

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

WASHINGTON, D.C. 20549

**FORM 6-K**

**Report of Foreign Private Issuer**

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

**For the quarterly period ended June 30, 2012**

**Commission file number 1-12874**

**TEEKAY CORPORATION**

(Exact name of Registrant as specified in its charter)

**4<sup>th</sup> Floor, Belvedere Building**

**69 Pitts Bay Road**

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**Hamilton, HM 08 Bermuda**

(Address of principal executive office)

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

Form 20-F  Form 40-F

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

Yes  No

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Yes  No

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**TEEKAY CORPORATION AND SUBSIDIARIES**

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

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

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

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

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



**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(in thousands of U.S. dollars)

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

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

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

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

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

Consolidation of variable interest entities (note 4a)

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



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

(in thousands of U.S. dollars)

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

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

Supplemental cash flow information (note 18)

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

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

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

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. dollars, except share data)****1. Basis of Presentation**

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

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

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period relating to the reclassification of prepaid expenses of \$10.1 million less accounts payable of \$4.0 million as at December 31, 2011 into accounts receivable in the consolidated balance sheets.

**2. Adoption of New Accounting Policies**

In January 2012, the Company adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 820, *Fair Value Measurement*, which clarifies or changes the application of existing fair value measurements, including: that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. The adoption of this amendment did not have an impact on the Company's consolidated financial statements other than the disclosures as presented in Note 11 – Financial Instruments.

**3. Segment Reporting**

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

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

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

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

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

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

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

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

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

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

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

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

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

On November 30, 2011, the Company also entered into an agreement to acquire the FPSO unit *Sevan Voyager* (or *Voyageur Spirit*) and its existing customer contract from Sevan. The Company has agreed to acquire the *Voyageur Spirit* once the existing upgrade project is completed and the *Voyageur Spirit* commences operations under its customer contract, currently expected to be in the fourth quarter of 2012. Under the terms of the agreement, the Company will pay Sevan \$94 million to acquire the *Voyageur Spirit*, will assume the *Voyageur Spirit*'s existing \$230.0 million credit facility, which had an outstanding balance of \$220.5 million on November 30, 2011, and is responsible for all remaining upgrade costs after November 30, 2011, which are estimated to be between \$120 million and \$140 million (see Note 10c). The Company has control over the upgrade project and has guaranteed the repayment of the existing credit facility. The *Voyageur Spirit* has been consolidated by the Company, as the *Voyageur Spirit* has been determined to be a variable interest entity (or *VIE*) and the Company has been determined to be the primary beneficiary. The following table summarizes the balance sheet of the *Voyageur Spirit* as at June 30, 2012:

| <b>ASSETS</b>             |           |
|---------------------------|-----------|
| Cash and cash equivalents | \$ 36,766 |
| Other current assets      | 9,942     |
| Vessels and equipment     | 374,433   |
| Deferred tax assets       | 1,955     |



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

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

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**b) Teekay LNG Marubeni Joint Venture**

On February 28, 2012, a joint venture between the Company's subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) and Marubeni Corporation (or *Teekay LNG-Marubeni Joint Venture*) acquired a 100% interest in six LNG carriers from Denmark-based A.P. Moller-Maersk A/S for approximately \$1.3 billion. The Teekay LNG-Marubeni Joint Venture financed this acquisition with \$1.06 billion from secured loan facilities and an aggregate of \$266 million from equity contributions from Teekay LNG and Marubeni Corporation. Teekay LNG has agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, deposited \$30 million in a restricted cash account as security for the debt within the Teekay LNG-Marubeni Joint Venture. Teekay LNG has a 52% economic interest in the Teekay LNG-Marubeni Joint Venture and, consequently, its share of the equity contribution was approximately \$138 million. Teekay LNG also contributed an additional \$5.8 million for its share of legal and financing costs. Teekay LNG financed this equity contribution by borrowing under its existing credit facilities.

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

**5. Vessel Charters**

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

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

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

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

- (2) The minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues for any of the years. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after June 30, 2012, revenue from unexercised option periods of contracts that existed on June 30, 2012 or variable or contingent revenues. In addition, minimum scheduled future operating lease revenues presented in the table have been reduced by estimated off-hire time for any period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

## 6. Financing Transactions

In February 2012, Teekay's subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*) completed a public offering of 17.3 million shares of its Class A Common Stock (including 2.3 million shares issued upon the full exercise of the underwriters' overallotment option) at a price of \$4.00 per share, for gross proceeds of approximately \$69.0 million. As a result, Teekay's ownership of Teekay Tankers was reduced to 20.4%. As a result of the offering, the Company recorded a decrease to retained earnings of \$14.5 million, which represents the Company's dilution loss from the issuance of shares in Teekay Tankers during the six months ended June 30, 2012.

In June 2012, Teekay sold to Teekay Tankers 13 of its 17 directly-owned conventional tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$454.2 million. As partial consideration for the sale, Teekay received \$25 million of newly issued shares of Teekay Tankers' Class A common stock, issued at a price of \$5.60 per share, and the remaining amount was settled through a combination of cash payments to Teekay and the assumption by Teekay Tankers of existing debt secured by the acquired vessels. As a result, Teekay's economic interest in Teekay Tankers increased from approximately 20.4% to approximately 25.1% and its voting interest as a result of its combined ownership of Class A and Class B shares increased from approximately 51% to approximately 53%. Teekay maintains voting control of Teekay Tankers through its ownership of shares of Teekay Tankers' Class A and Class B common stock and continues to consolidate this subsidiary. As a result of this transaction, the Company recorded an increase to retained earnings and a reduction in non-controlling interest of \$10.1 million, as the Company accounts for changes in its ownership interest in controlled subsidiaries as equity transactions. As part of this transaction, Teekay entered into a non-competition agreement with Teekay Tankers, which provides Teekay Tankers with a right of first refusal to participate in any future conventional crude oil tanker and product tanker opportunities developed by Teekay for a period of three years from the closing date of the transaction.

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

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

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

**b) Write-downs**

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

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

**8. Long-Term Debt**

|  | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
|  | \$            | \$                |
| Revolving Credit Facilities  | 2,043,239     | 2,244,634         |
| Senior Notes (8.5%) due January 15, 2020                                       | 446,967       | 446,825           |
| Norwegian Kroner-denominated Bonds due through May 2017                        | 318,862       | 100,417           |
| U.S. Dollar-denominated Term Loans due through 2021                            | 2,227,357     | 2,069,860         |
| U.S. Dollar-denominated Term Loan of Variable Interest Entity due October 2016 | 230,453       | 220,450           |
| Euro-denominated Term Loans due through 2023                                   | 334,312       | 348,905           |
| U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners   | 13,382        | 13,282            |
| Total  | 5,614,572     | 5,444,373         |
| Less current portion   | 651,218       | 401,376           |
| Long-term portion  | 4,963,354     | 5,042,997         |

As of June 30, 2012, the Company had 14 long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to \$2.9 billion, of which \$0.8 billion was undrawn. Interest payments are based on LIBOR plus margins; at June 30, 2012 and December 31, 2011, the margins ranged between 0.45% and 3.25%. At June 30, 2012 and December 31, 2011, the three-month LIBOR was 0.46% and 0.58%, respectively. The total amount available under the *Revolvers* reduces by \$197.5 million (remainder of 2012),

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\$747.5 million (2013), \$780.1 million (2014), \$226.4 million (2015), \$146.4 million (2016) and \$784.0 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 62 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts.

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

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date. In addition, at any time or from time to time prior to January 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of the 8.5% Notes issued under the indenture with the net cash proceeds of one or more qualified equity offerings at a redemption price equal to 108.5% of the principal amount of the 8.5% Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date, provided certain conditions are met. No such redemptions had been made as at June 30, 2012.

In November 2010, Teekay Offshore issued NOK 600 million of senior unsecured bonds that mature in November 2013 in the Norwegian bond market. As at June 30, 2012, the carrying amount of the bonds was \$100.7 million. The bonds are listed on the Oslo Stock Exchange. Interest payments on the bonds are based on NIBOR plus a margin of 4.75%. Teekay Offshore entered into a cross currency rate swap, to swap all interest and principal payments into U.S. Dollars with the interest rate payments swapped from NIBOR plus a margin of 4.75% into LIBOR plus a margin of 5.04% and the transfer of the principal amount fixed at \$98.5 million upon maturity in exchange for NOK 600 million. Teekay Offshore also entered into an interest rate swap to swap the interest payments from LIBOR to a fixed rate of 1.12%. The floating LIBOR rate receivable from the interest rate swap is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case Teekay Offshore's related interest rate effectively floats at LIBOR, but reduced by 2.38% (see Note 15).

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In January 2012, Teekay Offshore issued NOK 600 million of senior unsecured bonds that mature in January 2017 in the Norwegian bond market. As at June 30, 2012, the carrying amount of the bonds was approximately \$100 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. Teekay Offshore entered into a cross currency rate swap, to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 7.49%, and the transfer of the principal amount fixed at \$101.4 million upon maturity in exchange for NOK 600 million (see Note 15).

In May 2012, Teekay LNG issued NOK 700 million of senior unsecured bonds that mature in May 2017 in the Norwegian bond market. As at June 30, 2012, the carrying amount of the bonds was \$117.5 million. Teekay LNG is applying to list the bonds on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.25%. Teekay LNG entered into a cross currency rate swap to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88%, and the transfer of principal fixed at \$125.0 million upon maturity in exchange for NOK 700 million (see Note 15).

As of June 30, 2012, the Company had 17 U.S. Dollar-denominated term loans outstanding, which totalled \$2.2 billion (December 31, 2011 \$2.1 billion). Certain of the term loans with a total outstanding principal balance of \$350.4 million as at June 30, 2012 (December 31, 2011 \$372.7 million) bear interest at a weighted-average fixed rate of 5.3% (December 31, 2011 5.3%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At June 30, 2012 and December 31, 2011, the margins ranged between 0.3% and 4.0%. At June 30, 2012 and December 31, 2011, the three-month LIBOR was 0.47% and 0.58%, respectively. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 16 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 35 (December 31, 2011 33) of the Company's vessels, together with certain other security. In addition, at June 30, 2012, all but \$113.2 million (December 31, 2011 \$119.4 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

The *Voyageur Spirit* has been consolidated by the Company effective November 30, 2011, as the *Voyageur Spirit* has been determined to be a VIE and the Company has been determined to be the primary beneficiary. As a result, the Company has included the *Voyageur Spirit*'s existing U.S. Dollar-denominated term loan (*VIE term loan*) outstanding, which, as at June 30, 2012, totalled \$230.5 million (December 31, 2011 \$220.5 million). Interest payments on the VIE term loan are based on LIBOR plus a margin of 2.95% and are paid quarterly. The VIE term loan is collateralized by a first-priority mortgage on the *Voyageur Spirit*, together with certain other security.

The Company has two Euro-denominated term loans outstanding, which, as at June 30, 2012, totalled 264.1 million Euros (\$334.3 million) (December 31, 2011 269.2 million Euros (\$348.9 million)). The Company repays the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At June 30, 2012 and December 31, 2011, the margins ranged between 0.6% and 2.25% and the one-month EURIBOR at June 30, 2012 was 0.4% (December 31, 2011 1.02%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023 and are collateralized by first-priority mortgages on two of the Company's vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

Both Euro-denominated term loans are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due in part to this revaluation, which is unrealized, the Company recognized a foreign exchange gain of \$17.8 million (2011 \$7.2 million loss) and \$2.0 million (2011 \$27.5 million loss) during the three and six months ended June 30, 2012, respectively.

The Company has one U.S. Dollar-denominated loan outstanding owing to a joint venture partner, which, as at June 30, 2012, totalled \$13.3 million (2011 \$13.3 million), including accrued interest. Interest payments on the loan is based on a fixed interest rate of 4.84%. This loan is repayable on demand no earlier than February 27, 2027.

The weighted-average effective interest rate on the Company's aggregate long-term debt as at June 30, 2012 was 2.8% (December 31, 2011 2.6%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 15).

Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and certain loan agreements require the maintenance of market value to loan ratios. Certain loan agreements require that a minimum

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level of free cash be maintained and as at June 30, 2012 and December 31, 2011, this amount was \$100.0 million. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity, in amounts ranging from 5% to 7.5% of total debt. As at June 30, 2012, this aggregate amount was \$314.5 million (December 31, 2011 - \$318.3 million).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to June 30, 2012, are \$230.5 million (remainder of 2012), \$986.6 million (2013), \$988.9 million (2014), \$338.6 million (2015), \$301.0 million (2016) and \$2.8 billion (thereafter).

As at June 30, 2012, the Company was in compliance with all covenants required by its credit facilities and long-term debt.

### **9. Capital Stock**

The authorized capital stock of Teekay at June 30, 2012 and December 31, 2011 was 25 million shares of Preferred Stock, with a par value of \$1 per share, and 725 million shares of Common Stock, with a par value of \$0.001 per share. As at June 30, 2012, Teekay had no shares of Preferred Stock issued. During the six months ended June 30, 2012, the Company issued 0.5 million shares of Common Stock upon the exercise of stock options.

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During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to \$200 million of shares of its Common Stock in the open market. As at June 30, 2012, Teekay had repurchased approximately 5.2 million shares of Common Stock for \$162.3 million pursuant to such authorization. As at June 30, 2012, the total remaining amount under the share repurchase authorization was \$37.7 million.

During March 2012, the Company granted 429,983 stock options with an exercise price of \$27.69 per share, 268,595 restricted stock units with a fair value of \$7.4 million, 67,870 performance shares with a fair value of \$2.5 million and 23,563 shares of restricted stock with a fair value of \$0.7 million to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit and performance share is equal in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance shares vest three years from the grant date. Upon vesting, the value of the restricted stock units and performance shares are paid to each grantee in the form of shares. The number of performance share units that vest will range from zero to three times the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2012 was \$8.72 per option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 54.8%; expected life of five years; dividend yield of 4.4%; risk-free interest rate of 2.1%; and estimated forfeiture rate of 12%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

In March 2011, the Company incurred a one-time \$11.0 million increase to the pension plan benefits of Bjorn Moller, who retired from his position as the Company's President and Chief Executive Officer on March 31, 2011. The additional pension benefit was in recognition of Mr. Moller's service to the Company. In addition, the Company recognized a compensation expense of approximately \$4.7 million, which related to the portion of Mr. Moller's outstanding stock-based compensation grants that had not yet vested on the date of his retirement. The total compensation expense related to Mr. Moller's retirement of \$15.7 million was recorded in general and administrative expense in the consolidated statements of loss for the six months ended June 30, 2011.

