup></b> |                                                   |         |       |       |       |            |         |                                |                     |
| Variable-Rate (\$U.S.) <sup>(6)</sup>           | 47.2                                              | 68.3    | 29.6  | 2.3   | 2.3   | 26.0       | 175.7   | (175.7)                        | 7.4%                |
| Average Interest Rate <sup>(7)</sup>            | 6.7%                                              | 9.1%    | 7.8%  | 4.4%  | 4.4%  | 4.4%       | 7.4%    |                                |                     |
| <b>Interest Rate Swaps:</b>                     |                                                   |         |       |       |       |            |         |                                |                     |
| Contract Amount (\$U.S.) <sup>(5) (8)</sup>     | 392.3                                             | 392.3   | 210.2 | 338.1 | 760.4 | 1,673.5    | 3,766.8 | (561.7)                        | 3.8%                |
| Average Fixed Pay Rate <sup>(2)</sup>           | 2.4%                                              | 2.3%    | 3.9%  | 4.0%  | 2.8%  | 4.9%       | 3.8%    |                                |                     |
| Contract Amount (Euro) <sup>(4)</sup>           | 13.5                                              | 14.5    | 15.6  | 16.7  | 17.9  | 270.7      | 348.9   | (25.8)                         | 3.1%                |
| Average Fixed Pay Rate <sup>(3)</sup>           | 3.1%                                              | 3.1%    | 3.1%  | 3.1%  | 3.1%  | 3.1%       | 3.1%    |                                |                     |

- (1) Rate refers to the weighted-average effective interest rate for our long-term debt and capital lease obligations, including the margin we pay on our floating-rate, which as of December 31, 2011, ranged from 0.45% to 3.25%. The average interest rate for our capital lease obligations is the weighted-average interest rate implicit in our lease obligations at the inception of the leases.
- (2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR. The average fixed pay rate for our interest rate swaps excludes the margin we pay on our floating-rate debt.
- (3) Interest payments on Euro-denominated debt and interest rate swaps are based on EURIBOR.
- (4) Euro-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of December 31, 2011.
- (5) Under the terms of the capital leases for the RasGas II LNG Carriers (see Item 18 Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash), we are required to have on deposit, subject to a variable rate of interest, an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the variable-rate leases. The deposits, which as at December 31, 2011, totalled \$476.1 million, and the lease obligations, which as at December 31, 2011, totalled \$471.4 million, have been swapped for fixed-rate deposits and fixed-rate obligations. Consequently, we are not subject to interest rate risk from these obligations and deposits and, therefore, the lease obligations, cash deposits and related interest rate swaps have been excluded from the table above. As at December 31, 2011, the contract amount, fair value and fixed interest rates of these interest rate swaps related to the RasGas II LNG Carriers capital lease obligations and restricted cash deposits were \$423.7 million and \$470.2 million, (\$119.9) million and \$159.6 million, and 4.9% and 4.8% respectively.

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- (6) The amount of capital lease obligations represents the present value of minimum lease payments together with our purchase obligation, as applicable (see Item 18 Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash).
- (7) The average interest rate is the weighted-average interest rate implicit in the capital lease obligations at the inception of the leases.
- (8) The average variable receive rate for our interest rate swaps is set monthly at the 1-month LIBOR or EURIBOR, quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.

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### **Commodity Price Risk**

From time to time we may use bunker fuel swap contracts relating to a portion of our bunker fuel expenditures. As at December 31, 2011 and 2010, we had no bunker fuel swap contract commitments.

### **Spot Tanker Market Rate Risk**

In order to reduce variability in revenues from fluctuations in certain spot tanker market rates, from time to time we have entered into forward freight agreements (or *FFAs*). *FFAs* involve contracts to move a theoretical volume of freight at fixed-rates, thus attempting to reduce our exposure to spot tanker market rates. As at December 31, 2011 and 2010, we had no *FFAs* commitments.

### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **Item 15. Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (or the *Exchange Act*)) that are designed to ensure that (i) information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2011.

During 2011, there were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining for us adequate internal controls over financial reporting.

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Our internal controls are designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal controls over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and the directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

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On November 30, 2011, we acquired the *Hummingbird* and began consolidating its operations. Please read Item 18. Financial Statements: Note 3 Acquisition of FPSO Units and Investment in Sevan Marine ASA. Our management has excluded from its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011, *Hummingbird*'s internal control over financial reporting associated with net assets of \$142.8 million and total revenues of \$8.4 million included in our consolidated financial statements as of and for the year ended December 31, 2011. Effective November 30, 2011, we consolidated the accounts of the *Voyageur* pursuant to FASB ASC 810. Please read Item 18. Financial Statements: Note 3 Acquisition of FPSO Units and Investment in Sevan Marine ASA. Our management has excluded from its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011, *Voyageur*'s internal control over financial reporting associated with its related net assets of \$172.0 million and total revenues of \$1.3 million included in our consolidated financial statements as of and for the year ended December 31, 2011.

On November 30, 2011, Teekay Offshore acquired the *Piranema* and began consolidating its operations. Please read Item 18. Financial Statements: Note 3 Acquisition of FPSO Units and Investment in Sevan Marine ASA. Our management has excluded from its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011, *Piranema*'s internal control over financial reporting associated with its related net assets of \$166.5 million and total revenues of \$4.8 million included in our consolidated financial statements as of and for the year ended December 31, 2011.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. However, based on the evaluation, management believes that we maintained effective internal control over financial reporting as of December 31, 2011.

Our independent auditors, KPMG LLP, a registered public accounting firm has audited the accompanying consolidated financial statements and our internal control over financial reporting. Their attestation report on the effectiveness of our internal control over financial reporting can be found on page F-2 of this Annual Report.

**Item 16A. Audit Committee Financial Expert**

The Board has determined that director and Chair of the Audit Committee, Eileen A. Mercier, qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

**Item 16B. Code of Ethics**

We have adopted Standards for Business Conduct that apply to all employees and directors. This document is available under Business About Teekay Corporate Governance from the Home Page of our website ([www.teekay.com](http://www.teekay.com)). We also intend to disclose under Business About Teekay Corporate Governance in the About Teekay section of our web site any waivers to or amendments of our Standards of Business Conduct for the benefit of our directors and executive officers.

**Item 16C. Principal Accountant Fees and Services**

Our principal accountant for 2011 was KPMG LLP, Chartered Accountants, and our principal accountant for 2010 was Ernst & Young LLP, Chartered Accountants. The following table shows the fees Teekay and our subsidiaries paid or accrued for audit and other services provided by KPMG LLP and Ernst & Young LLP for 2011 and 2010.

| Fees (in thousands of U.S. Dollars) | 2011     | 2010     |
|-------------------------------------|----------|----------|
| Audit Fees <sup>(1)</sup>           | \$ 3,806 | \$ 5,802 |
| Audit-Related Fees <sup>(2)</sup>   | 293      | 477      |
| Tax Fees <sup>(3)</sup>             | 73       | 121      |
| All Other Fees <sup>(4)</sup>       | 6        | 11       |
| Total <sup>(5)</sup>                | \$ 4,178 | \$ 6,411 |

- (1) Audit fees represent fees for professional services provided in connection with the audits of our consolidated financial statements, reviews of our quarterly consolidated financial statements and audit services provided in connection with other statutory or regulatory filings for Teekay or our subsidiaries including professional services in connection with the review of our regulatory filings for public offerings of our subsidiaries. Audit fees for 2011 and 2010 include approximately \$688 thousand and \$996 thousand, respectively, of fees paid to KPMG LLP and Ernst & Young LLP by Teekay LNG that were approved by the Audit Committee of the Board of Directors of the general partner of Teekay LNG. Audit fees for 2011 and 2010 include approximately \$1,131 thousand and \$1,380 thousand, respectively, of fees paid to KPMG LLP and Ernst & Young LLP by our subsidiary Teekay Offshore that were approved by the Audit Committee of the Board of Directors of the general partner of Teekay Offshore. Audit fees for 2011 and 2010 include approximately \$477 thousand and \$535 thousand, respectively, of fees paid to KPMG LLP and Ernst & Young LLP by our subsidiary Teekay Tankers that were approved by the Audit Committee of the Board of Directors of Teekay Tankers.
- (2) Audit-related fees consisted primarily of accounting consultations, employee benefit plan audits, services related to business acquisitions, divestitures and other attestation services.
- (3) For 2011 and 2010, tax fees principally included international tax planning fees, corporate tax compliance fees and personal and expatriate tax services fees.
- (4) All other fees principally include subscription fees to an internet database of accounting information.
- (5) Total fees incurred with respect to KPMG LLP were approximately \$2,938 thousand and nil for 2011 and 2010, respectively. Total fees incurred with respect to Ernst & Young LLP were approximately \$1,240 thousand and \$6,411 thousand for 2011 and 2010, respectively.

The Audit Committee has the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee separately pre-approved all engagements and fees paid to our principal accountants in 2011.

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### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In October 2008, we announced that our Board of Directors had authorized the repurchase of up to \$200 million of shares of our common stock. As at December 31, 2011, Teekay had repurchased 5.2 million shares of Common Stock for \$162.3 million pursuant to such authorizations. The total remaining share repurchase authorization at December 31, 2011, was \$37.7 million.

### **Item 16F. Change in Registrant's Certifying Accountant**

Ernst & Young LLP was previously the principal accountants for Teekay. In 2011, Teekay decided to seek proposals from several independent accounting firms, including Ernst & Young LLP, to provide audit and other principal accounting services. On June 1, 2011, we engaged KPMG LLP as our principal accountants. The decision to change accountants was approved by the Audit Committee and our Board of Directors.

During the two fiscal years ended December 31, 2010, and the subsequent interim period through March 31, 2011, there were no: (1) disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events.

The audit reports of Ernst & Young LLP on the consolidated financial statements of Teekay as of and for the years ended December 31, 2009 and 2010 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

### **Item 16G. Corporate Governance**

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies:

In lieu of obtaining shareholder approval prior to the adoption of equity compensation plans, the board of directors approves such adoption, as permitted by New York Stock Exchange rules for foreign private issuers. There are no other significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the listing requirements of the New York Stock Exchange.

### **Item 16H. Mine Safety Disclosure**

Not applicable.

## **PART III**

### **Item 17. Financial Statements**

Not applicable.

### **Item 18. Financial Statements**

The following consolidated financial statements and schedule, together with the related reports of KPMG LLP, Independent Registered Public Accounting Firm thereon, and Ernst & Young LLP, Independent Registered Public Accounting Firm thereon, are filed as part of this Annual Report:

|                                                                                                                                                                                                                                                      |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
|                                                                                                                                                                                                                                                      | <b>Page</b> |
| <u>Reports of Independent Registered Public Accounting Firms</u>                                                                                                                                                                                     | F-1 to F-3  |
| <b>Consolidated Financial Statements</b>                                                                                                                                                                                                             |             |
| <u>Consolidated Statements of Income (Loss)</u>                                                                                                                                                                                                      | F-4         |
| <u>Consolidated Statements of Comprehensive Income (Loss)</u>                                                                                                                                                                                        | F-5         |
| <u>Consolidated Balance Sheets</u>                                                                                                                                                                                                                   | F-6         |
| <u>Consolidated Statements of Cash Flows</u>                                                                                                                                                                                                         | F-7         |
| <u>Consolidated Statements of Changes in Total Equity</u>                                                                                                                                                                                            | F-8         |
| <u>Notes to the Consolidated Financial Statements</u>                                                                                                                                                                                                | F-9         |
| All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Consolidated Financial Statements and therefore have been omitted. |             |

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### **Item 19. Exhibits**

The following exhibits are filed as part of this Annual Report:

- 1.1 Amended and Restated Articles of Incorporation of Teekay Corporation. <sup>(15)</sup>
- 1.2 Articles of Amendment of Articles of Incorporation of Teekay Corporation. <sup>(15)</sup>
- 1.3 Amended and Restated Bylaws of Teekay Corporation. <sup>(1)</sup>
- 2.1 Registration Rights Agreement among Teekay Corporation, Tradewinds Trust Co. Ltd., as Trustee for the Cirrus Trust, and Worldwide Trust Services Ltd., as Trustee for the JTK Trust. <sup>(2)</sup>
- 2.2 Specimen of Teekay Corporation Common Stock Certificate. <sup>(2)</sup>
- 2.3 Indenture dated June 22, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida (formerly U.S. Trust Company of Texas, N.A.) for U.S. \$250,000,000 8.875% Senior Notes due 2011. <sup>(3)</sup>
- 2.4 First Supplemental Indenture dated as of December 6, 2001 among Teekay Corporation and The Bank of New York Trust Company of Florida, N.A. for U.S. \$100,000,000 8.875% Senior Notes due 2011. <sup>(4)</sup>
- 2.5 Exchange and Registration Rights Agreement dated June 22, 2001 among Teekay Corporation and Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc., Deutsche Banc Alex. Brown Inc. and Scotia Capital (USA) Inc. <sup>(3)</sup>
- 2.6 Exchange and Registration Rights Agreement dated December 6, 2001 between Teekay Corporation and Goldman, Sachs & Co. <sup>(4)</sup>
- 2.7 Specimen of Teekay Corporation's 8.875% Senior Notes due 2011. <sup>(3)</sup>
- 2.8 Indenture dated as of January 27, 2010 among Teekay Corporation and The Bank of New York Mellon Trust Company, N.A. for US \$450,000,000 8.5% Senior Notes due 2020. <sup>(16)</sup>
- 4.1 1995 Stock Option Plan. <sup>(2)</sup>
- 4.2 Amendment to 1995 Stock Option Plan. <sup>(5)</sup>
- 4.3 Amended 1995 Stock Option Plan. <sup>(6)</sup>
- 4.4 Amended 2003 Equity Incentive Plan.
- 4.5 Annual Executive Bonus Plan. <sup>(7)</sup>
- 4.6 Vision Incentive Plan. <sup>(8)</sup>
- 4.7 Form of Indemnification Agreement between Teekay and each of its officers and directors. <sup>(2)</sup>
- 4.8 Amended Rights Agreement, dated as of July 2, 2010 between Teekay Corporation and The Bank of New York, as Rights Agent. <sup>(9)</sup>
- 4.9 Agreement dated June 26, 2003 for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks. <sup>(10)</sup>
- 4.10 Agreement dated September 1, 2004 for a U.S. \$500,000,000 Credit Facility Agreement to be made available to Teekay Nordic Holdings Incorporated by Nordea Bank Finland PLC. <sup>(7)</sup>
- 4.11 Supplemental Agreement dated September 30, 2004 to Agreement dated June 26, 2003, for a U.S. \$550,000,000 Secured Reducing Revolving Loan Facility among Norsk Teekay Holdings Ltd., Den Norske Bank ASA and various other banks. <sup>(7)</sup>
- 4.12 Agreement dated May 26, 2005 for a U.S. \$550,000,000 Credit Facility Agreement to be made available to Avalon Spirit LLC et al by Nordea Bank Finland PLC and others. <sup>(8)</sup>
- 4.13 Agreement dated October 2, 2006, for a U.S. \$940,000,000 Secured Reducing Revolving Loan Facility among Teekay Offshore Operating L.P., Den Norske Bank ASA and various other banks. <sup>(11)</sup>
- 4.14

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Agreement dated August 23, 2006, for a U.S. \$330,000,000 Secured Reducing Revolving Loan Facility among Teekay LNG Partners L.P., ING Bank N.V. and various other banks. <sup>(11)</sup>

- 4.15 Agreement, dated November 28, 2007 for a U.S. \$845,000,000 Secured Reducing Revolving Loan Facility among Teekay Corporation, Teekay Tankers Ltd., Nordea Bank Finland PLC and various other banks. <sup>(12)</sup>
- 4.16 Agreement dated May 16, 2007 for a U.S. \$700,000,000 Credit Facility Agreement to be made available to Teekay Acquisition Holdings LLC et al by HSH NordBank AG and others. <sup>(13)</sup>
- 4.17 Amended and Restated Omnibus Agreement <sup>(14)</sup>
- 8.1 List of Significant Subsidiaries.
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Executive Officer.
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Teekay's Chief Financial Officer.
- 13.1 Teekay Corporation Certification of Peter Evensen, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Teekay Corporation Certification of Vincent Lok, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 23.1 Consent of KPMG LLP, as independent registered public accounting firm.
- 23.2 Consent of Ernst & Young LLP, as former independent registered public accounting firm.

- (1) Previously filed as an exhibit to the Company's Report on Form 6-K (File No.1-12874), filed with the SEC on August 31, 2011, and hereby incorporated by reference to such Report.
- (2) Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Registration No. 33-7573-4), filed with the SEC on July 14, 1995, and hereby incorporated by reference to such Registration Statement.
- (3) Previously filed as an exhibit to the Company's Registration Statement on Form F-4 (Registration No. 333-64928), filed with the SEC on July 11, 2001, and hereby incorporated by reference to such Registration Statement.
- (4) Previously filed as an exhibit to the Company's Registration Statement on Form F-4 (Registration No. 333-76922), filed with the SEC on January 17, 2002, and hereby incorporated by reference to such Registration Statement.
- (5) Previously filed as an exhibit to the Company's Form 6-K (File No.1-12874), filed with the SEC on May 2, 2000, and hereby incorporated by reference to such Report.

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- (6) Previously filed as an exhibit to the Company's Annual Report on Form 20-F (File No.1-12874), filed with the SEC on April 2, 2001, and hereby incorporated by reference to such Annual Report.
- (7) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 8, 2005, and hereby incorporated by reference to such Report.
- (8) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 10, 2006, and hereby incorporated by reference to such Report.
- (9) Previously filed as an exhibit to the Company's Form 8-A/A (File No.1-12874), filed with the SEC on July 2, 2010, and hereby incorporated by reference to such Annual Report.
- (10) Previously filed as an exhibit to the Company's Report on Form 6-K (File No. 1-12874), filed with the SEC on August 14, 2003, and hereby incorporated by reference to such Report.
- (11) Previously filed as an exhibit to the Company's Report on Form 6-K (File No. 1-12874), filed with the SEC on December 21, 2006, and hereby incorporated by reference to such Report.
- (12) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 11, 2008, and hereby incorporated by reference to such Report.
- (13) Previously filed as an exhibit to the Company's Schedule TO T/A, filed with the SEC on May 18, 2007, and hereby incorporated by reference to such schedule.
- (14) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 19, 2007, and hereby incorporated by reference to such Report.
- (15) Previously filed as an exhibit to the Company's Report on Form 20-F (File No. 1-12874), filed with the SEC on April 7, 2009, and hereby incorporated by reference to such Report.
- (16) Previously filed as an exhibit to the Company's Report on Form 6-K (File No. 1-12874), filed with the SEC on January 27, 2010, and hereby incorporated by reference to such Report.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TEEKAY CORPORATION

By: /s/ Vincent Lok  
Vincent Lok

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Dated: April 25, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

**TEEKAY CORPORATION**

We have audited the accompanying consolidated balance sheet of Teekay Corporation and subsidiaries (the Company) as of December 31, 2011, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows and changes in total equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Teekay Corporation as of December 31, 2010 and for the years ended December 31, 2010 and 2009, were audited by other auditors whose report thereon dated April 13, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 25, 2012, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

April 25, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

**TEEKAY CORPORATION**

We have audited Teekay Corporation and subsidiaries (the Company) s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting in the accompanying Form 20-F. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired the FPSO Units and the Investment in Sevan Marine ASA (note 3) during 2011, and management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, these acquired businesses internal control over financial reporting associated with net assets of \$481.3 million and total revenues of \$14.5 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2011. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of these acquired businesses.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as at December 31, 2011, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows and changes in total equity for the year then ended, and our report dated April 25, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

April 25, 2012



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

**TEEKAY CORPORATION**

We have audited the accompanying consolidated balance sheet of **Teekay Corporation and subsidiaries** (the *Company*) as of December 31, 2010, and the related consolidated statements of income (loss), changes in total equity, cash flows and comprehensive income (loss) for each of the two years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teekay Corporation and subsidiaries as at December 31, 2010, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Vancouver, Canada,

/s/ ERNST & YOUNG LLP

April 13, 2011

Chartered Accountants

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES (NOTE 1)****CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

