

TEEKAY CORP
Form 6-K
September 17, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2012

Commission file number 1-12874

TEEKAY CORPORATION

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

69 Pitts Bay Road

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Hamilton, HM 08 Bermuda

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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TEEKAY CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED June 30, 2012

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Table of Contents**ITEM 1 - FINANCIAL STATEMENTS****TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
REVENUES	481,911	484,922	977,475	972,946
OPERATING EXPENSES				
Voyage expenses	39,176	51,889	77,813	97,015
Vessel operating expenses (note 15)	172,356	174,717	339,557	336,294
Time-charter hire expense	31,491	53,414	75,470	116,445
Depreciation and amortization	115,068	105,236	229,682	210,274
General and administrative (notes 9 and 15)	50,777	51,273	104,150	121,491
Loss on sale of vessels and write-downs of vessels (note 7)	3,269	5,812	3,072	9,405
Restructuring charges (note 12)	1,525	458	1,525	5,419
Total operating expenses	413,662	442,799	831,269	896,343
Income from vessel operations	68,249	42,123	146,206	76,603
OTHER ITEMS				
Interest expense	(42,707)	(33,516)	(85,007)	(66,310)
Interest income	1,645	2,457	3,691	4,922
Realized and unrealized loss on non-designated derivative instruments (note 15)	(94,598)	(102,140)	(89,783)	(78,883)
Equity income (loss) (note 10b)	5,291	(6,053)	22,935	341
Foreign exchange gain (loss) (notes 8 and 15)	17,835	(7,157)	2,011	(27,497)
Other income (note 13)	89	958	2,432	1,052
Net (loss) income before income taxes	(44,196)	(103,328)	2,485	(89,772)
Income tax recovery (expense) (note 16)	1,849	(2,022)	5,417	(2,833)
Net (loss) income	(42,347)	(105,350)	7,902	(92,605)
Less: Net (income) loss attributable to non-controlling interests	(4,927)	8,898	(54,110)	(33,504)
Net loss attributable to stockholders of Teekay Corporation	(47,274)	(96,452)	(46,208)	(126,109)
Per common share of Teekay Corporation (note 17)				
Basic loss attributable to stockholders of Teekay Corporation	(0.68)	(1.36)	(0.67)	(1.77)
Diluted loss attributable to stockholders of Teekay Corporation	(0.68)	(1.36)	(0.67)	(1.77)
Cash dividends declared	0.31625	0.31625	0.6325	0.6325
Weighted average number of common shares outstanding (note 17)				
Basic	69,231,419	70,935,484	69,043,639	71,438,446
Diluted	69,231,419	70,935,484	69,043,639	71,438,446

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands of U.S. dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Net (loss) income	(42,347)	(105,350)	7,902	(92,605)
Other comprehensive (loss) income:				
Unrealized loss on marketable securities	(563)	(2,546)	(795)	(1,078)
Realized loss on marketable securities			420	
Pension adjustments, net of taxes			(2,361)	192
Unrealized (loss) gain on qualifying cash flow hedging instruments	(1,601)	2,596	1,220	8,094
Realized gain on qualifying cash flow hedging instruments	(374)	(2,144)	(1,377)	(3,129)
Foreign exchange loss on currency translation	(40)		(800)	
Other comprehensive (loss) income	(2,578)	(2,094)	(3,693)	4,079
Comprehensive (loss) income	(44,925)	(107,444)	4,209	(88,526)
Less: Comprehensive (income) loss attributable to non-controlling interests	(4,432)	8,719	(54,157)	(34,811)
Comprehensive loss attributable to stockholders of Teekay Corporation	(49,357)	(98,725)	(49,948)	(123,337)

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS**

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

	As at June 30, 2012 \$	As at December 31, 2011 \$
ASSETS		
Current		
Cash and cash equivalents (<i>note 8</i>)	665,737	692,127
Restricted cash	4,659	4,370
Accounts receivable, including non-trade of \$24,635 (2011 - \$38,120) and related party balance of \$9,397 (2011 - \$3,487)	375,957	359,758
Vessels held for sale	14,961	19,000
Net investment in direct financing leases (<i>note 5</i>)	17,292	23,171
Prepaid expenses	77,791	82,927
Current portion of loans to equity accounted investees	103,000	50,000
Current portion of derivative assets (<i>note 15</i>)	20,383	24,712
Other current assets	456	2,672
Total current assets	1,280,236	1,258,737
Restricted cash - non-current	526,705	495,784
Vessels and equipment (notes 7 and 8)		
At cost, less accumulated depreciation of \$2,403,707 (2011 - \$2,375,604)	6,528,607	6,678,899
Vessels under capital leases, at cost, less accumulated amortization of \$178,934 (2011 - \$163,939)	668,651	681,554
Advances on newbuilding contracts (<i>note 10a</i>)	444,173	507,908
Total vessels and equipment	7,641,431	7,868,361
Net investment in direct financing leases - non-current (<i>note 5</i>)	430,454	436,737
Marketable securities	5,925	7,782
Loans to joint ventures and joint venture partners, bearing interest between 4.4% to 8.0%	51,781	35,248
Derivative assets (<i>note 15</i>)	147,319	140,557
Deferred income tax asset (<i>note 16</i>)	23,476	22,316
Equity accounted investments (<i>notes 4 and 10b</i>)	436,486	252,637
Investment in term loans	187,347	186,844
Other non-current assets	128,894	119,093
Intangible assets net	128,682	136,742
Goodwill	166,539	166,539
Total assets	11,155,275	11,127,377
LIABILITIES AND EQUITY		
Current		
Accounts payable	83,131	93,065
Accrued liabilities	298,997	394,586
Current portion of derivative liabilities (<i>note 15</i>)	118,003	117,337
Current portion of long-term debt (<i>note 8</i>)	651,218	401,376
Current obligation under capital leases	170,610	47,203
Current portion of in-process revenue contracts	67,947	73,344

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Total current liabilities	1,389,906	1,126,911
Long-term debt, including amounts due to joint venture partners of \$13,282 (2011 - \$13,282) (note 8)	4,963,354	5,042,997
Long-term obligation under capital leases	471,736	599,844
Derivative liabilities (note 15)	610,941	569,542
Asset retirement obligation	22,213	21,150
In-process revenue contracts	204,786	235,296
Other long-term liabilities	197,281	199,836
Total liabilities	7,860,217	7,795,576
Commitments and contingencies (notes 5, 10 and 15)		
Redeemable non-controlling interest (note 10e)	36,356	38,307
Equity		
Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 69,266,827 shares outstanding (2011 - 68,732,341); 74,426,974 shares issued (2011 - 74,391,691)) (note 9)	670,107	660,917
Retained earnings	696,831	792,682
Non-controlling interest	1,919,410	1,863,798
Accumulated other comprehensive loss (note 14)	(27,646)	(23,903)
Total equity	3,258,702	3,293,494
Total liabilities and equity	11,155,275	11,127,377

Consolidation of variable interest entities (note 4a)