**10. Commitments and Contingencies**

**a) Vessels Under Construction**

As at June 30, 2012, the Company was committed to the construction of four shuttle tankers and one FPSO unit for a total cost of approximately \$1.4 billion, excluding capitalized interest and other miscellaneous construction costs. The four shuttle tankers are scheduled for delivery in mid-to-late 2013 and the FPSO unit is scheduled to be delivered in late 2013. As at June 30, 2012, payments made towards these commitments totaled \$432.4 million (excluding \$11.8 million of capitalized interest and other miscellaneous construction costs). As at June 30, 2012, the remaining payments required to be made under these newbuilding contracts were \$205.8 million (remainder of 2012), \$712.2 million (2013), and \$13.5 million (2014).

**b) Joint Ventures**

In October 2010, the Company signed a long-term contract with Petroleo Brasileiro SA (or *Petrobras*) to provide an FPSO unit for the Tiro and Sidon fields located in the Santos Basin offshore Brazil. The contract with Petrobras will be serviced by a newly converted FPSO unit named the *Cidade de Itajai*, which is currently under conversion from an existing Aframax tanker for a total estimated cost of approximately \$385 million. The FPSO unit was scheduled to deliver from the shipyard in September 2012, but has been delayed due to fire damage sustained during



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pre-delivery sea trials. The extent of damage to the unit is under investigation, and any related delay in its delivery is yet to be determined. Upon delivery, the unit is expected to commence operations under a nine-year, fixed-rate time-charter contract with Petrobras with six additional one-year extension options exercisable by Petrobras. Pursuant to Teekay's omnibus agreement with Teekay Offshore, Teekay LNG and others, Teekay is obligated to offer to Teekay Offshore its 50% interest in this FPSO project at Teekay's fully built-up cost, within approximately one year after the commencement of the charter with Petrobras.

In January 2012, OOG-TKP FPSO GmbH & Co KG (or *KG Joint Venture*), a 50/50 joint venture between the Company and Odebrecht Oil & Gas S.A. (or *Odebrecht*), purchased the assets related to the Tiro and Sidon FPSO project, including a partially constructed FPSO unit, and related customer contracts from the Company for approximately \$179 million. The KG Joint Venture financed the purchase price 80% with borrowings under a new \$300 million debt facility secured by the *Cidade de Itajai* FPSO unit and the balance with pro rata equity contributions by each of the joint venture partners. The facility bears interest at LIBOR plus a margin of 2.25% and requires quarterly principal repayments with a final bullet payment on maturity in October 2021. As at June 30, 2012, the remaining construction payments required to be made to complete the conversion, including Odebrecht's 50% share, was estimated to be \$66.7 million in 2012.

In September 2010, Teekay Tankers entered into a joint venture arrangement (the *Joint Venture*) with Wah Kwong Maritime Transport Holdings Limited (or *Wah Kwong*) to have a Very Large Crude Carrier (or *VLCC*) newbuilding constructed, managed and chartered to third parties. Teekay Tankers has a 50% economic interest in the Joint Venture, which is jointly controlled by Teekay Tankers and Wah Kwong. The VLCC has an estimated purchase price of approximately \$98 million (of which Teekay Tankers' 50% portion is \$49 million), excluding capitalized interest and other miscellaneous construction costs. The vessel is expected to be delivered during the second quarter of 2013. As at June 30, 2012, the remaining payments required to be made under this newbuilding contract, including Wah Kwong's 50% share, were \$39.2 million in 2012 and \$34.3 million in 2013. As of June 30, 2012, the Joint Venture had signed an agreement with a financial institution for a loan of \$68.6 million. The loan is secured by a first priority statutory mortgage over the VLCC and guaranteed by both Teekay Tankers and Wah Kwong. As a result, Teekay Tankers' exposure to this loan is limited to the 50% guarantee to the loan which is repayable with thirty-two consecutive quarterly installments of \$1.4 million each commencing 3 months after the initial post-delivery drawdown date and a balloon payment of \$22.6 million at its maturity. In addition, Teekay Tankers and Wah Kwong have each agreed to finance 50% of the costs to acquire the VLCC that are not financed with commercial bank financing. In March 2012, Teekay Tankers made a \$0.4 million payment to the Joint Venture for financing fees. In April 2012, Teekay Tankers made a \$2.6 million payment to the Joint Venture for the funding of a \$4.9 million installment under the newbuilding contract, and a \$0.3 million construction supervision fee.

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As at June 30, 2012, the Company was committed to fund the remaining upgrade costs of the *Voyageur Spirit* in connection with the Sevan acquisition, for a total cost estimated to be between \$120 million and \$140 million. The upgrades on the FPSO unit are expected to be completed by the fourth quarter of 2012, at which time the Company will acquire the FPSO unit. As at June 30, 2012, payments made towards these remaining upgrade costs totalled \$66.2 million and the remaining payments required to be made are estimated to be between \$55 million and \$75 million in 2012. In addition to the upgrade costs, the remaining payments required to be made to acquire the *Voyageur Spirit* total approximately \$92.4 million (net of assumed debt of \$230 million) in 2012. In September 2012, Teekay entered into an agreement to sell the *Voyageur Spirit* to Teekay Offshore for \$540 million. Conditions to the closing of this transaction include, among others, Teekay Offshore obtaining financing and that Teekay has acquired the *Voyageur Spirit* and related assets pursuant to the terms of the acquisition agreement with Sevan. Please read Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments in 2012 Recent Offshore Business Developments.

**d) Legal Proceedings and Claims**

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

On November 13, 2006, Teekay Offshore's shuttle tanker the *Navion Hispania* collided with the *Njord Bravo*, an FSO unit, while preparing to load an oil cargo from the *Njord Bravo*. The *Njord Bravo* services the Njord field, which is operated by Statoil Petroleum AS (or *Statoil*) and is located off the Norwegian coast. At the time of the incident, Statoil was chartering the *Navion Hispania* from the Company. The *Navion Hispania* and the *Njord Bravo* both incurred damages as a result of the collision. In November 2007, Navion Offshore Loading AS (or *NOL*), the Company's subsidiary, and two other subsidiaries of the Company, were named as co-defendants in a legal action filed by Norwegian Hull Club (the hull and machinery insurers of the *Njord Bravo*) and various licensees in the Njord field (or the *Plaintiffs*). The claim sought damages for vessel repairs, expenses for a replacement vessel and other amounts related to production stoppage on the field, totaling NOK 213,000,000 (approximately \$36 million).

The matter was heard before the Stavanger District Court in December 2011. The court found that NOL is liable for damages to the Plaintiffs, but excluded a large part of the indirect or consequential losses from the liability. The court also found that Statoil ASA is liable for the same amount of damages to NOL. The parties have appealed the decision of the court. As a result of the judgment, as at December 31, 2011, the Company recognized a liability of NOK 76,000,000 (approximately \$12.8 million, which is a reduced amount in accordance with the court's decision to exclude a large part of the indirect or consequential losses) and a corresponding receivable from Statoil recorded in other liabilities and other assets, respectively.