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

|                                                                                                 | Year ended<br>December 31,<br>2011<br>\$ | Year ended<br>December 31,<br>2010<br>\$ | Year ended<br>December 31,<br>2009<br>\$ |
|-------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| <b>REVENUES</b>                                                                                 | 1,953,782                                | 2,095,753                                | 2,181,605                                |
| <b>OPERATING EXPENSES</b>                                                                       |                                          |                                          |                                          |
| Voyage expenses                                                                                 | 176,614                                  | 245,097                                  | 294,091                                  |
| Vessel operating expenses ( <i>note 15</i> )                                                    | 677,687                                  | 630,547                                  | 615,764                                  |
| Time-charter hire expense                                                                       | 214,179                                  | 285,992                                  | 438,877                                  |
| Depreciation and amortization                                                                   | 428,608                                  | 440,705                                  | 437,176                                  |
| General and administrative ( <i>notes 12 and 15</i> )                                           | 223,616                                  | 193,743                                  | 198,836                                  |
| Asset impairments and net loss on sale of vessels and equipment ( <i>notes 6 and 18</i> )       | 151,059                                  | 49,150                                   | 12,629                                   |
| Bargain purchase gain ( <i>note 3</i> )                                                         | (58,235)                                 |                                          |                                          |
| Goodwill impairment charge ( <i>note 6</i> )                                                    | 36,652                                   |                                          |                                          |
| Restructuring charges ( <i>note 20</i> )                                                        | 5,490                                    | 16,396                                   | 14,444                                   |
| <b>Total operating expenses</b>                                                                 | 1,855,670                                | 1,861,630                                | 2,011,817                                |
| <b>Income from vessel operations</b>                                                            | 98,112                                   | 234,123                                  | 169,788                                  |
| <b>OTHER ITEMS</b>                                                                              |                                          |                                          |                                          |
| Interest expense                                                                                | (137,604)                                | (136,107)                                | (141,448)                                |
| Interest income                                                                                 | 10,078                                   | 12,999                                   | 19,999                                   |
| Realized and unrealized (loss) gain on non-designated derivative instruments ( <i>note 15</i> ) | (342,722)                                | (299,598)                                | 140,046                                  |
| Equity (loss) income ( <i>notes 18b and 23</i> )                                                | (35,309)                                 | (11,257)                                 | 52,242                                   |
| Foreign exchange gain (loss) ( <i>notes 8 and 15</i> )                                          | 12,654                                   | 31,983                                   | (20,922)                                 |
| Loss on notes repurchase ( <i>note 8</i> )                                                      |                                          | (12,645)                                 | (566)                                    |
| Other income ( <i>note 14</i> )                                                                 | 12,360                                   | 7,527                                    | 13,527                                   |
| Net (loss) income before income taxes                                                           | (382,431)                                | (172,975)                                | 232,666                                  |
| Income tax (expense) recovery ( <i>note 21</i> )                                                | (4,290)                                  | 6,340                                    | (22,889)                                 |
| <b>Net (loss) income</b>                                                                        | (386,721)                                | (166,635)                                | 209,777                                  |
| Less: Net loss (income) attributable to non-controlling interests                               | 17,805                                   | (100,652)                                | (81,365)                                 |
| <b>Net (loss) income attributable to stockholders of Teekay Corporation</b>                     | (368,916)                                | (267,287)                                | 128,412                                  |
| <b>Per common share of Teekay Corporation (<i>note 19</i>)</b>                                  |                                          |                                          |                                          |
| Basic (loss) earnings attributable to stockholders of Teekay Corporation                        | (5.25)                                   | (3.67)                                   | 1.77                                     |
| Diluted (loss) earnings attributable to stockholders of Teekay Corporation                      | (5.25)                                   | (3.67)                                   | 1.76                                     |
| Cash dividends declared                                                                         | 1.2650                                   | 1.2650                                   | 1.2650                                   |
| <b>Weighted average number of common shares outstanding (<i>note 19</i>)</b>                    |                                          |                                          |                                          |
| Basic                                                                                           | 70,234,817                               | 72,862,617                               | 72,549,361                               |

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|         |            |            |            |
|---------|------------|------------|------------|
| Diluted | 70,234,817 | 72,862,617 | 73,058,831 |
|---------|------------|------------|------------|

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

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands of U.S. dollars)

|                                                                                       | <b>Year Ended<br/>December 31,<br/>2011<br/>\$</b> | <b>Year Ended<br/>December 31,<br/>2010<br/>\$</b> | <b>Year Ended<br/>December 31,<br/>2009<br/>\$</b> |
|---------------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
| <b>Net (loss) income</b>                                                              | (386,721)                                          | (166,635)                                          | 209,777                                            |
| <b>Other comprehensive (loss) income:</b>                                             |                                                    |                                                    |                                                    |
| Unrealized (loss) gain on marketable securities                                       | (4,357)                                            | 2,333                                              | 5,837                                              |
| Realized gain on marketable securities                                                | (3,372)                                            | (1,097)                                            |                                                    |
| Pension adjustments, net of taxes                                                     | (5,402)                                            | (7,245)                                            | 13,044                                             |
| Unrealized gain (loss) on qualifying cash flow hedging instruments                    | 2,019                                              | (3,559)                                            | 45,994                                             |
| Realized (gain) loss on qualifying cash flow hedging instruments                      | (5,566)                                            | 3,040                                              | 24,647                                             |
| <b>Other comprehensive (loss) income</b>                                              | (16,678)                                           | (6,528)                                            | 89,522                                             |
| <b>Comprehensive (loss) income</b>                                                    | (403,399)                                          | (173,163)                                          | 299,299                                            |
| Less: Comprehensive loss (income) attributable to non-controlling interests           | 18,751                                             | (100,761)                                          | (90,360)                                           |
| <b>Comprehensive (loss) income attributable to stockholders of Teekay Corporation</b> | (384,648)                                          | (273,924)                                          | 208,939                                            |

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES (NOTE 1)****CONSOLIDATED BALANCE SHEETS**

(in thousands of U.S. dollars)

|                                                                                                                        | As at<br>December 31,<br>2011<br>\$ | As at<br>December 31,<br>2010<br>\$ |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>ASSETS</b>                                                                                                          |                                     |                                     |
| <b>Current</b>                                                                                                         |                                     |                                     |
| Cash and cash equivalents ( <i>note 8</i> )                                                                            | 692,127                             | 779,748                             |
| Restricted cash ( <i>note 10</i> )                                                                                     | 4,370                               | 86,559                              |
| Accounts receivable, including non-trade of \$38,120 (2010 \$35,960) and related party balance of \$3,487 (2010 \$nil) | 353,659                             | 256,496                             |
| Vessels held for sale ( <i>notes 11 and 18</i> )                                                                       | 19,000                              |                                     |
| Net investment in direct financing leases ( <i>note 9</i> )                                                            | 23,171                              | 26,791                              |
| Prepaid expenses                                                                                                       | 93,045                              | 83,915                              |
| Current portion of derivative assets ( <i>note 15</i> )                                                                | 24,712                              | 27,215                              |
| Other assets                                                                                                           | 2,672                               | 2,616                               |
| <b>Total current assets</b>                                                                                            | <b>1,212,756</b>                    | <b>1,263,340</b>                    |
| Restricted cash non-current ( <i>note 10</i> )                                                                         | 495,784                             | 489,712                             |
| <b>Vessels and equipment (<i>note 8</i>)</b>                                                                           |                                     |                                     |
| At cost, less accumulated depreciation of \$2,375,604 (2010 \$1,997,411)                                               | 6,678,899                           | 5,692,812                           |
| Vessels under capital leases, at cost, less accumulated amortization of \$163,939 (2010 \$172,113 ) ( <i>note 10</i> ) | 681,554                             | 880,576                             |
| Advances on newbuilding contracts ( <i>note 16a</i> )                                                                  | 507,908                             | 197,987                             |
| <b>Total vessels and equipment</b>                                                                                     | <b>7,868,361</b>                    | <b>6,771,375</b>                    |
| Net investment in direct financing leases non-current ( <i>note 9</i> )                                                | 436,737                             | 460,725                             |
| Marketable securities                                                                                                  | 7,782                               | 21,380                              |
| Loans to equity accounted investees and joint venture partners, bearing interest between 4.4% to 8.0%                  | 85,248                              | 32,750                              |
| Derivative assets ( <i>note 15</i> )                                                                                   | 140,557                             | 55,983                              |
| Deferred income tax asset ( <i>note 21</i> )                                                                           | 22,316                              | 17,001                              |
| Equity accounted investments ( <i>notes 16b, 18b and 23</i> )                                                          | 252,637                             | 207,633                             |
| Investment in term loans ( <i>note 4</i> )                                                                             | 186,844                             | 116,014                             |
| Other non-current assets                                                                                               | 119,093                             | 117,351                             |
| Intangible assets net ( <i>note 6</i> )                                                                                | 136,742                             | 155,893                             |
| Goodwill ( <i>note 6</i> )                                                                                             | 166,539                             | 203,191                             |
| <b>Total assets</b>                                                                                                    | <b>11,131,396</b>                   | <b>9,912,348</b>                    |
| <b>LIABILITIES AND EQUITY</b>                                                                                          |                                     |                                     |
| <b>Current</b>                                                                                                         |                                     |                                     |
| Accounts payable                                                                                                       | 97,084                              | 46,240                              |
| Accrued liabilities ( <i>note 7</i> )                                                                                  | 394,586                             | 377,119                             |
| Current portion of derivative liabilities ( <i>note 15</i> )                                                           | 117,337                             | 144,111                             |
| Current portion of long-term debt ( <i>note 8</i> )                                                                    | 401,376                             | 276,508                             |
| Current obligation under capital leases ( <i>note 10</i> )                                                             | 47,203                              | 267,382                             |
| Current portion of in-process revenue contracts ( <i>note 6</i> )                                                      | 73,344                              | 43,469                              |

|                                                                                                                                                                                                       |            |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|
| Loans from equity accounted investees                                                                                                                                                                 |            | 59        |
| <b>Total current liabilities</b>                                                                                                                                                                      | 1,130,930  | 1,154,888 |
| Long-term debt, including amounts due to joint venture partners of \$13,282 (2010 \$13,282) (note 8)                                                                                                  | 5,042,997  | 4,155,556 |
| Long-term obligation under capital leases (note 10)                                                                                                                                                   | 599,844    | 470,752   |
| Derivative liabilities (note 15)                                                                                                                                                                      | 569,542    | 387,124   |
| Asset retirement obligation                                                                                                                                                                           | 21,150     | 23,018    |
| In-process revenue contracts (note 6)                                                                                                                                                                 | 235,296    | 152,637   |
| Other long-term liabilities (note 21)                                                                                                                                                                 | 199,836    | 194,640   |
| <b>Total liabilities</b>                                                                                                                                                                              | 7,799,595  | 6,538,615 |
| Commitments and contingencies (notes 9, 10, 15 and 16)                                                                                                                                                |            |           |
| <b>Redeemable non-controlling interest (note 16e)</b>                                                                                                                                                 | 38,307     | 41,725    |
| <b>Equity</b>                                                                                                                                                                                         |            |           |
| Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 68,732,341 shares outstanding (2010 72,012,843); 74,391,691 shares issued (2010 73,749,793)) (note 12) | 660,917    | 672,684   |
| Retained earnings                                                                                                                                                                                     | 792,682    | 1,313,934 |
| Non-controlling interest                                                                                                                                                                              | 1,863,798  | 1,353,561 |
| Accumulated other comprehensive loss (note 1)                                                                                                                                                         | (23,903)   | (8,171)   |
| <b>Total equity</b>                                                                                                                                                                                   | 3,293,494  | 3,332,008 |
| <b>Total liabilities and equity</b>                                                                                                                                                                   | 11,131,396 | 9,912,348 |

Consolidation of variable interest entities (note 3)

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

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**TEEKAY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. dollars)

|                                                                            | Year Ended<br>December 31,<br>2011<br>\$ | Year Ended<br>December 31,<br>2010<br>\$ | Year Ended<br>December 31,<br>2009<br>\$ |
|----------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Cash and cash equivalents provided by (used for)                           |                                          |                                          |                                          |
| <b>OPERATING ACTIVITIES</b>                                                |                                          |                                          |                                          |
| Net (loss) income                                                          | (386,721)                                | (166,635)                                | 209,777                                  |
| Non-cash items:                                                            |                                          |                                          |                                          |
| Depreciation and amortization                                              | 428,608                                  | 440,705                                  | 437,176                                  |
| Amortization of in-process revenue contracts (note 6)                      | (46,436)                                 | (48,254)                                 | (75,977)                                 |
| Gain on sale of marketable securities                                      | (2,906)                                  | (1,805)                                  |                                          |
| Gain on sale of vessels and equipment                                      | (4,861)                                  | (2,012)                                  | (27,683)                                 |
| Write-down of intangibles and other                                        |                                          | 31,730                                   | 16,105                                   |
| Write-down for impairment of goodwill                                      | 36,652                                   |                                          |                                          |
| Write-down of equity accounted investments (note 18b)                      | 19,411                                   |                                          |                                          |
| Write-down of vessels and equipment                                        | 155,920                                  | 19,432                                   | 24,221                                   |
| Bargain purchase gain (note 3)                                             | (58,235)                                 |                                          |                                          |
| Loss on repurchase of notes                                                |                                          | 12,645                                   | 566                                      |
| Equity loss (income), net of dividends received                            | 31,376                                   | 11,257                                   | (49,299)                                 |
| Income tax expense(recovery)                                               | 4,290                                    | (6,340)                                  | 22,889                                   |
| Employee stock option compensation                                         | 16,262                                   | 15,264                                   | 11,255                                   |
| Unrealized foreign exchange (gain) loss                                    | (11,614)                                 | (21,427)                                 | 16,605                                   |
| Unrealized loss (gain) on derivative instruments                           | 70,822                                   | 140,187                                  | (293,174)                                |
| Other                                                                      | (5,408)                                  | (929)                                    | 5,140                                    |
| Change in operating assets and liabilities (note 17a)                      | (84,347)                                 | 45,415                                   | 148,655                                  |
| Expenditures for dry docking                                               | (55,620)                                 | (57,483)                                 | (78,005)                                 |
| <b>Net operating cash flow</b>                                             | <b>107,193</b>                           | <b>411,750</b>                           | <b>368,251</b>                           |
| <b>FINANCING ACTIVITIES</b>                                                |                                          |                                          |                                          |
| Proceeds from issuance of long-term debt (note 8)                          | 2,114,879                                | 1,769,742                                | 1,194,037                                |
| Debt issuance costs                                                        | (10,634)                                 | (14,471)                                 | (11,745)                                 |
| Scheduled repayments of long-term debt                                     | (449,640)                                | (210,025)                                | (156,315)                                |
| Prepayments of long-term debt                                              | (881,207)                                | (1,536,587)                              | (1,583,852)                              |
| Repayments of capital lease obligations                                    | (89,145)                                 | (38,958)                                 | (37,248)                                 |
| Proceeds from loans to equity accounted investees                          |                                          | 1,182                                    | 649                                      |
| Repayment of loans from equity accounted investees                         | (59)                                     | (1,235)                                  | (24,140)                                 |
| Decrease in restricted cash (note 10)                                      | 73,105                                   | 30,291                                   | 38,953                                   |
| Net proceeds from issuance of Teekay LNG Partners L.P. units (note 5)      | 334,101                                  | 50,000                                   | 158,996                                  |
| Net proceeds from issuance of Teekay Offshore Partners L.P. units (note 5) | 189,722                                  | 392,944                                  | 102,009                                  |
| Net proceeds from issuance of Teekay Tankers Ltd. shares (note 5)          | 107,234                                  | 202,698                                  | 65,556                                   |
| Issuance of Common Stock upon exercise of stock options                    | 5,906                                    | 5,735                                    | 2,007                                    |
| Repurchase of Common Stock                                                 | (122,195)                                | (40,111)                                 |                                          |
| Distribution paid from subsidiaries to non-controlling interests           | (201,942)                                | (159,808)                                | (109,942)                                |
| Cash dividends paid                                                        | (93,480)                                 | (92,695)                                 | (91,747)                                 |
| <b>Net financing cash flow</b>                                             | <b>976,645</b>                           | <b>358,702</b>                           | <b>(452,782)</b>                         |

**INVESTING ACTIVITIES**

|                                                               |           |           |           |
|---------------------------------------------------------------|-----------|-----------|-----------|
| Expenditures for vessels and equipment                        | (755,045) | (343,091) | (495,214) |
| Proceeds from sale of vessels and equipment                   | 33,424    | 70,958    | 219,834   |
| Proceeds from sale of marketable securities                   | 8,774     | 565       |           |
| Acquisition, net of cash acquired of \$50,230 <i>(note 3)</i> | (322,500) |           |           |
| Investment in term loans <i>(note 4)</i>                      | (70,000)  | (115,575) |           |
| Investment in equity accounted investees <i>(note 23)</i>     | (38,496)  | (45,480)  | (7,426)   |
| Advances to equity accounted investees                        | (55,156)  | (5,447)   | (1,369)   |
| Investment in direct financing lease assets                   |           | (886)     | (25,526)  |
| Direct financing lease payments received                      | 27,608    | 25,782    | 1,084     |
| Other investing activities                                    | (68)      | (40)      | 1,493     |

|                                |             |           |           |
|--------------------------------|-------------|-----------|-----------|
| <b>Net investing cash flow</b> | (1,171,459) | (413,214) | (307,124) |
|--------------------------------|-------------|-----------|-----------|

|                                                         |          |         |           |
|---------------------------------------------------------|----------|---------|-----------|
| <b>(Decrease) increase in cash and cash equivalents</b> | (87,621) | 357,238 | (391,655) |
|---------------------------------------------------------|----------|---------|-----------|

|                                                  |         |         |         |
|--------------------------------------------------|---------|---------|---------|
| Cash and cash equivalents, beginning of the year | 779,748 | 422,510 | 814,165 |
|--------------------------------------------------|---------|---------|---------|

|                                                   |         |         |         |
|---------------------------------------------------|---------|---------|---------|
| <b>Cash and cash equivalents, end of the year</b> | 692,127 | 779,748 | 422,510 |
|---------------------------------------------------|---------|---------|---------|

Supplemental cash flow information *(note 17)*

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

|                                                                                                                          | Thousands             |                                                               | TOTAL EQUITY               |                                                              |                                   |             |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------------------------------------------|----------------------------|--------------------------------------------------------------|-----------------------------------|-------------|
|                                                                                                                          | of<br>Shares          |                                                               |                            |                                                              |                                   |             |
|                                                                                                                          | of<br>Common<br>Stock | Common<br>Stock and<br>Additional<br>Paid-in<br>Capital<br>\$ | Retained<br>Earnings<br>\$ | Accumulated Other<br>Comprehensive<br>Income<br>(Loss)<br>\$ | Non-controlling<br>Interest<br>\$ | Total<br>\$ |
|                                                                                                                          | Outstanding<br>#      |                                                               |                            |                                                              |                                   |             |
| Balance as at December 31, 2008                                                                                          | 72,512                | 642,911                                                       | 1,507,617                  | (82,061)                                                     | 583,938                           | 2,652,405   |
| Net income                                                                                                               |                       |                                                               | 128,412                    |                                                              | 81,365                            | 209,777     |
| Other comprehensive income (loss)                                                                                        |                       |                                                               |                            | 80,527                                                       | 8,995                             | 89,522      |
| Dividends declared                                                                                                       |                       |                                                               | (91,767)                   |                                                              | (109,942)                         | (201,709)   |
| Reinvested dividends                                                                                                     | 2                     | 20                                                            |                            |                                                              |                                   | 20          |
| Exercise of stock options                                                                                                | 180                   | 2,007                                                         |                            |                                                              |                                   | 2,007       |
| Employee stock option compensation (note 12)                                                                             |                       | 11,255                                                        |                            |                                                              |                                   | 11,255      |
| Dilution gains on public offerings of Teekay<br>LNG, Teekay Offshore and Teekay Tankers (note<br>5)                      |                       |                                                               | 41,169                     |                                                              |                                   | 41,169      |
| Addition of non-controlling interest from unit and<br>share issuances of subsidiaries and other                          |                       |                                                               |                            |                                                              | 291,224                           | 291,224     |
| Balance as at December 31, 2009                                                                                          | 72,694                | 656,193                                                       | 1,585,431                  | (1,534)                                                      | 855,580                           | 3,095,670   |
| Net (loss) income                                                                                                        |                       |                                                               | (267,287)                  |                                                              | 99,854                            | (167,433)   |
| Other comprehensive income (loss)                                                                                        |                       |                                                               |                            | (6,637)                                                      | 109                               | (6,528)     |
| Dividends declared                                                                                                       |                       |                                                               | (92,736)                   |                                                              | (159,808)                         | (252,544)   |
| Reinvested dividends                                                                                                     | 2                     | 41                                                            |                            |                                                              |                                   | 41          |
| Exercise of stock options and other                                                                                      | 555                   | 5,735                                                         |                            |                                                              |                                   | 5,735       |
| Repurchase of Common Stock (note 12)                                                                                     | (1,238)               | (10,610)                                                      | (29,501)                   |                                                              |                                   | (40,111)    |
| Employee stock option compensation and other<br>(note 12)                                                                |                       | 21,325                                                        |                            |                                                              |                                   | 21,325      |
| Dilution gains on public offerings of Teekay<br>Offshore and Teekay Tankers and unit issuances<br>of Teekay LNG (note 5) |                       |                                                               | 123,203                    |                                                              |                                   | 123,203     |
| Dilution loss on initiation of majority owned<br>subsidiary (note 16e)                                                   |                       |                                                               | (5,176)                    |                                                              | (2,256)                           | (7,432)     |
| Addition of non-controlling interest from share<br>and unit issuances of subsidiaries and other                          |                       |                                                               |                            |                                                              | 560,082                           | 560,082     |
| Balance as at December 31, 2010                                                                                          | 72,013                | 672,684                                                       | 1,313,934                  | (8,171)                                                      | 1,353,561                         | 3,332,008   |
| Net loss                                                                                                                 |                       |                                                               | (368,916)                  |                                                              | (24,406)                          | (393,322)   |

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|                                                                                                                    |               |                |                |                 |                  |                  |
|--------------------------------------------------------------------------------------------------------------------|---------------|----------------|----------------|-----------------|------------------|------------------|
| Other comprehensive income (loss)                                                                                  |               |                |                | (15,732)        | (946)            | (16,678)         |
| Dividends declared                                                                                                 |               |                | (93,489)       |                 | (201,942)        | (295,431)        |
| Reinvested dividends                                                                                               | 1             | 9              |                |                 |                  | 9                |
| Exercise of stock options and other                                                                                | 641           | 5,906          |                |                 |                  | 5,906            |
| Repurchase of Common Stock (note 12)                                                                               | (3,923)       | (33,944)       | (88,251)       |                 |                  | (122,195)        |
| Employee stock option compensation and other (note 12)                                                             |               | 16,262         |                |                 |                  | 16,262           |
| Dilution gains on public offerings of Teekay LNG and Teekay Tankers and unit issuances of Teekay Offshore (note 5) |               |                | 124,247        |                 |                  | 124,247          |
| Sale of 49% interest of OPCO to Teekay Offshore (note 5)                                                           |               |                | (94,843)       |                 | 94,843           |                  |
| Acquisition of Voyageur FPSO unit (note 3)                                                                         |               |                |                |                 | 144,600          | 144,600          |
| Addition of non-controlling interest from share and unit issuances of subsidiaries and other                       |               |                |                |                 | 498,088          | 498,088          |
| <b>Balance as at December 31, 2011</b>                                                                             | <b>68,732</b> | <b>660,917</b> | <b>792,682</b> | <b>(23,903)</b> | <b>1,863,798</b> | <b>3,293,494</b> |

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

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### **TEEKAY CORPORATION AND SUBSIDIARIES**

#### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

#### **1. Summary of Significant Accounting Policies**

##### **Basis of presentation**

The consolidated financial statements have been prepared in conformity with U.S. 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*). 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 \$26.9 million and \$9.6 million for the years ended December 31, 2010 and 2009, respectively, from time-charter hire expense to revenues, and the reclassification of certain crew training expenses of \$13.6 million for the year ended December 31, 2009 from general and administrative expenses to vessel operating expenses 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.

