TEEKAY CORP
Form 20-F
April 25, 2012
Table of Contents

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

x **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

(Jurisdiction of incorporation or organization)

4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

(Address of principal executive offices)

Mark Cave

1. 4th 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 x 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 x

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 x 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 x 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 x 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 x International Financial Reporting Standards as issued Other ¨

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

Table of Contents

TEEKAY CORPORATION

INDEX TO REPORT ON FORM 20-F

Table of Contents

Table of Contents

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;

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;

Table of Contents

- 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*).

Table of Contents

	Years Ended December 31, 2007	2008	2009	2010	2011
	(in thousands, except share and per share data)				
Income Statement Data:					
Revenues	$ 2,387,625	$ 3,229,443	$ 2,181,605	$ 2,095,753	$ 1,953,782
Total operating expenses [(1)]	(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 [(2)]	63,543	(469,455)	128,412	(267,287)	(368,916)
Per Common Share Data:					
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
Balance Sheet Data (at end of year):					
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
Other Financial Data:					
Net revenues [(3)]	$ 1,856,552	$ 2,471,055	$ 1,887,514	$ 1,850,656	$ 1,777,168
EBITDA [(4)]	592,016	96,554	791,291	390,838	173,703
Adjusted EBITDA [(4)]	660,485	892,616	563,217	696,876	638,161
Total debt to total capitalization [(5)]	65.7%	68.5%	62.7%	60.8%	64.9%
Net debt to total net capitalization [(6)]	60.9%	61.9%	57.4%	53.4%	59.8%
Capital expenditures:					
Vessel and equipment purchases [(7)]	$ 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)

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).

7

(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.

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.

Table of Contents

	Years Ended December 31,				
	2007	2008	2009	2010	2011
			(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.

Table of Contents

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.

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.

Table of Contents

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.

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

Table of Contents

- 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 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;

12

Table of Contents

- 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.

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;

Table of Contents

- 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.

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 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.

Table of Contents

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;

- 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.

Table of Contents

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.

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,

Table of Contents

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 4th 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.

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.

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 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.

Table of Contents

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.

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.

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.

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 / 600th 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.

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:

Table of Contents

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

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)

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.

Table of Contents

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.

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: