Teekay LNG Partners L.P.
Form 6-K
May 29, 2007

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 March 31, 2007

Commission file number 1- 32479

TEEKAY LNG PARTNERS L.P.
(Exact name of Registrant as specified in its charter)

Bayside House
Bayside Executive Park
West Bay Street & Blake Road
P.O. Box AP-59212, Nassau, Bahamas
(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

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_______

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

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ITEM 1 - FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of
Teekay LNG Partners L.P.

We have reviewed the consolidated balance sheet of Teekay LNG Partners L.P. and subsidiaries (or the *Partnership*) as of March 31, 2007, the related consolidated statements of income and cash flows for the three months ended March 31, 2007 and 2006, and changes in consolidated partners' equity for the three months ended March 31, 2007. These financial statements are the responsibility of the Partnership's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Partnership as of December 31, 2006, the related consolidated statements of income, changes in partners' equity and cash flows for the year then ended (not presented herein) and in our report dated March 12, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Vancouver, Canada
May 21, 2007

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended March 31, 2007 $	Three Months Ended March 31, 2006 $
VOYAGE REVENUES *(note 10)*	58,329	44,141
OPERATING EXPENSES *(note 10)*		
Voyage expenses	266	277
Vessel operating expenses	13,821	8,961
Depreciation and amortization	15,819	12,659
General and administrative	3,518	3,095
Total operating expenses	33,424	24,992
Income from vessel operations	24,905	19,149
OTHER ITEMS		
Interest expense (*notes 4 and 7)*	(30,347)	(18,601)
Interest income	11,097	7,437
Foreign currency exchange loss *(note 7)*	(4,800)	(7,825)
Other income - net (*note 8*)	547	608
Total other items	(23,503)	(18,381)
Net income	1,402	768
General partner’s interest in net income	28	15
Limited partners’ interest: (*note 14*)		
Net income	1,374	753
Net income per:		
• Common unit (basic and diluted)	0.07	0.04
• Subordinated unit (basic and diluted)	0.00	0.00
• Total unit (basic and diluted)	0.04	0.02
Weighted-average number of units outstanding:		
• Common units (basic and diluted)	20,240,547	20,238,072
• Subordinated units (basic and diluted)	14,734,572	14,734,572
• Total units (basic and diluted)	34,975,119	34,972,644
Cash distributions declared per unit	0.4625	0.4125

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at March 31, 2007 $	As at December 31, 2006 $
ASSETS		
Current		
Cash and cash equivalents	35,407	28,871
Restricted cash - current *(note 4)*	91,164	55,009
Accounts receivable	6,189	8,167
Prepaid expenses	4,094	6,566
Other assets	1,218	1,204
Total current assets	138,072	99,817
Restricted cash - long-term *(note 4)*	666,687	615,749
Vessels and equipment *(note 7)*		
At cost, less accumulated depreciation of $70,717 (2006 - $60,849)	676,273	662,814
Vessels under capital leases, at cost, less accumulated depreciation of $50,072 (2006 - $42,604) *(note 4)*	956,913	654,022
Advances on newbuilding contracts *(note 12a)*	84,759	84,184
Total vessels and equipment	1,717,945	1,401,020
Investment in and advances to joint venture *(notes 10g and 12a)*	202,993	141,427
Other assets *(note 11)*	82,619	74,057
Intangible assets - net *(note 5)*	157,782	160,064
Goodwill *(note 5)*	39,279	39,279
Total assets	3,005,377	2,531,413
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable	6,285	5,069
Accrued liabilities	16,067	13,599
Unearned revenue	6,594	6,708
Current portion of long-term debt *(note 7)*	34,884	30,435
Current obligation under capital leases *(note 4)*	152,365	150,762
Advances from affiliate *(note 6)*	23,714	38,939
Total current liabilities	239,909	245,512
Long-term debt *(note 7)*	1,112,923	880,147
Long-term obligation under capital leases *(note 4)*	719,270	407,375
Advances from affiliate *(note 6)*	8,954	62,680

Other long-term liabilities *(note 11)*	52,032	51,473
Total liabilities	2,133,088	1,647,187
Commitments and contingencies *(notes 4, 7, 10, 11 and 12)*		
Minority interest	165,675	165,729
Partners' equity		
Partners' equity	751,556	767,949
Accumulated other comprehensive loss *(note 9)*	(44,942)	(49,452)
Total partners' equity	706,614	718,497
Total liabilities and partners' equity	3,005,377	2,531,413

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Three Months Ended March 31, 2007 $	2006 $
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	1,402	768
Non-cash items:		
Depreciation and amortization	15,819	12,659
Deferred income tax expense (recovery)	453	(300)
Foreign currency exchange loss	4,597	8,611
Equity based compensation	92	-
Accrued interest and other - net	(544)	(407)
Change in non-cash working capital items related to operating activities	(7,849)	(3,334)
Expenditures for drydocking	(164)	(1,609)
Net operating cash flow	13,806	16,388
FINANCING ACTIVITIES		
Proceeds from long-term debt	236,439	91,627
Capitalized loan costs	(232)	(2,512)
Scheduled repayments of long-term debt	(4,422)	(2,009)
Scheduled repayments of capital lease obligations	(2,185)	(2,134)
Prepayments of long-term debt	-	(29,000)
Advances from affiliate	-	16,523
Repayment of joint venture partner advances	(3,676)	-
Increase in restricted cash	(81,966)	(392,506)
Cash distributions paid	(16,506)	(14,721)
Other	-	(154)
Net financing cash flow	127,452	(334,886)
INVESTING ACTIVITIES		
Advances to joint ventures	(61,601)	-
Purchase of Teekay Nakilat Holdings Corporation (*note 10d*)	(53,726)	-
Purchase of Dania Spirit LLC (*note 10h*)	(18,546)	-
Expenditures for vessels and equipment	(849)	(1,542)
Proceeds from sale of vessels and equipment	-	312,972
Net investing cash flow	(134,722)	311,430
Increase (decrease) in cash and cash equivalents	6,536	(7,068)
Cash and cash equivalents, beginning of the period	28,871	34,469
	35,407	27,401

Cash and cash equivalents, end of the period

Supplemental Cash Flow Information (*note 13)*

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY
(in thousands of U.S. dollars and units)

	PARTNERS' EQUITY						
	Limited Partners						
	Common		Subordinated		General Partner	Accumulated Other Comprehensive Loss	Total
	Units	$	Units	$	$	$	$
Balance as at December 31, 2006	20,240	425,253	14,735	321,277	21,419	(49,452)	718,497
Net income	-	1,374	-	-	28	-	1,402
Cash distributions	-	(9,361)	-	(6,815)	(330)	-	(16,506)
Unrealized gain on derivative instruments (*notes 9 and 11*)	-	-	-	-	-	3,809	3,809
Reclassification adjustment for loss on derivative instruments included in net income *(notes 9 and 11)*	-	-	-	-	-	701	701
Purchase of Teekay Nakilat from Teekay Shipping Corporation (*note 10d*)	-	(1,460)	-	(1,063)	(51)	-	(2,574)
Equity based compensation	-	52	-	38	2	-	92
Purchase of Dania Spirit LLC from Teekay Shipping Corporation *(note 10h)*	-	677	-	492	24	-	1,193
Balance as at March 31, 2007	20,240	416,535	14,735	313,929	21,092	(44,942)	706,614

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay LNG Partners L.P. (or *Teekay LNG*), which is a limited partnership organized under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Partnership*). 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. 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 Partnership's audited consolidated financial statements for the year ended December 31, 2006. In the opinion of management of Teekay GP L.L.C., the general partner of Teekay LNG (or the *General Partner*), these interim consolidated financial statements reflect all adjustments, of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, and changes in partners' equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

2. Change in Accounting Policy

In July 2006, the Financial Accounting Standards Board (or *FASB*) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (or *FIN 48*). This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires companies to determine whether it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements based on guidance in the interpretation.

The Partnership adopted FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on the Partnership's financial position and results of operations. As of January 1 and March 31, 2007, the Partnership did not have any material accrued interest and penalties relating to taxes.

As of January 1 and March 31, 2007, the Partnership had unrecognized tax benefits of 3.4 million Euros ($4.5 million) relating to a re-investment tax credit in one of its 2005 annual tax filings. This filing is currently under review by the relevant tax authorities and the Partnership expects the uncertainty surrounding this tax credit to be resolved within the next twelve months. If the tax credit is approved, the Partnership will receive a refund for the amount of the credit, which will be reflected as a credit to equity in the period of approval.

The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense. The tax years 2002 through 2006 remain open to examination by the major taxing jurisdictions to which the Partnership is subject.

3. Segment Reporting

The Partnership has two reportable segments: its liquefied gas segment and its Suezmax tanker segment. The Partnership's liquefied gas segment consists of liquefied natural gas (or *LNG*) carriers and a liquefied petroleum gas (or *LPG*) carrier subject to long-term, fixed-rate time charters to international energy companies. As at March 31, 2007, the Partnership's liquefied gas segment consisted of seven LNG carriers and one LPG carrier. The Partnership's Suezmax tanker segment consists of Suezmax-class conventional crude oil tankers operating on long-term, fixed-rate time-charter contracts to international energy companies. As at March 31, 2007, the Partnership's conventional crude oil tanker fleet consisted of eight Suezmax tankers. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Partnership's audited consolidated financial statements for the year ended December 31, 2006.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

The following table presents results for these segments for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007			2006		
	Liquefied Gas Segment $	Suezmax Tanker Segment $	Total $	Liquefied Gas Segment $	Suezmax Tanker Segment $	Total $
Voyage revenues	37,476	20,853	58,329	23,700	20,441	44,141
Voyage expenses	5	261	266	-	277	277
Vessel operating expenses	8,167	5,654	13,821	3,802	5,159	8,961
Depreciation and amortization	10,814	5,005	15,819	7,678	4,981	12,659
General and administrative (1)	1,788	1,730	3,518	1,403	1,692	3,095
Income from vessel operations	16,702	8,203	24,905	10,817	8,332	19,149
Expenditures for vessels and equipment	19,198	197	19,395	1,542	-	1,542

(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 consolidated balance sheets is as follows:

	March 31, 2007 $	December 31, 2006 $
Liquefied gas segment	2,532,938	2,056,247
Suezmax tanker segment	425,531	430,358
Unallocated:		
Cash and cash equivalents	35,407	28,871
Accounts receivable, prepaid expenses and other assets	11,501	15,937
Consolidated total assets	3,005,377	2,531,413

4. Capital Leases and Restricted Cash

Capital Leases

Teekay Nakilat LNG Carriers. As at March 31, 2007, the Partnership owned an indirect 70% interest in Teekay Nakilat Corporation (or *Teekay Nakilat*), which is a party to 30-year capital lease arrangements relating to three LNG carriers (or the *RasGas II LNG Carriers*) that operate under time-charter contracts with Ras Laffan Liquefied Natural Gas Co. Limited (II) (or *RasGas II*), a joint venture between Qatar Petroleum and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation. All amounts below relating to the RasGas II LNG carrier capital leases include the Partnership's joint venture partner's 30% share.