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

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2012	2011
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income (loss)	7,902	(92,605)
Non-cash items:		
Depreciation and amortization	229,682	210,274
Amortization of in-process revenue contracts	(35,907)	(21,734)
(Gain) loss on sale of vessels and equipment and other assets	(193)	311
Loss on sale of marketable securities	420	
Write-down of vessels and equipment	1,048	9,094
Equity income, net of dividends received	(22,934)	(341)
Income tax (recovery) expense	(5,417)	2,833
Employee stock option compensation	4,026	13,974
Unrealized foreign exchange (loss) gain	(16,222)	37,023
Unrealized loss (gain) on derivative instruments	43,104	(74,928)
Other	41,174	(7,069)
Change in operating assets and liabilities	(95,479)	(47,461)
Expenditures for dry docking	(11,720)	(22,172)
Net operating cash flow	139,484	7,199
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt, net of issuance costs (note 8)	819,955	547,253
Scheduled repayments of long-term debt	(154,253)	(123,450)
Prepayments of long-term debt	(487,548)	(341,783)
Repayments of capital lease obligations	(5,040)	(2,282)
(Advances) to/proceeds from loans to joint ventures and joint venture partners	(3,659)	14,500
Repayment of loans from joint venture partner		(59)
Increase in restricted cash	(31,641)	(4,353)
Net proceeds from issuance of Teekay LNG Partners L.P. units		158,326
Net proceeds from issuance of Teekay Tankers Ltd. shares (note 6)	65,854	107,234
Issuance of Common Stock upon exercise of stock options	5,161	5,171
Repurchase of Common Stock (note 9)		(83,660)
Repurchase of Teekay Tankers Ltd. Shares (note 6)	(1,667)	
Distribution paid from subsidiaries to non-controlling interests	(121,109)	(101,284)
Cash dividends paid	(44,956)	(46,472)
Net financing cash flow	41,097	129,141
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(205,186)	(358,607)
Proceeds from sale of vessels and equipment	205,096	5,055
Proceeds from sale of marketable securities	1,063	
Investment in term loan		(70,404)
Investment in equity accounted investees	(161,209)	(6,544)
Advances to equity accounted investees	(58,916)	(1,881)

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Direct financing lease payments received	12,162	13,823
Other investing activities	19	19
Net investing cash flow	(206,971)	(418,539)
Decrease in cash and cash equivalents	(26,390)	(282,199)
Cash and cash equivalents, beginning of the period	692,127	779,748
Cash and cash equivalents, end of the period	665,737	497,549

Supplemental cash flow information (note 18)

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	TOTAL EQUITY					
	Thousands of Shares of Common Stock Outstanding #	Common Stock and Additional Paid-in Capital \$	Retained Earnings \$	Accumulated Other Comprehensive Loss \$	Non- controlling Interest \$	Total \$
Balance as at December 31, 2011	68,732	660,917	792,682	(23,903)	1,863,798	3,293,494
Net (loss) income			(46,208)		53,889	7,681
Other comprehensive income (loss)				(3,743)	50	(3,693)
Dividends declared			(44,959)		(121,109)	(166,068)
Reinvested dividends	1	3				3
Exercise of stock options and other	534	5,161				5,161
Employee stock option compensation and other (note 9)		4,026				4,026
Dilution loss on public offering of Teekay Tankers (note 6)			(14,764)			(14,764)
Gain on share issuance of Teekay Tankers (note 6)			10,080			10,080
Addition of non-controlling interest from share and unit issuances of subsidiaries and other					122,782	122,782
Balance as at June 30, 2012	69,267	670,107	696,831	(27,646)	1,919,410	3,258,702

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Company*). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2011, included in the Company's Annual Report on Form 20-F. In the opinion of management, these unaudited financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Given 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 prepaid expenses of \$10.1 million less accounts payable of \$4.0 million as at December 31, 2011 into accounts receivable in the consolidated balance sheets.

2. Adoption of New Accounting Policies

In January 2012, the Company adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 820, *Fair Value Measurement*, which clarifies or changes 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. The adoption of this amendment did not have an impact on the Company's consolidated financial statements other than the disclosures as presented in Note 11 – Financial Instruments.

3. Segment Reporting

The following tables include results for the Company's four segments for the three and six months ended June 30, 2012 and 2011.