##### **Reporting currency**

The consolidated financial statements are stated in U.S. Dollars. The functional currency of the Company is the U.S. Dollar because the Company operates in the international shipping market, which typically utilizes the U.S. Dollar as the functional currency. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income (loss).

##### **Operating revenues and expenses**

The Company recognizes revenues from time-charters and bareboat charters daily over the term of the charter as the applicable vessel operates under the charter. The Company does not recognize revenue during days that the vessel is off hire. When the time-charter contains a profit-sharing agreement, the Company recognizes the profit-sharing or contingent revenue only after meeting the profit sharing or other contingent threshold. All revenues from voyage charters are recognized on a percentage of completion method. The Company uses a discharge-to-discharge basis in determining percentage of completion for all spot voyages and voyages servicing contracts of affreightment, whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. Shuttle tanker voyages servicing contracts of affreightment with offshore oil fields commence with tendering of notice of readiness at a field, within the agreed lifting range, and ends with tendering of notice of readiness at a field for the next lifting. Revenues from floating production, storage and off-take (or *FPSO*) service contracts are recognized as service is performed. Certain of the Company's FPSO units receive incentive-based revenue, which is recognized when earned by fulfillment of the applicable performance criteria. The consolidated balance sheets reflect the deferred portion of revenues and expenses, which will be earned in subsequent periods.

Revenues and voyage expenses of the Company's vessels operating in pool arrangements with unrelated parties are pooled with the revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on the time-charter-equivalent basis, are allocated to the pool participants according to an agreed formula. The Company accounts for the net allocation from the pool as revenues and amounts due from the pool are included in accounts receivable.

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Voyage expenses are all expenses unique to a particular voyage, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Voyage expenses and vessel operating expenses are recognized when incurred.

### **Cash and cash equivalents**

The Company classifies all highly liquid investments with a maturity date of three months or less at inception as cash equivalents.

### **Accounts receivable and allowance for doubtful accounts**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data. The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged off against the allowance when the Company believes that the receivable will not be recovered. There were no significant amounts recorded as allowance for doubtful accounts as at December 31, 2011, 2010, and 2009.

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

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

**Marketable securities**

The Company's investments in marketable securities are classified as available-for-sale securities and are carried at fair value. Net unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income (loss). Realized gains and losses on available-for-sale securities are computed based upon the historical cost of these securities applied using the weighted-average historical cost method.

The Company analyzes its available-for-sale securities for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment. The Company records an impairment charge through current-period earnings and adjusts the cost basis for such other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within a three-month period after the measurement date, unless there are mitigating factors that indicate an impairment charge through earnings may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until sale of the security.

**Vessels and equipment**

All pre-delivery costs incurred during the construction of newbuildings, including interest, supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Company to the standard required to properly service the Company's customers are capitalized.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for crude oil tankers, 20 to 30 years for FPSO units and 35 years for liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) carriers, commencing the date the vessel is delivered from the shipyard, or a shorter period if regulations prevent the Company from operating the vessels for 25 years or 35 years, respectively. Depreciation includes depreciation on all owned vessels and amortization of vessels accounted for as capital leases. Depreciation of vessels and equipment, excluding amortization of dry docking expenditures, for the years ended December 31, 2011, 2010 and 2009 aggregated \$356.0 million, \$355.5 million and \$362.3 million, respectively. Amortization of vessels accounted for as capital leases was \$34.7 million, \$33.5 million and \$31.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel that are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of expenditure is amortized over the estimated useful life of the modification. Expenditures covering recurring routine repairs and maintenance are expensed as incurred.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2011, 2010, and 2009, aggregated \$8.1 million, \$14.0 million and \$14.0 million, respectively.

Generally, the Company dry docks each vessel every two and a half to five years. The Company capitalizes a substantial portion of the costs incurred during dry docking and amortizes those costs on a straight-line basis over their estimated useful life, which typically is from the completion of a dry docking or intermediate survey to the estimated completion of the next dry docking. The Company includes in capitalized dry docking those costs incurred as part of the dry dock to meet classification and regulatory requirements. The Company expenses costs related to routine repairs and maintenance performed during dry docking, and for annual class survey costs on the Company's FPSO units.

Dry docking activity for the three years ended December 31, 2011, 2010, and 2009, is summarized as follows:

**Year ended December 31,**

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|                                      | 2011     | 2010     | 2009     |
|--------------------------------------|----------|----------|----------|
|                                      | \$       | \$       | \$       |
| Balance at the beginning of the year | 143,103  | 172,053  | 154,613  |
| Costs incurred for dry docking       | 60,484   | 57,156   | 79,482   |
| Dry dock amortization                | (74,600) | (86,106) | (62,042) |
| Balance at the end of the year       | 128,987  | 143,103  | 172,053  |

Vessels and equipment that are held and used are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. Estimated fair value is determined based on discounted cash flows or appraised values depending on the nature of the asset.

Gains on vessels sold and leased back under capital leases are deferred and amortized over the remaining term of the capital lease. Losses on vessels sold and leased back under capital leases are recognized immediately when the fair value of the vessel at the time of sale and lease-back is less than its book value. In such case, the Company would recognize a loss in the amount by which book value exceeds fair value.

## **Direct financing leases and other loan receivables**

The Company employs (i) two vessels on long-term time charters, (ii) a floating storage and off-take (or *FSO*) unit, and (iii) assembles, installs, operates and leases equipment that reduces volatile organic compound emissions (or *VOC Equipment*) during loading, transportation and storage of oil and oil products, all of which are accounted for as direct financing leases. The lease payments received by the Company under these lease arrangements are allocated between the net investments in the leases and revenues or other income using the effective interest method so as to produce a constant periodic rate of return over the lease terms.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

The Company's investments in loan receivables are recorded at cost. The premium paid over the outstanding principal amount, if any, is amortized to interest income over the term of the loan using the effective interest rate method. The Company analyzes its loans for impairment during each reporting period. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors the Company considers in determining that a loan is impaired include, among other things, an assessment of the financial condition of the debtor, payment history of the debtor, general economic conditions, the credit rating of the debtor, and any information provided by the debtor regarding its ability to repay the loan. When a loan is impaired, the Company measures the amount of the impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate and recognizes the resulting impairment in the consolidated statement of income (loss).

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.

| Class of Financing Receivable                                     | Credit Quality Indicator | Grade      | December 31, | December 31, |
|-------------------------------------------------------------------|--------------------------|------------|--------------|--------------|
|                                                                   |                          |            | 2011<br>\$   | 2010<br>\$   |
| Direct financing leases                                           | Payment activity         | Performing | 459,908      | 487,516      |
| Other loan receivables                                            |                          |            |              |              |
| Investment in term loans and interest receivable                  | Collateral               | Performing | 188,616      | 117,825      |
| Loans to joint ventures and joint venture partners <sup>(1)</sup> | Other internal metrics   | Performing | 36,002       | 33,932       |
| Long-term receivable included in other assets                     | Payment activity         | Performing | 786          | 410          |
|                                                                   |                          |            | 685,312      | 639,683      |

- <sup>(1)</sup> The Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or *Teekay Tangguh Subsidiary*). Subsequent to December 31, 2011, one of Teekay LNG's joint venture partner's parent company, PT Berlian Laju Tanker (or *BLT*), suspended trading on the Jakarta Stock Exchange, and filed for bankruptcy protection in order to restructure its debts. The Company believes the loans to BLT and Teekay LNG's joint venture partner, BLT LNG Tangguh Corporation, totaling \$19.1 million as at December 31, 2011 (\$20.2 million) are still collectible given the expected cash flows anticipated to be generated by the Teekay Tangguh Subsidiary that can be used to repay the loan and given the underlying collateral securing the loans to BLT.

**Joint ventures**

The Company's investments in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. The Company evaluates its investments in joint ventures for impairment when events or circumstances indicate that the carrying value of such investments may have experienced an other than temporary decline in value below their carrying value. If the estimated fair value is less than the carrying value and is considered an other than temporary decline, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in the consolidated statement of income (loss).

**Debt issuance costs**

Debt issuance costs, including fees, commissions and legal expenses, are deferred and presented as other non-current assets. Debt issuance costs of revolving credit facilities are amortized on a straight-line basis over the term of the relevant facility. Debt issuance costs of term loans are

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amortized using the effective interest rate method over the term of the relevant loan. Amortization of debt issuance costs is included in interest expense.

### **Derivative instruments**

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheet and subsequently remeasured to fair value, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and whether the contract qualifies for hedge accounting. The Company generally does not apply hedge accounting to its derivative instruments, except for certain foreign exchange currency contracts (See Note 15).

When a derivative is designated as a cash flow hedge, the Company formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Company does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold or repaid.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

For derivative financial instruments designated and qualifying as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive income (loss) in total equity. In the periods when the hedged items affect earnings, the associated fair value changes on the hedging derivatives are transferred from total equity to the corresponding earnings line item in the consolidated statement of income (loss). The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings in the consolidated statement of income (loss). If a cash flow hedge is terminated and the originally hedged item is still considered possible of occurring, the gains and losses initially recognized in total equity remain there until the hedged item impacts earnings, at which point they are transferred to the corresponding earnings line item (e.g. general and administrative expense) item in the consolidated statement of income (loss). If the hedged items are no longer possible of occurring, amounts recognized in total equity are immediately transferred to the earnings item in the consolidated statement of income (loss).

For derivative financial instruments that are not designated or that do not qualify as hedges under FASB ASC 815, *Derivatives and Hedging*, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Company's non-designated interest rate swaps related to long-term debt, capital lease obligations, restricted cash deposits, non-designated bunker fuel swap contracts and forward freight agreements, and non-designated foreign exchange currency forward contracts are recorded in realized and unrealized gain (loss) on non-designated derivative instruments. Gains and losses from the Company's hedge accounted foreign currency forward contracts are recorded primarily in vessel operating expenses and general and administrative expense. Gains and losses from the Company's non-designated cross currency swap are recorded in foreign currency exchange (loss) gain in the consolidated statements of income (loss).

**Goodwill and intangible assets**

Goodwill and indefinite-lived intangible assets are not amortized, but reviewed for impairment annually or more frequently if impairment indicators arise. A fair value approach is used to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Company uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Intangible assets with finite lives are amortized over their useful lives. Intangible assets with finite lives are assessed for impairment when and if impairment indicators exist. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

The Company's intangible assets consist primarily of acquired time-charter contracts and contracts of affreightment. The value ascribed to the time-charter contracts and contracts of affreightment are being amortized over the life of the associated contract, with the amount amortized each year being weighted based on the projected revenue to be earned under the contracts.

**Asset retirement obligation**

The Company has an asset retirement obligation (or ARO) relating to the sub-sea production facility associated with the *Petrojarl Banff* FPSO unit operating in the North Sea. This obligation generally involves restoration of the environment surrounding the facility and removal and disposal of all production equipment. This obligation is expected to be settled at the end of the contract under which the FPSO unit currently operates, which is anticipated no later than 2018. The ARO will be covered in part by contractual payments from FPSO contract counterparties.

The Company records the fair value of an ARO as a liability in the period when the obligation arises. The fair value of the ARO is measured using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. When the liability is recorded, the Company capitalizes the cost by increasing the carrying amount of the related equipment. Each period, the liability is increased for the change in its present value, and the capitalized cost is depreciated over the useful life of the related asset. Changes in the amount or timing of the estimated ARO are recorded as an adjustment to the related asset and liability. As at December 31, 2011, the ARO and associated receivable which is recorded in other non-current assets from third parties were \$21.2 million and \$6.1 million, respectively (2010 \$23.0 million and \$6.8 million, respectively).

**Repurchase of common stock**

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The Company accounts for repurchases of common stock by decreasing common stock by the par value of the stock repurchased. In addition, the excess of the repurchase price over the par value is allocated between additional paid in capital and retained earnings. The amount allocated to additional paid in capital is the pro-rata share of the capital paid in and the balance is allocated to retained earnings.

### **Issuance of shares or units by subsidiaries**

The Company accounts for dilution gains or losses from the issuance of shares or units by its publicly listed subsidiaries as an adjustment to retained earnings.

### **Share-based compensation**

The Company grants stock options, restricted stock units, performance share units and restricted stock awards as incentive-based compensation to certain employees and directors. The Company measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period, which generally equals the vesting period. For stock-based compensation awards subject to graded vesting, the Company calculates the value for the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the vesting period of the award. Compensation cost for awards with performance conditions is recognized when it is probable that the performance condition will be achieved. The compensation cost of the Company's stock-based compensation awards are substantially reflected in general and administrative expense.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

In 2005, the Company adopted the Vision Incentive Plan (or the *VIP*) to reward exceptional corporate performance and shareholder returns. This plan was designed to result in an award pool for senior management based on the following two measures: (a) economic profit from 2005 to 2010; and (b) market value added from 2001 to 2010. In March 2008, an interim distribution was made to certain participants with a value of \$13.3 million, paid in restricted stock units, with vesting of the interim distribution in three equal amounts on November 2008, November 2009 and November 2010. In September 2009, 187,400 restricted stock units, with two-year bullet vesting, were granted as the June 2009 New Participants Reserve Pool allocation under the *VIP*. The Plan terminated on December 31, 2010 and no final award was granted to participants. During the year ended December 31, 2011, the Company recorded an expense from the *VIP* of \$1.3 million (\$2.4 million 2010 and \$0.6 million 2009), which is included in general and administrative expense. As at December 31, 2011 and 2010, there was no *VIP* liability.

**Income taxes**

The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized.

Recognition of uncertain tax positions is dependent upon whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on GAAP guidance. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company believes that it and its subsidiaries are not subject to taxation under the laws of the Republic of The Marshall Islands or Bermuda, or that distributions by its subsidiaries to the Company will be subject to any taxes under the laws of such countries, and that it qualifies for the Section 883 exemption under U.S. federal income tax purposes.

**Accumulated other comprehensive (loss) income**

The following table contains the changes in the balances of each component of accumulated other comprehensive income (loss) for the periods presented.

|                                   | Qualifying Cash<br>Flow Hedging<br>Instruments<br>\$ | Pension<br>Adjustments<br>\$ | Unrealized Gain on<br>Available for<br>Sale<br>Marketable Securities<br>\$ | Total<br>\$ |
|-----------------------------------|------------------------------------------------------|------------------------------|----------------------------------------------------------------------------|-------------|
| Balance as of December 31, 2008   | (58,723)                                             | (23,338)                     |                                                                            | (82,061)    |
| Other comprehensive income        | 61,646                                               | 13,044                       | 5,837                                                                      | 80,527      |
| Balance as of December 31, 2009   | 2,923                                                | (10,294)                     | 5,837                                                                      | (1,534)     |
| Other comprehensive (loss) income | (628)                                                | (7,245)                      | 1,236                                                                      | (6,637)     |
| Balance as of December 31, 2010   | 2,295                                                | (17,539)                     | 7,073                                                                      | (8,171)     |
| Other comprehensive (loss) income | (2,601)                                              | (5,402)                      | (7,729)                                                                    | (15,732)    |

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|                                 |       |          |       |          |
|---------------------------------|-------|----------|-------|----------|
| Balance as of December 31, 2011 | (306) | (22,941) | (656) | (23,903) |
|---------------------------------|-------|----------|-------|----------|

## Employee pension plans

The Company has several defined contribution pension plans covering the majority of its employees. Pension costs associated with the Company's required contributions under its defined contribution pension plans are based on a percentage of employees' salaries and are charged to earnings in the year incurred. The Company also has a number of defined benefit pension plans covering certain of its employees. The Company accrues the costs and related obligations associated with its defined benefit pension plans based on actuarial computations using the projected benefits obligation method and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The overfunded or underfunded status of the defined benefit pension plans are recognized as assets or liabilities in the consolidated balance sheet. The Company recognizes as a component of other comprehensive income (loss) the gains or losses that arise during a period but that are not recognized as part of net periodic benefit costs.

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

**Earnings (loss) per common share**

The computation of basic earnings (loss) per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock awards using the treasury stock method. The computation of diluted loss per share does not assume such exercises.

**Adoption of new accounting pronouncements**

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.

**2. Segment Reporting**

The Company is a leading provider of international crude oil and gas marine transportation services and also offers offshore oil production storage and offloading services, primarily under long-term fixed-rate contracts.

The Company has four reportable segments: its shuttle tanker and FSO segment (or *Teekay Shuttle and Offshore*), its floating production, storage and offloading (or *FPSO*) segment (or *Teekay Petrojarl*), its liquefied gas segment (or *Teekay Gas Services*) and its conventional tanker segment (or *Teekay Tanker Services*). The Company's shuttle tanker and FSO segment consists of shuttle tankers and FSO units. The Company's FPSO segment consists of FPSO units and other vessels used to service its FPSO contracts. The Company's liquefied gas segment consists of LNG and LPG carriers. The Company's conventional tanker segment consists of conventional crude oil and product tankers that: (i) are subject to long-term, fixed-rate time-charter contracts, which have an original term of one year or more; (ii) operate in the spot tanker market; or (iii) are subject to time-charters or contracts of affreightment that are priced on a spot-market basis or are short-term, fixed-rate contracts, which have an original term of less than one year. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments is the same as those used in the preparation of the Company's consolidated financial statements.

The following tables present results for these segments for the years ended December 31, 2011, 2010 and 2009.