Under the terms of the RasGas II capital lease arrangements, the lessor claims tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the 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, the lessor is entitled to increase the lease payments so as to maintain its agreed after-tax margin. However, Teekay Nakilat may terminate the lease arrangements on a voluntary basis at any time. In the event of a termination of the lease arrangements, Teekay Nakilat would be obliged to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

At the inception of these leases, the weighted-average interest rate implicit in these leases was 5.2%. These capital leases are variable-rate capital leases. Teekay Nakilat's interest rate risk associated with these leases has been hedged with interest rate swap agreements (see Note 11). As at March 31, 2007, the commitments under these capital leases approximated $1,114.2 million, including imputed interest of $645.7 million, repayable as follows:

Year	Commitment
2007	$17.0 million
2008	$24.0 million
2009	$24.0 million
2010	$24.0 million
2011	$24.0 million
Thereafter	$1,001.2 million

Spanish-Flagged LNG Carrier. As at March 31, 2007, the Partnership was a party to a capital lease on one LNG carrier (the *Madrid Spirit*) which is structured as a "Spanish tax lease". The Partnership was a party to a similar Spanish tax lease for another LNG carrier (the *Catalunya Spirit*) until it purchased the vessel pursuant to the capital lease in December 2006. Under the terms of the Spanish tax lease, for the *Madrid Spirit*, the Partnership will purchase the vessel at the end of the lease term in 2011. The purchase obligation has been fully funded with restricted cash deposits described below. At the inception of this lease, the interest rate implicit in the Spanish tax lease was 5.8%. As at March 31, 2007, the commitments under this capital lease, including the purchase obligation, approximated 165.0 million Euros ($220.4 million), including imputed interest of 28.0 million Euros ($37.3 million), repayable as follows:

Year	Commitment
2007	23.3 million Euros ($31.1 million)
2008	24.4 million Euros ($32.6 million)
2009	25.6 million Euros ($34.2 million)
2010	26.9 million Euros ($35.9 million)
2011	64.8 million Euros ($86.6 million)

Suezmax Tankers. As at March 31, 2007, the Partnership was a party to capital leases on five Suezmax tankers. Under the terms of the lease arrangements, which include the Partnership's contractual right to full operation of the vessels pursuant to bareboat charters, the Partnership is required to purchase these vessels after the end of their respective lease terms for a fixed price. At the inception of these leases, the weighted-average interest rate implicit in these leases was 7.4%. These capital leases are variable-rate capital leases; however, any change in the lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by the Partnership. As at March 31, 2007, the remaining commitments under these capital leases, including the purchase obligations, approximated $244.0 million, including imputed interest of $24.0 million, repayable as follows:

Year	Commitment
2007	$ 138.8 million
2008	8.6 million

2009	8.5 million
2010	88.1 million

Restricted Cash

Under the terms of the capital leases for the four LNG carriers described above, the Partnership is required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases, including the obligation to purchase the Spanish-flagged LNG carrier at the end of the lease period. These cash deposits are restricted to being used for capital lease payments and have been fully funded primarily with term loans (see Note 7). The interest rates earned on the deposits approximate the interest rates implicit in the leases.

As at March 31, 2007 and December 31, 2006, the amount of restricted cash on deposit for the three RasGas II LNG carriers was $564.1 million and $481.9 million, respectively. As at March 31, 2007 and December 31, 2006, the weighted-average interest rate earned on the deposits was 5.4%.

As at March 31, 2007 and December 31, 2006, the amount of restricted cash on deposit for the Spanish-flagged LNG carrier was 140.8 million Euros ($188.0 million) and 139.0 million Euros ($183.5 million), respectively. As at March 31, 2007 and December 31 2006, the weighted-average interest rates earned on these deposits was 5.0%.

The Partnership also maintains restricted cash deposits relating to certain term loans, which totaled $5.7 million and $5.3 million as at March 31, 2007 and December 31, 2006, respectively.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

5. Intangible Assets and Goodwill

As at March 31, 2007 and December 31, 2006, intangible assets consisted of time-charter contracts with a weighted-average amortization period of 19.2 years.

The carrying amount of intangible assets as at March 31, 2007 and December 31, 2006 is as follows:

	March 31, 2007 $	December 31, 2006 $
Gross carrying amount	182,552	182,552
Accumulated amortization	(24,770)	(22,488)
Net carrying amount	157,782	160,064

Amortization expense of intangible assets for each of the three-month periods ended March 31, 2007 and 2006 was $2.3 million.

The carrying amount of goodwill as at March 31, 2007 and December 31, 2006 for the Partnership's reporting segments is as follows:

	Liquefied Gas Segment $	Suezmax Tanker Segment $	Total $
Balance as at March 31, 2007 and December 31, 2006	35,631	3,648	39,279

6. Advances from Affiliates

	March 31, 2007 $	December 31, 2006 $
Advances from Teekay Shipping Corporation (non-interest bearing and unsecured)	8,954	62,680
Other (non-interest bearing and unsecured)	23,714	38,939
Total	32,668	101,619

On October 31, 2006, Teekay Shipping Corporation sold its interest in Teekay Nakilat to the Partnership in exchange for an $89.5 million non-interest bearing and unsecured promissory note (see Note 10d). The Partnership paid $26.9 million of the note during 2006 and $53.7 million during the first quarter of 2007. The Partnership refinanced amounts owing under the note with borrowings under the Partnership's revolving credit facilities.

7. Long-Term Debt

	March 31, 2007 $	December 31, 2006 $

U.S. Dollar-denominated Revolving Credit Facilities due through 2018	113,000	43,000
U.S. Dollar-denominated Term Loan due through 2019[1]	465,122	360,661
U.S. Dollar-denominated Term Loan due through 2020 (variable interest entities)[1]	120,373	60,458
U.S. Dollar-denominated Unsecured Demand Loan	35,549	35,144
Euro-denominated Term Loans due through 2023	413,763	411,319
	1,147,807	910,582
Less current portion	34,884	30,435
Total	1,112,923	880,147

(1) As at March 31, 2007, long-term debt related to newbuilding vessels to be delivered was $120.4 million (December 31, 2006 - $266.3 million).

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (Cont'd)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

As at March 31, 2007, the Partnership had two long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for borrowings of up to $454.3 million, of which $341.3 million was undrawn. Interest payments are based on LIBOR plus a margin. The amount available under the Revolvers reduces by $13.3 million (remainder of 2007), $18.2 million (2008), $18.8 million (2009), $19.4 million (2010), $20.0 million (2011) and $364.6 million (thereafter). Both Revolvers may be used by the Partnership to fund general partnership purposes and to fund cash distributions. The Partnership is required to reduce all borrowings used to fund cash distributions to zero for a period of at least 15 consecutive days during any 12-month period. The Revolvers are collateralized by first-priority mortgages granted on five of the Partnership’s vessels, together with other related collateral, and include a guarantee from the Partnership or its subsidiaries of all outstanding amounts.

The Partnership has a U.S. Dollar-denominated term loan outstanding, which, as at March 31, 2007, totaled $465.1 million. Of the total amount of this term loan, $296.9 million bears interest at a fixed rate of 5.39% and reduces in quarterly payments commencing three months after delivery of the applicable LNG newbuilding. The remaining $168.2 million bears interest based on LIBOR plus a margin and will require bullet repayments of approximately $56 million per vessel. The term loan is collateralized by first-priority mortgages on the vessels, together with certain other related collateral and guarantees from the Partnership.

Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*) owns a 40% interest in Teekay Nakilat (III) Corporation (or *RasGas 3 Joint Venture*). RasGas 3 Joint Venture owns four LNG newbuilding carriers, scheduled for delivery during 2008, and the related 25-year fixed-rate, time-charter contracts. On November 1, 2006, the Partnership agreed to purchase Teekay Shipping Corporation's 100% interest in Teekay Nakilat (III), which caused the Partnership to become the primary beneficiary of this variable interest entity (See Note 12). Teekay Nakilat (III) has a U.S. Dollar-denominated term loan outstanding, which, as at March 31, 2007, totaled $120.4 million. Interest payments on the term loan is based on LIBOR plus a margin. The term loan reduces in quarterly payments commencing three months after delivery of each related vessel, with varying maturities through 2020. The term loan is collateralized by first-priority mortgages on the vessels, together with certain other related collateral including an undertaking from Teekay Shipping Corporation. Upon transfer to the Partnership of Teekay Shipping Corporation's 100% ownership interest in Teekay Nakilat (III), the rights and obligations of Teekay Shipping Corporation under the undertaking, may, upon the fulfillment of certain conditions, be transferred to the Partnership.

The Partnership has one U.S. Dollar-denominated demand loan outstanding owing to a joint venture partner, which, as at March 31, 2007, totaled $35.5 million, including accrued interest. Interest payments on this loan, which are based on a fixed interest rate of 4.84%, commence February 2008. The loan is repayable on demand no earlier than February 27, 2027.

The Partnership has two Euro-denominated term loans outstanding, which, as at March 31, 2007 totaled 309.8 million Euros ($413.8 million). These loans were used to make restricted cash deposits that fully fund payments under capital leases for the LNG carriers, the *Madrid Spirit* and the *Catalunya Spirit* (see Note 4). Interest payments are based on EURIBOR plus a margin. The term loans reduce in monthly payments with varying maturities through 2023 and are collateralized by first-preferred mortgages on the vessels to which the loans relate, together with certain other related collateral and guarantees from one of the Partnership’s subsidiaries.

The weighted-average effective interest rate for the Partnership’s long-term debt outstanding at March 31, 2007 and December 31, 2006 was 5.5%. These rates do not reflect the effect of related interest rate swaps that the Partnership has used to hedge certain of its floating-rate debt (see Note 11). At March 31, 2007, the margins on the Partnership’s long-term debt ranged from 0.50% to 1.30%.

All Euro-denominated term loans are revalued at the end of each period using the then-prevailing Euro/U.S. Dollar exchange rate. Due substantially to this revaluation, the Partnership recognized foreign exchange losses of $4.8 million and $7.8 million during the three months ended March 31, 2007 and 2006, respectively.

Certain loan agreements require that a minimum level of tangible net worth, a minimum level of aggregate liquidity, and a maximum level of leverage be maintained, and requires one of the Partnership's subsidiaries to maintain restricted cash deposits. The Partnership's ship-owning subsidiaries may not, in addition to other things, pay dividends or distributions if the Partnership is in default under the term loans and the Revolvers.

8. Other Income - Net

	Three Months Ended March 31,	
	2007	**2006**
	$	**$**
Minority interest recovery	1,067	-
Income tax (expense) recovery	(453)	300
Miscellaneous	(67)	308
Other income - net	547	608

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9. Comprehensive Income

	Three Months Ended March 31, 2007 $	2006 $
Net income	1,402	768
Other comprehensive income:		
Unrealized gain on derivative instruments	3,809	17,812
Reclassification adjustment for loss on derivative instruments included in net income	701	2,230
Comprehensive income	5,912	20,810

As at March 31, 2007 and December 31, 2006, the Partnership's accumulated other comprehensive loss of $44.9 million and $49.5 million, respectively, consisted of net unrealized losses on derivative instruments.

10. Related Party Transactions

a) The Partnership and certain of its operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Shipping Corporation pursuant to which the Teekay Shipping Corporation subsidiaries provide the Partnership with administrative, advisory, technical and strategic consulting services. During the three months ended March 31, 2007 and 2006 the Partnership incurred $1.4 million and $0.9 million, respectively, of these costs.

b) The Partnership reimburses the General Partner for all expenses incurred by the General Partner that are necessary or appropriate for the conduct of the Partnership's business. During each of the three months ended March 31, 2007 and 2006 the Partnership incurred $0.1 million of these costs.

c) The Partnership is a party to an agreement with Teekay Shipping Corporation pursuant to which Teekay Shipping Corporation has provided the Partnership with off-hire insurance for its Spanish-flagged LNG carriers since January 1, 2006. During each of the three-month periods ended March 31, 2007 and 2006, the Partnership incurred $0.1 million of these costs.

d) On October 31, 2006, the Partnership acquired Teekay Shipping Corporation's 100% ownership interest in Teekay Nakilat Holdings Corporation (or *Teekay Nakilat Holdings*). Teekay Nakilat Holdings owns 70% of Teekay Nakilat, which in turn has a 100% interest in capital leases relating to the three RasGas II LNG carriers. The purchase price for the 70% interest in Teekay Nakilat was $89.5 million; however, this amount is subject to adjustment upon determination of the final construction costs of all three LNG carriers. The Partnership paid $26.9 million of this amount during 2006 and $53.7 million during the first quarter of 2007 (see Note 6). This transaction was concluded between two entities under common control and, thus, the assets acquired were recorded at historical book value. The excess of the purchase price over the book value of the assets was accounted for as an equity distribution to Teekay Shipping Corporation. The purchase occurred upon the delivery of the first LNG carrier. The remaining two LNG carriers were delivered during the first quarter of 2007.

e) The Partnership's Suezmax tanker, the *Toledo Spirit*, which was delivered in July 2005, operates pursuant to a time-charter contract that increases or decreases the fixed rate established in the charter, depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The Partnership has entered into an agreement with Teekay Shipping Corporation under which Teekay Shipping Corporation pays the Partnership any amounts payable to the charter party as a result of spot rates being below the fixed rate, and the

Partnership pays Teekay Shipping Corporation any amounts payable to the Partnership as a result of spot rates being in excess of the fixed rate. During the three months ended March 31, 2007 and 2006, the Partnership incurred $0.8 million and $1.8 million, respectively, of amounts owing to Teekay Shipping Corporation as a result of this agreement.

f) In July 2005, Teekay Shipping Corporation announced that it had been awarded long-term, fixed-rate contracts to charter two LNG carriers to the Tangguh LNG project in Indonesia. The two LNG carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, a consortium led by BP Berau Ltd., a subsidiary of BP plc. Teekay Shipping Corporation entered into this project with a joint venture partner (BLT LNG Tangguh Corporation, a subsidiary of PT Berlian Tanker Tbk), which owns a 30% interest. All amounts below include the joint venture partner's 30% share. In connection with this award, Teekay Shipping Corporation has exercised shipbuilding options with Hyundai Heavy Industries Co. Ltd. to construct two 155,000 cubic meter LNG carriers at a total delivered cost of approximately $376.9 million, excluding capitalized interest. As at March 31, 2007 payments made towards these commitments by the joint venture company totaled $82.3 million, excluding $10.4 million of capitalized interest and other miscellaneous construction costs. Long-term financing arrangements existed for all of the remaining $294.6 million unpaid cost of these LNG carriers. As at March 31, 2007, the remaining payments required to be made under these newbuilding contracts were $183.4 million in 2007, $75.1 million in 2008 and $36.1 million in 2009. The charters will commence upon vessel deliveries, which are scheduled for late 2008 and early 2009. Pursuant to existing agreements, Teekay Shipping Corporation was required to offer its 70% ownership interest in these two vessels and related charter contracts to the Partnership. On November 1, 2006, the Partnership agreed to acquire this 70% ownership interest upon delivery of the first LNG carrier (see Note 12a).