The Company believes the likelihood of any losses relating to the claim is remote. The Company believes that the charter contract relating to the *Navion Hispania* requires that Statoil be responsible and indemnify the Company for all losses relating to the damage to the *Njord Bravo*. The Company also maintains protection and indemnity insurance for damages to the *Navion Hispania* and insurance for collision-related costs and claims. The Company believes that these insurance policies will cover the costs related to this incident, including any costs not indemnified by Statoil, subject to standard deductibles. In addition, Teekay has agreed to indemnify Teekay Offshore for any losses it may incur in connection with this incident.

Teekay Nakilat Corporation (or *Teekay Nakilat*), a subsidiary of Teekay LNG, is the lessee under 30-year capital lease arrangements with a third party for the RasGas II LNG Carriers (or *RasGas II Leases*). The UK taxing authority (or *HMRC*) has been urging our lessor, as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the RasGas II Leases, to terminate such finance lease arrangements, and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that Teekay Nakilat enter into negotiations to terminate the *RasGas II Leases*. Teekay Nakilat has declined this request as it does not believe that HMRC would be able to successfully challenge the availability of the tax benefits of these leases to the lessor. This assessment is partially based on a

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January 2012 court decision regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer. However, the HMRC is appealing that decision. If the HMRC were able to successfully challenge the RasGas II Leases, Teekay Nakilat could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. The Company estimates its share of the potential exposure to be approximately \$46 million.

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, encountered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, the Company declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire which is currently expected to continue until the third quarter of 2013 while repairs are assessed and completed. After the repairs are completed, the *Banff* FPSO unit is expected to resume production on the Banff field, where it is expected to remain under contract until the end of 2018.

The Company expects that repair costs to the *Banff* FPSO unit and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event will be primarily reimbursed through our insurance coverage subject to a \$0.75 million deductible and the other terms and conditions of the applicable policies. The Company also expects to recover certain of the costs not covered by insurance from the charterer, subject to commercial discussions. It is not determinable at this time if all repair costs will be recovered through insurance coverage or the charterer.

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**e) Redeemable Non-Controlling Interest**

During 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore's 67% owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner's 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at June 30, 2012.

**f) Other**

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

**11. Financial Instruments****a) Fair Value Measurements**

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 11 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2011. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis.

|   | Fair Value Hierarchy Level | June 30, 2012                        |                                 | December 31, 2011                    |                                 |
|---|----------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|   |                            | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ |
| <b>Recurring:</b>   |                            |                                      |                                 |                                      |                                 |
| Cash and cash equivalents, restricted cash, and marketable securities | Level 1                    | 1,203,026                            | 1,203,026                       | 1,200,063                            | 1,200,063                       |
| <b>Derivative instruments (note 15)</b>                               |                            |                                      |                                 |                                      |                                 |
| Interest rate swap agreements - assets                                | Level 2                    | 166,527                              | 166,527                         | 159,603                              | 159,603                         |
| Interest rate swap agreements - liabilities                           | Level 2                    | (736,387)                            | (736,387)                       | (707,437)                            | (707,437)                       |
| Cross currency swap agreement   | Level 2                    | (10,421)                             | (10,421)                        | 2,677                                | 2,677                           |
| Foreign currency contracts  | Level 2                    | (2,679)                              | (2,679)                         | (4,362)                              | (4,362)                         |
| Foinaven embedded derivative  | Level 2                    |                                      |                                 | 3,385                                | 3,385                           |
| <b>Non-recurring:</b>   |                            |                                      |                                 |                                      |                                 |
| Vessels and equipment <sup>(1)</sup>                                  | Level 2                    |                                      |                                 | 118,682                              | 118,682                         |
| Vessels held for sale <sup>(2)</sup>                                  | Level 2                    | 6,930                                | 6,930                           | 19,000                               | 19,000                          |

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**Other:**

|  |         |             |             |             |             |
|--|---------|-------------|-------------|-------------|-------------|
| Investment in term loans                                       | Level 3 | 190,164     | 189,812     | 189,666     | 190,939     |
| Loans to equity accounted investees and joint venture partners |         |             |             |             |             |
| Current  | Level 3 | 103,000     | 103,000     | 50,000      | 50,000      |
| Loans to equity accounted investees and joint venture partners |         |             |             |             |             |
| Long-term  | (3)     | 51,781      | (3)         | 35,248      | (3)         |
| Long-term debt (note 8)  | Level 2 | (5,614,572) | (5,140,902) | (5,444,373) | (5,072,214) |

- (1) The fair value measurement used to determine the impairment of the vessels at December 31, 2011 was calculated based upon the estimated scrap value of the respective vessels. No additional impairments were identified during the six months ended June 30, 2012.
- (2) The fair value measurement used to determine the impairment of the vessels as at December 31, 2011 was based upon comparable sales market data adjusted for specific characteristics of the respective vessels. During the six months ended June 30, 2012, one shuttle tanker was written down to its fair value due to the expected sale of the vessel. The fair value measure used to determine the impairment of the vessel was calculated based upon the estimated sales price of the vessel.
- (3) The fair value of the Company's loans to its equity accounted investees and joint venture partners as at June 30, 2012 and December 31, 2011 was not determinable given the repayment terms.

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**b. Financing Receivables**

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

| Class of Financing Receivable   | Credit Quality Indicator | Grade      | June 30, | December 31, |
|---|--------------------------|------------|----------|--------------|
|   |                          |            | 2012     | 2011         |
|   |                          |            | \$       | \$           |
| Direct financing leases   | Payment activity         | Performing | 447,746  | 459,908      |
| Other loan receivables  |                          |            |          |              |
| Investment in term loans and interest receivable                              | Collateral               | Performing | 187,347  | 188,616      |
| Loans to equity accounted investees and joint venture partners <sup>(1)</sup> | Other internal metrics   | Performing | 154,781  | 85,248       |
| Long-term receivable included in other assets                                 | Payment activity         | Performing | 973      | 786          |
|   |                          |            | 790,847  | 734,558      |

- (1) Teekay LNG owns a 99% interest in Teekay Tangguh, which owns a 70% interest in the Teekay Tangguh Subsidiary. During the six months ended June 30, 2012, one of Teekay LNG's joint venture partner's parent company, PT Berlian Laju Tanker (or *BLT*), suspended trading on the Jakarta Stock Exchange, and filed for bankruptcy protection in order to restructure its debts. The Company believes the loans to BLT and Teekay LNG's joint venture partner, BLT LNG Tangguh Corporation, totaling \$24.0 million as at June 30, 2012 (2011 - \$19.1 million) are collectible given the expected cash flows anticipated to be generated by the Teekay Tangguh Subsidiary, which can be used to repay the loan and given the underlying collateral securing the loans to BLT.