Year ended December 31, 2011

| Shuttle<br>Tanker<br>and<br>FSO | FPSO    | Liquefied<br>Gas | Conventional<br>Tanker |       |
|---------------------------------|---------|------------------|------------------------|-------|
| Segment                         | Segment | Segment          | Segment                | Total |
| \$                              | \$      | \$               | \$                     | \$    |

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|                                                                        |           |           |           |           |           |
|------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenues                                                               | 613,768   | 464,810   | 272,041   | 603,163   | 1,953,782 |
| Voyage expenses                                                        | 97,743    |           | 4,862     | 74,009    | 176,614   |
| Vessel operating expenses                                              | 196,536   | 242,332   | 48,158    | 190,661   | 677,687   |
| Time-charter hire expense                                              | 74,478    |           |           | 139,701   | 214,179   |
| Depreciation and amortization                                          | 129,293   | 96,915    | 63,641    | 138,759   | 428,608   |
| General and administrative <sup>(2)</sup>                              | 60,359    | 52,854    | 20,586    | 89,817    | 223,616   |
| Asset impairments and net loss (gain) on sale of vessels and equipment | 43,356    | (4,888)   |           | 112,591   | 151,059   |
| Bargain purchase gain                                                  |           | (58,235)  |           |           | (58,235)  |
| Goodwill impairment                                                    |           |           |           | 36,652    | 36,652    |
| Restructuring charges                                                  | 5,351     |           |           | 139       | 5,490     |
| Income (loss) from vessel operations                                   | 6,652     | 135,832   | 134,794   | (179,166) | 98,112    |
| Segment assets                                                         | 2,182,461 | 2,225,830 | 2,924,653 | 2,572,685 | 9,905,629 |

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

**Year ended December 31, 2010**

|                                                                        | Shuttle<br>Tanker<br>and<br>FSO<br>Segment<br>\$ | FPSO<br>Segment<br>\$ | Liquefied<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
|------------------------------------------------------------------------|--------------------------------------------------|-----------------------|-----------------------------------|-----------------------------------------|-------------|
| Revenues <sup>(1)</sup>                                                | 622,195                                          | 463,931               | 248,378                           | 761,249                                 | 2,095,753   |
| Voyage expenses                                                        | 111,003                                          |                       | 29                                | 134,065                                 | 245,097     |
| Vessel operating expenses                                              | 182,614                                          | 209,283               | 46,497                            | 192,153                                 | 630,547     |
| Time charter hire expense                                              | 89,768                                           |                       |                                   | 196,224                                 | 285,992     |
| Depreciation and amortization                                          | 127,438                                          | 95,784                | 62,904                            | 154,579                                 | 440,705     |
| General and administrative <sup>(2)</sup>                              | 51,281                                           | 42,714                | 20,147                            | 79,601                                  | 193,743     |
| Asset impairments and net loss (gain) on sale of vessels and equipment | 19,480                                           |                       | (4,340)                           | 34,010                                  | 49,150      |
| Restructuring charges                                                  | 704                                              |                       | 394                               | 15,298                                  | 16,396      |
| Income (loss) from vessel operations                                   | 39,907                                           | 116,150               | 122,747                           | (44,681)                                | 234,123     |
| Segment assets                                                         | 1,811,186                                        | 1,185,017             | 2,869,713                         | 2,691,407                               | 8,557,323   |

**Year ended December 31, 2009**

|                                                                 | Shuttle<br>Tanker<br>and<br>FSO<br>Segment<br>\$ | FPSO<br>Segment<br>\$ | Liquefied<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
|-----------------------------------------------------------------|--------------------------------------------------|-----------------------|-----------------------------------|-----------------------------------------|-------------|
| Revenues                                                        | 583,320                                          | 390,576               | 246,472                           | 961,237                                 | 2,181,605   |
| Voyage expenses                                                 | 86,499                                           |                       | 1,018                             | 206,574                                 | 294,091     |
| Vessel operating expenses                                       | 173,463                                          | 200,856               | 50,704                            | 190,741                                 | 615,764     |
| Time charter hire expense                                       | 113,786                                          |                       |                                   | 325,091                                 | 438,877     |
| Depreciation and amortization                                   | 122,630                                          | 102,316               | 59,868                            | 152,362                                 | 437,176     |
| General and administrative <sup>(2)</sup>                       | 50,923                                           | 34,276                | 20,007                            | 93,630                                  | 198,836     |
| Asset impairments and net loss on sale of vessels and equipment | 1,902                                            |                       |                                   | 10,727                                  | 12,629      |
| Restructuring charges                                           | 7,032                                            |                       | 4,177                             | 3,235                                   | 14,444      |
| Income (loss) from vessel operations                            | 27,085                                           | 53,128                | 110,698                           | (21,123)                                | 169,788     |

(1) FPSO segment includes \$59.2 million in revenue for the year ended December 31, 2010, related to operations in previous years as a result of executing a contract amendment in March 2010.

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

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

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|                                      | December 31, 2011 | December 31, 2010 |
|--------------------------------------|-------------------|-------------------|
|                                      | \$                | \$                |
| Total assets of all segments         | 9,905,629         | 8,557,323         |
| Cash                                 | 692,127           | 779,748           |
| Accounts receivable and other assets | 533,640           | 575,277           |
| Consolidated total assets            | 11,131,396        | 9,912,348         |

The following table presents revenues and percentage of consolidated revenues for customers that accounted for more than 10% of the Company's consolidated revenues during the periods presented. All of these customers are international oil companies.

| (U.S. dollars in millions)            | Year Ended<br>December 31,<br>2011 | Year Ended<br>December 31,<br>2010 | Year Ended<br>December 31,<br>2009 |
|---------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Statoil ASA <sup>(1)</sup>            | \$ 283.7 or 15%                    | \$ 330.4 or 16%                    | \$ 346.6 or 16%                    |
| Petroleo Brasileiro SA <sup>(1)</sup> | \$ 224.9 or 12%                    | \$ 226.0 or 11%                    | \$ 217.9 or 10%                    |
| BP PLC <sup>(2)</sup>                 | \$ 190.3 <sup>(3)</sup>            | \$ 222.2 or 11%                    | \$ 152.0 <sup>(3)</sup>            |

(1) Shuttle tanker and FSO, FPSO and conventional tanker segments

(2) Shuttle tanker and FSO, FPSO, liquefied gas and conventional tanker segments

(3) Less than 10%

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

**3. Acquisition of FPSO Units and Investment in Sevan Marine ASA**

On November 30, 2011, the Company acquired from Sevan Marine ASA (or *Sevan*) the FPSO unit Sevan Hummingbird (or *Hummingbird*) and its existing customer contract for approximately \$184 million (including an adjustment for working capital) and made an investment of approximately \$25 million to obtain a 40% ownership interest in a recapitalized Sevan. The Company also entered into a cooperation agreement with Sevan relating to joint marketing of offshore projects, the development of future projects, and the financing of such projects. Concurrently, the Company's subsidiary, Teekay Offshore Partners L.P. (or *Teekay Offshore*), acquired from Sevan the FPSO unit Sevan Piranema (or *Piranema*) and its existing customer contract for approximately \$164 million (including an adjustment for working capital). The purchase price for the acquisitions of the *Hummingbird* and the *Piranema* and the investment in Sevan Marine were paid in cash and financed by a combination of new debt facilities, a private placement offering of Teekay Offshore common units and existing liquidity.

On November 30, 2011, the Company also entered into an agreement to acquire the FPSO unit Sevan Voyageur (or *Voyageur*) and its existing customer contract from Sevan. The Company will acquire the *Voyageur* once the existing upgrade project is completed and the *Voyageur* commences operations under its customer contract, currently expected to be in the fourth quarter of 2012. The Company will pay Sevan \$94.0 million to acquire the *Voyageur*, will assume the *Voyageur*'s existing \$230.0 million credit facility, which had an outstanding balance of \$220.0 million on November 30, 2011, and are responsible for all upgrade costs after November 30, 2011, which are estimated to be between \$110 and \$130 million. The Company has control over the upgrade project and has guaranteed the repayment of the existing credit facility. The *Voyageur* has been consolidated by the Company effective November 30, 2011, as the *Voyageur* has been determined to be a variable interest entity (or *VIE*) and the Company has been determined to be the primary beneficiary. The following table summarizes the balance sheet of the *Voyageur* as at December 31, 2011:

|                                           |                |
|-------------------------------------------|----------------|
| <b>ASSETS</b>                             |                |
| Cash and cash equivalents                 | 30,963         |
| Other current assets                      | 7,195          |
| Vessels and equipment                     | 322,092        |
| Deferred tax assets                       | 1,955          |
| <b>Total assets</b>                       | <b>362,205</b> |
| <b>LIABILITIES AND EQUITY</b>             |                |
| Accounts payable                          | 11,860         |
| Accrued liabilities                       | 3,063          |
| Long-term debt (note 8)                   | 220,497        |
| Derivative liabilities                    | 4,969          |
| Other long-term liabilities               | 1,523          |
| <b>Total liabilities</b>                  | <b>241,912</b> |
| <b>Total equity</b>                       | <b>120,293</b> |
| <b>Total liabilities and total equity</b> | <b>362,205</b> |

The 2007-built *Piranema* FPSO is currently operating under a long-term charter to Petrobras S.A. on the Piranema field located in the Brazil offshore region. The charter includes a firm contract period through March 2018, with up to 11 one-year extension options that includes cost-escalation clauses.

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The 2008-built *Hummingbird* FPSO is currently operating under a charter to Centrica Energy Upstream on the Chestnut field in the UK sector of the North Sea. The charter was recently extended to September 2012 and thereafter, includes one six-month extension option, one three-year extension option and two one-year extension options.

The 2009-built *Voyageur* FPSO operated successfully on the Shelley field in the UK sector of the North Sea from August 2009 to August 2010. The unit is currently undergoing an upgrade prior to commencement of its charter contract with E.ON Ruhrgas UK E&P on the Huntington field in the UK sector of the North Sea. The charter is expected to commence in the fourth quarter of 2012 for a firm period of five years, with extension options.

This transaction consolidates the industry in the harsh environment FPSO space, broadens the Company's FPSO offering to include both ship shape and cylindrical FPSO solutions and was concluded at an attractive price. A total bargain purchase gain of \$58.2 million related to the acquisition of the FPSO units and the 40% equity investment in Sevan has been recorded in the consolidated statements of income (loss) for the year ended December 31, 2011.

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

During 2011, Sevan encountered severe financial difficulties following significant cost overruns on the upgrade of the Voyageur and was unable to service its existing financial obligations. The acceptance of the Company's offer and the recognition of the bargain purchase gain, was in part due to the Company's ability to structure the transaction in a way that would satisfy all the various stakeholders, including Sevan's management, lenders, customers and shareholders, within a short time frame, the Company's financial strength and limited competition in the transaction. As a result, the Company was able to purchase the assets at a discount in this distressed acquisition situation.

The Company's acquisition was accounted for using the purchase method of accounting, based upon estimates of fair value. The estimated fair values of certain assets and liabilities have been determined with the assistance of third-party valuation specialists. Certain of these estimates of fair value, most notably vessels and equipment, investment in Sevan Marine and in-process revenue contracts, are preliminary and are subject to further adjustment. The operating results of the Hummingbird, Piranema and Voyageur are reflected in the Company's consolidated financial statements from November 30, 2011, the effective date of acquisition. During December 2011, the Company recognized \$14.5 million of revenue and \$60.3 million of net income, including the bargain purchase gain, resulting from these acquisitions. In addition, the Company incurred \$1.1 million of acquisition-related expenses, which are reflected in general and administrative expenses.

The following table summarizes the preliminary fair values of the assets acquired and liabilities, including the Voyageur VIE, assumed by the Company at November 30, 2011:

|                                  | As at November 30,<br>2011<br>\$ |
|----------------------------------|----------------------------------|
| <b>ASSETS</b>                    |                                  |
| Cash and cash equivalents        | 50,230                           |
| Other current assets             | 29,209                           |
| Vessels and equipment            | 869,952                          |
| Deferred income taxes            | 3,307                            |
| Investment in Sevan Marine       | 49,200                           |
| Other assets - long-term         | 659                              |
| <b>Total assets acquired</b>     | <b>1,002,557</b>                 |
| <b>LIABILITIES</b>               |                                  |
| Current liabilities              | 41,376                           |
| In-process revenue contracts     | 158,968                          |
| Long-term debt ( <i>note 8</i> ) | 220,497                          |
| Other long-term liabilities      | 6,036                            |
| Non-controlling interest         | 144,600                          |
| <b>Total liabilities assumed</b> | <b>571,477</b>                   |
| <b>Net assets acquired</b>       | <b>431,080</b>                   |
| <b>Bargain purchase gain</b>     | <b>(58,235)</b>                  |
| <b>Cash consideration</b>        | <b>372,845</b>                   |

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The Company is obligated to fund the upgrade of the *Voyageur*. In addition to the upgrade, the Company is also obligated to make remaining payments to acquire the *Voyageur* (see Note 16 c).

The following table shows comparative summarized consolidated pro forma financial information for the Company for the years ended December 31, 2011 and 2010, giving effect to the Company's acquisition of the Sevan FPSO units as if it had taken place on January 1, 2010:

|                       | <b>Pro Forma<br/>Year Ended<br/>December 31,<br/>2011<br/>(unaudited)<br/>\$</b> | <b>Pro Forma<br/>Year Ended<br/>December 31,<br/>2010<br/>(unaudited)<br/>\$</b> |
|-----------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Revenues              | 2,109,929                                                                        | 2,284,336                                                                        |
| Net loss              | (382,432)                                                                        | (176,456)                                                                        |
| Loss per common share |                                                                                  |                                                                                  |
| Basic                 | (5.18)                                                                           | (3.79)                                                                           |
| Diluted               | (5.18)                                                                           | (3.79)                                                                           |

#### 4. Investment in Term Loans

In February 2011, Teekay made a \$70 million term loan (or the *2011 Loan*) to an unrelated ship-owner of a 2011-built Very Large Crude Carrier (or *VLCC*). The 2011 Loan bears interest at 9% per annum, which is payable quarterly. The 2011 Loan is repayable in full in February 2014.

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

However, it may be repaid prior to maturity at the option of the borrower. The 2011 Loan is collateralized by a first priority mortgage on the VLCC, together with other related collateral.

In July 2010, the Company's subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*) acquired two term loans with a total principal amount outstanding of \$115.0 million for a total cost of \$115.6 million (the *Loans*). The Loans bear interest at an annual interest rate of 9% per annum, and include a repayment premium feature which provides a total investment yield of approximately 10% per annum. The 9% interest income is received in quarterly installments and the Loans and repayment premium are payable in full at maturity in July 2013 where the repayment premium of 3% is calculated on the principal amount of the Loans outstanding at maturity. As at December 31, 2011 and 2010, the repayment premium included in the principal balance was \$1.5 million and \$0.5 million, respectively. The Loans are collateralized by first-priority mortgages on two 2010-built VLCCs owned by a shipowner based in Asia, together with other related security. The Loans can be repaid prior to maturity, at the option of the borrower.

Interest income earned from the investments in the term loans is included in revenues in the consolidated statements of income (loss). As at December 31, 2011 and 2010, \$2.8 million and \$1.8 million, respectively, in interest receivable were recorded in the consolidated balance sheet as accounts receivable.

The maximum potential loss relating to these loans is the Company's original investment of \$185.6 million plus any unpaid interest, which exposes the Company to a concentration of credit risk.

**5. Financing Transactions**

Teekay Tankers is a Marshall Islands corporation formed by the Company to provide international marine transportation of crude oil. Teekay Tankers completed its initial public offering on December 12, 2007. As of December 31, 2011, Teekay owned 26.0% of the capital stock of Teekay Tankers, including Teekay Tankers' outstanding shares of Class B common stock, which entitle the holders to five votes per share, subject to a 49% aggregate Class B Common Stock voting power maximum.

Teekay Offshore is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the offshore oil marine transportation, production, processing and storage sectors. Teekay Offshore completed its initial public offering on December 14, 2006. As of December 31, 2011, Teekay owned a 33.0% interest in Teekay Offshore, including common units and its 2% general partner interest.

Teekay LNG is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the LNG shipping sector. Teekay LNG provides LNG, LPG and crude oil marine transportation services under long-term, fixed-rate contracts with major energy and utility companies through its fleet of LNG and LPG carriers and Suezmax tankers. Teekay LNG completed its initial public offering on May 5, 2005. As of December 31, 2011, Teekay owned a 40.1% interest in Teekay LNG, including common units and its 2% general partner interest.

In connection with Teekay LNG's initial public offering in May 2005, Teekay entered into an omnibus agreement with Teekay LNG, Teekay LNG's general partner and others governing, among other things, when the Company and Teekay LNG may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers and Suezmax tankers. In December 2006, the omnibus agreement was amended in connection with Teekay Offshore's initial public offering to govern, among other things, when the Company, Teekay LNG and Teekay Offshore may compete with each other and to provide the applicable parties certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units.

During the years ended December 31, 2011, 2010 and 2009, the Company's publicly traded subsidiaries, Teekay Tankers, Teekay Offshore and Teekay LNG completed the following financing transactions;

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In February 2011, Teekay Tankers completed a public offering of 9.9 million common shares of its Class A Common Stock (including 1.3 million common shares issued upon the full exercise of the underwriter's overallotment option) at a price of \$11.33 per share, for gross proceeds of \$112.1 million. As a result of the offering, Teekay's ownership of Teekay Tankers was reduced to 26.0% as of December 31, 2011. 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. See note 25(c) to the consolidated financial statements for information related to an equity offering by Teekay Tankers in February 2012.

In March 2011, Teekay sold its remaining 49% interest in Teekay Offshore Operating L.P. (or OPCO) to 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 7.7 million newly issued Teekay Offshore common units (including the general partner's 2% interest) of gross proceeds of \$226.3 million. 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. In July 2011, Teekay Offshore completed a private placement of 0.7 million common units to an institutional investor at a price of \$28.04 per unit for gross proceeds of \$20.4 million (including the general partner's 2% proportionate capital contribution). In November 2011, Teekay Offshore completed a private placement of 7.3 million common units to a group of institutional investors at a price of \$23.90 per unit for gross proceeds (including the general partner's 2% proportionate capital contribution) of \$173.5 million. As a result of the private placements and the acquisition of the 49% interest in OPCO by Teekay Offshore, Teekay's ownership of Teekay Offshore was reduced to 33.0% (including the Company's 2% general partner interest) as of December 31, 2011. Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and continues to consolidate this subsidiary.

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

In April 2011, 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 2% proportionate capital contribution) of approximately \$168.7 million. In November 2011, Teekay LNG completed a public offering of 5.6 million common units at a price of \$33.40 per unit, for gross proceeds of \$187.4 million (including general partner's 2% proportionate capital contribution). As a result of the offerings, Teekay's ownership of Teekay LNG was reduced to 40.1% (including the Company's 2% general partner interest) as of December 31, 2011. Teekay maintains control of Teekay LNG by virtue of its control of the general partner and continues to consolidate this subsidiary.

As a result of the 2011 financing transactions, the Company recorded an increase to retained earnings \$124.2 million, which represents Teekay's dilution gains from the issuance of units and shares in Teekay Tankers, Teekay Offshore and Teekay LNG, during the year ended December 31, 2011.

In March 2010, Teekay Offshore completed a public offering of 5.1 million common units (including 660,000 units issued upon exercise of the underwriters' overallotment option) at a price of \$19.48 per unit. In August 2010, Teekay Offshore completed a public offering of 6.0 million common units (including 787,500 units issued upon exercise of the underwriters' overallotment option) at a price of \$22.15 per unit. In December 2010, Teekay Offshore completed a public offering of 6.4 million common units (including 840,000 units issued upon exercise of the underwriters' overallotment option) at a price of \$27.84 per unit. In each case the general partner made a proportionate capital contribution to maintain its 2% interest.

In April 2010, Teekay Tankers completed a public offering of 8.8 million shares of its Class A Common Stock (including 1.1 million common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.25 per share. Teekay Tankers concurrently issued to Teekay 2.6 million unregistered shares of its Class A Common Stock at the April 2010 offering price. In October 2010, Teekay Tankers completed a public offering of 8.6 million common shares of its Class A Common Stock (including 395,000 common shares issued upon the partial exercise of the underwriter's overallotment option) at a price of \$12.15 per share.

In July 2010, Teekay LNG completed a direct equity placement of 1.7 million common units at a price of \$29.18 per unit. In November 2010, Teekay LNG issued to Exmar NV 1.1 million common units at a price of \$35.44 per unit.

As a result of the 2010 offerings, direct equity placement, and unit issuance to Exmar NV, the Company recorded increases to retained earnings of \$84.9 million, \$20.6 million, and \$17.7 million, respectively, which represents Teekay's dilution gains from the issuance of units and shares in Teekay Offshore, Teekay LNG and Teekay Tankers, during the year ended December 31, 2010.

In August 2009, Teekay Offshore completed a public offering of 7.5 million common units (including 975,000 units issued upon the exercise in full of the underwriter's overallotment option) at a price of \$14.32 per unit. In June 2009, Teekay Tankers completed a public offering of 7.0 million shares of its Class A Common Stock at a price of \$9.80 per share. In March 2009, Teekay LNG completed a public offering of 4.0 million common units at a price of \$17.60 per unit. In November 2009, Teekay LNG completed a public offering of 4.0 million common units (including 450,650 units issued upon the exercise of the underwriter's overallotment option) at a price of \$24.40 per unit. In each case the general partner made a proportionate capital contribution to maintain its 2% interest. As a result of the 2009 offerings, Teekay recorded increases to retained earnings of \$26.9, \$12.6 million, and \$1.7 million, respectively, which represents Teekay's dilution gains from the issuance of units and shares in Teekay Offshore, Teekay LNG and Teekay Tankers during the year ended December 31, 2009.

The proceeds received from the financing transactions are summarized as follows:

| <b>Total<br/>Proceeds</b> | <b>Less:<br/>Teekay<br/>Corporation</b> | <b>Offering<br/>Expenses</b> | <b>Net<br/>Proceeds</b> |
|---------------------------|-----------------------------------------|------------------------------|-------------------------|
|---------------------------|-----------------------------------------|------------------------------|-------------------------|

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|                                           | Received<br>\$ | Portion<br>\$ | \$       | Received<br>\$ |
|-------------------------------------------|----------------|---------------|----------|----------------|
| <b>2011</b>                               |                |               |          |                |
| Teekay Tankers Public Offering            | 112,054        |               | (4,820)  | 107,234        |
| Teekay Offshore Private Equity Placements | 420,145        | (230,144)     | (279)    | 189,722        |
| Teekay LNG Public Offerings               | 356,133        | (7,123)       | (14,909) | 334,101        |
| <b>2010</b>                               |                |               |          |                |
| Teekay Offshore Public Offerings          | 419,989        | (8,400)       | (18,645) | 392,944        |
| Teekay Tankers Public Offerings           | 243,977        | (32,000)      | (9,279)  | 202,698        |
| Teekay LNG Direct Equity Placement        | 51,020         | (1,020)       |          | 50,000         |
| <b>2009</b>                               |                |               |          |                |
| Teekay Offshore Public Offerings          | 107,042        | (2,291)       | (2,742)  | 102,009        |
| Teekay Tankers Public Offerings           | 68,600         |               | (3,044)  | 65,556         |
| Teekay LNG Public Offerings               | 170,237        | (3,436)       | (7,805)  | 158,996        |

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**6. Goodwill, Intangible Assets and In-Process Revenue Contracts*****Goodwill***

The carrying amount of goodwill for the years ended December 31, 2010 and 2011, for the Company's reportable segments are as follows:

|                                          | Shuttle<br>Tanker and<br>FSO Segment<br>\$ | FPSO<br>Segment<br>\$ | Liquefied<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
|------------------------------------------|--------------------------------------------|-----------------------|-----------------------------------|-----------------------------------------|-------------|
| Balance as of December 31, 2010 and 2009 | 130,908                                    |                       | 35,631                            | 36,652                                  | 203,191     |
| Goodwill impairment                      |                                            |                       |                                   | (36,652)                                | (36,652)    |
| Balance as of December 31, 2011          | 130,908                                    |                       | 35,631                            |                                         | 166,539     |

A goodwill impairment charge of \$36.7 million was recognized in the Company's consolidated statements of income (loss) for the year ended December 31, 2011 in respect of its Suezmax tanker reporting unit. 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.

***Intangible Assets***

As at December 31, 2011, the Company's intangible assets consisted of:

|                         | Weighted-Average<br>Amortization Period<br>(Years) | Gross<br>Carrying<br>Amount<br>\$ | Accumulated<br>Amortization<br>\$ | Net<br>Carrying<br>Amount<br>\$ |
|-------------------------|----------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Customer contracts      | 15.6                                               | 329,815                           | (194,266)                         | 135,549                         |
| Other intangible assets | 4.5                                                | 11,430                            | (10,237)                          | 1,193                           |
|                         | 15.2                                               | 341,245                           | (204,503)                         | 136,742                         |

As at December 31, 2010, the Company's intangible assets consisted of:

|  | Weighted-Average<br>Amortization Period<br>(Years) | Gross<br>Carrying<br>Amount<br>\$ | Accumulated<br>Amortization<br>\$ | Net<br>Carrying<br>Amount<br>\$ |
|--|----------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
|--|----------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|

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|                         |      |         |           |         |
|-------------------------|------|---------|-----------|---------|
| Customer contracts      | 13.7 | 347,085 | (195,358) | 151,727 |
| Other intangible assets | 4.5  | 11,430  | (7,264)   | 4,166   |
|                         | 13.5 | 358,515 | (202,622) | 155,893 |

Aggregate amortization expense of intangible assets for the year ended December 31, 2011, was \$19.1 million (2010 \$26.2 million, 2009 \$34.1 million), which is included in depreciation and amortization. Amortization of intangible assets for the five years following 2011 is expected to be \$15.4 million (2012), \$14.2 million (2013), \$13.2 million (2014), \$12.1 million (2015), \$11.1 million (2016) and \$70.8 million (thereafter).

During 2010, the Company recognized \$31.7 million in write-downs of three vessel purchase options and certain in-charter customer contracts. The vessel purchase options and in-charter contracts either expired unexercised or were unlikely to be exercised by the Company. During 2009, the Company recognized a \$16.1 million impairment of other intangible assets due to lower fair value of certain bareboat contracts compared to carrying values, expired time-charter hire contracts and write-down of vessel purchase options.

The write-downs are included in asset impairments and net loss on sale of vessels and equipment, on the consolidated statements of income (loss) and within the Company's conventional tanker segment.

### ***In-Process Revenue Contracts***

As part of the Company's acquisition of FPSO units from Sevan and its previous acquisitions of Petrojarl ASA (subsequently renamed Teekay Petrojarl AS, or *Teekay Petrojarl*) and 50% of OMI Corporation (or *OMI*), the Company assumed certain FPSO service contracts and time charter-out contracts with terms that were less favorable than the then prevailing market terms. The Company has recognized a liability based on the estimated fair value of these contracts. The Company is amortizing this liability over the estimated remaining terms of the contracts on a weighted basis based on the projected revenue to be earned under the contracts. During 2010, the Company increased the amortization term due to operating contract amendments for two FPSO units which resulted in a decrease in amortization of in-process revenue contracts during 2010 of \$10.5 million.

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Amortization of in-process revenue contracts for the year ended December 31, 2011 was \$46.4 million (2010 \$48.3 million), which is included in revenues on the consolidated statements of income (loss). Amortization for the five years following 2011 is expected to be \$73.3 million (2012), \$59.9 million (2013), \$40.2 million (2014), \$18.7 million (2015) and \$116.5 million (thereafter).

**7. Accrued Liabilities**

|                                | December 31,<br>2011<br>\$ | December 31,<br>2010<br>\$ |
|--------------------------------|----------------------------|----------------------------|
| Voyage and vessel expenses     | 209,058                    | 179,553                    |
| Interest                       | 63,310                     | 70,760                     |
| Payroll and benefits and other | 83,528                     | 84,912                     |
| Deferred revenue               | 38,690                     | 41,894                     |
|                                | 394,586                    | 377,119                    |

**8. Long-Term Debt**

|                                                                                      | December 31,<br>2011<br>\$ | December 31,<br>2010<br>\$ |
|--------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Revolving Credit Facilities                                                          | 2,244,634                  | 1,697,237                  |
| Senior Notes (8.875%) due July 15, 2011                                              |                            | 16,201                     |
| Senior Notes (8.5%) due January 15, 2020                                             | 446,825                    | 446,559                    |
| Norwegian Kroner-denominated Bonds due November 2013                                 | 100,417                    | 103,061                    |
| U.S. Dollar-denominated Term Loans due through 2021                                  | 2,069,860                  | 1,782,423                  |
| U.S. Dollar-denominated Term Loan Variable Interest Entity due October 2016 (note 3) | 220,450                    |                            |
| Euro-denominated Term Loans due through 2023                                         | 348,905                    | 373,301                    |
| U.S. Dollar-denominated Unsecured Demand Loan due to Joint Venture Partners          | 13,282                     | 13,282                     |
| Total                                                                                | 5,444,373                  | 4,432,064                  |
| Less current portion                                                                 | 401,376                    | 276,508                    |
| Long-term portion                                                                    | 5,042,997                  | 4,155,556                  |

As of December 31, 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 \$3.0 billion, of which \$0.8 billion was undrawn. Interest payments are based on LIBOR plus margins; at December 31, 2011, the margins ranged between 0.45% and 3.25% (2010 0.45% and 3.25%). At December 31, 2011 and December 31, 2010, the three-month LIBOR was 0.58% and 0.30%, respectively. The total amount available under the Revolvers reduces by

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\$349.6 million (2012), \$749.6 million (2013), \$791.8 million (2014), \$226.4 million (2015), \$146.4 million (2016) and \$784.0 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 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 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 year ended December 31, 2011, the balance of the remaining 8.875% Notes was 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 have been made as at December 31, 2011.

In November 2010, Teekay Offshore issued NOK 600 million in 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 to interest expense 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. Teekay Offshore entered the interest rate swap to swap the interest payments from LIBOR to a fixed rate of 1.12%, and the LIBOR rate receivable from the interest rate swap is capped at 3.5% (See note 15). See Note 25(a) to the consolidated financial statements for information related to a Norwegian bond offering by Teekay Offshore in January 2012.

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As of December 31, 2011, the Company had 16 U.S. Dollar-denominated term loans outstanding, which totalled \$2.1 billion (December 31, 2010 \$1.8 billion). Certain of the term loans with a total outstanding principal balance of \$372.7 million, as at December 31, 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 December 31, 2011 and 2010, the margins ranged between 0.3% and 3.25%. At December 31, 2011 and 2010, the three-month LIBOR was 0.58% 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 15 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 33 (December 31, 2010 28) of the Company's vessels, together with certain other security. In addition, at December 31, 2011, all but \$119.4 million (December 31, 2010 \$122.5 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

The *Voyageur* FPSO unit has been consolidated by the Company effective November 30, 2011, as the *Voyageur* has been determined to be a VIE and the Company has been determined to be the primary beneficiary. As a result, the Company has included the *Voyageur*'s existing U.S. Dollar-denominated term loan (*VIE term loan*) outstanding, which as at December 31, 2011 totalled \$220.5 million (December 31, 2010 \$nil). Interest payments on the VIE term loan are based on LIBOR plus a margin of 2.95% and are paid quarterly. The VIE term loan is collateralized by a first-priority mortgage on the *Voyageur*, together with certain other security.

The Company has two Euro-denominated term loans outstanding, which, as at December 31, 2011, totalled 269.2 million Euros (\$348.9 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 December 31, 2011 and 2010, the margins ranged between 0.60% and 2.25% and the one-month EURIBOR at December 31, 2011, was 1.02% (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.

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, the Company recognized an unrealized foreign exchange gain of \$12.7 million during the year ended December 31, 2011 (2010 \$32.0 million gain, 2009 \$20.9 million loss).

The Company has one U.S. Dollar-denominated loan outstanding owing to a joint venture partner, which, as at December 31, 2011, totalled \$13.3 million (2010 one loan totaling \$13.8 million), including accrued interest. Interest payments on the loan, which are 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 December 31, 2011, was 2.6% (December 31, 2010 2.3%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 15).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to December 31, 2011, are \$401.4 million (2012), \$1.1 billion (2013), \$1.0 billion (2014), \$343.6 million (2015), \$288.1 million (2016) and \$2.3 billion (thereafter).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and certain loan agreements with outstanding amounts totalling \$671.8 million as at December 31, 2011 (December 31, 2010 \$541.0 million), 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 December 31, 2011 and 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 5% to 7.5% of total debt. As at December 31, 2011, this amount was \$318.3 million (December 31, 2010 \$236.5 million).

As at December 31, 2011, the Company was in compliance with all covenants in the credit facilities and long-term debt.

**9. Operating and Direct Financing Leases**

**Charters-in**

As at December 31, 2011, minimum commitments to be incurred by the Company under vessel operating leases by which the Company charters-in vessels were approximately \$250.8 million, comprised of \$125.1 million (2012), \$68.2 million (2013), \$23.0 million (2014), \$16.0 million (2015), \$9.1 million (2016) and \$9.4 million (thereafter). The Company recognizes the expense from these charters, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

**Charters-out**

Time-charters and bareboat charters of the Company's vessels to third parties (except as noted below) are accounted for as operating leases. Certain of these charters provide the charterer with the option to acquire the vessel or the option to extend the charter. As at December 31, 2011, minimum scheduled future revenues to be received by the Company on time-charters and bareboat charters then in place were approximately \$10.1 billion, comprised of \$1.3 billion (2012), \$1.1 billion (2013), \$1.1 billion (2014), \$1.1 billion (2015), \$1.0 billion (2016) and \$4.5 billion (thereafter). The minimum scheduled future revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after December 31, 2011, revenue from unexercised option periods of contracts that existed on December 31, 2011 or variable or contingent revenues. In addition, minimum scheduled future revenues presented in this paragraph have been reduced by estimated off-hire time for period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

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The carrying amount of the vessels employed on operating leases at December 31, 2011, was \$5.3 billion (2010 \$5.5 billion). The cost and accumulated depreciation of the vessels on time charter as at December 31, 2011 and 2010 were \$7.2 billion, \$1.9 billion, and \$7.4 billion, \$1.9 billion, respectively.

**Operating Lease Obligations***Teekay Tangguh Subsidiary*

The Company's subsidiary Teekay LNG owns a 99% interest in Teekay Tangguh, which owns a 70% interest in Teekay Tangguh Subsidiary, essentially giving it a 69% interest in the Teekay Tangguh Subsidiary. As at December 31, 2011, the Teekay Tangguh Subsidiary was a party to operating leases whereby it is the lessor and is leasing its two LNG carriers (or the *Tangguh LNG Carriers*) to a third party company (or *Head Leases*). The Teekay Tangguh Subsidiary is then leasing back the LNG carriers from the same third party company (or *Subleases*). Under the terms of these leases, the third party company claims tax depreciation on the capital expenditures it incurred to lease the vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the Teekay Tangguh Subsidiary. Lease payments under the Subleases are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the third party company is entitled to increase the lease payments under the Sublease to maintain its agreed after-tax margin. The Teekay Tangguh Subsidiary's carrying amount of this tax indemnification is \$9.9 million and is included as part of other long-term liabilities in the accompanying consolidated balance sheets of the Company. The tax indemnification is for the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred, and ends in 2033. Although there is no maximum potential amount of future payments, the Teekay Tangguh Subsidiary may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, the Teekay Tangguh Subsidiary will be required to pay termination sums to the third party company sufficient to repay the third party company's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Head Leases and the Subleases have 20 year terms and are classified as operating leases. The Head Lease and the Sublease for each of the two Tangguh LNG Carriers commenced in November 2008 and March 2009, respectively.

As at December 31, 2011, the total estimated future minimum rental payments to be received and paid under the lease contracts are as follows:

| <b>Year</b>  | <b>Head Lease<br/>Receipts <sup>(1)</sup></b> | <b>Sublease<br/>Payments<br/><sup>(1)</sup></b> |
|--------------|-----------------------------------------------|-------------------------------------------------|
| 2012         | 28,859                                        | 24,999                                          |
| 2013         | 28,843                                        | 24,999                                          |
| 2014         | 28,828                                        | 24,999                                          |
| 2015         | 22,188                                        | 24,999                                          |
| 2016         | 21,242                                        | 24,999                                          |
| Thereafter   | 260,306                                       | 306,356                                         |
| <b>Total</b> | <b>\$ 390,266</b>                             | <b>\$ 431,351</b>                               |

- (1) The Head Leases are fixed-rate operating leases while the Subleases have a small variable-rate component. As at December 31, 2011, the Teekay Tangguh Subsidiary had received \$120.1 million of aggregate Head Lease receipts and had paid \$66.0 million of Sublease payments.

**Net Investment in Direct Financing Leases**

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The time-charters for two of the Company's LNG carriers, one FSO unit and equipment that reduce volatile organic compound emissions (or *VOC equipment*) are accounted for as direct financing leases. The following table lists the components of the net investments in direct financing leases:

|                                                            | December 31,<br>2011<br>\$ | December 31,<br>2010<br>\$ |
|------------------------------------------------------------|----------------------------|----------------------------|
| Total minimum lease payments to be received                | 741,604                    | 796,137                    |
| Estimated unguaranteed residual value of leased properties | 203,465                    | 203,465                    |
| Initial direct costs and other                             | 1,636                      | 1,726                      |
| Less unearned revenue                                      | (486,797)                  | (513,812)                  |
| <br>Total                                                  | <br>459,908                | <br>487,516                |
| Less current portion                                       | 23,171                     | 26,791                     |
| <br>Long-term portion                                      | <br>436,737                | <br>460,725                |

As at December 31, 2011, minimum lease payments to be received by the Company in each of the next five years following 2011 were \$62.4 million (2012), \$49.5 million (2013), \$48.1 million (2014), \$47.1 million (2015) and \$47.3 million (2016). The VOC equipment lease is scheduled to expire in 2014, the FSO contract is scheduled to expire in 2017, and the LNG time-charters are both scheduled to expire in 2029.

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**10. Capital Lease Obligations and Restricted Cash*****Capital Lease Obligations***

|                             | December 31, | December 31, |
|-----------------------------|--------------|--------------|
|                             | 2011         | 2010         |
|                             | \$           | \$           |
| RasGas II LNG Carriers      | 471,397      | 470,752      |
| Spanish-Flagged LNG Carrier |              | 81,881       |
| Suezmax Tankers             | 175,650      | 185,501      |
| Total                       | 647,047      | 738,134      |
| Less current portion        | 47,203       | 267,382      |
| Long-term portion           | 599,844      | 470,752      |

*RasGas II LNG Carriers.* As at December 31, 2011, the Company was a party, as lessee, to 30-year capital lease arrangements relating to three LNG carriers (or the *RasGas II LNG Carriers*) that operate under time-charter contracts with Ras Laffan Liquefied Natural Gas Co. Limited (II) (or *RasGas II*), a joint venture between Qatar Petroleum and ExxonMobil RasGas Inc., a subsidiary of Exxon Mobil Corporation. The Company has a 70% share in the leases for the RasGas II LNG Carriers.

Under the terms of the RasGas II LNG Carriers capital lease arrangements, the lessor claims tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin. The Company's carrying amount of the tax indemnification guarantee as at December 31, 2011 was \$16.1 million and is included as part of other long-term liabilities in the Company's consolidated balance sheets.

The tax indemnification is for the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred, and ends in 2041. Although there is no maximum potential amount of future payments, the Company may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, the Company will be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax-effect of the terminations, including recapture of any tax depreciation.

At their inception, the weighted-average interest rate implicit in these leases was 5.2%. These capital leases are variable-rate capital leases. As at December 31, 2011, the commitments under these capital leases approximated \$1.0 billion, including imputed interest of (\$529.7) million, repayable as follows:

| Year | Commitment      |
|------|-----------------|
| 2012 | \$ 24.0 million |
| 2013 | \$ 24.0 million |
| 2014 | \$ 24.0 million |
| 2015 | \$ 24.0 million |

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|            |                  |
|------------|------------------|
| 2016       | \$ 24.0 million  |
| Thereafter | \$ 881.1 million |

As the payments in the next five years only cover a portion of the estimated interest expense, the lease obligation will continue to increase. Starting in 2024, the lease payments will increase to cover both interest and principal to commence reduction of the principal portion of the lease obligations.

*Spanish-Flagged LNG Carrier.* The Company's capital lease on one LNG carrier, the *Madrid Spirit*, expired and the Company purchased the vessel at the end of the lease term in December 2011. The purchase obligation was fully funded with restricted cash deposits.

*Suezmax Tankers.* As at December 31, 2011, the Company was a party, as lessee, to capital leases on five Suezmax tankers. Under the terms of the lease arrangements, the Company is required to purchase these vessels after the end of their respective lease terms for a fixed price. At the inception of these leases, the weighted-average interest rate implicit in these leases was 7.4%. These capital leases are variable-rate capital leases; however, any change in the lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by the Company. As at December 31, 2011, the remaining commitments under these capital leases, including the purchase obligations, approximated \$201.1 million, including imputed interest of \$25.5 million, repayable during 2012 through 2017.

*FPSO Units.* As at December 31, 2011, the Company was a party, as lessee, to capital leases on one FPSO unit, the *Petrojarl Foinaven*, and the topside production equipment for another FPSO unit, the *Petrojarl Banff*. However, prior to being acquired by Teekay, Teekay Petrojarl legally defeased its future charter obligations for these assets by making up-front, lump-sum payments to unrelated banks, which have assumed Teekay Petrojarl's liability for making the remaining periodic payments due under the long-term charters (or *Defeased Rental Payments*) and termination payments under the leases.

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The Defeased Rental Payments for the *Petrojarl Foinaven* were based on assumed Sterling LIBOR of 8% per annum. If actual interest rates are greater than 8% per annum, the Company receives rental rebates; if actual interest rates are less than 8% per annum, the Company is required to pay rentals in excess of the Defeased Rental Payments. For accounting purposes, this contract feature is an embedded derivative, and has been separated from the host contract and is separately accounted for as a derivative instrument.

As is typical for these types of leasing arrangements, the Company has indemnified the lessors of the *Petrojarl Foinaven* for the tax consequence resulting from changes in tax laws or interpretation of such laws or adverse rulings by authorities and for fluctuations in actual interest rates from those assumed in the leases. The Company's capital leases do not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels.

***Restricted Cash***

Under the terms of the capital leases for the RasGas II LNG Carriers, the Company is required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposits, will equal the remaining amounts owing under the leases. These cash deposits are restricted to being used for capital lease payments and have been fully funded primarily with term loans (see Note 8).

As at December 31, 2011 and 2010, the amount of restricted cash on deposit for the three RasGas II LNG Carriers was \$479.1 million and \$477.2 million, respectively. As at December 31, 2011 and 2010, the weighted-average interest rates earned on the deposits were 0.3% and 0.4%, respectively. These rates do not reflect the effect of related interest rate swaps (see Note 15).

The restricted cash relating to the *Madrid Spirit* was used to fund the purchase obligation relating to the capital lease in 2011. As at December 31, 2011 and December 31, 2010, the amount of restricted cash on deposit for the *Madrid Spirit* was nil and 61.7 million Euros (\$82.6 million), respectively. As at December 31, 2011 and December 31, 2010, the weighted-average interest rates earned on these deposits were 5.0%.

The Company also maintains restricted cash deposits relating to certain term loans and other obligations, which totalled \$21.1 million and \$16.5 million as at December 31, 2011 and 2010, respectively.