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g) In August 2005, Teekay Shipping Corporation announced that it had been awarded long-term, fixed-rate contracts to charter four LNG carriers to Ras Laffan Liquefied Natural Gas Co. Limited (3) (or *RasGas 3*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum. The vessels will be chartered to RasGas 3 at fixed rates, with inflation adjustments, for a period of 25 years (with options exercisable by the customer to extend up to an additional 10 years), scheduled to commence in the first half of 2008. Teekay Shipping Corporation entered into the project with a joint venture partner (Qatar Gas Transport Company Ltd. (Nakilat)), which owns a 60% interest. In connection with this award, Teekay Shipping Corporation has entered into agreements with Samsung Heavy Industries Co. Ltd. to construct four 217,000 cubic meter LNG carriers at a total cost of approximately $1.0 billion (of which Teekay Shipping Corporation's 40% portion is $400.7 million), excluding capitalized interest. As at March 31, 2007, payments made towards these commitments by the joint venture company totaled $551.8 million, excluding capitalized interest and other miscellaneous construction costs (of which the Company's 40% contribution was $220.7 million), and long-term financing arrangements existed for all the remaining $449.8 million unpaid cost of these LNG carriers. As at March 31, 2007, the remaining payments required to be made under these newbuilding contracts (including the joint venture partners' 60% share) were $249.5 million in 2007 and $200.3 million in 2008. Pursuant to existing agreements, Teekay Shipping Corporation was required to offer its 40% ownership interest in these four vessels and related charter contracts to the Partnership. On November 1, 2006, the Partnership agreed to acquire this 40% ownership interest upon delivery of the first LNG carrier (see Note 12a).

h) In January 2007, the Partnership acquired a 2000-built LPG carrier from Teekay Shipping Corporation and the related long-term, fixed-rate time charter for a purchase price of approximately $18.5 million. This transaction was concluded between two entities under common control and, thus, the vessel acquired was recorded at its historical book value. The excess of the book value over the purchase price of the vessel was accounted for as an equity contribution by Teekay Shipping Corporation. The purchase was financed with one of the Partnership's revolving credit facilities. This vessel is chartered to the Norwegian state-owned oil company, Statoil ASA, and has a remaining contract term of nine years.

11. Derivative Instruments and Hedging Activities

The Partnership uses derivatives only for hedging purposes. As at March 31, 2007, the Partnership was committed to the following interest rate swap agreements related to its EURIBOR and LIBOR-based debt, whereby certain of the Partnership's floating-rate debt has been swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Liability $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%)[1]
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps[2]	LIBOR	491,314	23,184	29.8	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	233,647	(20,247)	11.9	6.2
U.S. Dollar-denominated interest rate swaps[3]	LIBOR	405,000	(1,562)	13.9	5.2
LIBOR-Based Restricted Cash Deposit:					
	LIBOR	468,293	(30,114)	29.8	4.8

U.S. Dollar-denominated interest rate swaps(2)					
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps(4)	EURIBOR	413,764	18,198	17.2	3.8

(1) Excludes the margins the Partnership pays on its floating-rate debt, which, at March 31, 2007, ranged from 0.5% to 1.3% (see Note 7).

(2) Principal amount reduces quarterly.

(3) Interest rate swaps are held in Teekay Tangguh and Teekay Nakilat (III), variable interest entities in which the Partnership is the primary beneficiary (See Note 12a). Inception dates of swaps are 2006 ($160.0 million), 2007 ($70.0 million) and 2009 ($175.0 million).

(4) Principal amount reduces monthly to 70.1 million Euros ($93.6 million) by the maturity dates of the swap agreements.

Changes in the fair value of the designated interest rate swaps (cash flow hedges) are recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of an interest rate swap's change in fair value is immediately recognized into income and is presented as interest expense. During each of the three months ended March 31, 2007 and 2006, the ineffective portion of the Partnership's interest rate swaps was nominal.

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The Partnership is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements; however, counterparties to these agreements are major financial institutions and the Partnership considers the risk of loss due to non-performance to be minimal. The Partnership requires no collateral from these institutions.

12. Commitments and Contingencies

(a) On November 1, 2006, the Partnership entered into an agreement with Teekay Shipping Corporation to purchase its 100% interest in Teekay Tangguh Holdings Corporation (or *Teekay Tangguh*) which owns a 70% interest in Teekay BLT Corporation (or *Teekay Tangguh Joint Venture*) and its 100% interest in Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*) which owns a 40% interest in Teekay Nakilat (III) Corporation (or *RasGas 3 Joint Venture*) (see Notes 10f and 10g). Teekay Tangguh Joint Venture owns two LNG newbuildings and the related 20-year time charters. RasGas 3 Joint Venture owns four LNG newbuildings and the related 25-year time charters. The purchases will occur upon the delivery of the first newbuildings for the respective projects, which are scheduled for 2008. The Partnership's purchase price for these projects, which depends upon the total construction costs of the vessels, is estimated to be $60.0 million for the 70% interest in the Teekay Tangguh Joint Venture and $80.0 million for the 40% interest in the RasGas 3 Joint Venture.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (or *FIN 46*). In general, a variable interest entity (or *VIE*) is a corporation, partnership, limited-liability company, trust or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. If a party with an ownership, contractual or other financial interest in the VIE (a *variable interest holder*) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both, then FIN 46 requires that this party consolidate the VIE. Prior to its purchase of a controlling interest in Teekay Nakilat in October 2006, the Partnership already included Teekay Nakilat in its consolidated financial statements, as Teekay Nakilat was a VIE and the Partnership was its primary beneficiary. In addition, the Partnership has consolidated Teekay Tangguh and Teekay Nakilat (III) in its consolidated financial statements effective November 1, 2006, as both entities are VIE’s and the Partnership became their primary beneficiary on November 1, 2006, upon its agreement to acquire all of Teekay Shipping Corporation’s interests in these entities. The assets and liabilities of Teekay Tangguh and Teekay Nakilat (III) are reflected in the Partnership’s financial statements at historical cost as the Partnership and these two VIE’s are under common control.

The following table summarizes the combined balance sheets of Teekay Tangguh and Teekay Nakilat (III) as at March 31, 2007 and December 31, 2006:

	March 31, 2007 $	December 31, 2006 $
ASSETS		
Prepaid expenses and other current assets	2	3
Advances on newbuilding contracts	84,759	84,184
Investment in and advances to joint ventures	202,993	141,427

Other assets	5,753	6,035
Total assets	293,507	231,649
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilities	1,308	562
Advances from affiliates	9,074	7,366
Long-term debt relating to newbuilding vessels to be delivered	120,373	60,458
Other long-term liabilities	2,219	2,100
Total liabilities	132,974	70,486
Minority interest	24,559	24,559
Total shareholders' equity	135,974	136,604
Total liabilities and shareholders' equity	293,507	231,649

The Partnership's maximum exposure to loss at March 31, 2007, as a result of its commitment to purchase Teekay Shipping Corporation's interests in Teekay Tangguh and Teekay Nakilat (III), is limited to the respective purchase prices of such interests, which are expected to be $60 million and $80 million.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
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(b) In December 2006, the Partnership announced that it has agreed to acquire three LPG carriers from I.M. Skaugen ASA (or *Skaugen*), which engages in the marine transportation of petrochemical gases and LPG and the lightering of crude oil, for approximately $29.2 million per vessel. The vessels are currently under construction and are expected to deliver between early 2008 and mid-2009. The Partnership will acquire the vessels upon their delivery and will finance the acquisition of these vessels through existing or incremental debt, surplus cash balances, issuance of additional common units or combinations thereof. Upon delivery, the vessels will be chartered to Skaugen, at fixed rates for a period of 15 years.

13. Supplemental Cash Flow Information

a) Cash interest paid on long-term debt and capital lease obligations during the three months ended March 31, 2007 and 2006 totaled $24.7 million and $11.6 million, respectively.

b) No taxes were paid during the three months ended March 31, 2007 and 2006.

c) During the three months ended March 31, 2007, the Partnership took delivery of two leased LNG carriers which are being accounted for as capital leases. As at March 31, 2007, the present value of the minimum lease payments for these vessels was $310.6 million. These transactions were treated as non-cash transactions in the Partnership's consolidated statement of cash flows.

14. Net Income Per Unit

Net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the General Partner's interest, by the weighted-average number of units outstanding during the period.

As required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and Two-Class Method under FASB Statement No. 128, Earnings Per Share*, the General Partner's, common unitholders' and subordinated unitholders' interests in net income are calculated as if all net income for periods subsequent to May 10, 2005 (the date of the Partnership's initial public offering) were distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of cash reserves. Unlike available cash, net income is affected by non-cash items such as depreciation and amortization, and foreign currency translation gains (losses).

Under the Partnership Agreement, the holder of the incentive distribution rights in the Partnership, which is currently the General Partner, has the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution. Assuming there are no cumulative arrearages on common unit distributions, the target distribution levels entitle the General Partner to receive 2% of quarterly cash distributions up to $0.4625 per unit, 15% of quarterly cash distributions between $0.4625 and $0.5375 per unit, 25% of quarterly cash distributions between $0.5375 and $0.65 per unit, and 50% of quarterly cash distributions in excess of $0.65 per unit. During the quarters ended March 31, 2007 and March 31, 2006, net income did not exceed $0.4625 per unit and, consequently, the General Partner did not have the right to receive an increasing percentage of assumed distributions after a $0.4625 per unit quarterly distribution, for purposes of the net income per unit calculation.

Under the Partnership Agreement, during the subordination period the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.4125 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. During the quarters ended March 31, 2007 and March 31, 2006, net income did not exceed the minimum quarterly distribution of $0.4125 per unit and, consequently, the assumed distributions of net income resulted in unequal distributions of net income between the subordinated unit holders and common unit holders.

15. Subsequent Events

During May 2007, the Partnership sold, as part of a follow-on public offering of 2.3 million of its common units, which represent limited partner interests, at $38.13 per unit for proceeds of $84.2 million, net of $3.5 million of commissions and other expenses associated with the offering. The Partnership's General Partner contributed $1.8 million to the Partnership to maintain its 2% general partner interest.

The Partnership has granted the underwriters a 30-day option to purchase up to an additional 345,000 units to cover over-allotments, if any.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
MARCH 31, 2007
PART I - FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

General

Teekay LNG Partners L.P. is an international provider of liquefied natural gas (or *LNG*), liquefied petroleum gas (or *LPG*) and crude oil marine transportation services. Our growth strategy focuses on expanding our fleet of LNG and LPG carriers under long-term, fixed-rate time charters. We intend to continue our practice of acquiring LNG and LPG carriers as needed for approved projects only after the long-term charters for the projects have been awarded to us, rather than ordering vessels on a speculative basis. We seek to capitalize on opportunities emerging from the global expansion of the LNG and LPG sectors by selectively targeting long-term, fixed-rate time charters. We may enter into joint ventures and partnerships with companies that may provide increased access to these opportunities or may engage in vessel or business acquisitions. We plan to leverage the expertise, relationships and reputation of Teekay Shipping Corporation and its affiliates to pursue these growth opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited. In December 2006, we announced that we will be acquiring four LPG carriers, as discussed below. LPG is a by-product of natural gas separation and crude oil refining. We believe that LPG transportation services are a natural extension of our core LNG transportation business. We view our Suezmax tanker fleet primarily as a source of stable cash flow as we expand our liquefied gas operations.

