TEEKAY CORP
Form 6-K
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2014

Commission file number 1- 12874

TEEKAY CORPORATION

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

69 Pitts Bay Road

Hamilton, HM 08, Bermuda

(Address of principal executive office)

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

Form 20-F x Form 40- F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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TEEKAY CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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ITEM 1 - FINANCIAL STATEMENTS

TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
REVENUES	452,254	430,707	958,748	881,744
OPERATING EXPENSES				
Voyage expenses	33,439	26,154	68,451	52,469
Vessel operating expenses	201,714	195,978	402,900	383,442
Time-charter hire expense	9,714	26,544	26,006	53,996
Depreciation and amortization	103,373	109,769	206,831	212,263
General and administrative	36,945	35,395	74,823	74,666
Loan loss (recoveries) provisions *(note 7b)*	(2,521)	7,042	(2,521)	10,207
Gain on sale of vessels and equipment *(note 7a)*	(9,615)	(1,341)	(9,453)	(1,309)
Restructuring charges *(note 12)*	(244)	1,789	395	3,843
Total operating expenses	372,805	401,330	767,432	789,577
Income from vessel operations	79,449	29,377	191,316	92,167
OTHER ITEMS				
Interest expense	(49,656)	(44,687)	(98,989)	(87,197)
Interest income	793	2,018	2,576	3,036
Realized and unrealized (loss) gain on non-designated derivative instruments *(note 15)*	(75,331)	56,035	(122,579)	42,246
Equity income	35,271	47,372	62,765	74,687
Foreign exchange (loss) gain *(notes 8 and 15)*	(2,046)	678	(2,940)	2,867
Other (loss) income *(note 13)*	(734)	(1,386)	7,517	3,856
Net (loss) income before income taxes	(12,254)	89,407	39,666	131,662
Income tax expense *(note 16)*	(3,193)	(1,873)	(5,991)	(4,373)
Net (loss) income	**(15,447)**	**87,534**	**33,675**	**127,289**
Less: Net income attributable to non-controlling interests	(27,540)	(76,167)	(77,150)	(122,058)
Net (loss) income attributable to stockholders of Teekay Corporation	**(42,987)**	**11,367**	**(43,475)**	**5,231**
Per common share of Teekay Corporation *(note 17)*				

Basic (loss) income attributable to stockholders of Teekay Corporation	(0.60)	0.16	(0.61)	0.07
Diluted (loss) income attributable to stockholders of Teekay Corporation	(0.60)	0.16	(0.61)	0.07
Cash dividends declared	0.3163	0.3163	0.6325	0.6325
Weighted average number of common shares outstanding *(note 17)*				
Basic	72,036,526	70,393,531	71,687,549	70,142,301
Diluted	72,036,526	71,314,629	71,687,549	71,142,363

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Net (loss) income	(15,447)	87,534	33,675	127,289
Other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications				
Unrealized loss on marketable securities	(287)	(1,136)	(208)	(2,062)
Unrealized loss on qualifying cash flow hedging instruments	(1,121)	(22)	(2,064)	(554)
Pension adjustments, net of taxes	581		(132)	1,464
Foreign exchange gain (loss) on currency translation	44	(479)	(43)	653
Amounts reclassified from accumulated other comprehensive (loss) income				
To other income:				
Impairment of marketable securities		2,062		2,062
To general and administrative expenses:				
Realized loss on qualifying cash flow hedging instruments	391	88	782	84
Settlement of defined benefit pension plan		974		974
Other comprehensive (loss) income	(392)	1,487	(1,665)	2,621
Comprehensive (loss) income	(15,839)	89,021	32,010	129,910
Less: Comprehensive income attributable to non-controlling interests	(27,067)	(76,167)	(76,320)	(122,100)
Comprehensive (loss) income attributable to stockholders of Teekay Corporation	(42,906)	12,854	(44,310)	7,810

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

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

	As at June 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Cash and cash equivalents *(note 8)*	748,900	614,660
Restricted cash	3,935	4,748
Accounts receivable, including non-trade of $100,009 (2013 - $109,114) and related party balance of $15,579 (2013 - $16,371)	559,047	528,594
Assets held for sale *(notes 7a and 11)*		176,247
Net investment in direct financing leases *(note 5)*	23,641	21,545
Prepaid expenses and other	62,790	57,158
Current portion of loans to equity accounted investees	21,634	37,019
Current portion of investment in term loans		211,579
Current portion of derivative assets *(note 15)*	18,433	23,040
Total current assets	1,438,380	1,674,590
Restricted cash - non-current	499,108	497,984
Vessels and equipment *(note 8)*		
At cost, less accumulated depreciation of $2,324,470 (2013 - $2,135,780)	5,894,500	5,983,128
Vessels under capital leases, at cost, less accumulated amortization of $159,701 (2013 $152,020)	530,195	571,692
Advances on newbuilding contracts and conversion costs *(notes 1 and 10a)*	1,403,850	796,324
Total vessels and equipment	7,828,545	7,351,144
Net investment in direct financing leases - non-current *(note 5)*	750,385	705,717
Loans to equity accounted investees and joint venture partners, bearing interest between nil to 8%	133,526	132,229
Derivative assets *(note 15)*	113,550	69,797
Equity accounted investments *(notes 4b, 4c and 4d)*	807,700	690,309
Other non-current assets	214,788	159,494
Intangible assets net	101,157	107,898
Goodwill	168,572	166,539
Total assets	12,055,711	11,555,701
LIABILITIES AND EQUITY		

Current		
Accounts payable	161,477	98,415
Accrued liabilities	410,502	466,824
Liabilities associated with assets held for sale *(notes 7a and 11)*		168,007
Current portion of derivative liabilities *(note 15)*	177,469	143,999
Current portion of long-term debt *(note 8)*	655,601	996,425
Current obligation under capital leases	65,716	31,668
Current portion of in-process revenue contracts	29,983	40,176
Total current liabilities	1,500,748	1,945,514
Long-term debt, including amounts due to joint venture partners of $13,282 (2013 - $13,282) *(note 8)*	6,076,766	5,113,045
Long-term obligation under capital leases	499,458	566,661
Derivative liabilities *(note 15)*	372,046	299,570
In-process revenue contracts	129,833	139,676
Other long-term liabilities *(note 16)*	367,698	271,621
Total liabilities	8,946,549	8,336,087
Commitments and contingencies *(note 4a, 5, 8, 10 and 15)*		
Redeemable non-controlling interest *(note 10d)*	15,149	16,564
Equity		
Common stock and additional paid-in capital ($0.001 par value; 725,000,000 shares authorized; 72,239,252 shares outstanding (2013 - 70,729,399); 73,038,452 shares issued (2013 - 71,528,599)) *(note 9)*	756,067	713,760
Retained earnings	346,385	435,217
Non-controlling interest	2,009,585	2,071,262
Accumulated other comprehensive loss *(note 14)*	(18,024)	(17,189)
Total equity	3,094,013	3,203,050
Total liabilities and equity	12,055,711	11,555,701