**11. Fair Value Measurements**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments and other non-financial assets.

**Cash and cash equivalents, restricted cash and marketable securities** The fair value of the Company's cash and cash equivalents restricted cash, and marketable securities approximates their carrying amounts reported in the accompanying consolidated balance sheets.

**Vessels held for sale** The fair value of the Company's vessels held for sale is based on selling prices of similar vessels and approximates their carrying amounts reported in the accompanying consolidated balance sheets.

**Investment in term loans** The fair value of the Company's investment in term loans is estimated using a discounted cash flow analysis, based on current rates currently available for debt with similar terms and remaining maturities. In addition, an assessment of the credit worthiness of the borrower and the value of the collateral is taken into account when determining the fair value.

**Loans to equity accounted investees and loans from equity accounted investees** The fair value of the Company's loans to joint ventures and loans from joint venture partners approximates their carrying amounts reported in the accompanying consolidated balance sheets.

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**Long-term debt** The fair value of the Company's fixed-rate and variable-rate long-term debt is either based on quoted market prices or estimated using discounted cash flow analyses, based on current rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Company.

**Derivative instruments** The fair value of the Company's derivative instruments is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account, as applicable, fixed interest rates on interest rate swaps, current interest rates, foreign exchange rates, and the current credit worthiness of both the Company and the derivative counterparties. The estimated amount is the present value of future cash flows. The Company transacts all of its derivative instruments through investment-grade rated financial institutions at the time of the transaction and requires no collateral from these institutions. For the *Foinaven* FPSO embedded derivative (see Note 10), the calculation of the fair value takes into account the fixed rate in the contract, current interest rates and foreign exchange rates. Given the current volatility in the credit markets, it is reasonably possible that the amounts recorded as derivative assets and liabilities could vary by material amounts in the near term.

The Company categorizes its fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

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 on a recurring basis is as follows:

|                                                                       |                                           | December 31, 2011                    |                                 | December 31, 2010                    |                                 |
|-----------------------------------------------------------------------|-------------------------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|                                                                       | Fair Value Hierarchy Level <sup>(1)</sup> | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ |
| <b>Recurring</b>                                                      |                                           |                                      |                                 |                                      |                                 |
| Cash and cash equivalents, restricted cash, and marketable securities | Level 1                                   | 1,200,063                            | 1,200,063                       | 1,377,399                            | 1,377,399                       |
| <b>Derivative instruments (note 15)</b>                               |                                           |                                      |                                 |                                      |                                 |
| Interest rate swap agreements <sup>(2)</sup>                          | Level 2                                   | (707,437)                            | (707,437)                       | (557,991)                            | (557,991)                       |
| Interest rate swap agreements <sup>(2)</sup>                          | Level 2                                   | 159,603                              | 159,603                         | 66,869                               | 66,869                          |
| Cross currency interest swap agreement                                | Level 2                                   | 2,677                                | 2,677                           | 4,233                                | 4,233                           |
| Foreign currency contracts                                            | Level 2                                   | (4,362)                              | (4,362)                         | 11,375                               | 11,375                          |
| Foinaven embedded derivative                                          | Level 2                                   | 3,385                                | 3,385                           | (3,500)                              | (3,500)                         |
| <b>Non-recurring</b>                                                  |                                           |                                      |                                 |                                      |                                 |
| Vessels and equipment <sup>(3)</sup>                                  | Level 2                                   | 118,682                              | 118,682                         |                                      |                                 |
| Equity accounted investments <sup>(4)</sup>                           | Level 3                                   | 9,623                                | 9,623                           |                                      |                                 |
| Vessels held for sale                                                 | Level 2                                   | 19,000                               | 19,000                          |                                      |                                 |
| <b>Other</b>                                                          |                                           |                                      |                                 |                                      |                                 |
| Investment in term loans (note 4)                                     |                                           | 189,666                              | 190,939                         | 116,014                              | 120,837                         |
| Loans to equity accounted investees and joint venture partners        |                                           | 85,248                               | 85,248                          | 32,750                               | 32,750                          |
| Loans from equity accounted investees                                 |                                           |                                      |                                 | (59)                                 | (59)                            |
| Long-term debt                                                        |                                           | (5,444,373)                          | (5,072,214)                     | (4,432,064)                          | (4,192,646)                     |

- (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 December 31, 2011 includes \$24.5 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 sales price of the vessel or the estimated scrap value of the respective vessels.
- (4) The fair value measurement used to determine the impairment of the investment in Petrotrans Holdings Ltd. (or *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 December 31, 2011 and December 31, 2010.

**12. Capital Stock**

The authorized capital stock of Teekay at December 31, 2011 and 2010, was 25,000,000 shares of Preferred Stock, with a par value of \$1 per share, and 725,000,000 shares of Common Stock, with a par value of \$0.001 per share. During 2011, the Company issued 0.6 million common shares upon the exercise of stock options and restricted stock units and awards, and had share repurchases of 3.9 million common shares. During 2010, the Company issued 0.6 million common shares upon the exercise of stock options and restricted stock units and awards, and had share

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repurchases of 1.2 million common shares. As at December 31, 2011, Teekay had issued 74,391,691 shares of Common Stock (2010 73,749,793) and no shares of Preferred Stock issued. As at December 31, 2011, Teekay had 68,732,341 shares of Common Stock outstanding (2010 72,012,843).

Dividends may be declared and paid out of surplus only, but if there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Surplus is the excess of the net assets of the Company over the aggregated par value of the issued shares of the Teekay. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to share equally in any dividends that the board of directors may declare from time to time out of funds legally available for dividends.

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, subject to cancellation upon approval by the Board of Directors. As at December 31, 2011, Teekay had repurchased approximately 5.2 million shares of Common Stock for \$162.3 million pursuant to such authorizations. The total remaining share repurchase authorization at December 31, 2011, was \$37.7 million.

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On July 2, 2010, the Company amended and restated its Stockholder Rights Agreement (the *Rights Agreement*), which was originally adopted by the Board of Directors in September 2000. In September 2000, the Board of Directors declared a dividend of one common share purchase right (a *Right*) for each outstanding share of the Company's common stock. These Rights continue to remain outstanding and will not be exercisable and will trade with the shares of the Company's common stock until after such time, if any, as a person or group becomes an acquiring person as set forth in the amended Rights Agreement. A person or group will be deemed to be an acquiring person, and the Rights generally will become exercisable, if a person or group acquires 20% or more of the Company's common stock, or if a person or group commences a tender offer that could result in that person or group owning more than 20% of the Company's common stock, subject to certain higher thresholds for existing stockholders that currently own in excess of 15% of the Company's common stock. Once exercisable, each Right held by a person other than the acquiring person would entitle the holder to purchase, at the then-current exercise price, a number of shares of common stock of the Company having a value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction after any such event, each holder of a Right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's common stock having a value of twice the exercise price of the Right. The amended Rights Agreement will expire on July 1, 2020, unless the expiry date is extended or the Rights are earlier redeemed or exchanged by the Company.

**Stock-based compensation**

As at December 31, 2011, the Company had reserved pursuant to its 1995 Stock Option Plan and 2003 Equity Incentive Plan (collectively referred to as the *Plans*) 4,895,787 shares of Common Stock (2010 5,537,381) for issuance upon exercise of options or equity awards granted or to be granted. During the years ended December 31, 2011, 2010 and 2009, the Company granted options under the Plans to acquire up to 95,604, 733,167, and 1,517,900 shares of Common Stock, respectively, to certain eligible officers, employees and directors of the Company. The options under the Plans have ten-year terms and vest equally over three years from the grant date. All options outstanding as of December 31, 2011, expire between March 11, 2012 and March 14, 2021, ten years after the date of each respective grant.

A summary of the Company's stock option activity and related information for the years ended December 31, 2011, 2010 and 2009, are as follows:

|                               | December 31, 2011 |                                 | December 31, 2010 |                                 | December 31, 2009 |                                 |
|-------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                               | Options           | Weighted-Average Exercise Price | Options           | Weighted-Average Exercise Price | Options           | Weighted-Average Exercise Price |
|                               | (000 s)           | \$                              | (000 s)           | \$                              | (000 s)           | \$                              |
| Outstanding-beginning of year | 6,123             | 31.54                           | 5,983             | 31.46                           | 4,813             | 37.22                           |
| Granted                       | 96                | 34.93                           | 733               | 24.42                           | 1,518             | 11.84                           |
| Exercised                     | (363)             | 16.14                           | (380)             | 15.12                           | (180)             | 12.21                           |
| Forfeited / expired           | (143)             | 33.11                           | (213)             | 29.00                           | (168)             | 35.16                           |
| Outstanding-end of year       | 5,713             | 32.47                           | 6,123             | 31.54                           | 5,983             | 31.46                           |
| Exercisable-end of year       | 4,656             | 35.40                           | 3,963             | 36.80                           | 3,299             | 36.50                           |

A summary of the Company's non-vested stock option activity and related information for the years ended December 31, 2011, 2010 and 2009, are as follows:

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|                                                         | December 31, 2011 |                                        | December 31, 2010 |                                        | December 31, 2009 |                                        |
|---------------------------------------------------------|-------------------|----------------------------------------|-------------------|----------------------------------------|-------------------|----------------------------------------|
|                                                         | Options           | Weighted-Average Grant Date Fair Value | Options           | Weighted-Average Grant Date Fair Value | Options           | Weighted-Average Grant Date Fair Value |
|                                                         | (000 s)<br>#      | \$                                     | (000 s)<br>#      | \$                                     | (000 s)<br>#      | \$                                     |
| Outstanding non-vested stock options- beginning of year | 2,160             | 6.36                                   | 2,684             | 6.56                                   | 2,240             | 10.59                                  |
| Granted                                                 | 96                | 11.27                                  | 733               | 8.16                                   | 1,518             | 3.74                                   |
| Vested                                                  | (1,071)           | 6.18                                   | (1,084)           | 7.48                                   | (974)             | 10.88                                  |
| Forfeited                                               | (128)             | 11.47                                  | (173)             | 10.06                                  | (100)             | 11.38                                  |
| Outstanding non-vested stock options-end of year        | 1,057             | 6.40                                   | 2,160             | 6.36                                   | 2,684             | 6.56                                   |

The weighted average grant date fair value for options forfeited in 2011 was \$1.2 million (2010 \$1.7 million).

As of December 31, 2011, there was \$2.0 million of total unrecognized compensation cost related to non-vested stock options granted under the Plans. Recognition of this compensation is expected to be \$1.5 million (2012), and \$0.5 million (2013). During the years ended December 31, 2011, 2010 and 2009, the Company recognized \$5.3 million, \$8.1 million and \$9.8 million, respectively, of compensation cost relating to stock options granted under the Plans. The intrinsic value of options exercised during 2011 was \$3.8 million (2010 \$6.8 million; 2009 \$2.0 million).

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As at December 31, 2011, the intrinsic value of the outstanding in-the-money stock options was \$20.9 million (2010 \$41.6 million) and exercisable stock options was \$12.6 million (2010 \$14.3 million). As at December 31, 2011, the weighted-average remaining life of options vested and expected to vest was 5.4 years (2010 6.2 years).

Further details regarding the Company's outstanding and exercisable stock options at December 31, 2011 are as follows:

| Range of Exercise Prices | Outstanding Options |                                 |                                 | Exercisable Options |                                 |                                 |
|--------------------------|---------------------|---------------------------------|---------------------------------|---------------------|---------------------------------|---------------------------------|
|                          | Options             | Weighted-Average Remaining Life | Weighted-Average Exercise Price | Options             | Weighted-Average Remaining Life | Weighted-Average Exercise Price |
|                          | (000 s)<br>#        | (Years)                         | \$                              | (000 s)<br>#        | (Years)                         | \$                              |
| \$10.00 \$14.99          | 1,085               | 7.2                             | 11.84                           | 599                 | 7.2                             | 11.84                           |
| \$15.00 \$19.99          | 439                 | 0.8                             | 19.57                           | 439                 | 0.8                             | 19.57                           |
| \$20.00 \$29.99          | 685                 | 8.2                             | 24.39                           | 207                 | 8.1                             | 24.33                           |
| \$30.00 \$34.99          | 444                 | 3.8                             | 33.86                           | 351                 | 2.3                             | 33.58                           |
| \$35.00 \$39.99          | 753                 | 4.3                             | 38.98                           | 753                 | 4.3                             | 38.98                           |
| \$40.00 \$44.99          | 1,276               | 6.2                             | 40.41                           | 1,276               | 6.2                             | 40.41                           |
| \$45.00 \$49.99          | 352                 | 3.2                             | 46.80                           | 352                 | 3.2                             | 46.80                           |
| \$50.00 \$59.99          | 676                 | 5.2                             | 51.40                           | 676                 | 5.2                             | 51.40                           |
| \$60.00 \$64.99          | 3                   | 5.3                             | 60.96                           | 3                   | 5.3                             | 60.96                           |
|                          | 5,713               | 5.5                             | 32.47                           | 4,656               | 4.9                             | 35.40                           |

The weighted-average grant-date fair value of options granted during 2011 was \$11.27 per option (2010 \$8.16, 2009 \$3.74). The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 53.6% in 2011, 52.7% in 2010 and 45% in 2009; expected life of four years; dividend yield of 3.8% in 2011, 3.3% in 2010 and 2.3% in 2009; risk-free interest rate of 2.1% in 2011, 2.6% in 2010, and 2.0% in 2009; and estimated forfeiture rate of 11.2% in 2011, 9.8% in 2010 and 9.0% in 2009. The expected life of the 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.

The Company grants restricted stock units and performance share units to certain eligible officers, employees and directors of the Company. Each restricted stock unit and performance share unit is equivalent 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 two or three years from the grant date and the performance share units vest three years from the grant date. Upon vesting, the value of the restricted stock units and performance share units 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.

In February 2010, the Company modified settlement terms for its then outstanding restricted stock units, such that all restricted stock units will be paid in the form of shares. This modification decreased accrued liabilities by \$4.0 million, decreased other long-term liabilities by \$2.0 million, and increased additional paid-in capital by \$6.0 million.

During 2011, the Company granted 358,180 restricted stock units with a fair value of \$12.5 million and 73,349 performance share units with a fair value of \$3.7 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company's employees and directors. During 2011, 214,863 restricted stock units with a market value of \$4.9 million vested and that amount was paid to grantees by issuing

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131,682 shares of common stock, net of withholding taxes. During 2010, the Company granted 263,620 restricted stock units with a fair value of \$6.4 million and 87,054 performance share units with a fair value of \$3.5 million, based on the quoted market price and a Monte Carlo valuation model, to certain of the Company's employees and directors. During 2010, 227,165 restricted stock units with a market value of \$4.9 million vested and that amount was paid to grantees by issuing 148,518 shares of common stock, net of withholding taxes. During 2009, the Company granted 568,342 restricted stock units with a fair value of \$8.2 million based on the quoted market price, to certain of the Company's employees and directors, of which 187,400 were issued pursuant to the Company's VIP plan. During 2009, 102,300 restricted stock units with a market value of \$2.5 million vested and that amount was paid to grantees by issuing 18,318 shares of common stock, net of withholding taxes and \$1.9 million in cash. For the year ended December 31, 2011, the Company recorded an expense of \$12.5 million (2010 \$4.8 million, 2009 \$4.0 million) related to the restricted stock units.

During 2011, the Company also granted 29,663 (2010 27,028 and 2009 47,570) shares of restricted stock awards with a fair value of \$1.0 million, based on the quoted market price, to certain of the Company's directors. The shares of restricted stock are issued when granted.

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 April 1, 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 related to the portion of Mr. Moller's previously unvested outstanding stock-based compensation grants that 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 income (loss) for the year ended December 31, 2011.

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

**13. Related Party Transactions**

As at December 31, 2011, Resolute Investments, Ltd. (or *Resolute*) owned 45.5% (2010 42.3%, 2009 41.9%) of the Company's outstanding Common Stock. One of the Company's directors, Thomas Kuo-Yuen Hsu, is the President and a director of Resolute. Another of the Company's directors, Axel Karlshoej, is among the directors of Path Spirit Limited, which is the trust protector for the trust that indirectly owns all of Resolute's outstanding equity. The Company's Chairman, C. Sean Day, is engaged as a consultant to Kattegat Limited, the parent company of Resolute, to oversee its investments, including that in the Teekay group of companies.

**14. Other Income**

|                                                       | Year Ended<br>December 31, 2011<br>\$ | Year Ended<br>December 31, 2010<br>\$ | Year Ended<br>December 31, 2009<br>\$ |
|-------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Volatile organic compound emission plant lease income | 2,900                                 | 4,714                                 | 6,892                                 |
| Gain on sale of marketable securities                 | 3,372                                 | 1,805                                 |                                       |
| Miscellaneous income                                  | 6,088                                 | 1,008                                 | 6,635                                 |
| Other income                                          | 12,360                                | 7,527                                 | 13,527                                |

**15. 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 foreign currency forward contracts are designated, for accounting purposes, as cash flow hedges of forecasted foreign currency expenditures.

As at December 31, 2011, the Company was committed to the following foreign currency forward contracts:

|                  | Contract Amount                      |                                           | Fair Value /<br>Carrying Amount<br>of Asset / (Liability) |                                            | Expected Maturity |         |
|------------------|--------------------------------------|-------------------------------------------|-----------------------------------------------------------|--------------------------------------------|-------------------|---------|
|                  | In Foreign<br>Currency<br>(millions) | Average<br>Forward<br>Rate <sup>(1)</sup> | Hedge                                                     | Non-Hedge<br>(in millions of U.S. Dollars) | 2012              | 2013    |
| Norwegian Kroner | 1,044.5                              | 6.00                                      | \$ 0.6                                                    | (\$ 1.6)                                   | \$ 141.3          | \$ 32.8 |

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|                 |      |      |       |        |          |          |
|-----------------|------|------|-------|--------|----------|----------|
| Euro            | 34.6 | 0.74 |       | (1.7)  | 40.9     | 5.8      |
| Canadian Dollar | 36.8 | 1.01 | (0.2) | (0.3)  | 31.8     | 4.6      |
| British Pounds  | 34.5 | 0.64 | (0.3) | (0.9)  | 46.5     | 7.8      |
|                 |      |      |       | \$ 0.1 | (\$ 4.5) | \$ 260.5 |
|                 |      |      |       |        |          | \$ 51.0  |

(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 has entered into a cross currency swap to economically hedge the foreign exchange risk on the principal and interest. As at December 31, 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 value of the cross currency swap agreement as at December 31, 2011 was \$2.7 million.

### 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 December 31, 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:

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

|                                                            | Interest<br>Rate Index | Principal<br>Amount<br>\$ | Fair Value /<br>Carrying Amount<br>of Asset /<br>(Liability)<br>\$ | Weighted-<br>Average<br>Remaining<br>Term<br>(Years) | Fixed<br>Interest<br>Rate<br>(%) <sup>(1)</sup> |
|------------------------------------------------------------|------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------|
| <b>LIBOR-Based Debt:</b>                                   |                        |                           |                                                                    |                                                      |                                                 |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup> | LIBOR                  | 423,748                   | (119,895)                                                          | 25.1                                                 | 4.9                                             |
| U.S. Dollar-denominated interest rate swaps                | LIBOR                  | 3,766,809                 | (561,747)                                                          | 8.4                                                  | 3.8                                             |
| <b>LIBOR-Based Restricted Cash Deposit:</b>                |                        |                           |                                                                    |                                                      |                                                 |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup> | LIBOR                  | 470,199                   | 159,603                                                            | 25.1                                                 | 4.8                                             |
| <b>EURIBOR-Based Debt:</b>                                 |                        |                           |                                                                    |                                                      |                                                 |
| Euro-denominated interest rate swaps <sup>(3) (4)</sup>    | EURIBOR                | 348,905                   | (25,795)                                                           | 12.5                                                 | 3.1                                             |
|                                                            |                        | 5,009,661                 | (547,834)                                                          |                                                      |                                                 |

(1) Excludes the margins the Company pays on its variable-rate debt, which as of December 31, 2011 ranged from 0.30% to 3.25%.

(2) Principal amount reduces quarterly.

(3) Principal amount reduces monthly to 70.1 million Euros (\$90.9 million) by the maturity dates of the swap agreements.

(4) Principal amount is the U.S. Dollar equivalent of 269.2 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. As at December 31, 2011 and 2010, the Company had no *FFAs* commitments. Net gains and losses from *FFAs* are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of income (loss).