We manage our business and analyze and report our results of operations on the basis of the following two business segments:

Liquefied Gas Segment. We have seven LNG carriers, including the *Al Marrouna*, that delivered in October 2006, the *Al Areesh* that delivered in January 2007 and the *Al Daayen* that delivered in February 2007 (collectively, the *RasGas II LNG Carriers*). All of our LNG carriers operate under long-term, fixed-rate time charters.

In addition, in July and August 2005, Teekay Shipping Corporation announced that it has been awarded long-term, fixed-rate time charter contracts to transport LNG and has entered into agreements to construct a total of six LNG carriers in connection with these awards. Two of the LNG carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, and four will be chartered for a period of 25 years (with options to extend up to an additional 10 years) to Ras Laffan Liquefied Natural Gas Co. Limited (3). Partners in each of these projects will participate in 30% and 60%, respectively, of the ownership of the related time charters and related vessels. On November 1, 2006, we agreed to acquire from Teekay Shipping Corporation, upon delivery of the first vessel for each project, its interest in these vessels and related charter contracts. Please read Item 1 - Financial Statements: Note 12(a) - Commitments and Contingencies.

We have one LPG carrier, the 2000-built *Dania Spirit*, which we acquired on January 1, 2007 from Teekay Shipping Corporation, together with the related long-term, fixed-rate time charter. This vessel is chartered to the Norwegian state-owned oil company, Statoil ASA, and has a remaining contract term of nine years.

In December 2006, we announced that we have agreed to acquire three LPG carriers from I.M. Skaugen ASA (or *Skaugen*), for approximately $29.2 million per vessel. The vessels are currently under construction and are expected to deliver between early 2008 and mid-2009. We will finance the acquisition of these vessels through existing or incremental debt, surplus cash balances, issuance of additional common units or combinations thereof. Upon delivery, the vessels will be chartered to Skaugen at fixed-rates for a period of 15 years.

During the three months ended March 31, 2007 and 2006, our liquefied gas segment generated 64.5% and 54.0%, respectively, of our total net voyage revenues.

Suezmax Tanker Segment. We have eight Suezmax-class double-hulled conventional crude oil tankers. All of our Suezmax tankers operate under long-term, fixed-rate time charters.

During the three months ended March 31, 2007 and 2006, our Suezmax tanker segment generated 35.5% and 46.0%, respectively, of our total net voyage revenues.

Our original fleet was established by Naviera F. Tapias S.A. (or *Tapias*), a Spanish company founded in 1991. Teekay Shipping Corporation, through its subsidiary Teekay Luxembourg S.a.r.l. (or *Luxco*), acquired Tapias on April 30, 2004 and changed its name to Teekay Shipping Spain S.L. (or *Teekay Spain*). Teekay Shipping Corporation acquired Tapias for $298.2 million in cash, plus the assumption of existing debt and newbuilding commitments.

Follow-On Offering

During May 2007, we sold, as part of a follow-on offering of 2.3 million of our common units, which represent limited partner interests, at $38.13 per unit for proceeds of $84.2 million, net of $3.5 million of commissions and other expenses associated with the offering. The Partnership's General Partner contributed $1.8 million to the Partnership to maintain its 2% general partner interest. The net proceeds from our sale of common units will be used to repay outstanding debt on one of our revolving credit facilities.

We granted the underwriters a 30-day option to purchase up to an additional 345,000 units to cover over-allotments, if any.

Our Charters

We generate revenues by charging customers for the transportation of their LNG, LPG and crude oil using our vessels. Historically, we generally have provided these services under the following basic types of contractual relationships:

· *Time charters*, where vessels are chartered to customers for a fixed period of time at rates that are generally fixed but may contain a variable component, based on inflation, interest rates or current market rates; and

· *Voyage charters*, which are charters for shorter intervals, usually a single round trip, that are priced on a current, or "spot" market rate.

During the three months ended March 31, 2007 and 2006, we derived 100% of our revenues from time charters. We have not provided services under voyage charters since 2004 and do not anticipate earning revenues directly from voyage charters in the foreseeable future.

"Hire" rate refers to the basic payment from the customer for the use of a vessel. Hire is payable monthly, in advance, in U.S. Dollars or Euros, as specified in the charter. The hire rate generally includes two components - a capital cost component and an operating expense component. The capital component typically approximates the amount we are required to pay under vessel financing obligations and, for five of our eight Suezmax tankers, adjusts for changes in the floating interest rates relating to the underlying vessel financing. The operating component, which adjusts annually for inflation, is intended to compensate us for vessel operating expenses. For most of our charters, we earn a profit from a margin built into the operating or capital component of the hire rate.

The time charters for our other three Suezmax tankers include a fixed monthly rate for their initial 12-year term, which increases to another fixed amount for any extensions of the initial term. These time charters do not include separately identified capital or operating components or adjust for inflation.

In addition, we may receive additional revenues beyond the fixed hire rate when current market rates exceed specified amounts under our time charter for one Suezmax tanker, the *Teide Spirit*.

Hire payments may be reduced or, under some charters, we must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount. Historically, we have had few instances of hire rate reductions and none that have had a material impact on our operating results.

When a vessel is "off-hire"—or not available for service—generally the customer is not required to pay the hire rate and we are responsible for all costs. Prolonged off-hire may lead to vessel substitution or termination of the time charter. A vessel will be deemed to be off-hire if it is in drydock. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. In addition, a vessel generally will be deemed off-hire if there is a loss of time due to, among other things: operational deficiencies; equipment breakdowns; delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew. We carry loss-of-hire insurance for our LNG carriers.

The average remaining term of our existing long-term, fixed-rate time charters is approximately 18 years for our LNG and LPG carriers, and 13 years for our Suezmax tankers, subject, in certain circumstances, to termination or purchase rights.

Our customers include major energy companies and their affiliates. We derive a substantial majority of our revenues from a limited number of customers. During the three months ended March 31, 2007 and 2006, we derived 79% and

100%, respectively, of our revenues from five customers - Compania Espanola de Petroleos, S.A. (24% and 30%), Repsol YPF, S.A. (21% and 27%), ConocoPhillips (12% and 16%), Gas Natural SDG, S.A. (12% and 14%), and Unión Fenosa Gas, S.A (10% and 13%). In addition, as a result of our acquisition of the RasGas II LNG Carriers and related time charters from Teekay Shipping Corporation, for the three months ended March 31, 2007, we derived 19% of our revenues from Ras Laffan Liquefied Natural Gas Co. Limited (II). The loss of any customer or time charter, or a significant decline in payments under any of our time charters, could materially and adversely affect our revenues, cash flows and operating results.

Important Financial and Operational Terms and Concepts

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

Voyage Revenues. Voyage revenues currently include revenues only from time charters. Voyage revenues are affected by hire rates and the number of calendar-ship-days a vessel operates. Voyage revenues are also affected by the mix of business between time and voyage charters. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time charters and by us under voyage charters. When we pay voyage expenses, we typically add them to our hire rates at an approximate cost.

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

Vessel Operating Expenses. We are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of vessel operating expenses are crews and repairs and maintenance.

Income from Vessel Operations. To assist us in evaluating our operations by segment, at times we analyze the income we receive from each segment after deducting operating expenses, but prior to the deduction of interest expense, taxes, foreign currency and other income and losses. For more information, please read Item 1 - Financial Statements: Note 3 - Segment Reporting.

Drydocking. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we drydock each of our vessels every five years. In addition, a shipping society classification intermediate survey is performed on our LNG and LPG carriers between the second and third year of a five-year drydocking period. We capitalize a substantial portion of the costs incurred during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking or intermediate survey. We expense costs related to routine repairs and maintenance incurred during drydocking or intermediate survey that do not improve or extend the useful lives of the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation and Amortization. Our depreciation and amortization expense typically consists of the following three components:

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

- charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking or intermediate survey; and

- charges related to the amortization of the fair value of the time charters acquired in the Teekay Spain acquisition (over the remaining terms of the charters), which was initially determined at approximately $183 million in April 2004 when Teekay Shipping Corporation acquired Teekay Spain.

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

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

Utilization. Utilization is an indicator of the use of our fleet during a given period, and is determined by dividing our revenue days by our calendar-ship-days for the period.

Restricted Cash Deposits. Under capital lease arrangements for four of our LNG carriers, we are required to have on deposit with financial institutions an amount of restricted cash deposits that, together with interest earned on the deposits, will equal the remaining amounts we owe under the lease arrangements, including our obligation to purchase the vessels at the end of the lease terms, where applicable. For more information, please read Item 1 - Financial Statements: Note 4 - Capital Leases and Restricted Cash.

Foreign Currency Fluctuations. Our results of operations are affected by fluctuations in currency exchange rates. The volatility in our financial results due to currency exchange rate fluctuations are attributed primarily to the following factors:

- *Unrealized end-of-period revaluations*. Under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, restricted cash, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. A substantial majority of our foreign currency gains and losses are attributable to this revaluation in respect of our Euro-denominated term loans. Substantially all of these gains and losses are unrealized.

· *Foreign currency revenues and expenses*. A portion of our voyage revenues are denominated in Euros. A substantial majority of our vessel operating expenses and general and administrative expenses are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We also have Euro-denominated interest expense and interest income related to our Euro-denominated loans and Euro-denominated restricted cash deposits, respectively. As a result, fluctuations in the Euro relative to the U.S. Dollar have caused, and are likely to continue to cause, fluctuations in our income statement, including our reported voyage revenues, vessel operating expenses, general and administrative expenses, interest expense and interest income.

On a cash basis, our Euro-denominated revenues currently generally approximate our Euro-denominated expenses and Euro-denominated loan and interest payments. For this reason, we have not entered into any forward contracts or similar arrangements to protect against the risk of foreign currency-denominated revenues, expenses or monetary assets or liabilities. If our foreign currency-denominated revenues and expenses become sufficiently disproportionate in the future, we may engage in hedging activities. For more information, please read Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

Items You Should Consider When Evaluating Our Results of Operations

Some factors that have affected our historical financial performance or will affect our future performance are listed below:

· ***Our financial results reflect the consolidation of Teekay Tangguh and Teekay Nakilat (III), variable interest entities for which we are their primary beneficiary.*** On November 1, 2006, we entered into an agreement with Teekay Shipping Corporation to purchase its 100% interest in Teekay Tangguh Holdings Corporation (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or *Teekay Tangguh Joint Venture*) and its 100% interest in Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*), which owns a 40% interest in Teekay Nakilat (III) Corporation (or *RasGas 3 Joint Venture*). Teekay Tangguh Joint Venture owns two LNG newbuildings and the related 20-year time charters. RasGas 3 Joint Venture owns four LNG newbuildings and the related 25-year time charters. The purchases will occur upon the delivery of the first newbuildings for the respective projects, which are scheduled for 2008; however we were required to consolidate Teekay Tangguh and Teekay Nakilat (III) in our consolidated financial statements, effective November 1, 2006, as both entities are variable interest entities and we are their primary beneficiary. Please read Item 1 - Financial Statements: Notes 10(f) and 10(g) - Related Party Transactions and Note 12(a) - Commitments and Contingencies.

· ***The size of our LNG carrier and LPG carrier fleets has changed***. Our historical results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries and vessel dispositions. In particular, we increased the size of our LNG carrier fleet from four LNG carriers during the first three months of 2006 to seven LNG carriers by February 2007. We also purchased our first LPG carrier from Teekay Shipping Corporation in January 2007. Please read "-- Results of Operations - Liquefied Gas Segment" below for further details about our vessel dispositions and deliveries.

· ***One of our Suezmax tankers earns revenues based partly on spot market rates.*** The time charter for one Suezmax tanker, the *Teide Spirit*, contains a component providing for additional revenues to us beyond the fixed hire rate when spot market rates exceed certain threshold amounts. Accordingly, even though declining spot market rates will not result in our receiving less than the fixed hire rate, our results may continue to be influenced, in part, by the variable component of the *Teide Spirit* charter. During the three months ended March 31, 2007 and 2006, we earned $0.9 million and $1.4 million, respectively, in additional revenue from this variable component.

Results of Operations

The following table presents our operating results by reportable segment for the three months ended March 31, 2007 and 2006, and compares our net voyage revenues (which is a non-GAAP financial measure) by reportable segment for the three months ended March 31, 2007 and 2006, to voyage revenues, the most directly comparable GAAP financial measure:

(in thousands of U.S. dollars, except Operating Data)	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Liquefied Gas Segment	Suezmax Tanker Segment	Total	Liquefied Gas Segment	Suezmax Tanker Segment	Total
Voyage revenues	37,476	20,853	58,329	23,700	20,441	44,141
Voyage expenses	5	261	266	-	277	277
Net voyage revenues	37,471	20,592	58,063	23,700	20,164	43,864
Vessel operating expenses	8,167	5,654	13,821	3,802	5,159	8,961
Depreciation and amortization	10,814	5,005	15,819	7,678	4,981	12,659
General and administrative (1)	1,788	1,730	3,518	1,403	1,692	3,095
Income from vessel operations						

Net sales	**Consolidated $**		**$ 676,426**	**$ 211,083**	**$ (55,798)**	**$ 831,711**
Operating costs and expenses:						
	Cost of sales		**632,746**	**171,777**	**(55,798)**	**748,725**
	Selling, general and administrative expenses	**10,201**	**18,391**	**19,591**		**48,183**
	Restructuring (income) expense		**(1,134)**	**427**		**(707)**
	Total operating costs and expenses	**10,201**	**650,003**	**191,795**	**(55,798)**	**796,201**
Operating (loss) income		**(10,201)**	**26,423**	**19,288**		**35,510**

Other (expense) income:					
Interest (expense) income, net	**(18,361)**	**7,612**	**(6,170)**		**(16,919)**
Loss on redemption of debt	**(1,100)**				**(1,100)**
Foreign exchange (loss) gain	**(19)**	**35**	**(356)**		**(340)**
Equity in income of subsidiaries	**39,169**	**1,003**		**(40,172)**	
Income before income taxes	**9,488**	**35,073**	**12,762**	**(40,172)**	**17,151**
(Benefit) provision for income taxes	**(5,100)**	**10,196**	**(2,533)**		**2,563**
Net income	**$ 14,588**	**$ 24,877**	**$ 15,295**	**$ (40,172)**	**$ 14,588**

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Georgia Gulf Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

17. SUPPLEMENTAL GUARANTOR INFORMATION (Continued)

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Operations Information
Three Months Ended June 30, 2010
(Unaudited)

(In thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 4,222	$ 604,959	$ 186,422	$ (59,897)	$ 735,706
Operating costs and expenses:					
Cost of sales		563,005	153,085	(55,676)	660,414
Selling, general and administrative expenses	6,912	20,251	14,017	(4,221)	36,959
Restructuring expense		42	397		439
Total operating costs and expenses	6,912	583,298	167,499	(59,897)	697,812
Operating (loss) income	(2,690)	21,661	18,923		37,894
Other (expense) income:					
Interest (expense) income, net	(18,446)	5,048	(4,027)		(17,425)
Foreign exchange loss	(81)		(348)		(429)
Equity in (loss) income of subsidiaries	(8,993)	1,723		7,270	
Intercompany interest income (expense)	1,218		(1,218)		
(Loss) income before income taxes	(28,992)	28,432	13,330	7,270	20,040
(Benefit) provision for income taxes	(50,681)	52,932	(3,900)		(1,649)
Net income (loss)	$ 21,689	$ (24,500)	$ 17,230	$ 7,270	$ 21,689

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Georgia Gulf Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

17. SUPPLEMENTAL GUARANTOR INFORMATION (Continued)

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Operations Information
Six Months Ended June 30, 2011
(Unaudited)

(In thousands, except share data)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 1,382,761	$ 340,341	$ (103,454)	$ 1,619,648
Operating costs and expenses:					
Cost of sales		1,274,512	289,895	(103,454)	1,460,953
Selling, general and administrative expenses	18,817	34,896	32,956		86,669
Restructuring (income) expense		(1,134)	1,009		(125)
Total operating costs and expenses	18,817	1,308,274	323,860	(103,454)	1,547,497
Operating (loss) income	(18,817)	74,487	16,481		72,151
Other (expense) income:					
Interest (expense) income, net	(37,526)	16,169	(12,032)		(33,389)
Loss on redemption of debt	(1,100)				(1,100)
Foreign exchange gain (loss)	36	45	(1,021)		(940)
Equity in income (loss) of subsidiaries	68,479	(2,005)		(66,474)	
Income before income taxes	11,072	88,696	3,428	(66,474)	36,722
(Benefit) provision for income taxes	(15,643)	27,904	(2,254)		10,007
Net income	$ 26,715	$ 60,792	$ 5,682	$ (66,474)	$ 26,715

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Georgia Gulf Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

17. SUPPLEMENTAL GUARANTOR INFORMATION (Continued)

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Operations Information
Six Months Ended June 30, 2010
(Unaudited)

(In thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 8,096	$ 1,157,306	$ 304,311	$ (102,558)	$ 1,367,155
Operating costs and expenses:					
Cost of sales		1,105,494	253,753	(94,462)	1,264,785
Selling, general and administrative expenses	13,982	39,522	29,409	(8,096)	74,817
Restructuring (expense) income		586	(452)		134
Total operating costs and expenses	13,982	1,145,602	282,710	(102,558)	1,339,736
Operating (loss) income	(5,886)	11,704	21,601		27,419
Other (expense) income:					
Interest (expense) income, net	(40,724)	13,320	(7,856)		(35,260)
Foreign exchange loss	(69)		(365)		(434)
Equity in (loss) income of subsidiaries	(11,606)	1,440		10,166	
Intercompany interest income (expense)	2,250		(2,250)		
(Loss) income before income taxes	(56,035)	26,464	11,130	10,166	(8,275)
(Benefit) provision for income taxes	(58,693)	51,029	(3,269)		(10,933)
Net income (loss)	$ 2,658	$ (24,565)	$ 14,399	$ 10,166	$ 2,658

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Georgia Gulf Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

17. SUPPLEMENTAL GUARANTOR INFORMATION (Continued)

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Cash Flows Information
Six Months Ended June 30, 2011
(Unaudited)

(In thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 15,611	$ (42,740)	$ (45,309)	$	$ (72,438)
Cash flows from investing activities:					
Capital expenditures	(600)	(18,906)	(4,186)		(23,692)
Proceeds from sale of property, plant and equipment		132	21		153
Acquisition, net of cash acquired		(71,623)			(71,623)
Net cash used in investing activities	(600)	(90,397)	(4,165)		(95,162)
Cash flows from financing activities:					
Repayments on ABL Revolver	(201,700)		(1,946)		(203,646)
Borrowings on ABL Revolver	282,600		31,605		314,205
Repayment of long-term debt	(22,913)	(4)			(22,917)
Fees paid to amend or issue debt facilities and equity	(863)		(617)		(1,480)
Intercompany financing to fund acquisition	(72,239)	72,239			
Excess tax benefits from share-based payment arrangements	65				65
Stock compensation plan activity	39				39
Net cash (used in) provided by financing activities	(15,011)	72,235	29,042		86,266
Effect of exchange rate changes on cash and cash equivalents			262		262
Net change in cash and cash equivalents		(60,902)	(20,170)		(81,072)
Cash and cash equivalents at beginning of period		93,681	29,077		122,758
Cash and cash equivalents at end of period	$	$ 32,779	$ 8,907	$	$ 41,686

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Georgia Gulf Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

17. SUPPLEMENTAL GUARANTOR INFORMATION (Continued)

Georgia Gulf Corporation and Subsidiaries
Supplemental Condensed Consolidating Statement of Cash Flows Information
Six Months Ended June 30, 2010
(Unaudited)

(In thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 15,384	$ 13,808	$ (23,269)	$	$ 5,923
Cash flows from investing activities:					
Capital expenditures		(14,751)	(6,031)		(20,782)
Proceeds from sale of property, plant and equipment, and assets held-for sale			1,549		1,549
Net cash used in investing activities		(14,751)	(4,482)		(19,233)
Cash flows from financing activities:					
Repayments on ABL Revolver	(282,640)		(20,861)		(303,501)
Borrowings on ABL Revolver	267,343		46,229		313,572
Repayment of long-term debt		(25)			(25)
Fees paid to amend or issue debt facilities	(3,415)		85		(3,330)
Excess tax benefits from share-based payment arrangements	3,328				3,328
Net cash (used in) provided by financing activities	(15,384)	(25)	25,453		10,044
Effect of exchange rate changes on cash			(368)		(368)
Net change in cash and cash equivalents		(968)	(2,666)		(3,634)
Cash and cash equivalents at beginning of period		24,880	13,917		38,797
Cash and cash equivalents at end of period	$	$ 23,912	$ 11,251	$	$ 35,163

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We are a leading North American manufacturer and an international marketer of chlorovinyl and aromatics chemicals and also manufacture and market vinyl-based building and home improvement products. Our chlorovinyl and aromatic chemicals products are sold for further processing into a wide variety of end-use applications, including plastic pipe and pipe fittings, siding and window frames, bonding agents for wood products, high-quality plastics, acrylic sheeting and coatings for wire and cable. Our building products segment manufactures window and door profiles, mouldings, siding, pipe and pipe fittings and deck, fence, and rail products and markets vinyl-based building and home improvement products under the Royal Group brand names.

We have three reportable segments through which we manage our operating activities: (i) chlorovinyls; (ii) building products; and (iii) aromatics. These three segments reflect the organization used by our management for internal reporting. The chlorovinyls segment consists of a highly integrated chain of electrovinyl products, which includes chlorine, caustic soda, VCM and vinyl resins, and our compound products consisting of compound additives and vinyl compounds. Our vinyl-based building and home improvement products, including window and door profiles and mouldings products and outdoor building products consisting of siding, pipe and pipe fittings and deck, fence and rail products are marketed under the Royal Group brand names, and are managed within the building products segment. The aromatics segment is also integrated and includes the product cumene and the co-products phenol and acetone.

Acquisition

On February 9, 2011, we acquired Exterior Portfolio by Crane from the Crane Group. Exterior Portfolio, headquartered in Columbus, Ohio, is a leading U.S. manufacturer and marketer of siding products with 2010 revenues of approximately $100.0 million. Exterior Portfolio markets siding and related accessories under the CraneBoard®, Portsmouth Shake®, Solid Core Siding® and Architectural Essentials brand names. The aggregate cash consideration paid was $71.6 million and was funded with cash on hand. The Exterior Portfolio financial results are reported in the building products segment.

Results of Operations

The following table sets forth our condensed consolidated statement of operations data for the three and six months ended June 30, 2011 and 2010, and the percentage of net sales of each line item for the three and six months presented.

	Three months ended				Six months ended			
(Dollars in Millions)	**June 30, 2011**		**June 30, 2010**		**June 30, 2011**		**June 30, 2010**	
Net sales	**$ 831.7**	**100%**	$ 735.7	100%	**$ 1,619.6**	**100%**	$ 1,367.2	100%
Cost of sales	**748.7**	**90.0%**	660.4	89.8%	**1,461.0**	**90.2%**	1,264.8	92.5%
Gross margin	**83.0**	**10.0%**	75.3	10.2%	**158.7**	**9.8%**	102.4	7.5%
Selling, general and administrative expense	**48.2**	**5.8%**	37.0	5.0%	**86.7**	**5.4%**	74.8	5.5%
Restructuring (income) costs	**(0.7)**	**(0.1)%**	0.4	%	**(0.1)**	**%**	0.1	%
Operating income	**35.5**	**4.3%**	37.9	5.2%	**72.2**	**4.4%**	27.4	2.0%
Loss on redemption of debt	**(1.1)**	**(0.1)%**		%	**(1.1)**	**(0.1)%**		%
Interest expense, net	**(16.9)**	**(2.0)%**	(17.4)	(2.4)%	**(33.4)**	**(2.1)%**	(35.3)	(2.6)%
Foreign exchange loss	**(0.3)**	**%**	(0.4)	%	**(0.9)**	**(0.1)%**	(0.4)	%
Provision for (benefit from) income taxes	**2.6**	**0.3%**	(1.6)	(0.2)%	**10.0**	**0.6%**	(10.9)	(0.8)%
Net income	**$ 14.6**	**1.8%**	$ 21.7	3.0%	**$ 26.7**	**1.6%**	$ 2.7	0.2%

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The following table sets forth certain financial data by reportable segment for the three and six months ended June 30, 2011 and 2010, and the percentage of total net sales by segment for each sales item and operating income (loss) by segment.

	Three months ended				Six months ended			
(Dollars in Millions)	**June 30, 2011**		**June 30, 2010**		**June 30, 2011**		**June 30, 2010**	
Net sales								
Chlorovinyls products	**$ 323.7**	**38.9%**	$ 300.8	40.9%	**$ 650.0**	**40.1%**	$ 588.5	43.0%
Building products	**274.2**	**33.0%**	243.2	33.1%	**431.7**	**26.7%**	396.4	29.0%
Aromatics products	**233.9**	**28.1%**	191.7	26.0%	**538.0**	**33.2%**	382.3	28.0%
Total net sales	**$ 831.7**	**100.0%**	$ 735.7	100.0%	**$ 1,619.6**	**100.0%**	$ 1,367.2	100.0%
Operating income (loss)								
Chlorovinyls products	**$ 37.8**		$ 36.2		**$ 75.6**		$ 27.5	
Building products	**16.9**		18.8		**4.8**		15.1	
Aromatics products	**(7.4)**		(7.8)		**12.3**		1.9	
Unallocated corporate	**(11.8)**		(9.3)		**(20.6)**		(17.1)	
Total operating income	**$ 35.5**		$ 37.9		**$ 72.2**		$ 27.4	

Three Months Ended June 30, 2011 Compared With Three Months Ended June 30, 2010

Net Sales. For the three months ended June 30, 2011, net sales totaled $831.7 million, an increase of 13 percent compared to $735.7 million for the same quarter last year. The net sales increase was primarily a result of an increase in our overall sales prices of 22 percent (or 21 percent on a constant currency basis) offset by a decrease in our sales volumes of 7 percent as compared to the three months ended June 30, 2010. Our overall average sales price increase was primarily a result of increases in the sales prices of our vinyl resins and aromatics products. The sales price increases reflect higher costs for our raw materials. Our overall sales volume decrease was mainly attributable to reduced supply from lower operating rates due to scheduled and unscheduled plant outages for maintenance and logistical issues due to high water on the Mississippi River system, and weaker North American housing and construction markets offset partially by the additional sales from the Exterior Portfolio acquisition. The U.S. and Canadian housing starts decreased 5 percent and 2 percent, respectively, from the quarter ended June 2010 to the same period of this year, according to reports furnished jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development issued in July 2011 and Canada Mortgage and Housing Corporation issued in July 2011.

Gross Margin. Gross margin percentage remained consistent with the same prior year period at 10 percent of sales in the three months ended June 30, 2011 and June 30, 2010. The chlorovinyls, aromatics and building products segments gross margin percentages were all consistent with the same period last year. The $7.7 million gross margin increase was primarily due to our sales price increases, additional sales from the acquisition of Exterior Portfolio and a favorable Canadian dollar currency impact, all of which more than offset an increase in our raw material costs and lower sales volumes. Our primary feedstocks and natural gas costs in our chemical segments normally track industry prices. Chemical Market Associates, Incorporated ("CMAI") reported an increase in our feedstock prices of 31 percent for ethylene, 13 percent for chlorine, 22 percent for benzene, 72 percent for propylene and 6 percent for natural gas from the second quarter of 2010 to the second quarter of 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses totaled $48.2 million for the three months ended June 30, 2011, a 30 percent increase from the $37.0 million for the three months ended June 30, 2010. This selling, general and administrative expense increase of $11.2 million is primarily due to: (i) $4.8 million of additional selling, general and administrative expenses related to the Exterior Portfolio acquisition in our building products segment, (ii) $1.4 million of salary and related benefits expense increase due to the company reducing previous hiring restrictions and reinstating various compensation related benefits throughout 2010, (iii) $2.7 million of stock compensation increase related to May 2011 equity awards, and (iv) $0.9 million in unfavorable currency impact on our costs in Canada resulting from the strengthening of the Canadian dollar against the U.S. dollar in our building products segment.

Loss on redemption of debt. During the three months ended June 30, 2011, we redeemed all of our 7.125% Senior Notes due 2013 and 9.5% Senior Notes due 2014 that remained outstanding for the aggregate principal amount of $22.2 million, resulting in a loss primarily related to the early redemption cost.

Interest Expense, net. Interest expense, net decreased to $16.9 million for the three months ended June 30, 2011 from $17.4 million for the three months ended June 30, 2010. This interest expense, net decrease of $0.5 million was primarily attributable to lower interest rates during the second quarter of 2011 compared to the same quarter last year.

Provision for (benefit from) Income Taxes. The provision for income taxes was $2.6 million for the three months ended June 30, 2011 compared with the benefit from income taxes of $1.6 million for the three months ended June 30, 2010. The change in the provision for income taxes results primarily from the increase in income offset by resolution of uncertain tax positions. Our effective income tax rates for the three months ended June 30, 2011 and 2010 were 15.0 percent and negative 8.2 percent, respectively. The difference in the tax rate as compared to the U.S. statutory federal income tax rate in 2011 was primarily due to the release of the valuation allowance that results from the use of Canadian net operating losses and a tax benefit from the resolution of uncertain tax positions. The difference in the tax rate as compared to the U.S. statutory federal income tax rate in 2010 was primarily due to a tax benefit from the resolution of uncertain tax positions.

Chlorovinyls Segment

Net Sales. Net sales totaled $323.7 million for the three months ended June 30, 2011, an increase of 8 percent compared with net sales of $300.8 million for the same quarter last year primarily from our electrovinyl products group. Our overall average sales prices increased 20 percent as compared to the three months ended June 30, 2010, while our overall sales volume decreased 11 percent. Our overall sales prices increased primarily due to vinyl resins sales price increases of 14 percent and caustic soda price increases of 58 percent. The vinyl resins sales price increase reflects higher prices for the feedstocks ethylene and chlorine. According to CMAI, the caustic soda industry sales price increased 51 percent from the second quarter of 2010 to the second quarter of this year. The caustic soda sales price increase was primarily attributable to global supply issues and an increase in industrial demand. Our overall sales volume decrease was mainly attributable to reduced operating rates from an unscheduled chloralkali plant outage for maintenance and resulting force majeure in our PVC business and our logistical issues due to the high water on the Mississippi River system. Our force majeure in the PVC business was lifted in July. Our caustic soda sales volume decreased 24 percent and our overall vinyl resin sales volumes were flat for the quarter as compared to the second quarter of 2010. According to American Chemistry Council Plastics Industry Producers Statistics Group ("PIPS") in June 2011, North American vinyl resin industry sales volume increased 5 percent as a result an increase in exports of 23 percent, offset by a decrease in domestic sales volume of 2 percent.

Operating Income. Operating income increased by $1.6 million to operating income of $37.8 million for the three months ended June 30, 2011 from $36.2 million for the three months ended June 30, 2010. This increase in operating income was due to an increase in vinyl resins and caustic soda sales prices partially offset by an increase in raw material costs and reduced operating rates. Our overall feedstocks and natural gas costs in the second quarter of 2011 increased 23 percent compared to the second quarter of 2010. CMAI reported industry price increases for our primary feedstocks of 31 percent for ethylene and 13 percent for chlorine as compared to the second quarter of 2010. Our chlorovinyls operating rate decreased from about 87 percent for the second quarter of 2010 to about 77 percent for the second quarter of 2011 due to the unscheduled chloralkali plant outage for maintenance and resulting force majeure in our PVC business and our logistical issues due to the high water on the Mississippi River system.

Building Products Segment

Net Sales. Net sales totaled $274.2 million for the three months ended June 30, 2011, an increase of 13 percent (or 9 percent on a constant currency basis), compared to $243.2 million for the same quarter last year. The net sales increase was driven primarily by the benefit of the acquisition of Exterior Portfolio in February of 2011. After adjusting for the impact of the acquisition, volume grew 3 percent in the quarter as U.S. demand improved across a number of our outdoor building products lines. According to PIPS industry data for our products, North America extruded vinyl resin volumes declined 2 percent during the second quarter of 2011. For the second quarter of 2011 our building products segment geographical sales were Canadian sales of 54 percent compared to the U.S. sales of 45 percent.

Operating Income. Operating income of $16.9 million, for the three months ended June 30, 2011, declined by $1.9 million from an operating income of $18.8 million for the three months ended June 30, 2010. The second quarter of 2011 includes $0.4 million restructuring expense related to the Exterior Portfolio acquisition in February 2011. The decline in operating income was due to changes in the geographic sales mix, higher raw material costs, a second quarter 2010 non-income tax benefit that did not re-occur in the second quarter 2011, and higher selling costs, in part, to support new product introductions and acquisition costs. Gross margin increased and improved as a result of higher volumes, driven primarily by the addition of Exterior Portfolio and better conversion performance partially offset by higher raw material costs.

Aromatics Segment

Net Sales. Net sales were $233.9 million for the three months ended June 30, 2011, an increase of 22 percent compared to $191.7 million for the same quarter last year. The net sales increase was primarily a result of an increase in our overall sales prices of 37 percent offset partially by a sales volume decrease of 11 percent as compared to the three months ended June 30, 2010. Our overall average sales prices increased as a result of an increase in the prices of cumene of 41 percent, phenol and acetone of 29 percent. The sales price increases reflect higher costs for the feedstocks benzene and propylene. Our overall aromatics sales volumes decreased as a result of decreases in the sales volumes of cumene of 22 percent offset partially by an increase in the sales volume of phenol and acetone of 10 percent. Our overall sales volume decrease was mainly attributable to reduced operating rates from two scheduled plant turnarounds for maintenance and our logistical issues due to high water on the Mississippi River system during the second quarter of 2011. During the same period in 2010 we only had one scheduled plant turnaround for maintenance. Our phenol and acetone sales volume increases were due to strong phenol demand in both North America and Asia as well as a tighter supply due to operating issues in the U.S.

Operating Loss. Operating loss decreased by $0.4 million to $7.4 million for the three months ended June 30, 2011 from $7.8 million for the three months ended June 30, 2010. This decrease in operating loss was due primarily to increases in our sales prices which more than offset increases in our feedstock costs, lower cumene sales volumes and lower operating rates. Overall raw material costs increased 42 percent from the second quarter of 2010 to the same period of this year, primarily as a result of increases in benzene and propylene costs. CMAI reported that industry prices of our primary feedstocks, benzene and propylene, increased 22 percent, and 72 percent, respectively from the same period of last year. Our aromatics operating rate decreased from about 69 percent for the second quarter of 2010 to about 61 percent for the second quarter of 2011 due to two scheduled plant turnarounds for maintenance during the second quarter of 2011 compared to one during the three months ended June 30, 2010, and due to logistical issues caused by high water on the Mississippi River System.

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Six Months Ended June 30, 2011 Compared With Six Months Ended June 30, 2010

Net Sales. For the six months ended June 30, 2011, net sales totaled $1,619.6 million, an increase of 18 percent compared to $1,367.2 million for the same period last year. The net sales increase was primarily a result of an increase in our overall sales volumes of 3 percent and sales prices of 15 percent on a constant currency basis. Our overall sales volume increase was mainly attributable to an increase in domestic contract sales, additional sales from the Exterior Portfolio acquisition in February 2011, opportunistic export spot sales and strong phenol and acetone products sales more than offsetting weaker North American housing and construction markets and logistical issues during the second quarter of 2011 due to high water on the Mississippi River system. The U.S. and Canadian housing starts decreased 5 percent and 3 percent, respectively, from the six months ended June 30, 2010 to the same period this year, according to reports furnished jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development issued in July 2011 and Canada Mortgage and Housing Corporation issued in July 2011. Our overall sales price increase was primarily a result of increases in the prices of all of our electrovinyl products and aromatics products and a favorable Canadian dollar currency impact. The sales price increases reflect higher cost for all of our raw materials and tighter supply as a result of global industry operating issues.

Gross Margin. Total gross margin percentage increased to 10 percent of sales for the six months ended June 30, 2011 from 8 percent of sales for the six months ended June 30, 2010. This increase in gross margin percentage was primarily due to a margin expansion in our chlorovinyls and aromatics segments from higher sales prices due to strong demand caused by industry operating issues in the U.S. and Asia. The $56.3 million gross margin increase was primarily due to our chlorovinyls and aromatics segments margin expansion, an increase in sales volumes for vinyl resin, phenol and acetone products and a favorable Canadian dollar currency impact. Our sales price increases more than offset an increase in our raw material costs. Our primary raw materials and natural gas costs in our chlorovinyls and aromatics segments normally track industry prices. CMAI reported a price increase of 20 percent for benzene, 48 percent for propylene, 11 percent for ethylene and 7 percent for chlorine from the first six months of 2010 compared to the first six months of this year while natural gas prices decreased 10 percent for the same time period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses totaled $86.7 million for the six months ended June 30, 2011, a 16 percent increase from the $74.8 million for the six months ended June 30, 2010. This selling, general and administrative expense increase of $11.9 million is primarily due to: (i) $7.3 million of additional selling, general and administrative expenses related to the Exterior Portfolio acquisition in our building products segment, (ii) $3.7 million salary and related benefits expense increase due to the company reducing previous hiring restrictions and reinstating various compensation related benefits throughout 2010, (iii) $2.8 million of stock compensation increase related to May 2011 equity awards, and (iv) $1.5 million in unfavorable currency impact on our costs in Canada resulting from the strengthening of the Canadian dollar against the U.S. dollar in our building products segment, offset by the favorable impact of a $4.4 million non-income tax reserve returned to income primarily in our building products segment during the first quarter of 2011 as the exposure was no longer probable.

Loss on redemption of debt. During the six months ended June 30, 2011, we redeemed all of our 7.125% Senior Notes due 2013 and 9.5% Senior Notes due 2014 that remained outstanding for the aggregate principal amount of $22.2 million, resulting in a loss primarily related to the early redemption cost.

Interest Expense, net. Interest expense, net decreased to $33.4 million for the six months ended June 30, 2011 from $35.3 million for the six months ended June 30, 2010. This decrease in interest expense, net of $1.9 million was primarily attributable to lower interest rates during the six months ended June 30, 2011 compared to the same period in 2010.

Provision for Income Taxes. The provision for income taxes was $10.0 million for the six months ended June 30, 2011 compared with the benefit from income taxes of $10.9 million for the six months ended June 30, 2010. The change for income taxes results primarily from the increase in income offset by the resolution of uncertain tax positions. Our effective income tax rates for the six months ended June 30, 2011 and 2010 were 27.3 percent and 132.1 percent, respectively. The difference in the tax rate as compared to the U.S. statutory federal income tax rate in 2011 was primarily due to the release of the valuation allowance that results from use of Canadian net operating losses and tax benefit from the resolution of uncertain tax positions. The difference in the tax rate as compared to the U.S. statutory federal income tax rate in 2010 was primarily due to a tax benefit from the resolution of uncertain tax positions offset by the release of the valuation allowance that results from the use of Canadian net operating losses.

Chlorovinyls Segment

Net Sales. Net sales totaled $650.0 million for the six months ended June 30, 2011, an increase of 10 percent compared with net sales of $588.5 million for the same period last year primarily from our electrovinyl products group. The net sales increase was a result of an increase in our overall sales prices of 14 percent offset partially by a decrease in sales volume of 3 percent as compared to the six months ended June 30, 2010. Our overall sales price increases were primarily due to the increase in the price of caustic soda, vinyl resin and vinyl compound. According to CMAI, the caustic soda industry sales price increased 60 percent from the first six months of 2010 to the first six months of this year. The caustic soda sales price increase was primarily attributable to global supply issues and to an increase in industrial demand. Our overall chlorovinyls sales volume decrease of 3 percent was due to a decrease in opportunistic spot export sales. Our domestic vinyl resin and vinyl compounds sales volume increased 6 percent and 4 percent, respectively. North American vinyl resin industry sales volume increased 6 percent as a result of an increase in exports of 27 percent offset by a decrease in domestic sales volume of 3 percent, according to statistics from the PIPS issued in July 2011.

Operating Income. Operating income increased by $48.1 million to $75.6 million for the six months ended June 30, 2011 from $27.5 million for the six months ended June 30, 2010. This operating income increase was due to an increase in caustic soda, vinyl resin and vinyl compound sales prices, increased North American vinyl resins sales volumes, lower natural gas costs, all of which offset partially by increased raw material costs. Overall raw material costs increased 12 percent from the first six months of 2010 to the same period of this year, primarily as a result of increases in ethylene and chlorine costs. CMAI reported that industry prices of our primary feedstocks ethylene and chlorine increased 11 percent and 7 percent, respectively, from the same 2010 period. Our chlorovinyls operating rate was 80 percent for the first six months of 2010 and 2011. During the six months ended June 30, 2011, we had one unscheduled plant outage for maintenance compared to three during the six months ended June 30, 2010.

Building Products Segment

Net Sales. Net sales totaled $431.7 million for the six months ended June 30, 2011, an increase of 9 percent (or 6 percent on a constant currency basis), compared to $396.4 million for the six months ended June 30, 2010. The net sales increase was driven by the benefit of the acquisition of Exterior Portfolio in February 2011. After adjusting for the impact of the acquisition, sales volume declined less than 1% for the first six months of 2011 compared to the same period in 2010, as improved demand in the outdoor building products line in the U.S. was more than offset by softer demand in Canada, which has been negatively impacted, in part, by the elimination of 2010 tax incentives. According to PIPS industry data for our products, North America extruded vinyl resin volumes declined 6 percent during the first six months of 2011. For the first six months of 2011 our building products segment geographical sales were Canadian sales of 52 percent compared to the U.S. of 47 percent.

Operating Income. Operating income of $4.8 million for the six months ended June 30, 2011 declined by $10.3 million from an operating income of $15.1 million for the six months ended June 30, 2010. The decline in operating income was due to the geographic sales mix, higher raw materials, selling and acquisition costs. The first six months of 2011 includes net income of $0.7 million relating to a $3.6 million net reversal of a non-income tax reserve as the exposure is no longer probable, partially offset by acquisition costs and the fair value amortization of inventory of $2.9 million, acquired in the acquisition of Exterior Portfolio. The first six months of 2010 includes income of $2.1 million relating to a non-income tax benefit.

Aromatics Segment

Net Sales. Net sales were $538.0 million for the six months ended June 30, 2011, an increase of 41 percent compared to $382.3 million for the same period last year. The net sales increase was primarily a result of an increase in our overall sales prices of 26 percent and sales volume of 12 percent as compared to the six months ended June 30, 2010. Our overall average sales prices increased as a result of an increase in the prices of cumene of 30 percent, and phenol and acetone of 19 percent. The sales price increases reflect higher costs for the feedstocks benzene and propylene. Our overall aromatics sales volumes increased as a result of increases in the sales volumes of phenol and acetone of about 48 percent which were offset partially by a decrease in cumene sales volume of 6 percent. Our aromatics sales volume increases were due to strong phenol demand in both North America and Asia as well as a tighter supply due to operating issues in the U.S.

Operating Income. Operating income increased by $10.4 million to $12.3 million for the six months ended June 30, 2011 from $1.9 million for the six months ended June 30, 2010. This increase in operating income was due primarily to an increase in aromatics sales prices and operating rates more than offsetting higher raw material prices and increased sales volumes due to strong phenol demand in both North America and Asia as well as cumene industry operating issues in the U.S. Our aromatics operating rate increased from 65 percent for the first six months of 2010 to about 73 percent for the same period of this year. In addition, our operating income for the same period last year was negatively impacted by raw material prices decreasing during the first six months of 2010 and our inability to recover previously purchased raw materials costs in a decreasing sales price environment due to the time lag between the purchase of raw materials and the sale of the related finished goods. Overall raw material costs increased 31 percent from the first six months of 2010 to the same period of this year, primarily as a result of increases in benzene and propylene costs. CMAI reported that industry prices of our primary feedstocks, benzene and propylene, increased 20 percent, and 48 percent, respectively from the same period of last year. We also had two scheduled plant turnarounds for maintenance during the first six months of 2011 compared to only one last year.

Liquidity and Capital Resources

Operating Activities. For the six months ended June 30, 2011, we used $72.4 million of cash in operating activities as compared with cash provided by operations of $5.9 million for the six months ended June 30, 2010, primarily due to the increase in the amount of net working capital of $110.4 million. Total working capital used in operations for the three and six months ended June 30, 2011 was $44.3 million and $160.2 million, respectively. The use of cash for working capital included the increase of $141.3 million due to receivables, $90.4 million due to inventory, $17.5 million due to net payments towards accrued compensation, and is partly offset by the increase in cash flow provided by accounts payable of $87.6 million. As of June 30, 2011, net working capital was $481.9 million.

The significant source of cash in the first six months of 2010 was an increase in accounts payable of $70.7 million. Significant uses of cash in the first six months of 2010 were an increase in accounts receivable of $103.7 million and an increase in inventories of $44.8 million. Net working capital at June 30, 2010 was a surplus of $391.0 million.

Investing Activities. Net cash used in investing activities was $95.2 million and $19.2 million for the six months ended June 30, 2011 and 2010, respectively. The significant change in the current year reflects the $71.6 million acquisition of Exterior Portfolio.

Financing Activities. Cash provided by financing activities was $86.3 million for the six months ended June 30, 2011 compared with $10.0 million for the six months ended June 30, 2010. During the six months ended June 30, 2011, we drew a net of $110.6 million under our ABL Revolver primarily to fund the increased working capital demands. During the three months ended June 30, 2011, we redeemed all of our 7.125% Senior Notes due 2013 and 9.5% Senior Notes due 2014 that remained outstanding for the aggregate principal amount of $22.2 million. Our other note payable of $16.9 million is due in January 2012, and over the next twelve months, we expect to repay approximately $20.6 million of borrowings under our ABL Revolver. Therefore, we have classified these debts as current in our consolidated balance sheet as of June 30, 2011.

Short-Term Borrowings from Banks. At June 30, 2011, under our ABL Revolver, we had a maximum borrowing capacity of $300.0 million, and net of outstanding letters of credit of $16.2 million and current borrowings of $110.6 million, resulting in remaining availability of $173.2 million. The maturity date of our ABL Revolver is January 13, 2016.

($ in millions)	**As of and for the quarter ended June 30, 2011**
Short-Term Borrowings from Banks:	
Outstanding amount at period end	$ 110.6
Weighted average interest rate at period end	4.2%
Average daily amount outstanding for the period	$ 83.1
Weighted average daily interest rate for the period	4.3%
Maximum month end amount outstanding during the period	$ 110.6

Management believes based on current and projected levels of operations and conditions in our markets and cash flow from operations, together with our cash and cash equivalents on hand of $41.7 million and the availability to borrow an additional $173.2 million under our ABL Revolver as of June 30, 2011, the company has adequate funding for the foreseeable future to make required payments of principal and interest on our debt and fund our working capital and capital expenditure requirements and comply with the financial ratios of the ABL Revolver and covenants under our indenture for the 9.0 percent senior secured notes. To the extent our cash flow and liquidity exceeds the levels necessary for us to make our required debt payments, fund our working capital and capital expenditure requirements and comply with our ABL Revolver and the indenture for the 9.0 percent senior secured notes, we may use that excess liquidity to further grow our business through investments or acquisitions, payment of dividends and/or to further reduce our debt through optional prepayments or redemptions of our outstanding debt securities.

Contractual Obligations. Information related to our contractual obligations at December 31, 2010 can be found in our 2010 Annual Report on Form 10-K in Part II. Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our contractual obligations at June 30, 2011, have increased by approximately $32.6 million or 1 percent since December 31, 2010. The increase from December 31, 2010 is primarily related to us drawing on the ABL Revolver during the first half of 2011 to fund seasonal working capital demands.

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Outlook

We based our 2011 operating plans on conservative macro economic assumptions regarding the main drivers of our businesses. We continue to assume a slight recovery in U.S. housing starts and a slight weakening in Canadian housing starts, gross domestic product ("GDP") growth in both the U.S. and Canada greater than 2 percent over 2010, strong global demand for our chemical products, and natural gas costs similar to 2010.