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2014	2013
	$	$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	33,675	127,289
Non-cash items:		
Depreciation and amortization	206,831	212,263
Amortization of in-process revenue contracts	(20,036)	(33,286)
Gain on sale of vessels and equipment and other assets	(9,453)	(1,309)
Loan loss (recoveries) provisions *(note 7b)*	(2,521)	10,207
Equity income, net of dividends received	(54,577)	(73,437)
Income tax expense	5,991	4,373
Employee stock option compensation	(3,847)	1,965
Unrealized foreign exchange gain	(7,244)	(54,506)
Unrealized loss (gain) on derivative instruments	73,640	(54,699)
Other	(3,912)	7,435
Change in operating assets and liabilities	7,199	(45,879)
Expenditures for dry docking	(24,217)	(33,592)
Net operating cash flow	201,529	66,824
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt, net of issuance costs	1,872,259	1,163,917
Scheduled repayments of long-term debt *(note 8)*	(613,516)	(228,982)
Prepayments of long-term debt	(669,413)	(703,816)
Repayments of capital lease obligations	(3,396)	(5,205)
(Increase) decrease in restricted cash	(385)	465
Net proceeds from equity issuances of subsidiaries *(note 6)*	7,475	212,401
Equity contribution by joint venture partner	22,017	1,684
Issuance of Common Stock upon exercise of stock options	44,372	16,582
Distributions paid from subsidiaries to non-controlling interests	(155,567)	(125,728)
Cash dividends paid	(45,188)	(45,282)
Net financing cash flow	458,658	286,036
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(602,257)	(320,018)
Proceeds from sale of vessels and equipment and other	165,055	39,551

Repayment of term loans	4,814	
Purchase of ALP (net of cash acquired of $294) *(note 4a)*	(2,322)	
Investment in equity accounted investments	(50,648)	(136,413)
Repayments by (advances to) joint ventures and joint venture partners	6,175	(41,452)
Investment in direct financing lease assets	(54,800)	
Direct financing lease payments received	8,036	6,187
Net investing cash flow	(525,947)	(452,145)
Increase (decrease) in cash and cash equivalents	134,240	(99,285)
Cash and cash equivalents, beginning of the period	614,660	639,491
Cash and cash equivalents, end of the period	748,900	540,206

Supplemental cash flow information *(note 18)*

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	TOTAL EQUITY						
	Thousands of Shares of Common Stock Outstanding #	**Common Stock and Additional Paid-in Capital $**	**Retained Earnings $**	**Accumulated Other Comprehensive Loss $**	**Non-controlling Interests $**	**Total $**	**Redeemable Non-controlling Interest $**
Balance as at December 31, 2013	70,729	713,760	435,217	(17,189)	2,071,262	3,203,050	16,564
Net (loss) income			(43,475)		77,150	33,675	
Reclassification of redeemable non-controlling interest in net income					(2,085)	(2,085)	2,085
Other comprehensive loss				(835)	(830)	(1,665)	
Dividends declared			(46,970)		(166,432)	(213,402)	(3,500)
Reinvested dividends	1	4				4	
Exercise of stock options and other *(note 9)*	1,509	44,372				44,372	
Employee stock compensation *(note 9)*		(2,069)				(2,069)	
Dilution gain on public offering of Teekay Offshore *(note 6)*			1,613			1,613	
Additions to non-controlling interest from equity contributions and other					30,520	30,520	
Balance as at June 30, 2014	72,239	756,067	346,385	(18,024)	2,009,585	3,094,013	15,149

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

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly-owned or controlled subsidiaries (collectively, the *Company*). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2013, included in the Company s Annual Report on Form 20-F. In the opinion of management, these unaudited financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company s consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the three and six months ended June 30, 2014, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

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

In the current period the Company has presented the conversion costs incurred at period end for the Company s committed vessel conversions in Advances on newbuilding contracts and conversion costs on the consolidated balance sheet. Prior to June 30, 2014, the Company included these amounts in Vessels and equipment At cost, less accumulated depreciation. All such costs incurred in comparative periods have been reclassified from Vessels and equipment At cost, less accumulated depreciation to Advances on newbuilding contracts and conversion costs to conform to the presentation adopted in the current period. The amount reclassified as at December 31, 2013 was $29.8 million.

2. Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (or ASU 2014-09). ASU 2014-09 will require companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Company is evaluating

the effect of adopting this new accounting guidance.

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (or *ASU 2014-08*) which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is defined as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity s operations and financial results; or (ii) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 is effective for fiscal years beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. The impact, if any, of adopting ASU 2014-08 on the Company s financial statements will depend on the occurrence and nature of disposals that occur after ASU 2014-08 is adopted.

3. Segment Reporting

The following tables include results for the Company s four segments for the three and six months ended June 30, 2014 and 2013:

Three Months ended June 30, 2014	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	142,816	131,155	81,970	96,313	452,254
Voyage expenses	24,890	172	739	7,638	33,439
Vessel operating expenses	46,989	92,436	17,139	45,150	201,714
Time-charter hire expense	4,975			4,739	9,714
Depreciation and amortization	27,039	38,056	17,888	20,390	103,373
General and administrative[(1)]	8,005	15,524	6,294	7,122	36,945
Loan loss recoveries		(2,521)			(2,521)
Gain on sale of vessels and equipment				(9,615)	(9,615)
Restructuring charges	(820)			576	(244)
Income (loss) from vessel operations	31,738	(12,512)	39,910	20,313	79,449

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Three Months ended June 30, 2013	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	140,062	122,560	70,983	97,102	430,707
Voyage expenses	22,275		487	3,392	26,154
Vessel operating expenses	43,472	84,054	15,164	53,288	195,978
Time-charter hire expense	14,110			12,434	26,544
Depreciation and amortization	29,093	39,285	18,328	23,063	109,769
General and administrative[(1)]	9,324	11,760	5,314	8,997	35,395
Loan loss provisions				7,042	7,042
Gain on sale of vessels and equipment		(1,338)		(3)	(1,341)
Restructuring charges	1,043			746	1,789
Income (loss) from vessel operations	20,745	(11,201)	31,690	(11,857)	29,377

Six Months ended June 30, 2014	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	304,028	273,674	163,393	217,653	958,748
Voyage expenses	56,619	172	1,572	10,088	68,451
Vessel operating expenses	93,007	185,940	33,650	90,303	402,900
Time-charter hire expense	16,387			9,619	26,006
Depreciation and amortization	54,376	75,868	36,001	40,586	206,831
General and administrative[(1)]	17,382	30,865	13,494	13,082	74,823
Loan loss recoveries		(2,521)			(2,521)
Gain on sale of vessels and equipment				(9,453)	(9,453)
Restructuring charges	(268)			663	395
Income (loss) from vessel operations	66,525	(16,650)	78,676	62,765	191,316

Six Months ended June 30, 2013	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues	278,715	263,489	141,984	197,556	881,744
Voyage expenses	44,084		491	7,894	52,469

Vessel operating expenses	88,379	161,438	30,260	103,365	383,442
Time-charter hire expense	28,887			25,109	53,996
Depreciation and amortization	56,789	73,317	35,619	46,538	212,263
General and administrative[1]	19,828	24,121	11,510	19,207	74,666
Loan loss provisions				10,207	10,207
(Gain) loss on sale of vessels and equipment		(1,338)		29	(1,309)
Restructuring charges	1,630			2,213	3,843
Income (loss) from vessel operations	39,118	5,951	64,104	(17,006)	92,167

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

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

	June 30, 2014	**December 31, 2013**
	$	**$**
Shuttle tanker and FSO segment	1,940,146	1,947,905
FPSO segment	3,340,920	2,836,998
Liquefied gas segment	3,699,293	3,616,044
Conventional tanker segment	1,576,691	1,874,101
Cash	748,900	614,660
Accounts receivable and other assets	749,761	665,993
Consolidated total assets	12,055,711	11,555,701

TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

4. Investments

a) Teekay Offshore Acquisition of ALP Maritime Services B.V.

In March 2014, our publicly-listed subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) acquired 100% of the shares of ALP Maritime Services B.V. (or *ALP*), a Netherlands-based provider of long-haul ocean towage and offshore installation services to the global offshore oil and gas industry. Concurrently with this transaction, Teekay Offshore and ALP entered into an agreement with Niigata Shipbuilding & Repair of Japan for the construction of four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and anchor handling vessel newbuildings. These vessels will be equipped with dynamic positioning capability and are scheduled for delivery in 2016. Teekay Offshore is committed to acquire these newbuildings for a total cost of approximately $258 million.

Teekay Offshore acquired ALP for a purchase price of $2.6 million, which was paid in cash, and also entered into an arrangement to pay additional compensation to three former shareholders of ALP if certain requirements are satisfied. This contingent compensation consists of $2.4 million, which is payable upon the delivery and employment of ALP s four newbuildings scheduled throughout 2016, and a further amount of up to $2.6 million, which is payable if ALP s annual operating results from 2017 to 2021 meet certain targets. Teekay Offshore has the option to pay up to 50% of this compensation through the issuance of common units of Teekay Offshore. Each of the contingent compensation amounts is payable only if the three shareholders are employed by ALP at the time performance conditions are met. For the three and six months ended June 30, 2014, compensation costs were $0.2 million and were recorded under general and administrative expenses in the Company s consolidated statements of (loss) income. Teekay Offshore also incurred a $1.0 million fee payable to a third party associated with the acquisition.

This acquisition of ALP and the related newbuilding orders represent Teekay Offshore s entrance into the long-haul ocean towage and offshore installation services business. The Company believes that this acquisition allows Teekay Offshore to combine its infrastructure and access to capital with ALP s experienced management team to further grow this niche business, which is in an adjacent sector to Teekay Offshore s FPSO and shuttle tanker businesses. The acquisition of ALP was accounted for using the purchase method of accounting, based upon preliminary estimates of fair value.

The following table summarizes the preliminary estimates of fair values of the ALP assets acquired and liabilities assumed by Teekay Offshore on the acquisition date.

(in thousands of U.S. dollars)	**As at March 14, 2014 $**
ASSETS	
Cash and cash equivalents	294

Other current assets	404
Advances on newbuilding contracts	164
Other assets - long-term	395
Goodwill	2,032
Total assets acquired	3,289
LIABILITIES	
Current liabilities	387
Other long-term liabilities	286
Total liabilities assumed	673
Net assets acquired	2,616
Consideration	2,616

The goodwill recognized in connection with the ALP acquisition is attributable primarily to the assembled workforce of ALP, including their experience, skills and abilities. Operating results of ALP are reflected in the Company s consolidated financial statements commencing March 14, 2014, the effective date of acquisition. From the date of acquisition to June 30, 2014, the Company recognized $0.2 million of revenue and $1.7 million of net loss resulting from this acquisition.

b) Tanker Investments Ltd.

In January 2014, Teekay and its publicly-listed subsidiary Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*) formed Tanker Investments Ltd. (or *TIL*), which seeks to opportunistically acquire, operate and sell modern second-hand tankers to benefit from an expected recovery in the current cyclical low of the tanker market. Teekay and Teekay Tankers in the aggregate purchased 5.0 million shares of common stock, representing an initial 20% interest in TIL, as part of a $250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of $50.0 million.

TEEKAY CORPORATION AND SUBSIDIARIES

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

In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase in the aggregate up to 1.5 million shares of common stock of TIL at a fixed price of $10 per share. The stock purchase warrants, which had a value of $6.8 million on issuance, were received in exchange for the Company s involvement in the formation of TIL and such amount is reflected in other income (expenses) in the Company s consolidated statements of (loss) income. The stock purchase warrants expire on January 23, 2019. See Note 15 for additional information about these warrants. The Company also received one Series A-1 preferred share and one Series A-2 preferred share, each of which entitles the holder to elect one board member of TIL. The preferred shares do not give the holder a right to any dividends or distributions of TIL. Teekay and Teekay Tankers account for their investment in TIL using the equity method.

In March 2014, TIL issued additional common shares and listed its shares on the Oslo Stock Exchange. The issuance of shares by an equity accounted investee is accounted by the Company as if the Company had sold a proportionate share of its investment, and the resulting gain or loss is recognized in equity income in the Company s consolidated statements of income. For the six months ended June 30, 2014, the Company recognized a gain from this investment of $4.1 million. As of June 30, 2014, the combined interest of Teekay Tankers and Teekay in TIL was 13.0%.

As of June 30, 2014, a portion of the net proceeds from the equity issuances by TIL had been used to acquire four modern Suezmax crude oil tankers from Teekay, five modern Aframax tankers and two coated Aframax tankers from third parties and two VLCC vessels from Teekay Tankers. The remaining proceeds will be used to acquire additional tankers and for general corporate purposes.

c) Teekay LNG Exmar LPG BVBA Joint Venture

In February 2013, the Company s publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), entered into a 50/50 joint venture agreement with Belgium-based Exmar NV (or *Exmar*) to own and charter-in liquefied petroleum gas (or *LPG*) carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity, called Exmar LPG BVBA took economic effect as of November 1, 2012 and, as of June 30, 2014, included 21 owned LPG carriers (including 10 newbuilding carriers scheduled for delivery between late 2014 and 2018) and four chartered-in LPG carriers. For its 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, Teekay LNG invested approximately $133.1 million in exchange for equity and a shareholder loan and assumed approximately $108 million of its pro rata share of existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG BVBA fleet. The excess of the book value of net assets acquired over Teekay LNG s investment in the Exmar LPG BVBA, which amounted to approximately $6.0 million, has been accounted for as an adjustment to the value of the vessels, charter agreements and lease obligations of Exmar LPG BVBA, in accordance with the finalized purchase price allocation. Control of Exmar LPG BVBA is shared equally between Exmar and Teekay LNG. Teekay LNG accounts for its investment in Exmar LPG BVBA using the equity method.