**12. Restructuring Charges**

During the three and six months ended June 30, 2012, the Company recognized \$1.5 million of restructuring charges. The restructuring charges primarily relate to reorganization of the Company's marine operations to create greater alignment with its conventional tanker business unit and its three publicly-listed subsidiaries. The Company expects to incur approximately \$10 million of restructuring charges associated with this reorganization and realize annual cost savings of approximately \$10 million commencing in the fourth quarter of 2012. A majority of the reorganization will be completed in 2012; however, certain portions will not be completed until the first half of 2013.

During the three and six months ended June 30, 2011, the Company incurred \$0.5 million and \$5.4 million of restructuring costs, respectively. The restructuring costs primarily relate to the sale of an FSO unit, *Karratha Spirit*, and the termination of the time-charter for the *Basker Spirit*. The Company committed to terminate the employment of certain seafarers of the two vessels.

At June 30, 2012 and December 31, 2011, \$1.2 million and \$0.1 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

**13. Other Income**

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|   | Three Months Ended June 30, |      | Six Months Ended June 30, |       |
|---|-----------------------------|------|---------------------------|-------|
|   | 2012                        | 2010 | 2011                      | 2010  |
|   | \$                          | \$   | \$                        | \$    |
| Gain on sale of other assets                          |                             |      | 2,217                     |       |
| Volatile organic compound emission plant lease income | 617                         | 769  | 1,045                     | 1,672 |
| Loss on sale of marketable securities                 |                             |      | (420)                     |       |
| Miscellaneous (loss) income                           | (528)                       | 189  | (410)                     | (620) |
| Other income  | 89                          | 958  | 2,432                     | 1,052 |

**14. Accumulated Other Comprehensive Loss**

As at June 30, 2012 and December 31, 2011, the Company's accumulated other comprehensive loss consisted of the following components:

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
|   | \$               | \$                   |
| Unrealized loss on qualifying cash flow hedging instruments | (498)            | (295)                |
| Pension adjustments, net of tax recoveries                  | (25,317)         | (22,952)             |
| Unrealized loss on marketable securities                    | (1,031)          | (656)                |
| Foreign exchange loss on currency translation               | (800)            |                      |
|   | (27,646)         | (23,903)             |

**15. Derivative Instruments and Hedging Activities**

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

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Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. Certain of these foreign currency forward contracts are designated, for accounting purposes, as cash flow hedges of forecasted foreign currency expenditures.

As at June 30, 2012, the Company was committed to the following foreign currency forward contracts:

|                  | Contract Amount in<br>Foreign<br>Currency<br>(millions) | Average<br>Forward Rate<br>(1) | Fair Value /Carrying Amount<br>of Asset (Liability) |           | Expected Maturity             |         |
|------------------|---|--------------------------------|---|-----------|-------------------------------|---------|
|                  |   |                                | Hedge   | Non-hedge | 2012                          | 2013    |
|                  |   |                                | (in millions of U.S.<br>Dollars)                    |           | (in millions of U.S. Dollars) |         |
| Norwegian Kroner | 558.0   | 5.97                           | \$ 0.0  | (\$ 0.3)  | \$ 59.5                       | \$ 33.9 |
| Euro             | 24.7  | 0.74                           | \$ 0.0  | (\$ 2.0)  | \$ 20.3                       | \$ 13.0 |
| Canadian Dollar  | 21.1  | 1.00                           | (\$ 0.4)  | \$ 0.0    | \$ 11.9                       | \$ 9.2  |
| British Pound    | 25.0  | 0.64                           | \$ 0.0  | \$ 0.0    | \$ 21.7                       | \$ 17.6 |
|                  |   |                                | (\$ 0.4)  | (\$ 2.3)  | \$ 113.4                      | \$ 73.7 |

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

The Company enters into cross currency swaps, and pursuant to these swaps the Company receives the principal amount in Norwegian Kroner (or NOK) on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in Norwegian Kroner based on NIBOR plus a margin for a payment of US Dollar fixed interest or US Dollar floating interest based on LIBOR plus a margin. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal at maturity of the Company's Norwegian Kroner Bonds due in 2013 and 2017. In addition, the cross currency swaps due in 2017 economically hedges the interest rate exposure on the Norwegian Kroner Bonds due in 2017. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its Norwegian Kroner Bonds due in 2013 and 2017. As at June 30, 2012, the Company was committed to the following cross currency swaps:

| Maturity<br>Date | Notional      | Notional      | Floating Rate Receivable |        | Floating Rate Payable |        | Fixed Rate<br>Payable | Fair Value |
|------------------|---------------|---------------|--------------------------|--------|-----------------------|--------|-----------------------|------------|
|                  | Amount<br>NOK | Amount<br>USD | Reference<br>Rate        | Margin | Reference<br>Rate     | Margin |                       |            |
| 2013             | 600,000       | 98,500        | NIBOR                    | 4.75%  | LIBOR                 | 5.04%  | (1)                   | 2,775      |
| 2017             | 600,000       | 101,400       | NIBOR                    | 5.75%  |                       |        | 7.49%                 | (2,976)    |
| 2017             | 700,000       | 125,000       | NIBOR                    | 5.25%  |                       |        | 6.88%                 | (10,220)   |



(1) LIBOR subsequently fixed at 1.1%, subject to a LIBOR rate receivable cap of 3.5% (see next section).

Interest Rate Risk

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

As at June 30, 2012, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company's floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

|  | Interest<br>Rate<br>Index | Principal<br>Amount<br>\$ | Fair Value /<br>Carrying<br>Amount of<br>Asset /<br>(Liability)<br>\$ | Weighted-<br>Average<br>Remaining<br>Term<br>(years) | Fixed Interest<br>Rate<br>(%) <sup>(1)</sup> |
|--|---------------------------|---------------------------|---|--|--|
| <b>LIBOR-Based Debt:</b>   |                           |                           |   |  |  |
| U.S. Dollar-denominated interest rate lease swaps <sup>(2)</sup> | LIBOR                     | 417,666                   | (130,810)   | 24.6   | 4.9  |
| U.S. Dollar-denominated interest rate swaps <sup>(3)</sup>       | LIBOR                     | 3,310,574                 | (569,535)   | 8.2  | 4.0  |
| U.S. Dollar-denominated interest rate swaps <sup>(4)</sup>       | LIBOR                     | 98,500                    | (882)   | 1.4  | 1.1  |
| <b>LIBOR-Based Restricted Cash Deposit:</b>                      |                           |                           |   |  |  |
| U.S. Dollar-denominated interest rate swaps <sup>(2)</sup>       | LIBOR                     | 469,666                   | 166,527   | 24.6   | 4.8  |
| <b>EURIBOR-Based Debt:</b>                                       |                           |                           |   |  |  |
| Euro-denominated interest rate swaps <sup>(5) (6)</sup>          | EURIBOR                   | 334,312                   | (35,160)  | 12.0   | 3.1  |
|  |                           | 4,630,718                 | (569,860)   |  |  |

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- (1) Excludes the margins the Company pays on its variable-rate debt, which, as of June 30, 2012, ranged from 0.3% to 4.0%.
- (2) Principal amount reduces quarterly.
- (3) Principal amount of \$200 million is fixed at 2.14%, unless LIBOR exceeds 6%, at which the Company pays floating rate.
- (4) The floating LIBOR rate receivable is capped at 3.5%, which effectively results in a fixed rate of 1.12% unless LIBOR exceeds 3.5%, in which case the Company's related interest rate effectively floats at LIBOR reduced by 2.38%.
- (5) Principal amount reduces monthly to 70.1 million Euros (\$88.8 million) by the maturity dates of the swap agreements.
- (6) Principal amount is the U.S. Dollar equivalent of 264.1 million Euros.