**Commodity Price Risk**

From time to time, the Company enters into bunker fuel swap contracts relating to a portion of its bunker fuel expenditures. As at December 31, 2011 and 2010, the Company had no bunker fuel swap contract commitments. Net gains and losses from the 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.

| Current | Derivative<br>Assets | Accrued<br>Liabilities | Current | Derivative<br>Liabilities |
|---------|----------------------|------------------------|---------|---------------------------|
|---------|----------------------|------------------------|---------|---------------------------|

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|                                                  | Portion of |         | Portion of  |           |  |
|--------------------------------------------------|------------|---------|-------------|-----------|--|
|                                                  | Derivative |         | Derivative  |           |  |
|                                                  | Assets     |         | Liabilities |           |  |
| As at December 31, 2011:                         |            |         |             |           |  |
| Derivatives designated as a cash flow hedge:     |            |         |             |           |  |
| Foreign currency contracts                       | 1,551      | 28      | (1,192)     | (264)     |  |
| Derivatives not designated as a cash flow hedge: |            |         |             |           |  |
| Foreign currency contracts                       | 2,592      | 3       | (6,248)     | (832)     |  |
| Interest rate swap agreements                    | 15,608     | 139,651 | (24,750)    | (109,897) |  |
| Cross currency swap                              | 1,576      | 875     | 225         | (568,446) |  |
| Foinaven embedded derivative (note 10)           | 3,385      |         |             |           |  |
|                                                  | 24,712     | 140,557 | (24,525)    | (117,337) |  |
|                                                  |            |         |             | (569,542) |  |

|                                                  |        |        |          |           |
|--------------------------------------------------|--------|--------|----------|-----------|
| <b>As at December 31, 2010:</b>                  |        |        |          |           |
| Derivatives designated as a cash flow hedge:     |        |        |          |           |
| Foreign currency contracts                       | 3,437  | 1,546  | (652)    | 22        |
| Derivatives not designated as a cash flow hedge: |        |        |          |           |
| Foreign currency contracts                       | 4,988  | 3,172  | (1,050)  | (88)      |
| Interest rate swap agreements                    | 16,759 | 45,524 | (31,174) | (135,171) |
| Forward freight agreements                       | 2,031  | 2,003  | 199      | (387,058) |
| Foinaven embedded derivative                     |        | 3,738  | (7,238)  |           |
|                                                  | 27,215 | 55,983 | (30,975) | (144,111) |
|                                                  |        |        |          | (387,124) |

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

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

| Year Ended December 31, 2011 |                   |                     |                            | Year Ended December 31, 2010 |                   |                     |                            |
|------------------------------|-------------------|---------------------|----------------------------|------------------------------|-------------------|---------------------|----------------------------|
| Balance Sheet                |                   |                     |                            | Balance Sheet                |                   |                     |                            |
| (AOCI)                       |                   |                     |                            | (AOCI)                       |                   |                     |                            |
| Effective Portion            | Effective Portion | Ineffective Portion | Statement of Income (Loss) | Effective Portion            | Effective Portion | Ineffective Portion | Statement of Income (Loss) |
| 2,007                        | 918               | (568)               | Vessel operating expenses  | (3,559)                      | (680)             | (3,473)             | Vessel operating expenses  |
|                              |                   |                     | General and administrative |                              |                   |                     | General and administrative |
|                              | 4,636             | (223)               | expenses                   |                              | (2,360)           | (1,402)             | expenses                   |
| 2,007                        | 5,554             | (791)               |                            | (3,559)                      | (3,040)           | (4,875)             |                            |

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:

|                                                                  | Year Ended<br>December 31,<br>2011<br>\$ | Year Ended<br>December 31,<br>2010<br>\$ | Year Ended<br>December 31,<br>2009<br>\$ |
|------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Realized (losses) gains relating to:                             |                                          |                                          |                                          |
| Interest rate swap agreements                                    | (132,931)                                | (154,098)                                | (127,936)                                |
| Interest rate swap amendments and terminations                   | (149,666)                                |                                          |                                          |
| Foreign currency forward contracts                               | 9,965                                    | (2,274)                                  | (8,984)                                  |
| Forward freight agreements, bunker fuel swap contracts and other | 36                                       | (7,914)                                  | (1,293)                                  |
|                                                                  | (272,596)                                | (164,286)                                | (138,213)                                |
| Unrealized (losses) gains relating to:                           |                                          |                                          |                                          |
| Interest rate swap agreements                                    | (58,405)                                 | (146,780)                                | 258,710                                  |
| Foreign currency forward contracts                               | (11,399)                                 | 6,307                                    | 14,797                                   |
| Forward freight agreements and bunker fuel swap contracts        |                                          | (108)                                    | 4,167                                    |
| Foinaven embedded derivative                                     | (322)                                    | 5,269                                    | 585                                      |

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|                                                                                       |           |           |         |
|---------------------------------------------------------------------------------------|-----------|-----------|---------|
|                                                                                       | (70,126)  | (135,312) | 278,259 |
| Total realized and unrealized (losses) gains on non-designated derivative instruments | (342,722) | (299,598) | 140,046 |

Realized and unrealized gains (losses) of the cross currency swap are recognized in earnings and reported in foreign exchange gain (loss) in the consolidated statements of income (loss). For the year ended December 31, 2011, an unrealized loss of \$(1.6) million (2010 gain \$4.0 million) and a realized gain of \$2.9 million (2010 \$0.2 million) have been recognized in the consolidated statements of income (loss) relating to the cross currency swap.

As at December 31, 2011, the Company's accumulated other comprehensive loss included \$0.3 million of unrealized losses on foreign currency forward contracts designated as cash flow hedges. As at December 31, 2011, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately \$(0.4) million of net losses on foreign currency forward contracts from accumulated other comprehensive loss to earnings during the next 12 months. During 2010, the Company de-designated certain foreign currency forward contracts that were designated as cash flow hedges and reclassified \$0.6 million of net losses from accumulated other comprehensive loss to earnings in the consolidated statement of income (loss). There were no de-designations in 2011.

The Company is exposed to credit loss to the extent the fair value represents an asset (see above) 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. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

**16. Commitments and Contingencies****a) Vessels Under Construction**

As at December 31, 2011, the Company was committed to the construction of four shuttle tankers, one FPSO unit and the conversion of an existing Aframax tanker to an FPSO unit for a total cost of approximately \$1.7 billion, excluding capitalized interest. The four shuttle tankers are scheduled for delivery in 2013 and the two FPSO units are scheduled to be delivered between 2012 and 2013. As at December 31, 2011, payments made towards these commitments totalled \$499.1 million (excluding \$8.8 million of capitalized interest and other miscellaneous construction costs). As at December 31, 2011, the remaining payments required to be made under these newbuilding contracts were \$503.6 million in 2012, \$707.4 million in 2013 and \$13.5 million in 2014. See Note 25(b) to the consolidated financial statements for information related to the conversion of the existing Aframax tanker to an FPSO unit.

**b) Joint Ventures**

Teekay has a 33% interest in a joint venture that charters four newbuilding 160,400-cubic meter 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. The vessels are chartered at fixed rates, with inflation adjustments. 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 Teekay's 33% portion was \$299.0 million), excluding capitalized interest and other miscellaneous construction costs. During the year ended December 31, 2011, Teekay sold to Teekay LNG its 33% ownership interest in these vessels and related charter contracts, in accordance with existing agreements. During the year ended December 31, 2011, three of the Angola LNG carriers delivered and commenced their 20-year, fixed-rate charter contracts. The final Angola LNG carrier delivered in January 2012. As at December 31, 2011, payments made towards these commitments by the joint venture company totalled \$770.1 million (of which Teekay's 33% contribution was \$254.1 million), excluding capitalized interest and other miscellaneous construction costs. As at December 31, 2011, the remaining payments required to be made under these contracts were \$135.9 million (2012), of which Teekay's share was 33% of this amount. Teekay has also provided certain guarantees in relation to the performance of the joint venture company. The fair value of the guarantees was a liability of \$2.5 million and \$1.8 million, respectively, as at December 31, 2011 and December 31, 2010 and is 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 Teekay Tankers' 50% portion is \$49 million), excluding capitalized interest and other miscellaneous construction costs. The vessel is expected to deliver during the second quarter of 2013. As at December 31, 2011, the remaining payments required to be made under this newbuilding contract, including the Wah Kwong's 50% share, was \$44.1 million (2012) and \$34.3 million (2013). As of December 31, 2011, the Joint Venture had received a firm commitment from a financial institution for a loan of approximately \$68.6 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) Purchase Obligation**

As at December 31, 2011, the Company was committed to fund the remaining upgrade costs of the *Voyageur* FPSO unit in connection with the Sevan acquisition, for a total cost estimated to be between \$110 and \$130 million, excluding capitalized interest. The upgrades on the FPSO unit are expected to be completed by the fourth quarter of 2012. As at December 31, 2011, payments made towards these remaining upgrade costs totalled \$22.7 million and the remaining payments required to be made are estimated to be between \$90 and \$105 million in 2012. In addition, the Company's purchase of the FPSO unit is expected to be completed in the fourth quarter of 2012. In addition to the upgrade costs, the remaining payments required to be made to acquire the *Voyageur* total approximately \$92.4 million (net of assumed debt of \$230 million) in 2012.

**d) 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.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

On November 13, 2006, the Company's shuttle tanker, the *Navion Hispania*, collided with the Njord Bravo, an FSO unit, while preparing to load an oil cargo from the Njord Bravo. The Njord Bravo services the Njord field, which is operated by Statoil Petroleum AS (or Statoil) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from the Company. The *Navion Hispania* and the Njord Bravo both incurred damages as a result of the collision. In November 2007, Navion Offshore Loading AS (or NOL), our subsidiary, and two other subsidiaries of ours, were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the Njord Bravo) and various licensees in the Njord field (or the Plaintiffs). The claim sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately USD \$36 million). The matter was heard before the Stavanger District Court in December 2011. The court found that NOL is liable for damages to the Plaintiffs, but excluded a large part of the indirect or consequential losses from the liability. The court also found that Statoil is liable for the same amount of damages to NOL. The parties may appeal against the decision of the court. As a result of the recent judgment, as at December 31, 2011, the Company has recognized a liability of NOK 76,000,000 (approximately \$12.7 million, which is a reduced amount in accordance with the court's decision to exclude a large part of the indirect or consequential losses) and a corresponding receivable from Statoil ASA recorded in other liabilities and other assets, respectively.

The Company believes the likelihood of any losses relating to the claim is remote. The Company believes that the charter contract relating to the *Navion Hispania* requires that Statoil be responsible and indemnify the Company for all losses relating to the damage to the Njord Bravo. The Company also maintains P&I insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. The Company believes that these insurance policies will cover the costs related to this incident, including any costs not indemnified by Statoil, subject to standard deductibles. In addition, Teekay has agreed to indemnify Teekay Offshore for any losses it may incur in connection with this incident.

Teekay Nakilat Corporation (or *Teekay Nakilat*), is the lessee under 30-year capital lease arrangements with a third party for the RasGas II LNG Carriers (or *RasGas II Leases*). The UK taxing authority, (or *HMRC*), has been urging our lessor as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the RasGas II Leases, to terminate such finance lease arrangements and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that Teekay Nakilat enter into negotiations to terminate the *RasGas II Leases*. Teekay Nakilat has declined this request as it does not believe that HMRC would be able to successfully challenge the availability of the tax benefits of these leases to the lessor. This assessment is partially based on a January 2012 court decision regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer. However, it is possible that the HMRC may appeal that decision. If the HMRC were able to successfully challenge the RasGas II Leases, Teekay Nakilat, could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. The Company estimates its 70% share of the potential exposure to range from \$54 million to \$77 million.

**e) Redeemable Non-Controlling Interest**

In the year ended December 31, 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of Teekay Offshore in exchange for a 33% equity interest in the subsidiary. The equity issuance resulted in a dilution loss of \$7.4 million. 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 December 31, 2011.

**f) 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.

## 17. Supplemental Cash Flow Information

- a) The changes in operating assets and liabilities for the years ended December 31, 2011, 2010 and 2009, are as follows:

|                                   | Year Ended<br>December 31, 2011 | Year Ended<br>December 31, 2010 | Year Ended<br>December 31, 2009 |
|-----------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                   | \$                              | \$                              | \$                              |
| Accounts receivable               | (68,914)                        | (21,820)                        | 64,886                          |
| Prepaid expenses and other assets | (8,225)                         | 12,719                          | 35,006                          |
| Accounts payable                  | 12,216                          | (11,002)                        | (2,731)                         |
| Accrued and other liabilities     | (19,424)                        | 65,518                          | 26,240                          |
| Other long-term liabilities       |                                 |                                 | 25,254                          |
|                                   | (84,347)                        | 45,415                          | 148,655                         |

- b) Cash interest paid, including realized interest rate swap settlements, during the years ended December 31, 2011, 2010, and 2009, totalled \$279.1 million, \$271.3 million and \$263.1 million, respectively. In addition, during the years ended December 31, 2011, 2010 and 2009, cash interest paid relating to interest rate swap amendments and terminations totalled \$149.7 million, \$nil and \$nil, respectively.
- c) During the year ended December 31, 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of the Company in exchange for a 33% equity interest in the subsidiary as described in Note 16(e) to these consolidated financial statements. This contribution has been treated as a non-cash transaction in the Company's consolidated statement of cash flows.

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)**

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

**18. Vessel Sales and Write-downs**

**a) Vessel Sales**

In March 2011, the Company sold a 1988-built 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.

In February 2010, the Company sold a 1992-built Aframax tanker and realized a loss of \$0.2 million as a result of this sale. In April 2010, the Company sold a 1995-built Aframax tanker for \$17.3 million, which approximated the vessel net book value. In August 2010, the Company sold a 1995-built Aframax tanker and a 1990-built product tanker for \$17.2 million and \$4.0 million, respectively. The Company realized a loss of \$1.9 million as a result of the sale of the Aframax tanker and the proceeds from the sale of the product tanker approximated the vessel net book value. These vessels were part of the Company's conventional tanker segment. In November 2010, the Company sold a 2000-built LPG tanker for \$21.6 million and realized a gain of \$4.3 million as a result of the sale. The vessel was part of the Company's liquefied gas segment.

In January and February 2009, the Company sold a 2009-built product tanker and a 1993-built Aframax tanker, respectively, through a sale-leaseback agreement. The Company realized a gain of \$17.7 million as a result of these transactions, of which \$17.6 million was deferred and will be amortized over the four-year term of the bareboat charter leaseback. In May 2009, the Company sold a 2007-built product tanker and a 2005-built product tanker and realized a gain of \$29.8 million as a result of these transactions. In July and September 2009, the Company sold a 1992-built Aframax tanker and a 1989-built product tanker, respectively. These two vessels were written-down by \$7.1 million and \$4.0 million, respectively, to their fair market value less costs to sell. The vessels sold in 2009 were part of the Company's conventional tanker segment.

**b) Write-downs of Vessels, Equipment and Equity Accounted Investments**

The Company's consolidated statements of income (loss) for the year ended December 31, 2011 includes a \$112.1 million write-down on certain of the Company's conventional tankers. The vessels are part of the Company's conventional tanker segment and were written down to their estimated fair values, which is either the estimated sales price of the vessel or the estimated scrap 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. Two of these vessels were presented on the consolidated balance sheet as at December 31, 2011 as vessels held for sale.

The Company's consolidated statements of income (loss) for the year ended December 31, 2011 includes a \$36.9 million write-down on certain of the Company's shuttle tankers and a FSO unit. These vessels are part of the Company's shuttle tanker and FSO segment and were written down to their estimated fair value, which is the estimated sales price. The recognition of these write-downs was driven by the older age of the vessels, the requirements of operating in the North Sea, and recent economic developments.

During the year ended December 31, 2011, the Company incurred a \$19.4 million write-down of its investment in 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, which is based upon the estimated liquidation values of the underlying net assets of the investment. The recognition of this write-down was driven by the continuing weak tanker market.

The Company's consolidated statements of income (loss) for the year ended December 31, 2010 includes a total write-down of \$19.4 million for impairment of certain shuttle tanker equipment and one 1992-built shuttle tanker, as their carrying values exceeded their estimated fair values using Level 2 of the fair value hierarchy. The shuttle tanker equipment and the shuttle tanker were written-down to their estimated fair values at December 31, 2010. The two write-downs were included in the Company's shuttle tanker and FSO segment.

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The Company's consolidated statements of income (loss) for the year ended December 31, 2009 includes a \$24.2 million write-down for impairment of three older vessels due to lower fair values compared to carrying values, of which two vessels were sold at the end of 2009. The Company used then recent sale prices of similar age and size of vessels to determine the fair value.

### 19. Earnings (Loss) Per Share

|                                                                      | Year ended<br>December 31, 2011<br>\$ | Year ended<br>December 31, 2010<br>\$ | Year ended<br>December 31, 2009<br>\$ |
|----------------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Net (loss) income attributable to stockholders of Teekay Corporation | (368,916)                             | (267,287)                             | 128,412                               |
| Weighted average number of common shares                             | 70,234,817                            | 72,862,617                            | 72,549,361                            |
| Dilutive effect of stock-based compensation                          |                                       |                                       | 509,470                               |
| Common stock and common stock equivalents                            | 70,234,817                            | 72,862,617                            | 73,058,831                            |
| (Loss) earnings per common share:                                    |                                       |                                       |                                       |
| Basic                                                                | (5.25)                                | (3.67)                                | 1.77                                  |
| Diluted                                                              | (5.25)                                | (3.67)                                | 1.76                                  |

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont d)****(all tabular amounts stated in thousands of U.S. dollars, other than share data)**

The anti-dilutive effect attributable to outstanding stock-based compensation excluded from the calculation of diluted (loss) earnings per common share, for the years ended December 31, 2011, 2010 and 2009 was 5.7 million, 6.1 million and 4.3 million shares, respectively.

**20. Restructuring Charges**

During 2011, the Company incurred \$5.5 million of restructuring costs. The restructuring costs were primarily related to the sale of an FSO unit, the *Karratha Spirit*, and the termination of the time-charter for the *Basker Spirit*. The Company committed to plans for termination of the employment of certain seafarers of the two vessels. At December 31, 2011, no restructuring liability was recorded in accrued liabilities on the consolidated balance sheets.

During 2010, the Company incurred \$16.4 million of restructuring costs. The restructuring costs were primarily related to the reflagging of certain vessels, crew changes, and global staffing changes. At December 31, 2010, \$0.1 million of restructuring liability was recorded in accrued liabilities on the consolidated balance sheets.

During 2009, the Company incurred \$14.4 million of restructuring costs. The restructuring costs were primarily comprised of the reflagging of certain vessels, transfer of certain ship management functions from the Company's office in Spain to a subsidiary of Teekay, global staffing changes and closure of one of the Company's three offices in Norway. At December 31, 2009, \$2.0 million of restructuring liability was recorded in accrued liabilities on the consolidated balance sheets.

**21. Income Taxes**

Teekay and a majority of its subsidiaries are not subject to income tax in the jurisdictions in which they are incorporated because they do not conduct business or operate in those jurisdictions. However, among others, the Company's Australian ship-owning subsidiaries and its Norwegian subsidiaries are subject to income taxes.

The significant components of the Company's deferred tax assets and liabilities are as follows:

|                                           | December 31,<br>2011<br>\$ | December 31,<br>2010<br>\$ |
|-------------------------------------------|----------------------------|----------------------------|
| Deferred tax assets:                      |                            |                            |
| Vessels and equipment                     | 76,582                     | 2,182                      |
| Tax losses carried forward <sup>(1)</sup> | 380,299                    | 286,499                    |
| Other                                     | 95,312                     | 97,945                     |
| <b>Total deferred tax assets</b>          | <b>552,193</b>             | <b>386,626</b>             |
| Deferred tax liabilities:                 |                            |                            |
| Vessels and equipment                     | 60,776                     | 122,263                    |
| Long-term debt                            | 24,918                     | 31,077                     |
| Other                                     | 45,624                     | 2,900                      |

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|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Total deferred tax liabilities        | 131,318   | 156,240   |
| Net deferred tax assets               | 420,875   | 230,386   |
| Valuation allowance                   | (398,559) | (213,385) |
| Net deferred tax assets (liabilities) | 22,316    | 17,001    |

- (1) Substantially all of the Company's net operating loss carryforwards of \$1.27 billion relate to its Australian ship-owning subsidiaries and its Norwegian subsidiaries. These net operating loss carryforwards are available to offset future taxable income in the respective jurisdictions, and can be carried forward indefinitely.