d) Teekay LNG BG International Limited Joint Venture

In June 2014, Teekay LNG acquired from BG International Limited (or *BG*) its ownership interests in four 174,000-cubic meter Tri-Fuel Diesel Electric liquefied natural gas (or *LNG*) carrier newbuildings, which will be constructed by Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. in China for a total fully built-up cost to the joint venture of approximately $1.0 billion. The vessels upon delivery, which are scheduled between September 2017 and January 2019, will each operate under 20-year fixed-rate time-charter contracts, plus extension options, with Methane Services Limited, a wholly-owned subsidiary of BG. As compensation for BG s ownership interest in these four LNG carrier newbuildings, Teekay LNG assumed BG s obligation to provide the shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. Teekay on behalf of Teekay LNG, will provide the shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates. Teekay LNG estimates it will incur approximately $36.7 million of costs to provide these services, of which BG has agreed to pay a fixed amount of $20.3 million. In June 2014, Teekay LNG estimated that the fair value of the service obligation was $30.2 million and the fair value of the amount due from BG was $16.5 million. The $30.2 million service obligation is included in the current portion of in-process contracts, and the in-process contracts and the receivable from BG is included in other assets in the Company s consolidated balance sheet. Through this transaction, Teekay LNG has a 30% ownership interest in two LNG carrier newbuildings and a 20% ownership interest in the remaining two LNG carrier newbuildings (collectively the *BG Joint Venture*). The excess of Teekay LNG s investment in the BG Joint Venture over Teekay LNG s share of the underlying carrying value of net assets acquired was approximately $13.7 million. This basis difference has notionally been allocated to the ship construction support agreements and the time-charter contracts. Teekay LNG accounts for its investment in the BG Joint Venture using the equity method.

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5. Vessel Charters

Teekay LNG owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), giving Teekay LNG a 69% interest in the Teekay Tangguh Joint Venture. The joint venture is a party to operating leases whereby it is leasing two LNG carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. In addition to Teekay LNG s minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements filed with the Company s Annual Report on Form 20-F for the year ended December 31, 2013, the additional minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at June 30, 2014, for the Company s chartered-in and chartered-out vessels were as follows:

	Remainder of 2014	2015	2016	2017	2018
	(in millions of U.S. dollars)				
Charters-in - operating leases	34.5	31.9	9.1	9.1	0.4
Charters-in - capital leases (1)	42.4	31.8	31.7	55.0	51.3
	76.9	63.7	40.8	64.1	51.7
Charters-out - operating leases (2)	624.0	1,438.8	1,231.4	1,225.1	997.2
Charters-out - direct financing leases	45.0	95.5	95.8	219.8	185.6
	669.0	1,534.3	1,327.2	1,444.9	1,182.8

(1) As at June 30, 2014 and December 31, 2013, the Company had $475.8 million and $475.6 million of restricted cash which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Company also maintains restricted cash deposits relating to certain term loans and other obligations, which cash totaled $27.3 million and $27.1 million as at June 30, 2014 and December 31, 2013, respectively.

(2) The minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after June 30, 2014, revenue from unexercised option periods of contracts that existed on June 30, 2014 or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in the table have been reduced by estimated off-hire time for any period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

6. Equity Financing Transactions

During the six months ended June 30, 2014, one of the Company s publicly-listed subsidiaries, Teekay Offshore, completed the following equity issuances under a continuous offering program:

	Total Proceeds Received $	Less: Teekay Corporation Portion $	Offering Expenses $	Net Proceeds Received $
Six Months ended June 30, 2014				
Teekay Offshore Continuous Offering Program	7,784	(156)	(153)	7,475

In April 2013, the *Voyageur Spirit* floating, production, storage and offloading (or *FPSO*) unit began production and on May 2, 2013, Teekay completed the acquisition of the *Voyageur Spirit* FPSO unit and, immediately thereafter, Teekay Offshore acquired the unit from Teekay for an original purchase price of $540.0 million. Teekay Offshore financed the acquisition with the assumption of the $230.0 million debt facility secured by the unit, $253.0 million in cash and a $44.3 million equity private placement of common units to Teekay Corporation (including the general partner s 2% proportionate capital contribution), which had a value of $40.0 million at the time Teekay offered to sell the units to Teekay Offshore. Upon completion of the private placement to Teekay, Teekay Offshore had 83.6 million common units outstanding. As at June 30, 2014, Teekay held a 29.2% interest in Teekay Offshore, including the Company s 2% general partner interest. Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.

7. Vessel Sales, Asset Impairments and Provisions

a) Vessel Sales

During three months ended June 30, 2014, Teekay Tankers sold two wholly-owned subsidiaries, each of which owns one VLCC, to TIL for aggregate proceeds of $154.0 million plus related working capital on closing of $1.7 million. The Company received $154.0 million of the aggregate purchase price in cash during the second quarter of 2014 and the remainder of the purchase price was received from TIL in July 2014. The Company used a portion of the proceeds from this transaction to prepay $152 million on one of the Company s revolving credit facilities and the remainder of the proceeds will be used for general corporate purposes. During three months ended June 30, 2014, the Company realized a net gain of $10.0 million from the sale of the two subsidiaries to TIL (See Note 7b).

During the six months ended June 30, 2014, the Company sold four 2009-built Suezmax tankers that were part of the Company s conventional tanker segment. These vessels were classified as held for sale on the consolidated balance sheet as at December 31, 2013, with their net book values written down to their sale proceeds. During the six months ended June 30, 2014, the Company realized a net loss of $0.5 million from the sale of these vessels.

During the six months ended June 30, 2013, the Company sold a 1992-built shuttle tanker, a 1992-built conventional tanker, a 1995-built conventional tanker and a 1998-built conventional tanker, that were part of the Company s shuttle tanker and conventional tanker segments. Three of these vessels were classified as held for sale on the consolidated balance sheet as at December 31, 2012, with their net book values written down to their sale proceeds net of cash outlays to complete the sales. All of the vessels were older vessels that the Company disposed of in the ordinary course of business.

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During the three and six months ended June 30, 2013, the Company sold sub-sea equipment from the *Petrojarl I* FPSO unit that is part of the Company s FPSO segment. The Company realized a gain of $1.3 million from the sale of the equipment.

b) Loan Loss (Recoveries) Provisions

During the three and six months ended June 30, 2014, the Company reversed a $2.5 million loss provision for an amount receivable related to an FPSO front-end engineering and design study completed in 2013 as this receivable was recovered in the current period.

During the three and six months ended June 30, 2013, the Company recorded $7.0 million and $10.2 million, respectively, of loan loss provisions in respect of its investments in three term loans. The term loan borrower was facing financial difficulty and had defaulted on its interest payment obligations since January 31, 2013. The Company reduced the net carrying amount of the investment in term loan as the value of the underlying collateral had declined during the three- and six month periods. Later in 2013, the Company increased the net carrying amount of the investments in term loans, which included accrued interest income as the estimated future cash flows, which primarily reflected the estimated value of the underlying collateral, increased during 2013. During March 2014, the Company assumed ownership of the three VLCCs that collateralized the investment in term loans (see Note 18a). At the time of assumption of ownership, these vessels had an aggregate fair value of approximately $222 million, which exceeded the carrying value of the loans. As a result, in the first quarter of 2014, the Company recognized $15.2 million of interest income, of which $11.2 million related to prior periods and was previously unrecognized, owing under the loans. In May 2014, Teekay Tankers sold two of the VLCCs to TIL and recognized a gain on sale of $10.0 million (see Note 7a).