**Tabular Disclosure**

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

|  | <b>Current<br/>Portion of<br/>Derivative<br/>Assets</b> | <b>Derivative<br/>Assets</b> | <b>Accrued<br/>Liabilities</b> | <b>Current<br/>Portion of<br/>Derivative<br/>Liabilities</b> | <b>Derivative<br/>Liabilities</b> |
|--|---|------------------------------|--------------------------------|--|-----------------------------------|
| <b>As at June 30, 2012:</b>                      |   |                              |                                |  |                                   |
| Derivatives designated as a cash flow hedge:     |   |                              |                                |  |                                   |
| Foreign currency contracts                       | 894   |                              |                                | (1,201)  | (55)                              |
| Derivatives not designated as a cash flow hedge: |   |                              |                                |  |                                   |
| Foreign currency contracts                       | 1,296   |                              |                                | (3,449)  | (165)                             |
| Interest rate swap agreements                    | 16,156  | 146,071                      | (22,032)                       | (113,353)  | (596,702)                         |
| Cross currency swap agreements                   | 2,037   | 1,248                        | 314                            |  | (14,019)                          |
|  | 20,383  | 147,319                      | (21,718)                       | (118,003)  | (610,941)                         |
| <b>As at December 31, 2011:</b>                  |   |                              |                                |  |                                   |
| Derivatives designated as a cash flow hedge:     |   |                              |                                |  |                                   |
| Foreign currency contracts                       | 1,551   | 28                           |                                | (1,192)  | (264)                             |
| Derivatives not designated as a cash flow hedge: |   |                              |                                |  |                                   |
| Foreign currency contracts                       | 2,592   | 3                            |                                | (6,248)  | (832)                             |
| Interest rate swap agreements                    | 15,608  | 139,651                      | (24,750)                       | (109,897)  | (568,446)                         |
| Cross currency swap agreements                   | 1,576   | 875                          | 225                            |  |                                   |
| Foinaven embedded derivative                     | 3,385   |                              |                                |  |                                   |
|  | 24,712  | 140,557                      | (24,525)                       | (117,337)  | (569,542)                         |

For the periods indicated, the following table presents the effective portion of gains (losses) on foreign currency forward contracts designated and qualifying as cash flow hedges that were (1) recognized in other comprehensive (loss) income, (2) recorded in accumulated other comprehensive income (or *AOCI*) during the term of the hedging relationship and reclassified to earnings, and (3) recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

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| Balance Sheet (AOCI) Effective Portion | Three Months Ended June 30, 2012 |                     |                                     | Balance Sheet (AOCI) Effective Portion | Three Months Ended June 30, 2011 |                   |                                     |
|--|----------------------------------|---------------------|-------------------------------------|--|----------------------------------|-------------------|-------------------------------------|
|  | Statement of Income (Loss)       |                     |                                     |  | Statement of Income (Loss)       |                   |                                     |
|  | Effective Portion                | Ineffective Portion |                                     |  | Effective Portion                | Effective Portion | Ineffective Portion                 |
| (1,601)                                |                                  |                     | Vessel operating expenses           | 2,596                                  | 431                              | (171)             | Vessel operating expenses           |
|  | 374                              | (306)               | General and administrative expenses |  | 1,713                            | 121               | General and administrative expenses |
| (1,601)                                | 374                              | (306)               |                                     | 2,596                                  | 2,144                            | (50)              |                                     |

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

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

| Balance Sheet (AOCI) Effective | Six Months Ended June 30, 2012 |                     |                                     | Balance Sheet (AOCI) Effective | Six Months Ended June 30, 2011 |                   |                                     |
|--------------------------------|--------------------------------|---------------------|-------------------------------------|--------------------------------|--------------------------------|-------------------|-------------------------------------|
|                                | Statement of Income (Loss)     |                     |                                     |                                | Statement of Income (Loss)     |                   |                                     |
|                                | Effective Portion              | Ineffective Portion |                                     |                                | Effective Portion              | Effective Portion | Ineffective Portion                 |
| 1,220                          |                                |                     | Vessel operating expenses           | 8,094                          | 583                            | (351)             | Vessel operating expenses           |
|                                | 1,377                          | (324)               | General and administrative expenses |                                | 2,546                          | 216               | General and administrative expenses |
| 1,220                          | 1,377                          | (324)               |                                     | 8,094                          | 3,129                          | (135)             |                                     |

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

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2012                        | 2011      | 2012                      | 2011      |
|   | \$                          | \$        | \$                        | \$        |
| Realized (losses) gains relating to:  |                             |           |                           |           |
| Interest rate swap agreements   | (29,669)                    | (32,692)  | (60,085)                  | (66,689)  |
| Interest rate swap agreement amendments                                       |                             |           |                           | (92,672)  |
| Foreign currency forward contracts  | 147                         | 3,558     | 1,384                     | 4,883     |
| Forward freight agreements and bunker fuel swap contracts                     |                             | (7)       |                           | 42        |
| Foinaven embedded derivative  |                             |           | 11,452                    |           |
|   | (29,522)                    | (29,141)  | (47,249)                  | (154,436) |
| Unrealized (losses) gains relating to:  |                             |           |                           |           |
| Interest rate swap agreements   | (58,425)                    | (73,331)  | (41,290)                  | 68,527    |
| Foreign currency forward contracts  | (6,651)                     | 540       | 2,141                     | 7,248     |
| Forward freight agreements and bunker fuel swap contracts                     |                             | 7         |                           |           |
| Foinaven embedded derivative  |                             | (215)     | (3,385)                   | (222)     |
|   | (65,076)                    | (72,999)  | (42,534)                  | 75,553    |
| Total realized and unrealized losses on non-designated derivative instruments | (94,598)                    | (102,140) | (89,783)                  | (78,883)  |

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

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|   | Three Months Ended June 30, |              | Six Months Ended June 30, |               |
|---|-----------------------------|--------------|---------------------------|---------------|
|   | 2012                        | 2011         | 2012                      | 2011          |
|   | \$                          | \$           | \$                        | \$            |
| Realized gains  | 744                         | 777          | 1,738                     | 1,444         |
| Unrealized (losses) gains   | (21,046)                    | 3,135        | (13,167)                  | 9,363         |
| <b>Total realized and unrealized (losses) gains on cross currency swaps</b> | <b>(20,302)</b>             | <b>3,912</b> | <b>(11,429)</b>           | <b>10,807</b> |

In January and February 2011, the Company paid \$92.7 million to the counterparties of five interest rate swap agreements, with notional amounts totaling \$665.1 million, in consideration for amending the terms of such agreements to reduce the weighted average fixed interest rate from 5.1% to 2.5%.

As at June 30, 2012, the Company's accumulated other comprehensive loss included \$0.5 million of unrealized losses on foreign currency forward contracts designated as cash flow hedges. As at June 30, 2012, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately \$0.8 million of net losses on foreign currency forward contracts from accumulated other comprehensive loss to earnings during the next 12 months.

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

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

**16. Income Tax Recovery (Expense)**

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

|                                      | Three Months Ended June 30, |                | Six Months Ended June 30, |                |
|--------------------------------------|-----------------------------|----------------|---------------------------|----------------|
|                                      | 2012                        | 2011           | 2012                      | 2011           |
|                                      | \$                          | \$             | \$                        | \$             |
| Current                              | 2,139                       | 273            | 5,973                     | (122)          |
| Deferred                             | (290)                       | (2,295)        | (556)                     | (2,711)        |
| <b>Income tax recovery (expense)</b> | <b>1,849</b>                | <b>(2,022)</b> | <b>5,417</b>              | <b>(2,833)</b> |

The following is a roll-forward of the Company's unrecognized tax benefits, recorded in other long-term liabilities, from December 31, 2011 to June 30, 2012:

|   |                  |
|---|------------------|
| Balance of unrecognized tax benefits as at December 31, 2011    | \$ 39,804        |
| Decrease for positions taken in prior years                     | (2,690)          |
| Increase for positions related to the current period            | 2,507            |
| Decrease related to statute of limitations                      | (8,074)          |
| <b>Balance of unrecognized tax benefits as at June 30, 2012</b> | <b>\$ 31,547</b> |

The majority of the net increase for positions for the six months ended June 30, 2012 relates to potential tax on freight income.

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

**17. Loss Per Share**

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2011                        | 2011       | 2011                      | 2011       |
|  | \$                          | \$         | \$                        | \$         |
| Net loss attributable to stockholders of Teekay Corporation          | (47,274)                    | (96,452)   | (46,208)                  | (126,109)  |
| Weighted average number of common stock and common stock equivalents | 69,231,419                  | 70,935,484 | 69,043,639                | 71,438,446 |
| <b>Loss per common share:</b>  |                             |            |                           |            |
| - Basic  | (0.68)                      | (1.36)     | (0.67)                    | (1.77)     |
| - Diluted  | (0.68)                      | (1.36)     | (0.67)                    | (1.77)     |

The anti-dilutive effect attributable to outstanding stock-based awards is excluded from the calculation of diluted loss per common share. For the three and six months ended June 30, 2012, the anti-dilutive effect attributable to outstanding stock-based awards was 5.8 million shares. For the three and six months ended June 30, 2011, the anti-dilutive effect attributable to outstanding stock-based awards was 5.8 million shares.

**18. Supplemental Cash Flow Information**

During the six months ended June 30, 2012, the KG Joint Venture purchased the assets related to the Tiro and Sidon FPSO project, including the partially constructed FPSO unit, and the customer contracts from the Company for approximately \$179 million. The purchase price was financed 80% with borrowings and the balance of the purchase price was financed with equity contributions by each of the joint venture partners. The Company's initial equity contribution was funded by contributing the partially constructed FPSO unit and the customer contracts. This initial equity contribution has been treated as a non-cash transaction in the Company's consolidated statement of cash flows.

**19. Change in Accounting Estimate**

Effective January 1, 2012, the Company reduced the estimated useful life of six of its older shuttle tankers from 25 years to 20 years. As a result of the change in useful life, the Company increased its estimate of the residual value of these vessels to reflect the more recent average scrap prices. As a result, depreciation and amortization expense has increased by \$3.7 million and \$7.1 million, respectively, for the three and six months ended June 30, 2012. Net income attributable to the stockholders of Teekay has decreased by \$1.2 million and \$2.3 million, or \$0.02 per share and \$0.03 per share, respectively, for the three and six months ended June 30, 2012.

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**TEEKAY CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**20. Subsequent Events**

In July 2012, Teekay Offshore issued 1.7 million common units to a group of institutional investors for net proceeds, including the General Partner's 2% proportionate capital contribution, of \$45.9 million. Upon completion of the private placement, Teekay Offshore had 72.3 million common units outstanding. Teekay Offshore will use the proceeds from the issuance of common units to partially finance the shipyard instalments for the four Suezmax newbuilding shuttle tankers. As a result of this private placement, Teekay's ownership of Teekay Offshore was reduced to 32.3% (including the Company's 2% general partner interest). Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.

In September 2012, Teekay LNG completed a public offering of 4.6 million common units for net proceeds, including the General Partner's 2% proportionate capital contribution, of approximately \$173.7 million. Upon completion of the public offering, Teekay LNG had 70.9 million common units outstanding. Teekay LNG will use the proceeds from the offering for general corporate purposes, which may include funding potential future newbuilding deliveries or vessel acquisitions. Pending the use of the proceeds, Teekay LNG intends to repay a portion of its outstanding debt under two of its revolving credit facilities. As a result of this public offering, Teekay's ownership of Teekay LNG was reduced to 37.6% (including the Company's 2% general partner interest). Teekay maintains control of Teekay LNG by virtue of its control of the general partner and will continue to consolidate the subsidiary.

In September 2012, Teekay Offshore commenced a public offering of 7.4 million common units for net proceeds, including the General Partner's 2% proportionate capital contribution, of \$201.2 million. Upon completion of the public offering, expected in mid-September 2012, Teekay Offshore will have 79.7 million common units outstanding. In addition, Teekay Offshore granted the underwriters an option to purchase up to an additional 1.1 million common units. Teekay Offshore intends to use the proceeds from the issuance of common units to partially finance the purchase price of the *Voyageur Spirit* FPSO unit that Teekay Offshore has agreed to acquire from Teekay. As a result of this public offering, Teekay's ownership of Teekay Offshore will be reduced to 29.5% (including the Company's 2% general partner interest). Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.

In September 2012, Teekay entered into an agreement to sell, subject to certain conditions, the *Voyageur Spirit* FPSO unit to Teekay Offshore for a purchase price of \$540 million following the unit's commencement of operations under its long-term contract and the acquisition of the unit by Teekay from Sevan. Teekay Offshore intends to pay the \$540 million purchase price for the *Voyageur Spirit* through (a) the proceeds from its September 2012 equity public offering described above, (b) the issuance by Teekay Offshore to Teekay of \$40 million of its common units (priced at the same price per unit to the public as units issued in the September 2012 public offering) and (c) borrowings under new bank facilities. Teekay currently expects its sale of the *Voyageur Spirit* to Teekay Offshore to close in November 2012.



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**TEEKAY CORPORATION AND SUBSIDIARIES**

**JUNE 30, 2012**

**PART I FINANCIAL INFORMATION**

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 18 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2011.

References to *Teekay* mean Teekay Corporation, which is incorporated under the laws of the Republic of the Marshall Islands. References to the *Company* mean Teekay together with its wholly owned or controlled subsidiaries. Unless the context requires otherwise, references to *we*, *our* or *us* are references to Teekay Corporation.

**SIGNIFICANT DEVELOPMENTS IN 2012**

**Public Offering by Teekay Tankers**

In February 2012, our publicly traded subsidiary Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*) completed a public offering of 17.3 million shares of its Class A Common Stock (including 2.3 million shares issued upon the full exercise of the underwriters' overallotment option) at a price of \$4.00 per share, for gross proceeds of approximately \$69.0 million. Net offering proceeds were used to prepay outstanding debt under a revolving credit facility and the balance for general corporate purposes. As a result of this transaction, our ownership of Teekay Tankers was reduced to 20.4%. We maintain voting control of Teekay Tankers through our ownership of shares of Class A and Class B Common Stock and will continue to consolidate this subsidiary.