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Three Months ended June 30, 2012					
Revenues	153,130	136,198	69,289	123,249	481,911
Voyage expenses	32,252		53	6,871	39,176

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Vessel operating expenses	40,656	80,222	10,821	40,657	172,356
Time-charter hire expense	12,969			18,522	31,491
Depreciation and amortization	32,037	34,415	17,445	31,171	115,068
General and administrative ⁽¹⁾	14,960	15,481	5,541	14,795	50,777
Loss on sale of vessels and write-downs of vessels	1,048			2,221	3,269
Restructuring charges				1,525	1,525
Income from vessel operations	19,208	6,080	35,429	7,532	68,249
Segment assets as at June 30, 2012	1,871,341	2,497,592	3,108,124	2,494,008	9,971,065

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

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Three Months ended June 30, 2011					
Revenues	148,647	102,658	68,002	165,615	484,922
Voyage expenses	26,351		3,778	21,760	51,889
Vessel operating expenses	50,558	61,509	13,145	49,505	174,717
Time-charter hire expense	18,751			34,663	53,414
Depreciation and amortization	32,125	23,215	16,196	33,700	105,236
General and administrative ⁽¹⁾	12,982	13,494	4,133	20,664	51,273
Loss on sale of vessels and write-downs of vessels				5,812	5,812
Restructuring charges	117		42	299	458
Income (loss) from vessel operations	7,763	4,440	30,708	(788)	42,123
Segment assets as at June 30, 2011	1,918,171	1,321,619	2,894,240	2,807,620	8,941,650

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Six Months ended June 30, 2012					
Revenues	308,469	264,866	141,739	262,401	977,475
Voyage expenses	59,267	232	149	18,165	77,813
Vessel operating expenses	84,808	148,363	21,632	84,754	339,557
Time-charter hire expense	26,586			48,884	75,470
Depreciation and amortization	63,829	67,563	34,683	63,607	229,682
General and administrative ⁽¹⁾	29,010	32,999	11,667	30,474	104,150
Loss on sale of vessels and write-downs of vessels	1,048			2,024	3,072
Restructuring charges				1,525	1,525
Income from vessel operations	43,921	15,709	73,608	12,968	146,206

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Six Months ended June 30, 2011					
Revenues	299,859	207,276	132,635	333,176	972,946
Voyage expenses	45,680		3,827	47,508	97,015
Vessel operating expenses	101,392	117,011	24,222	93,669	336,294
Time-charter hire expense	38,378			78,067	116,445
Depreciation and amortization	62,744	46,946	31,052	69,532	210,274
General and administrative ⁽¹⁾	31,288	28,217	10,738	51,248	121,491
Loss on sale of vessels and write-downs of vessels	171			9,234	9,405
Restructuring charges	4,037		171	1,211	5,419
Income (loss) from vessel operations	16,169	15,102	62,625	(17,293)	76,603

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

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

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

	June 30, 2012 \$	December 31, 2011 \$
Total assets of all segments	9,971,065	9,905,629
Cash	665,737	692,127
Accounts receivable and other assets	518,473	529,621
Consolidated total assets	11,155,275	11,127,377

4. Acquisitions**a) FPSO Units and Investment in Sevan Marine ASA**

On November 30, 2011, the Company acquired from Sevan Marine ASA (or *Sevan*) the floating, production, storage and offloading (or *FPSO*) unit *Sevan Hummingbird* (or *Hummingbird Spirit*) 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 Spirit*) and its existing customer contract for approximately \$164 million (including an adjustment for working capital). The purchase price for the acquisitions of the *Hummingbird Spirit* and the *Piranema Spirit* and the investment in Sevan 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 Voyager* (or *Voyageur Spirit*) and its existing customer contract from Sevan. The Company has agreed to acquire the *Voyageur Spirit* once the existing upgrade project is completed and the *Voyageur Spirit* commences operations under its customer contract, currently expected to be in the fourth quarter of 2012. Under the terms of the agreement, the Company will pay Sevan \$94 million to acquire the *Voyageur Spirit*, will assume the *Voyageur Spirit*'s existing \$230.0 million credit facility, which had an outstanding balance of \$220.5 million on November 30, 2011, and is responsible for all remaining upgrade costs after November 30, 2011, which are estimated to be between \$120 million and \$140 million (see Note 10c). The Company has control over the upgrade project and has guaranteed the repayment of the existing credit facility. The *Voyageur Spirit* has been consolidated by the Company, as the *Voyageur Spirit* 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 Spirit* as at June 30, 2012:

ASSETS	
Cash and cash equivalents	\$ 36,766
Other current assets	9,942
Vessels and equipment	374,433
Deferred tax assets	1,955

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Total assets	\$ 423,096
LIABILITIES AND EQUITY	
Accounts payable	\$ 9,788
Accrued liabilities	6,607
Long-term debt (<i>note 8</i>)	230,430
Derivative liabilities	4,669
Other long-term liabilities	3,390
Total liabilities	\$ 254,884
Total equity	\$ 168,212
Total liabilities and total equity	\$ 423,096

The Company's acquisition of the *Hummingbird Spirit*, *Piranema Spirit*, and *Voyageur Spirit* FPSO units and its investment in Sevan were 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 and in-process revenue contracts, are preliminary and are subject to further adjustment. The operating results of the *Hummingbird Spirit*, *Piranema Spirit* and *Voyageur Spirit* FPSO units are reflected in the Company's consolidated financial statements from November 30, 2011, the effective date of acquisition. In September 2012, Teekay entered into an agreement to sell the *Voyageur Spirit* to Teekay Offshore for \$540 million. Conditions to the closing of this transaction include, among others, Teekay Offshore obtaining financing and that Teekay has acquired the *Voyageur Spirit* and related assets pursuant to the terms of the acquisition agreement with Sevan. Please read Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments in 2012 Recent Offshore Business Developments. Pursuant to Teekay's omnibus agreement with Teekay Offshore, Teekay LNG and others, Teekay is obligated to offer Teekay Offshore the *Hummingbird Spirit* FPSO unit within approximately one year following commencement of a charter contract with a firm period of greater than three years in duration.

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

b) Teekay LNG Marubeni Joint Venture

On February 28, 2012, a joint venture between the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) and Marubeni Corporation (or *Teekay LNG-Marubeni Joint Venture*) 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 an aggregate of \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, deposited \$30 million in a restricted cash account as security for the debt within the Teekay LNG-Marubeni Joint Venture. Teekay LNG has a 52% economic interest in the Teekay LNG-Marubeni Joint Venture and, consequently, its share of the equity contribution was approximately \$138 million. Teekay LNG also contributed an additional \$5.8 million for its share of legal and financing costs. Teekay LNG financed this equity contribution by borrowing under its existing credit facilities.

This jointly-controlled entity is accounted for using the equity method. The excess of Teekay LNG's investment in the Teekay LNG-Marubeni Joint Venture over the book value of net assets acquired, which amounted to approximately \$303 million, has been accounted for as an increase to the carrying value of the vessels and out-of-the-money charters of the Teekay LNG-Marubeni Joint Venture, in accordance with the preliminary purchase price allocation.

5. Vessel Charters

Teekay LNG owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), giving Teekay LNG a 69% interest in Teekay Tangguh Joint Venture. The joint venture is a party to operating leases whereby it is leasing two LNG carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. In addition to the Company's minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements filed with the Company's Annual Report on Form 20-F for the year ended December 31, 2011, the additional minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at June 30, 2012, for the Company's chartered-in and chartered-out vessels were as follows:

	Remainder of 2012	2013	2014	2015	2016
	(in millions of U.S. dollars)				
Charters-in - operating leases	49.6	67.3	22.9	16.0	9.1
Charters-in - capital leases ⁽¹⁾	59.4	100.4	55.7	27.6	27.6
	109.0	167.7	78.6	43.6	36.7
Charters-out - operating leases ⁽²⁾	614.1	1,060.8	1,059.0	1,029.1	907.2
Charters-out - direct financing leases	30.4	49.5	48.1	47.2	47.3
	644.5	1,110.3	1,107.1	1,076.3	954.5

- (1) As at June 30, 2012 and December 31, 2011, the Company had \$475.8 million and \$476.1 million of restricted cash, respectively, which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Company also maintains restricted cash deposits relating to certain term loans, which totalled \$50.8 million and \$19.5

million as at June 30, 2012 and December 31, 2011, respectively.