8. Long-Term Debt

	June 30, 2014 $	December 31, 2013 $
Revolving Credit Facilities	1,610,450	1,919,086
Senior Notes (8.5%) due January 15, 2020	447,598	447,430
Norwegian Kroner-denominated Bonds due through January 2019	847,860	691,778
U.S. Dollar-denominated Term Loans due through 2023	3,011,214	2,523,523
U.S. Dollar Bonds due through 2023	471,118	174,150
	330,845	340,221

Euro-denominated Term Loans due through 2023		
U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners	13,282	13,282
Total	6,732,367	6,109,470
Less current portion	655,601	996,425
Long-term portion	6,076,766	5,113,045

As of June 30, 2014, the Company had 15 revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to $2.5 billion, of which $0.9 billion was undrawn. Interest payments are based on LIBOR plus margins; at June 30, 2014 and December 31, 2013, the margins ranged between 0.45% and 4.5%. At June 30, 2014 and December 31, 2013, the three-month LIBOR was 0.23% and 0.25%, respectively. The total amount available under the Revolvers reduces by $612.6 million (remainder of 2014), $316.2 million (2015), $740.2 million (2016), $463.7 million (2017) and $355.7 million (2018). Subsequent to June 30, 2014, Teekay Offshore received commitments to refinance $330.0 million of revolving credit facilities coming due during the remainder of 2014. Teekay Offshore expects the refinancing to be completed in September 2014, and the amount available under the new revolving credit facility will reduce quarterly by $16.5 million per quarter over five years. The Revolvers are collateralized by first-priority mortgages granted on 55 of the Company s vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts.

The Company s 8.5% senior unsecured notes (or the *8.5% Notes*) are due January 15, 2020 with a principal amount of $450 million. The 8.5% Notes were sold at a price equal to 99.181% of par and the discount is accreted through the maturity date of the notes using the effective interest rate of 8.625% per year. The Company capitalized issuance costs of $9.4 million, which is recorded in other non-current assets in the consolidated balance sheet and is amortized to interest expense over the term of the 8.5% Notes. The 8.5% Notes rank equally in right of payment with all of Teekay s existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay s subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date.

During 2013 and 2012, Teekay Offshore, Teekay LNG and Teekay issued in the Norwegian bond market a total of NOK 4.2 billion of senior unsecured bonds that mature between October 2015 and September 2018. As at June 30, 2014, the total carrying amount of the bonds was $684.8 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin, which ranges from 4.00% to 5.75%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. dollars (or *U.S. Dollars*), with the interest payments fixed at rates ranging from 4.80% to 7.49%, and the transfer of principal fixed at $732.4 million upon maturity in exchange for NOK 4.2 billion (see Note 15).

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In January 2014, Teekay Offshore issued NOK 1,000 million in senior unsecured bonds that mature in January 2019 in the Norwegian bond market. As of June 30, 2014, the carrying amount of the bonds was $163.1 million. The bonds were listed on the Oslo Stock Exchange in June 2014. The interest payments on the bonds are based on NIBOR plus a margin of 4.25%. Teekay Offshore entered into a cross currency swap to swap all interest and principal payments into USD, with the interest payments fixed at a rate of 6.28%, and the transfer of the principal amount fixed at $162.2 million upon maturity in exchange for NOK 1,000 million (see Note 15).

As of June 30, 2014, the Company had 17 U.S. Dollar-denominated term loans outstanding, which totaled $3.0 billion (December 31, 2013 $2.5 billion). Certain of the term loans with a total outstanding principal balance of $159.0 million as at June 30, 2014 (December 31, 2013 $176.3 million) bear interest at a weighted-average fixed rate of 5.2% (December 31, 2013 5.2%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At June 30, 2014 and December 31, 2013, the margins ranged between 0.3% and 3.25%. At June 30, 2014 and December 31, 2013, the three-month LIBOR was 0.23% and 0.25%, respectively. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 16 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 33 (December 31, 2013 35) of the Company s vessels, together with certain other security. In addition, at June 30, 2014, all but $84.1 million (December 31, 2013 $94.4 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

During May 2014, Teekay Offshore issued $300 million in senior unsecured bonds that mature in July 2019 in the US bond market. As of June 30, 2014, the carrying amount of the bonds was $300.0 million. The bonds were listed on the New York Stock Exchange in June 2014. The interest payments on the bonds are fixed at a rate of 6.0%.

During 2013, Teekay Offshore had outstanding $171.1 million of ten-year senior unsecured bonds that mature in December 2023 and were issued in the second half of 2013 in a U.S. private placement to finance the *Bossa Nova Spirit* and the *Sertanejo Spirit* shuttle tankers. The bonds accrue interest at a fixed rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security.

The Company has two Euro-denominated term loans outstanding, which, as at June 30, 2014, totaled 241.7 million Euros ($330.8 million) (December 31, 2013 247.6 million Euros ($340.2 million)). The Company is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At June 30, 2014 and December 31, 2013, the margins ranged between 0.6% and 2.25% and the one-month EURIBOR at June 30, 2014 was 0.1% (December 31, 2013 0.2%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of the Company s vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

Both Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company s NOK-denominated

bonds, the Company s Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company s cross currency swaps, the Company recognized foreign exchange gains of $2.0 million (2013 $0.7 million) and $2.9 million (2013 $2.9 million) during the three and six months ended June 30, 2014, respectively.

The Company has one U.S. Dollar-denominated loan outstanding owing to a joint venture partner, which, as at June 30, 2014, totaled $13.3 million (2013 $13.3 million). Interest payments on the loan are based on a fixed interest rate of 4.84%. This loan is repayable on demand.

The weighted-average effective interest rate on the Company s aggregate long-term debt as at June 30, 2014 was 3.0% (December 31, 2013 3.0%). This rate does not include the effect of the Company s interest rate swap agreements (see Note 15).

Among other matters, the Company s long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and five loan agreements require the maintenance of vessel market value to loan ratios. As at June 30, 2014, these ratios ranged from 141.0% to 481.5% compared to their minimum required ratios of 105% to 120%, respectively. The vessel values used in these ratios are the appraised values prepared by the Company based on second hand sale and purchase market data. A further delay in the recovery of the conventional tanker market and a weakening of the LNG/LPG carrier market could negatively affect the ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2014 and December 31, 2013, this amount was $100.0 million. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity, in amounts ranging from 5% to 7.5% of total debt. As at June 30, 2014, this aggregate amount was $377.1 million (December 31, 2013 - $344.9 million). As at June 30, 2014, the Company was in compliance with all covenants required by its credit facilities and other long-term debt.

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to June 30, 2014, are $664.2 million (remainder of 2014), $582.2 million (2015), $796.0 million (2016), $1.1 billion (2017), $1.3 billion (2018) and $2.3 billion (thereafter).

9. Capital Stock

The authorized capital stock of Teekay at June 30, 2014 and December 31, 2013 was 25 million shares of preferred stock, with a par value of $1 per share, and 725 million shares of common stock, with a par value of $0.001 per share. As at June 30, 2014, Teekay had no shares of preferred stock issued. During the six months ended June 30, 2014, Teekay issued 1.5 million shares of common stock upon the exercise or issuance of stock options, restricted stock units and restricted stock awards.