We expect we will invest $75 million to $85 million of capital expenditures in our businesses in 2011. In our Chlorovinyls and Aromatics segments, we expect we will make the productivity and reliability investments that are required to run the higher operating rates we expect in the coming years. In our Building Products segment, we expect to invest in productivity improvements as well as accelerating our new product development efforts ahead of the expected eventual recovery in these markets.

Forward-Looking Statements

This Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are based on the beliefs of management as well as assumptions made based upon the information currently available to us. When used in this Form 10-Q, the words "anticipate," "believe," "plan," "estimate," "expect," and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. These statements relate to, among other things, our outlook for future periods, supply and demand, pricing trends and market forces within the chemical and building industries, cost reduction strategies and their results, planned capital expenditures, long-term objectives of management and other statements of expectations concerning matters that are not historical facts. Predictions of future results contain a measure of uncertainty. Actual results could differ materially due to various factors. Factors that could impact our actual financial condition or results of operations as compared to that discussed in any forward-looking statements are, among others:

- changes in demand for our products or increases in overall industry capacity that could affect production volumes and/or pricing;
- the impacts of the current, and any potential future economic uncertainties in the housing and construction markets;
- continued compliance with the covenants in our ABL Revolver and in the indenture related to our senior secured notes;
- our substantial amount of leverage and significant debt service obligations;
- availability and pricing of raw materials;
- changes in the general economy;
- our ability to penetrate new geographic markets and introduce new products;
- changes and/or cyclicality in the industries to which our products are sold;
- risks associated with any potential failures of our joint venture partners to fulfill their obligations;
- risks associated with plant closures, consolidations and other cost-cutting actions;

changes in foreign currency exchange rates;

technological changes affecting production;

- difficulty in plant operations and product transportation;
- changes in governmental and environmental regulations that may make it more difficult or expensive to operate our business or produce our products;
- complications resulting from our multiple ERP systems and the implementation of new ERP systems;
- difficulty in integrating acquisitions;
- the timing and our ability to remediate our material weakness;
- changes from the preliminary to the final purchase price allocation from our acquisition of Exterior Portfolio; and
- other unforeseen circumstances.

A number of these factors are discussed in this Form 10-Q and in our other periodic filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Annual Report").

Critical Accounting Policies

During the six months ended June 30, 2011, we did not have any material changes to our critical accounting policies listed in Part II. Item 7. "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our 2010 Annual Report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For a discussion of certain market risks related to Georgia Gulf, see Part II. Item 7A. "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes with respect to our exposure to market risks from those set out in such report.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of Georgia Gulf management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, due to the continued existence of a previously disclosed material weakness in internal control over financial reporting in the area of accounting for income taxes, the company's disclosure controls and procedures were not effective as of that date.

For additional information regarding this material weakness, see "Item 9A. Controls and Procedures" contained in the company's Annual Report on Form 10-K for the year ended December 31, 2010.

Changes in Internal Control.

Other than as described below, there were no changes in the company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2011 (the "Second Quarter"), that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

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As a result of the continued existence of a previously disclosed material weakness in internal control over financial reporting in the area of accounting for income taxes, the company has implemented, and continued to implement during the Second Quarter, a number of remediation steps to address that material weakness and has made significant progress to improve the company's internal control over financial reporting. Specifically, the following remediation steps were taken in the Second Quarter:

- we continued the process of hiring additional qualified personnel in our tax department;
- we continued to require the involvement of two third party subject matter experts to review our accounting for any material and complex tax transactions;
- we continued to require an expanded scope of work to be performed by third party tax professionals, and to increase the level of review and validation of that work by management, in the preparation of our provision for income taxes, and we continued to evaluate the coordination and management with a substantial level of third-party assistance; and
- we continue to develop and implement additional procedures to increase the level of review, evaluation and validation of underlying supporting data of our provision for income taxes, reconciliations of tax accounts and uncertain tax positions.

Subsequent to June 30, 2011, the Company has continued to undertake similar changes to its historical internal control over financial reporting in order to further address and remediate the existing material weakness in internal control over financial reporting in the area of accounting for income taxes. The company anticipates that it will complete its implementation and testing of these remediation steps in 2011; however additional measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with management's future evaluations of internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The first five paragraphs of Note 9 to the accompanying unaudited condensed consolidated financial statements are incorporated by reference herein.

We are involved in certain legal proceedings that are described in Part I. Item 3. "Legal Proceedings" in our 2010 Annual Report. During the quarter ended June 30, 2011, there were no material developments in the status of those proceedings. We are subject to other claims and legal actions that may arise in the ordinary course of business. We believe that the ultimate liability, if any, with respect to these other claims and legal actions will not have a material effect on our financial position or on our results of operations.

Item 1A. RISK FACTORS.

The risks set out under Part I. Item 1A. "Risk Factors" in our 2010 Annual Report include the following risk factor: "***Extensive environmental, health and safety laws and regulations impact our operations and assets; compliance with these regulations could adversely affect our results of operations***." This particular risk factor is being amended and restated as set forth below. The risk factor is not being amended in any other manner.

Our operations on and ownership of real property are subject to extensive environmental, health and safety regulation, including laws and regulations related to air emissions, water discharges, waste disposal and remediation of contaminated sites, at both the national and local levels in the U.S. We are also subject to similar regulations in Canada. The nature of the chemical and building products industries exposes us to risks of liability under these laws and regulations due to the production, storage, use, transportation and sale of materials that can cause contamination or personal injury, including potential releases of regulated materials into the environment. Environmental laws may have a significant effect on the costs of use, transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes. We have and must continue to incur operating and capital costs to comply with environmental laws and regulations. In addition, we may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations for violations arising under these laws.

Also, some environmental laws, such as the federal Superfund statute, may impose joint and several liability for the cost of investigations and remedial actions to address contamination on any company that generated the waste, arranged for disposal of the waste, transported the waste to the disposal site, selected the disposal site, or presently or formerly owned, leased or operated the disposal site or a site otherwise contaminated by regulated materials. Any or all of the responsible parties may be required to bear all of the costs of cleanup, regardless of fault, legality of the original disposal or ownership of the disposal site. A number of environmental liabilities have been associated with the facilities at Lake Charles, Louisiana that we acquired as part of the acquisition of the vinyls business of CONDEA Vista Company ("CONDEA Vista," which is now known as Sasol North America, Inc.) and which may be designated as Superfund sites. Although CONDEA Vista retained financial responsibility for certain environmental liabilities that relate to the facilities that we acquired from it and that arose before the closing of our acquisition in November 1999, there can be no assurance that CONDEA Vista will be able to satisfy its obligations in this regard. If CONDEA Vista fails to fulfill its obligation regarding these environmental liabilities, then we could be held responsible. Furthermore, we severally are responsible for, and do not have indemnification for, any environmental liabilities relating to other acquisitions, including several liabilities resulting from Royal Group's operations prior to our acquisition of the company.

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Our policy is to accrue costs relating to environmental matters when it is probable that these costs will be required and can be reasonably estimated. However, estimated costs for future environmental compliance and remediation may be too low or we may not be able to quantify the potential costs. We expect to be continually subjected to increasingly stringent environmental and health and safety laws and regulations. It is difficult to predict the future interpretation and development of these laws and regulations or their impact on our future earnings and operations. We anticipate continued compliance will require increased capital expenditures and increased operating costs. Any increase in these costs could adversely affect our financial condition and performance.

Concerns related to climate change are continuing to grow leading to efforts to limit greenhouse gas ("GHG") emissions. The EPA has issued rules pursuant to the Clean Air Act requiring specified facilities to report GHG emissions and to obtain permits to control GHG emissions commencing in 2010. In addition, proposals are being considered by the United States Congress which may require companies such as Georgia Gulf to restrict or control GHG emissions. Also, the United States has recently engaged in discussions under the United Nations Framework Convention on Climate Change at Copenhagen. Such discussions may result in international treaties requiring additional controls on GHG emissions. Our non-U.S. manufacturing facilities are all in Canada, which is implementing measures to reduce GHG emissions. The cost impact of complying with such legislation, regulation or international negotiations would depend on the specific requirements enacted and cannot be determined at this time. For example, the impact of certain proposed legislation relating to GHG emissions would depend on factors such as the specific GHG limits imposed and the timing of the implementation of these requirements. The EPA regulatory requirement to report GHG emissions may result in the need to install or modify monitoring equipment at certain of our U.S. manufacturing facilities to monitor GHG emissions.

The potential impact of these and related future international, legislative or regulatory actions on our operations cannot be predicted at this time but could be significant. Such impacts would include the potential for significant compliance costs, including capital expenditures, and could result in operating restrictions. Any increase in the costs related to these initiatives could adversely affect our financial condition and performance.

The heightened interest in climate change issues could have the potential to affect business operations. There is a potential for indirect consequences of climate change regulation on business trends. In addition, some have alleged an association between climate change and changes in weather patterns. The Company may, in the future, be required to expend money to defend claims based on the alleged association of climate change with changes in weather patterns.

In addition, on May 20, 2011, notice was published in the Federal Register of the U.S. Environmental Protection Agency's proposed rule for National Emission Standards for Hazardous Air Pollutants for Polyvinyl Chloride and Copolymers Production. The proposed rule, if adopted, would establish emissions standards for certain regulated "hazardous air pollutants," including vinyl chloride monomer, that are consistent with "maximum achievable control technology" (MACT). The proposed rule, if adopted, would establish certain working practices, as well as monitoring, reporting and recordkeeping requirements. Existing sources that become subject to these requirements would have three years from the effectiveness of the rule to come into compliance. Publication of the proposed rule in the Federal Register begins a period of public comment. The timing of the implementation of any final rule remains uncertain and is subject to a variety of factors, including the possibility of extensions to the time allowed for public comment, changes which may result from input from the public, or the possibility of legal challenges to any final rule. In light of the foregoing, the Company is still evaluating the potential impact of this proposed rule, and is unable to determine the ultimate expected impact on the Company. Such impacts could include the potential for significant compliance costs, including significant capital expenditures, and could result in operating restrictions. Any increase

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in costs related to these regulations, or restrictions on our operations, could adversely affect our financial condition and performance.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The table below sets forth information regarding repurchases by Georgia Gulf Corporation of shares of its common stock on a monthly basis during the quarter ended June 30, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share
April 1 - April 30, 2011		$
May 1 - May 31, 2011	4,650	27.88
June 1 - June 30, 2011		
Total	4,650	$ 27.88

(1) Georgia Gulf did not repurchase any of its equity securities during the period covered by this report pursuant to any publicly announced plan or program, and no such plan or program is presently in effect. All purchases reflected in the table above reflect purchases of common stock by Georgia Gulf in connection with tax withholding obligations of Georgia Gulf employees upon vesting of such employees' restricted stock awards.

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Item 6. EXHIBITS

Exhibits

3.1	Restated Certificate of Incorporation of Georgia Gulf Corporation
3.2	Amended and Restated Certificate of Designation, Preferences and Rights of Junior Participating Preferred Stock of Georgia Gulf Corporation (included as Exhibit A to Exhibit 3.1)
10.1	Georgia Gulf Corporation 2011 Equity and Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on May 18, 2011)
10.2	Georgia Gulf Corporation Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed with the Securities and Exchange Commission on May 18, 2011)
10.3	Form of Non-Employee Director Restricted Stock Unit Agreement
10.4	Form of Performance Restricted Stock Unit Agreement for United States-based employees
10.5	Form of Performance Restricted Stock Unit Agreement for Canadian-based employees
10.6	Amendment to the amended and restated Georgia Gulf Corporation Executive and Key Employee Change In Control Severance Plan dated May 16, 2011
10.7	Amendment No. 3 to Revolving Credit Agreement and Amendment No. 2 to U.S. ABL Guaranty and Security Agreement
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101	The following financial information from Georgia Gulf Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2011, and June 30, 2010, (ii) Condensed Consolidated Balance Sheets at June 30, 2011, and December 31, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011, and June 30, 2010, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	GEORGIA GULF CORPORATION (Registrant)
Date: August 5, 2011	/s/ PAUL D. CARRICO
	Paul D. Carrico *President and Chief Executive Officer* *(Principal Executive Officer)*
Date: August 5, 2011	/s/ GREGORY C. THOMPSON
	Gregory C. Thompson *Chief Financial Officer* *(Principal Financial and Accounting Officer)*