The components of the provision for income taxes are as follows:

|                               | Year Ended<br>December 31, 2011<br>\$ | Year Ended<br>December 31, 2010<br>\$ | Year Ended<br>December 31, 2009<br>\$ |
|-------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Current                       | (6,768)                               | (13,129)                              | (28,312)                              |
| Deferred                      | 2,478                                 | 19,469                                | 5,423                                 |
| Income tax (expense) recovery | (4,290)                               | 6,340                                 | (22,889)                              |

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the relevant year at the applicable statutory income tax rates and the actual tax charge related to the relevant year are as follows:

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

|                                                                 | Year Ended<br>December 31,<br>2011<br>\$ | Year Ended<br>December 31,<br>2010<br>\$ | Year Ended<br>December 31,<br>2009<br>\$ |
|-----------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Net (loss) income before taxes                                  | (382,431)                                | (172,975)                                | 232,666                                  |
| Net (loss) income not subject to taxes                          | (351,773)                                | (416,684)                                | 550,299                                  |
| <b>Net (loss) income subject to taxes</b>                       | <b>(30,658)</b>                          | <b>243,709</b>                           | <b>(317,633)</b>                         |
| <b>At applicable statutory tax rates</b>                        | <b>(8,987)</b>                           | <b>57,737</b>                            | <b>(89,395)</b>                          |
| Permanent and currency differences                              | (172,368)                                | (104,514)                                | 109,857                                  |
| Adjustments to valuation allowances and uncertain tax positions | 179,675                                  | 40,863                                   | 1,623                                    |
| Other                                                           | 5,970                                    | (425)                                    | 804                                      |
| <b>Tax expense (recovery) related to the current year</b>       | <b>4,290</b>                             | <b>(6,340)</b>                           | <b>22,889</b>                            |

The following is a roll-forward of the Company's unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2009 to December 31, 2011:

|                                                        | 2011<br>\$ | 2010<br>\$ | 2009<br>\$ |
|--------------------------------------------------------|------------|------------|------------|
| Balance of unrecognized tax benefits as at January 1   | 45,302     | 40,943     | 17,296     |
| Increase for positions taken in prior years            | 83         | 4,037      |            |
| Increase for positions related to the current year     | 3,308      | 8,979      | 27,552     |
| Decreases for positions taken in prior years           |            | (4,557)    | (3,905)    |
| Decreases related to statute of limitations            | (8,889)    | (4,100)    |            |
| Balance of unrecognized tax benefits as at December 31 | 39,804     | 45,302     | 40,943     |

The majority of the net decrease for positions for the year ended December 31, 2011 relates to potential tax on freight income.

The Company does not presently anticipate such uncertain tax positions will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected. The tax years 2007 through 2010 remain open to examination by some of the major taxing jurisdictions in which the Company is subject to tax.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The interest and penalties on unrecognized tax benefits are included in the roll-forward schedule above and are approximately \$1.8 million in 2011, \$1.2 million in 2010 and \$8.5 million in 2009.

## 22. Pension Benefits

### a) Defined Contribution Pension Plans

With the exception of the Company's employees in Norway and certain of its employees in Australia, the Company's employees are generally eligible to participate in defined contribution plans. These plans allow for the employees to contribute a certain percentage of their base salaries into the plans. The Company matches all or a portion of the employees' contributions, depending on how much each employee contributes. During the years ended December 31, 2011, 2010 and 2009, the amount of cost recognized for the Company's defined contribution pension plans was \$18.3 million, \$17.1 million and \$15.0 million, respectively.

### b) Defined Benefit Pension Plans

The Company has a number of defined benefit pension plans (or the *Benefit Plans*) which primarily cover its employees in Norway and certain employees in Australia. As at December 31, 2011, approximately 75% of the defined benefit pension assets were held by the Norwegian plans and approximately 25% are held by the Australia plan. The pension assets in the Norwegian plans have been guaranteed a minimum rate of return by the provider, thus reducing potential exposure to the Company to the extent the counterparty honors its obligations. Potential exposure to the Company has also been reduced, particularly for the Australian plans, as a result of certain of its time-charter and management contracts that allow the Company, under certain conditions, to recover pension plan costs from its customers.

In 2010, the Norwegian Parliament enacted a new early retirement plan for the private sector in Norway, which was effective January 1, 2011. As a result of the legislation, the Company was substantially released from its obligation under the Company's prior early retirement plan (a single-employer defined benefit pension plan) and the Company recorded income of \$3.7 million in the consolidated statement of income (loss).

The following table provides information about changes in the benefit obligation and the fair value of the Benefit Plans assets, a statement of the funded status, and amounts recognized on the Company's balance sheets:

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

|                                                | Year Ended<br>December 31, 2011<br>\$ | Year Ended<br>December 31, 2010<br>\$ |
|------------------------------------------------|---------------------------------------|---------------------------------------|
| Change in benefit obligation:                  |                                       |                                       |
| Beginning balance                              | 120,723                               | 114,256                               |
| Service cost                                   | 8,829                                 | 8,345                                 |
| Interest cost                                  | 5,167                                 | 5,148                                 |
| Contributions by plan participants             | 739                                   | 579                                   |
| Actuarial loss                                 | 9,408                                 | 730                                   |
| Benefits paid                                  | (4,395)                               | (7,333)                               |
| Settlements and curtailments                   |                                       | (4,937)                               |
| Foreign currency exchange rate changes         | (3,299)                               | 3,635                                 |
| Other                                          |                                       | 300                                   |
| Ending balance                                 | 137,172                               | 120,723                               |
| Change in fair value of plan assets:           |                                       |                                       |
| Beginning balance                              | 102,085                               | 95,495                                |
| Actual return on plan assets                   | 2,931                                 | 125                                   |
| Contributions by the employer                  | 12,061                                | 11,649                                |
| Contributions by plan participants             | 739                                   | 579                                   |
| Benefits paid                                  | (4,339)                               | (7,259)                               |
| Settlements and curtailments                   |                                       | (1,314)                               |
| Foreign currency exchange rate changes         | (2,357)                               | 3,110                                 |
| Other                                          | (422)                                 | (300)                                 |
| Ending balance                                 | 110,698                               | 102,085                               |
| Funded status deficiency                       | (26,474)                              | (18,638)                              |
| Amounts recognized in the balance sheets:      |                                       |                                       |
| Other long-term liabilities                    | 26,474                                | 18,638                                |
| Accumulated other comprehensive (loss) income: |                                       |                                       |
| Net actuarial losses <sup>(1)</sup>            | (19,929)                              | (18,279)                              |

(1) As at December 31, 2011, the estimated amount that will be amortized from accumulated other comprehensive (loss) income into net periodic benefit cost in 2012 is \$(0.2) million.

As of December 31, 2011 and 2010, the accumulated benefit obligation for the Benefit Plans was \$100.4 million and \$114.3 million, respectively. The following table provides information for those pension plans with a benefit obligation in excess of plan assets and those pension plans with an accumulated benefit obligation in excess of plan assets:

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|                                | December 31, 2011 | December 31, 2010 |
|--------------------------------|-------------------|-------------------|
|                                | \$                | \$                |
| Benefit obligation             | 113,460           | 72,180            |
| Fair value of plan assets      | 85,432            | 53,421            |
| Accumulated benefit obligation | 35,358            | 62,405            |
| Fair value of plan assets      | 31,815            | 39,134            |

The components of net periodic pension cost relating to the Benefit Plans for the years ended December 31, 2011, 2010 and 2009 consisted of the following:

|                                    | Year Ended   | Year Ended   | Year Ended   |
|------------------------------------|--------------|--------------|--------------|
|                                    | December 31, | December 31, | December 31, |
|                                    | 2011         | 2010         | 2009         |
|                                    | \$           | \$           | \$           |
| Net periodic pension cost:         |              |              |              |
| Service cost                       | 8,978        | 8,616        | 9,753        |
| Interest cost                      | 5,250        | 5,091        | 4,548        |
| Expected return on plan assets     | (5,805)      | (5,431)      | (4,624)      |
| Amortization of net actuarial loss | 371          | 281          | 1,394        |
| Other                              | 421          | (3,390)      | 184          |
| Net cost                           | 9,215        | 5,167        | 11,255       |

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The components of other comprehensive (income) loss relating to the Plans for the years ended December 31, 2011, 2010 and 2009 consisted of the following:

|                                           | Year Ended<br>December 31,<br>2011<br>\$ | Year Ended<br>December 31,<br>2010<br>\$ | Year Ended<br>December 31,<br>2009<br>\$ |
|-------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Other comprehensive (income) loss:        |                                          |                                          |                                          |
| Net loss (gain) arising during the period | 12,052                                   | 5,711                                    | (13,524)                                 |
| Amortization of net actuarial (gain) loss | (319)                                    | 1,026                                    | (1,394)                                  |
| Other loss (gain)                         |                                          | 390                                      | (785)                                    |
| <b>Total loss (income)</b>                | <b>11,733</b>                            | <b>7,127</b>                             | <b>(15,703)</b>                          |

The Company estimates that it will make contributions into the Benefit Plans of \$10.7 million during 2012. The following table provides the estimated future benefit payments, which reflect expected future service, to be paid by the Benefit Plans:

| Year         | Pension Benefit<br>Payments<br>\$ |
|--------------|-----------------------------------|
| 2012         | 8,000                             |
| 2013         | 4,969                             |
| 2014         | 6,361                             |
| 2015         | 6,251                             |
| 2016         | 5,704                             |
| 2017-2021    | 29,263                            |
| <b>Total</b> | <b>60,548</b>                     |

The fair value of the plan assets, by category, as of December 31, 2011 and 2010 were as follows:

|                             | December 31,<br>2011<br>\$ | December 31,<br>2010<br>\$ |
|-----------------------------|----------------------------|----------------------------|
| Pooled Funds <sup>(1)</sup> | 82,501                     | 74,826                     |
| Mutual Funds <sup>(2)</sup> |                            |                            |
| Equity investments          | 13,852                     | 13,073                     |
| Debt securities             | 3,445                      | 3,197                      |

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|                       |             |             |
|-----------------------|-------------|-------------|
| Real estate           | 2,092       | 2,327       |
| Cash and money market | 291         | 1,034       |
| Other                 | 8,517       | 7,628       |
| <br>Total             | <br>110,698 | <br>102,085 |

- (1) The Company has no control over the investment mix or strategy of the pooled funds. The pooled funds guarantee a minimum rate of return. If actual investment returns are less than the guarantee minimum rate, then the provider's statutory reserves are used to top up the shortfall. The pooled funds primarily invest in hold to maturity bonds, real estate and other fixed income investments, which are expected to provide a stable rate of return.
- (2) The mutual funds primary aim is to provide investors with an exposure to a diversified mix of predominantly growth oriented assets (70%) with moderate to high volatility and some defensive assets (30%).

The investment strategy for all plan assets is generally to actively manage a portfolio that is diversified among asset classes, markets and regions. Certain of the investment funds do not invest in companies that do not meet certain socially responsible investment criteria. In addition to diversification, other risk management strategies employed by the investment funds include gradual implementation of portfolio adjustments and hedging currency risks.

The Company's plan assets are primarily invested in commingled funds holding equity and debt securities, which are valued using the net asset value (or NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares or units outstanding. Commingled funds are classified within Level 2 of the fair value hierarchy as the NAVs are not publicly available.

The Company has a pension committee that is comprised of various members of senior management. Among other things, the Company's pension committee oversees the investment and management of the plan assets, with a view to ensuring the prudent and effective management of such plans. In addition, the pension committee reviews investment manager performance results annually and approves changes to the investment managers.

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The weighted average assumptions used to determine benefit obligations at December 31, 2011 and 2010 were as follows:

|                               | December 31, 2011 | December 31, 2010 |
|-------------------------------|-------------------|-------------------|
| Discount rates                | 3.2%              | 4.4%              |
| Rate of compensation increase | 4.4%              | 4.6%              |

The weighted average assumptions used to determine net pension expense for the years ended December 31, 2011, 2010 and 2009 were as follows:

|                                                   | Year<br>Ended<br>December 31,<br>2011 | Year<br>Ended<br>December 31,<br>2010 | Year<br>Ended<br>December 31,<br>2009 |
|---------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Discount rates                                    | 3.2%                                  | 4.4%                                  | 5.0%                                  |
| Rate of compensation increase                     | 4.4%                                  | 4.6%                                  | 4.7%                                  |
| Expected long-term rates of return <sup>(1)</sup> | 5.0%                                  | 5.7%                                  | 6.0%                                  |

- (1) To the extent the expected return on plan assets varies from the actual return, an actuarial gain or loss results. The expected long-term rates of return on plan assets are based on the estimated weighted-average long-term returns of major asset classes. In determining asset class returns, the Company takes into account long-term returns of major asset classes, historical performance of plan assets, as well as the current interest rate environment. The asset class returns are weighted based on the target asset allocations.

**23. Equity Accounted Investments**

The Company has joint venture interests of 33%, 40%, and 50%, respectively, in the Angola LNG Project (see Note 16b), Ikdam Production, and SkaugenPetroTrans. The Wah Kwong Joint Venture is a joint venture arrangement between Teekay Tankers and Wah Kwong whereby Teekay Tankers holds a 50% interest (see Note 16b). The RasGas 3 Joint Venture is a joint venture arrangement between Teekay LNG and QGTC 3 whereby Teekay LNG holds a 40% interest. The RasGas 3 Joint Venture owns four LNG carriers and related long-term fixed-rate time-charters to service the expansion of a LNG project in Qatar.

In November 2011, Teekay acquired a 40% interest in a recapitalized Sevan for approximately \$25 million (see Note 3). Sevan owns (i) two partially-completed hulls (#4 and #5) available for upgrade to FPSOs or other offshore projects; (ii) a licensing agreement with ENI SpA; (iii) an engineering and offshore project development business; and (iv) intellectual property rights, including offshore unit design patents. As at November 30, 2011, the fair value of the Company's interest in Sevan was determined to be \$49.2 million. The difference between the fair value of the Company's 40% interest in Sevan and the price paid has been recognized as a bargain purchase gain in the Company's consolidated statements of income (loss). As of February 28, 2012, the aggregate value of the Company's 40% interest in Sevan, based on the quoted market price of Sevan's common stock on the Oslo Stock Exchange was \$46.5 million.

In November 2010, Teekay LNG acquired a 50% interest in companies that own two LNG carriers (collectively, the *Exmar Joint Venture*) from Exmar NV for a total equity purchase price of approximately \$72.5 million (net of assumed debt). Teekay LNG financed \$37.3 million of the purchase price by issuing to Exmar NV 1.1 million new common units with the balance financed by drawing on one of Teekay LNG's revolving credit facilities. As part of the transaction, Teekay LNG agreed to guarantee 50% of the \$206 million of debt secured by the Exmar Joint

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Venture. Exmar NV retains a 50% ownership interest in the Exmar Joint Venture. The two vessels acquired are the 2002-built *Excalibur*, a conventional LNG carrier, and the 2005-built *Excelsior*, a specialized gas carrier which can both transport and regasify LNG onboard. Both vessels are on long-term, fixed-rate charter contracts to Excelerate Energy LP for firm periods until 2022 and 2025, respectively.

A condensed summary of the Company's investments in and advances to equity accounted investments are as follows (in thousands of dollars, except percentages):

| <b>Investments in Equity Accounted Investments</b> | <b>Ownership Percentage</b> | <b>December 31, 2011</b> | <b>December 31, 2010</b> |
|----------------------------------------------------|-----------------------------|--------------------------|--------------------------|
| RasGas 3 Joint Venture                             | 40%                         | 97,423                   | 98,207                   |
| Exmar Joint Venture                                | 50%                         | 81,242                   | 74,504                   |
| Angola Joint Venture                               | 33%                         | 16,063                   |                          |
| SkaugenPetroTrans Joint Venture                    | 50%                         | 9,623                    | 32,721                   |
| Sevan Marine Equity Investment                     | 40%                         | 46,998                   |                          |
| Other                                              | 40% to 50%                  | 1,288                    | 2,201                    |
| <b>Total</b>                                       |                             | <b>252,637</b>           | <b>207,633</b>           |

| <b>Loans to Equity Accounted Investees</b> | <b>Ownership Percentage</b> | <b>December 31, 2011</b> | <b>December 31, 2010</b> |
|--------------------------------------------|-----------------------------|--------------------------|--------------------------|
| Wah Kwong Joint Venture                    | 50%                         | 9,830                    | 9,830                    |
| Ikdam Production Joint Venture             | 40%                         | 538                      | 3,116                    |
| SkaugenPetroTrans Joint Venture            | 50%                         | 5,000                    |                          |
| Sevan Marine Equity Investment             | 40%                         | 50,000                   |                          |
| <b>Total</b>                               |                             | <b>65,368</b>            | <b>12,946</b>            |

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

A condensed summary of the Company's financial information for equity accounted investments (33% to 50% owned) shown on a 100% basis are as follows:

|                         | December 31,<br>2011 | December 31,<br>2010 |  |
|-------------------------|----------------------|----------------------|--|
| Current assets          | 281,933              | 135,087              |  |
| Non-current assets      | 2,545,518            | 1,867,161            |  |
| Current liabilities     | 252,439              | 106,858              |  |
| Non-current liabilities | 2,118,550            | 1,507,800            |  |

  

|                               | Year Ended<br>December 31,<br>2011 | Year Ended<br>December 31,<br>2010 | Year Ended<br>December 31,<br>2009 |
|-------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenues                      | 333,020                            | 232,516                            | 238,838                            |
| Income from vessel operations | 134,617                            | 91,290                             | 97,708                             |
| Net (loss) income             | (48,732)                           | (44,794)                           | 136,444                            |

For the year ended December 31, 2011, the Company recorded equity (loss) income of \$(35.3) million (2010: \$(11.3) million and 2009: \$52.5 million). The income or loss was primarily comprised of the Company's share of net (loss) income from the Angola LNG Project, the RasGas 3 Joint Venture, and from the Exmar Joint Venture. For the year ended December 31, 2011, \$(35.2) million of the equity (loss) gain related to the Company's share of unrealized (loss) gain on interest rate swaps associated with these projects (2010: \$(26.3) million and 2009: \$32.4 million).

**24. Accounting Pronouncements Not Yet Adopted**

In May 2011, the FASB issued amendments to FASB ASC 820, Fair Value Measurement, which clarify or change the application of existing fair value measurements, including that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. These amendments are effective for the Company on January 1, 2012. The Company is currently assessing the potential impacts, if any, of these amendments on its consolidated financial statements.

**25. Subsequent Events**

- a) In January 2012, Teekay Offshore issued NOK 600 million in senior unsecured bonds that mature in January 2017 in the Norwegian bond market. The aggregate principal amount of the bonds is equivalent to approximately \$100 million. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. The Partnership entered into a cross currency rate swap, to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 7.49%. The proceeds of the bonds are to be used

for general corporate purposes.

- b) In January 2012, OOG-TKP FPSO GmbH & Co KG, a 50/50 joint venture between Teekay and Odebrecht Oil & Gas S.A., purchased the assets related to the Tiro and Sidon FPSO project, including the partially constructed FPSO unit and the customer contracts, from Teekay for approximately \$179 million. The purchase price was financed 80% with borrowings under a \$300 million debt facility secured by the *Tiro and Sidon* FPSO unit and the balance of the purchase price was financed with equity contributions by each of the joint venture partners. The facility is interest bearing at LIBOR plus a margin of 2.25% and requires quarterly principal repayments with a final bullet payment on maturity in October 2021.
- c) In February 2012, Teekay Tankers completed a follow-on public offering of 17.25 million shares of Class A common stock at \$4.00 per share. Teekay Tankers used the net offering proceeds to repay a portion of its outstanding debt under its revolving credit facility and the balance for general corporate purposes. As a result of the public offering, Teekay's ownership of Teekay Tankers was reduced to 20.4%. Teekay maintains voting control of Teekay Tankers through its ownership of shares of Class A and Class B Common Stock and will continue to consolidate this subsidiary.
- d) In February 2012, a joint venture (or Teekay-Marubeni Joint Venture) between Teekay LNG and Marubeni Corporation acquired a 100% interest in six LNG carriers from Denmark-based A.P. Moller-Maersk A/S for approximately \$1.3 billion. The Teekay LNG-Marubeni Joint Venture financed this acquisition with \$1.06 billion from secured loan facilities and \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has a 52% economic interest in the Teekay-Marubeni Joint Venture and consequently its share of the equity contribution was approximately \$138 million. Teekay LNG financed this equity contribution from borrowing under its existing credit facilities.
- e) In February 2012, Teekay Offshore entered into a \$130 million debt facility secured by the *Piranema Spirit* FPSO unit that matures in February 2017. The interest payments on the facility are based on LIBOR plus a margin of 3%. The principal repayments are identical quarterly payments with a final balloon payment in February 2017. The proceeds from the debt facility were used for general corporate purposes including repayment of existing revolving credit facility debt.
- f) In April 2012, Teekay reached an agreement to sell to Teekay Tankers 13 of its 17 directly-owned conventional tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$455 million. As partial consideration for the sale, Teekay will receive \$25 million of newly issued shares of Teekay Tankers Class A common stock, and the remaining amount will be settled through a combination of cash payments to Teekay and the assumption by Teekay Tankers of existing debt secured by the acquired vessels. As a result of this share issuance, Teekay's economic interest in Teekay Tankers will increase from approximately 20% to approximately 25% and its voting interest as a result of its combined ownership of Class A and Class B shares will increase from approximately 51% to approximately 53%. As part of this transaction, Teekay and Teekay Tankers will enter into a non-competition agreement, which will provide Teekay Tankers with a right of first refusal to participate in any future conventional crude oil tanker and product tanker opportunities developed by Teekay for a period of three years from the closing date of this transaction. The transaction is subject to final documentation, receiving relevant third party consents, and other customary closing conditions and is expected to be completed in the second quarter of 2012.
- g) In April 2012, Teekay LNG issued NOK 700 million in senior unsecured bonds that mature in May 2017 in the Norwegian bond market. The aggregate principal amount of the bonds is equivalent to approximately \$120 million and all interest and principal payments will be swapped into U.S. Dollars. The proceeds of the bonds, which will be available to Teekay LNG upon settlement in early May 2012, are expected to be used for general corporate purposes. Teekay LNG will apply for listing of the bonds on the Oslo Stock Exchange.