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During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to $200 million of shares of its common stock in the open market. As at June 30, 2014, Teekay had repurchased approximately 5.2 million shares of common stock for $162.3 million pursuant to such authorizations. As at June 30, 2014, the total remaining amount under the share repurchase authorization was $37.7 million.

During the six months ended June 30, 2014, the Company granted 15,243 stock options with an exercise price of $56.76 per share, 81,388 restricted stock units with a fair value of $4.6 million, 50,689 performance shares with a fair value of $3.4 million and 18,230 shares of restricted stock awards with a fair value of $1.0 million to certain of the Company s employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit, restricted stock award and performance share is equal in value to one share of the Company s common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units and restricted stock awards vest equally over three years from the grant date and the performance shares vest two or three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance shares are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during the six months ended June 30, 2014 was $11.50 per stock option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 34.7%; expected life of five years; dividend yield of 4.4%; risk-free interest rate of 1.6%; and estimated forfeiture rate of 12%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

10. Commitments and Contingencies

a) Vessels Under Construction

As at June 30, 2014, the Company was committed to the construction of five LNG carriers, four ALP towage vessels and two floating, storage and offloading (or *FSO*) conversions for a total cost of approximately $1.5 billion, excluding capitalized interest and other miscellaneous construction costs. Two LNG carriers are scheduled for delivery in 2016, and three LNG carriers are scheduled for delivery in 2017, the four ALP towage vessels are scheduled for delivery in 2016 and the two FSO conversions are scheduled for completion in the fourth quarter of 2014 and the fourth quarter of 2016, respectively. As at June 30, 2014, payments made towards these commitments totaled $221.4 million (excluding $4.6 million of capitalized interest and other miscellaneous construction costs) and the carrying value of completed units not yet in service was $1.2 billion. As at June 30, 2014, the remaining payments required to be made under these newbuilding and conversion capital commitments were $131.2 million (remainder of 2014), $271.2

million (2015), $445.8 million (2016), and $399.0 million (2017).

b) Joint Ventures

As described in Note 4d, Teekay LNG has an ownership interest in the BG Joint Venture and, as part of the acquisition, agreed to assume BG s obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. The shipbuilding and crew training obligation to be incurred, net of the reimbursement from BG, are estimated to be $2.5 million (remainder of 2014), $3.7 million (2015), $2.0 million (2016), $2.4 million (2017), $3.0 million (2018) and $2.8 million (thereafter).

In addition, the BG Joint Venture secured a $787.0 million debt facility to finance a portion of the estimated fully built-up cost of $1.0 billion for its four newbuilding carriers, with the remaining portion to be financed on a pro rata ownership basis by Teekay LNG and the other partners. Teekay LNG s proportionate share of the newbuilding installments, net of the existing debt financing, is $3.8 million (remainder of 2014), $4.9 million (2015), $7.9 million (2016), $15.0 million (2017), $17.3 million (2018) and $6.3 million (thereafter).

c) Legal Proceedings and Claims

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

Navion Hispania Incident

On November 13, 2006, one of Teekay Offshore s shuttle tankers, the *Navion Hispania,* collided with the *Njord Bravo*, an FSO unit, while preparing to load an oil cargo from the *Njord Bravo*. The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from Teekay Offshore. The *Navion Hispania* and the *Njord Bravo* both incurred damage as a result of the collision. In November 2007, Navion Offshore Loading AS (or *NOL*) and Teekay Navion Offshore Loading Pte Ltd. (or *TNOL*), subsidiaries of Teekay Offshore, and Teekay Shipping Norway AS (or *TSN*), a subsidiary of Teekay, were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*), several other insurance underwriters and various licensees in the Njord field. The plaintiffs sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately $34.7 million).

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The appellate court in June 2013 held that NOL, TNOL and TSN are jointly and severally responsible towards the plaintiffs for all the losses as a result of the collision, plus interest accrued on the amount of damages. In addition, Statoil ASA was held not to be under an obligation to indemnify NOL, TNOL and TSN for the losses. NOL, TNOL and TSN were also held liable for legal costs associated with court proceedings. As a result of this judgment, in the second quarter of 2013 Teekay Offshore recognized a liability in the amount of NOK 213,000,000 in respect of damages, NOK 66,000,000 in respect of interest and NOK 11,000,000 in respect of legal costs, totaling NOK 290,000,000 (approximately $47.3 million), to the plaintiffs recorded in accrued liabilities. In the fourth quarter of 2013, Teekay Offshore recognized an additional liability of NOK 4,000,000 in respect of interest, bringing the total liability to NOK 294,000,000 (approximately $47.9 million). The judgment rendered deals with liability only and the ultimate amount of damages may be reduced compared to the NOK 213,000,000 claimed by the plaintiffs.

Teekay Offshore and Teekay maintain protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. These insurance policies are expected to cover the costs related to this incident, including any costs not indemnified by Statoil, and thus a receivable of NOK 294,000,000 (approximately $47.9 million) was concurrently recorded in accounts receivable, which equals the total cost of the claim. In addition, Teekay has agreed to indemnify Teekay Offshore for any losses it may incur in connection with this incident. In the fourth quarter of 2013, the insurer made payments directly to the plaintiffs in full settlement of interest and partial settlement of legal costs and thus Teekay Offshore, as at December 31, 2013, reduced its liability and related receivable to NOK 213,000,000 in respect of damages and approximately NOK 3,400,000 in respect of legal costs, totaling approximately NOK 216,400,000 (approximately $35.3 million). No further payments were made in the first six months of 2014.

Teekay Nakilat Capital Lease

Teekay Nakilat Corporation (or *Teekay Nakilat*), a subsidiary of Teekay LNG, is the lessee under 30-year capital lease arrangements with a third party for the three LNG carriers (or the *RasGas II Leases*). The UK taxing authority (or *HMRC*) has been urging the lessor as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the RasGas II Leases, to terminate such finance lease arrangements, and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that the Teekay Nakilat Joint Venture contemplate the termination of the RasGas II Leases or entertain other alternatives for the leasing structure. The Teekay Nakilat Joint Venture has declined the request from HMRC to voluntarily terminate the RasGas II Leases primarily because of a January 2012 court decision from the First Tribunal regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer, as well as a 2013 decision from the Upper Tribunal that upheld the 2012 verdict. However, HMRC appealed the 2013 decision to the Court of Appeal and in August 2014, HMRC was successful in having the judgment of the First Tribunal (in favor of the taxpayer) set aside. The matter will now be reconsidered by the First Tribunal, taking into account the appellate court s comments on their earlier judgment. If HMRC is able to successfully challenge the RasGas II Leases, the Teekay Nakilat Joint Venture 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. Teekay LNG estimates its 70.0% share of the potential exposure to be approximately $34 million, exclusive of any interest rate swap termination costs and costs associated with any new financing.