- (2) The minimum scheduled future operating lease 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 June 30, 2012, revenue from unexercised option periods of contracts that existed on June 30, 2012 or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in the table have been reduced by estimated off-hire time for any period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

6. Financing Transactions

In February 2012, Teekay's subsidiary Teekay Tankers Ltd. (or *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 full exercise of the underwriters' overallotment option) at a price of \$4.00 per share, for gross proceeds of approximately \$69.0 million. As a result, Teekay's ownership of Teekay Tankers was reduced to 20.4%. As a result of the offering, the Company recorded a decrease to retained earnings of \$14.5 million, which represents the Company's dilution loss from the issuance of shares in Teekay Tankers during the six months ended June 30, 2012.

In June 2012, Teekay sold 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 \$454.2 million. As partial consideration for the sale, Teekay received \$25 million of newly issued shares of Teekay Tankers' Class A common stock, issued at a price of \$5.60 per share, and the remaining amount was 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, Teekay's economic interest in Teekay Tankers increased from approximately 20.4% to approximately 25.1% and its voting interest as a result of its combined ownership of Class A and Class B shares increased from approximately 51% to approximately 53%. Teekay maintains voting control of Teekay Tankers through its ownership of shares of Teekay Tankers' Class A and Class B common stock and continues to consolidate this subsidiary. As a result of this transaction, the Company recorded an increase to retained earnings and a reduction in non-controlling interest of \$10.1 million, as the Company accounts for changes in its ownership interest in controlled subsidiaries as equity transactions. As part of this transaction, Teekay entered into a non-competition agreement with Teekay Tankers, which provides 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 the transaction.

Table of Contents**TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

7. Vessel Sales and Write-downs**a) Vessel Sales**

During the three months ended June 30, 2012, the Company sold a 1997-built conventional tanker that was part of the Company's conventional tanker segment. The Company realized a loss of \$2.2 million from the sale of the conventional tanker.

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

b) Write-downs

During the three months ended June 30, 2012, the Company decided to pursue the sale of a 1992-built shuttle tanker and thus wrote down the carrying value of the vessel to fair value, which was the estimated sales price of the vessel. The Company subsequently sold the vessel in early August 2012. The Company's consolidated statement of (loss) income for the three and six months ended June 30, 2012 includes a \$1.0 million write-down related to this vessel. The write-down is included within the Company's shuttle tanker segment.

The Company's consolidated statements of loss for the three and six months ended June 30, 2011, include write-downs of \$5.6 million and \$9.1 million, respectively, for impairment of a 1993-built Aframax tanker to its then-estimated fair value of \$8.3 million, as the vessel carrying value exceeded the estimated fair value. The fair value of the tanker was based on its estimated sales price. The write-downs are included within the Company's conventional tanker segment.

8. Long-Term Debt

	June 30, 2012	December 31, 2011
	\$	\$
Revolving Credit Facilities	2,043,239	2,244,634
Senior Notes (8.5%) due January 15, 2020	446,967	446,825
Norwegian Kroner-denominated Bonds due through May 2017	318,862	100,417
U.S. Dollar-denominated Term Loans due through 2021	2,227,357	2,069,860
U.S. Dollar-denominated Term Loan of Variable Interest Entity due October 2016	230,453	220,450
Euro-denominated Term Loans due through 2023	334,312	348,905
U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners	13,382	13,282
Total	5,614,572	