Petrojarl Banff Storm Damage

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, suffered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, the Company declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire while the necessary repairs and upgrades were completed and the weather permitted re-installation of the unit on the Banff field. The Company does not have off-hire insurance covering the *Banff* FPSO. The repairs and upgrades were completed in 2014, and the *Banff* FPSO unit resumed production on the Banff field in July 2014, where it is expected to remain under contract until the end of 2018.

The Company expects that repair costs to the *Banff* FPSO unit and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event will be primarily reimbursed through its insurance coverage, subject to a $0.8 million deductible and the other terms and conditions of the applicable policies. In addition, the Company incurred certain capital upgrade costs for the *Banff* FPSO unit and the *Apollo Spirit* related to upgrades to the mooring system required by the relevant regulatory authorities due to the extreme weather and sea states experienced during the December 7, 2011 storm. The *Apollo Spirit* was operating on the Banff field as a storage tanker and returned to service on the Banff field at the same time as the *Banff* FPSO unit. The total of these capital upgrade costs is approximately $164 million. The recovery of the capital upgrade costs from the charterer is subject to commercial negotiations or, failing agreement, the responsibility for these costs will be determined by an expedited arbitration procedure. Any capital upgrade costs not recovered from the charterer will be capitalized to the vessel cost.

d) Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of $35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore s 67% owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner s 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at June 30, 2014.

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e) Other

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

11. Financial Instruments

a) Fair Value Measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 in the Company s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company s financial instruments that are not accounted for at fair value on a recurring basis.

		June 30, 2014		**December 31, 2013**	
	Fair Value Hierarchy Level	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	1,254,309	1,254,309	1,119,966	1,119,966
Derivative instruments *(note 15)*					
Interest rate swap agreements - assets	Level 2	122,506	122,506	91,415	91,415
Interest rate swap agreements - liabilities	Level 2	(506,314)	(506,314)	(410,470)	(410,470)
Cross currency interest swap agreement	Level 2	(63,741)	(63,741)	(52,219)	(52,219)
Foreign currency contracts	Level 2	(354)	(354)	(1,480)	(1,480)
Stock purchase warrants *(notes 4b and 15)*	Level 3	8,051	8,051		
Non-recurring					

Vessels and equipment	Level 2			17,250	17,250
Assets held for sale [(1)]	Level 2			176,247	176,247
Other					
Investment in term loans	Level 3			211,579	209,570
Loans to equity accounted investees and joint venture partners - Current	Level 3	21,634	21,634	37,019	37,019
Loans to equity accounted investees and joint venture partners - Long-term	(2)	133,526	(2)	132,229	(2)
Liabilities associated with assets held for sale [(1)]	Level 2			(168,007)	(168,007)
Long-term receivable included in other assets	Level 2	16,452	16,452		
Long-term debt - public *(note 8)*	Level 1	(1,766,576)	(1,873,925)	(1,313,358)	(1,376,829)
Long-term debt - non-public *(note 8)*	Level 2	(4,965,791)	(4,830,135)	(4,796,112)	(4,582,274)

(1) The fair value of the Company s assets held for sale and liabilities associated with assets held for sale include vessels held for sale, long-term debt and other working capital balances.

(2) In these consolidated financial statements, the Company s loans to and equity investments in equity accounted investees form the aggregate carrying value of the Company s interests in entities accounted for by the equity method. In addition, the loans to joint venture partners together with the joint venture partner s equity investment in joint ventures form the net aggregate carrying value of the Company s interest in the joint ventures. The fair value of the individual components of such aggregate interests is not determinable.

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Changes in fair value during the six months ended June 30, 2014 and 2013 for the Company s derivative instrument, TIL stock purchase warrants, which are described below and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Fair value at the beginning of the period	11,714			
Fair value on issuance			6,840	
Unrealized (loss) gain included in earnings	(3,663)		1,211	
Fair value at the end of the period	8,051		8,051	

During January 2014, the Company received stock purchase warrants entitling it to purchase up to 1.5 million shares of the common stock of TIL at a fixed price of $10 per share (see Note 15). The estimated fair value of the stock purchase warrants was determined using a Monte-Carlo simulation and is based, in part, on the historical price of common shares of TIL, risk-free rate, vesting conditions and the historical volatility of the comparable companies. The estimated fair value of these stock purchase warrants as of June 30, 2014 is based on the historical volatility of the comparable companies of 54.1%. A higher or lower volatility would result in a higher or lower fair value of this derivative asset.

b. Financing Receivables

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

	Credit Quality			
			June 30, 2014	December 31, 2013
Class of Financing Receivable	**Indicator**	**Grade**	**$**	**$**
Direct financing leases	Payment activity	Performing	774,026	727,262
Other loan receivables				
Investment in term loans and interest receivable	Collateral	Non-Performing(1)		211,579
Loans to equity accounted investees and joint venture	Other internal metrics	Performing	155,160	169,248

partners(2)				
Long-term receivable included in other assets	Payment activity	Performing	50,136	31,634
			979,322	1,139,723

(1) On March 21, 2014, Teekay and Teekay Tankers took ownership of the vessels held as collateral in satisfaction of the loans and accrued interest.

(2) The Company s subsidiary Teekay LNG owns a 99% interest in Teekay Tangguh, which owns a 70% interest in the Teekay Tangguh Joint Venture. During the year ended December 31, 2012, the parent company of Teekay LNG s joint venture partner, BLT, suspended trading on the Jakarta Stock Exchange and entered into a court-supervised debt restructuring in Indonesia. The remaining loans to joint venture partner, BLT LNG Tangguh Corporation, totaling $10.3 million as at June 30, 2014 (December 31, 2013 - $28.5 million) are considered to be collectible given a signed settlement Agreement between the Company and BLT LNG Tangguh Corporation regarding repayment terms. In February 2014, the Teekay Tangguh Joint Venture declared dividends of $69.5 million, of which $14.4 million was used to offset the advances made to BLT LNG Tangguh Corporation and P.T. Berlian Laju Tanker and $6.5 million was repaid to Teekay by BLT LNG Tangguh Corporation. In addition, $1.0 million was paid to Teekay by BLT as part of the settlement agreement.

12. Restructuring Charges

During the three and six months ended June 30, 2014, the Company recorded restructuring (reversal) charges of $(0.2) million ($1.8 million 2013) and $0.4 million ($3.8 million 2013), respectively. The restructuring charges in 2014 relate to the termination of the employment of certain seafarers from the reflagging of one shuttle tanker which commenced in January 2014 and was completed in March 2014 and the reversal of an accrual for costs related to the reorganization of the Company s marine operations. The restructuring charges in 2013 primarily relate to reorganization of the Company s marine operations intended to create better alignment with its conventional tanker business unit and its three publicly-listed subsidiaries and a lower cost organization. The Company does not expect to incur further restructuring charges associated with this reorganization.

At June 30, 2014 and December 31, 2013, $1.6 million and $4.9 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

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13. Other (Loss) Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
TIL stock purchase warrants received			6,839	
Loss on bond repurchase				(1,759)
Volatile organic compound emission plant lease income	(166)	39	(67)	197
Impairment of marketable securities		(2,062)		(2,062)
Miscellaneous (loss) income	(568)	637	745	7,480
Other (loss) income	(734)	(1,386)	7,517	3,856

14. Accumulated Other Comprehensive Loss

As at June 30, 2014 and December 31, 2013, the Company s accumulated other comprehensive loss consisted of the following components:

	June 30, 2014	December 31, 2013
	$	$
Unrealized (loss) gain on qualifying cash flow hedging instruments	(436)	17
Pension adjustments, net of tax recoveries	(19,050)	(18,919)
Unrealized loss on marketable securities	(379)	(171)
Foreign exchange gain on currency translation	1,841	1,884
	(18,024)	(17,189)

15. Derivative Instruments and Hedging Activities

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

Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts.

As at June 30, 2014, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Average Forward Rate [1]	Fair Value / Carrying Amount Of Asset (Liability) $	Expected Maturity 2014 $	2015 $
Norwegian Kroner	667,700	6.15	(400)	54,930	53,599
Singapore Dollar	6,000	1.26	46	4,767	
			(354)	59,697	53,599

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

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The Company enters into cross currency swaps, and pursuant to these swaps the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company s NOK-denominated bonds due in 2015 through 2019. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in 2015 through 2019. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in 2015 through 2019. As at June 30, 2014, the Company was committed to the following cross currency swaps:

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset / (Liability)	Remaining Term (years)
700,000	122,800	NIBOR	4.75%	5.52%	(9,537)	1.3
500,000	89,700	NIBOR	4.00%	4.80%	(8,943)	1.6
600,000	101,400	NIBOR	5.75%	7.49%	(6,337)	2.6
700,000	125,000	NIBOR	5.25%	6.88%	(14,513)	2.8
800,000	143,500	NIBOR	4.75%	5.93%	(14,285)	3.6
900,000	150,000	NIBOR	4.35%	6.43%	(7,505)	4.2
1,000,000	162,200	NIBOR	4.25%	6.28%	(2,621)	4.6
					(63,741)	

Interest Rate Risk

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

As at June 30, 2014, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company s floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Asset / (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) [1]
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps [2]	LIBOR	400,757	(91,531)	22.6	4.9
U.S. Dollar-denominated interest rate swaps [3]	LIBOR	3,653,623	(362,136)	6.1	3.6
U.S. Dollar-denominated interest rate swaps [4]	LIBOR	500,000	(7,416)	1.2	3.1
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps [2]	LIBOR	469,066	121,309	22.6	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps [5] [6]	EURIBOR	330,845	(44,034)	6.5	3.1
			(383,808)		

(1) Excludes the margins the Company pays on its variable-rate debt, which, as of June 30, 2014, ranged from 0.3% to 4.5%.

(2) Principal amount reduces quarterly.

(3) Principal amount of $200 million is fixed at 2.14%, unless LIBOR exceeds 6%, in which case the Company pays a floating rate of interest.

(4) Interest rate swap with an aggregate principal amount of $180 million is being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2028. The interest rate swap is subject to mandatory early termination in 2014 whereby the swap will be settled based on its fair value at that time. Interest rate swaps with an aggregate principal amount of $320 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2016 to 2021. These interest rate swaps are subject to mandatory early termination in 2016 whereby the swaps will be settled based on their fair value at that time.

(5) Principal amount reduces monthly to 70.1 million Euros ($96.0 million) by the maturity dates of the swap agreements.

(6) Principal amount is the U.S. Dollar equivalent of 241.7 million Euros.

Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers purchased an aggregate of 5.0 million shares of TIL s common stock, representing an initial 20% interest in TIL, as part of a $250 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of $50.0 million. In addition, Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of $10 per share. The estimated fair value of the warrants on issuance was $6.8 million and is included in other income in the consolidated statements of (loss) income. The stock purchase warrants vest in four equally sized tranches. Each tranche will vest and become exercisable when and if the fair market value of a share of TIL s common stock equals or exceeds $12.50, $15.00, $17.50 and $20.00, respectively (or equivalent amounts in NOK) for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. The fair value of the stock purchase warrants at June 30, 2014 was $8.1 million. The Company reports the unrealized gains and losses from the stock purchase warrants in realized and unrealized (losses) gains on non-designated derivatives in the consolidated statements of (loss) income.

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Tabular Disclosure

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

	Current Portion of Derivative Assets	Derivative Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
As at June 30, 2014					
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	696	11		(741)	(320)
Interest rate swap agreements	17,200	105,488	(22,281)	(173,920)	(310,295)
Cross currency swap agreements	537		(39)	(2,808)	(61,431)
Stock purchase warrants		8,051			
	18,433	113,550	(22,320)	(177,469)	(372,046)
As at December 31, 2013					
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	482	12		(1,819)	(155)
Interest rate swap agreements	21,779	69,785	(22,025)	(140,503)	(248,091)
Cross currency swap agreements	779		3	(1,677)	(51,324)
	23,040	69,797	(22,022)	(143,999)	(299,570)

As at June 30, 2014, the Company had multiple interest rate swaps and cross currency swaps with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Company s consolidated balance sheets. As at June 30, 2014, these interest rate swaps and cross currency swaps had an aggregate fair value asset amount of $122.0 million and an aggregate fair value liability amount of $411.2 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Realized (losses) gains relating to:				
Interest rate swap agreements	(30,755)	(30,899)	(60,245)	(61,251)
Interest rate swap agreement terminations		(4,187)	1,000	(4,187)
Foreign currency forward contracts	110	(1,873)	(1,175)	(1,452)
	(30,645)	(36,959)	(60,420)	(66,890)
Unrealized (losses) gains relating to:				
Interest rate swap agreements	(39,096)	96,911	(64,494)	116,115
Foreign currency forward contracts	(1,926)	(3,917)	1,125	(6,979)
Stock purchase warrants	(3,664)		1,210	
	(44,686)	92,994	(62,159)	109,136
Total realized and unrealized (losses) gains on derivative instruments	(75,331)	56,035	(122,579)	42,246

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Realized and unrealized losses of the cross currency swaps are recognized in earnings and reported in foreign currency exchange (loss) gain in the consolidated statements of (loss) income. The effect of the loss on cross currency swaps on the consolidated statements of (loss) income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Realized gain on partial termination of cross currency swap				6,800
Realized (losses) gains	(144)	503	(289)	1,565
Unrealized losses	(24,803)	(16,399)	(11,481)	(54,353)
Total realized and unrealized losses on cross currency swaps	(24,947)	(15,896)	(11,770)	(45,988)

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

16. Income Tax Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Current	(3,398)	(1,943)	(6,563)	(4,057)
Deferred	205	70	572	(316)

Income tax expense	(3,193)	(1,873)	(5,991)	(4,373)

The following reflects the changes in the Company s unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2013 to June 30, 2014:

Balance of unrecognized tax benefits as at January 1, 2014	$ 20,304
Increase for positions related to the current period	3,822
Decrease related to statute of limitations	(972)
Balance of unrecognized tax benefits as at June 30, 2014	$ 23,154

The majority of the net increase for positions for the six months ended June 30, 2014 relates to potential tax on freight income.

The Company does not presently anticipate these uncertain tax positions, which are uncertain, will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected.

17. Net (Loss) Income Per Share

	Three Months Ended June 30, 2014	Six Months Ended June 30,