**Sale of Vessels to Teekay Tankers**

In June 2012, we sold to Teekay Tankers a fleet of 13 double-hull conventional oil and product tankers and related time-charter contracts, debt facilities and other assets and rights, for an aggregate purchase price of approximately \$454.2 million. As partial consideration for the sale, we received \$25 million worth of newly issued shares of Teekay Tankers' Class A common stock, issued at a price of \$5.60 per share, and the remaining amount was settled through a combination of a cash payment to us and the assumption by Teekay Tankers of existing debt secured by the acquired vessels. As a result, our economic interest in Teekay Tankers increased from approximately 20.4% to approximately 25.1% and our voting interest as a result of our combined ownership of Class A and Class B shares increased from approximately 51% to approximately 53%. As part of this transaction, we entered into a non-competition agreement with Teekay Tankers, which provides Teekay Tankers with a right of first refusal to participate in any future conventional crude oil tanker and product tanker opportunities developed by us for a period of three years from the closing date of the transaction.

**Public Offerings of Senior Unsecured Bonds**

In January 2012, our publicly traded subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*) issued in the Norwegian bond market NOK 600 million of senior unsecured bonds that mature in January 2017. The aggregate principal amount of the bonds was equivalent to approximately U.S. \$100 million at June 30, 2012. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. Teekay Offshore entered into a cross currency rate swap to swap all interest and principal payments into U.S. Dollars with the interest payments fixed at a rate of 7.49%. The proceeds from the bonds were used for general corporate purposes. The bonds are listed on the Oslo Stock Exchange.

In May 2012, our publicly traded subsidiary Teekay LNG Partners (NYSE: TGP) (or *Teekay LNG*) issued in the Norwegian bond market NOK 700 million in senior unsecured bonds that mature in May 2017, which bear interest at 3-month NIBOR plus a margin of 5.25%. The aggregate principal amount of the bonds is equivalent to approximately U.S. \$117.5 million as at June 30, 2012. Teekay LNG entered into a cross currency rate swap agreement to swap all interest and principal payments into U.S. dollars at a fixed interest rate of 6.88%. The proceeds of the bonds

were used to prepay the outstanding debt under two revolving credit facilities and for general corporate purposes. Teekay LNG is applying to list the bonds on the Oslo Stock Exchange.

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

In February 2012, Teekay LNG and the Marubeni Corporation (or *Marubeni*) acquired, through a joint venture (or the *Teekay LNG-Marubeni Joint Venture*), 100% ownership interests in six liquefied natural gas (or *LNG*) carriers (or the *MALT LNG Carriers*) from Denmark-based A.P. Moeller-Maersk A/S (or *Maersk*) for an aggregate purchase price of approximately \$1.3 billion. Teekay LNG and Marubeni have 52% and 48% respective economic interests, but share control of the Teekay LNG-Marubeni Joint Venture. Four of the six MALT LNG Carriers are currently operating under long-term, fixed-rate time-charter contracts, with an average remaining firm contract period of approximately 17 years, plus extension options. The other two vessels are currently operating under medium-term, fixed-rate time-charters with an average remaining firm contract period of approximately four years. Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Teekay LNG and Marubeni, Teekay LNG has accounted for the Teekay LNG-Marubeni Joint Venture using the equity method.

The Teekay LNG-Marubeni Joint Venture financed approximately \$1.06 billion of the purchase price for the MALT LNG Carriers from secured loan facilities, and an aggregate \$266 million from equity contributions from Teekay LNG and Marubeni. Teekay LNG agreed to guarantee Teekay LNG's 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and as a result, deposited \$30 million in a restricted cash account as security. Teekay LNG's 52% share of the equity contribution was approximately \$138 million. Teekay LNG financed this equity contribution by drawing on their existing credit facilities. Teekay has taken over technical management of the acquired vessels after a transition period.

#### **Public Offering by Teekay LNG**

In September 2012, Teekay LNG completed a public offering of 4.6 million common units for net proceeds, including its general partner's 2% proportionate capital contribution, of approximately \$173.7 million. Upon completion of the public offering, Teekay LNG had 70.9 million common units outstanding. Teekay LNG will use the proceeds from the offering for general corporate purposes, which may include funding potential future newbuilding deliveries or vessel acquisitions. Pending the use of the proceeds, Teekay LNG intends to repay a portion of its outstanding debt under two of its revolving credit facilities. As a result of this public offering, our ownership of Teekay LNG was reduced to 37.6% (including our 2% general partner interest). We maintain control of Teekay LNG by virtue of our control of the general partner and will continue to consolidate the subsidiary.

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### **Recent Offshore Business Developments**

In November 2011, we agreed to acquire from Sevan Marine ASA (*Sevan*) the *Voyageur Spirit* (formerly known as the *Sevan Voyager*) FPSO unit upon the completion of certain upgrades that are expected to be completed in the fourth quarter of 2012. In June 2012, we offered the *Voyageur Spirit* to Teekay Offshore for a purchase price of approximately \$540 million. On September 11, 2012, we entered into an agreement to sell, subject to certain conditions, the *Voyageur Spirit* to Teekay Offshore for such price following its commencement of operations under a long-term charter contract with E.ON Ruhrgas UK E&P Limited (or *E.ON*). Operations will commence under the charter after the FPSO unit produces first oil in the North Sea's Huntington Field. The charter contract has an initial term of five years, with up to 10 one-year extension options exercisable by E.ON., subject to certain conditions. Teekay Offshore intends to pay the \$540 million purchase price for the *Voyageur Spirit* through (a) the proceeds from its September 2012 equity public offering described below, (b) the issuance by Teekay Offshore to us of \$40 million of its common units (priced at the same price per unit to the public as units issued in the September 2012 public offering) and (c) borrowings under new bank facilities. Conditions to the closing of Teekay Offshore's acquisition of the unit include, among others, Teekay Offshore obtaining financing and that we have acquired the *Voyageur Spirit* and related assets pursuant to the terms of our acquisition agreement with Sevan. We anticipate the sale to Teekay Offshore will take place in November 2012.

In January 2012, we sold the assets related to the Tiro and Sidon FPSO project, including a partially constructed FPSO unit, and the related customer contracts, to OOG-TKP FPSO GmbH & Co KG, a 50/50 joint venture between us and Odebrecht Oil & Gas S.A., for approximately \$179 million. The joint venture financed the purchase price 80% with borrowings under a new \$300 million debt facility secured by the *Cidade de Itajai* FPSO unit and the balance with pro rata equity contributions by each of the joint venture partners. The facility bears interest at LIBOR plus a margin of 2.25% and requires quarterly principal repayments with a final bullet payment on maturity in October 2021. This FPSO unit was scheduled to deliver from the shipyard in September 2012, but has been delayed due to fire damage sustained during pre-delivery sea trials. The extent of damage to the unit is under investigation, and any related delay in its delivery is yet to be determined. Upon delivery, the unit is expected to commence operations under a nine-year, fixed-rate time charter-out contract with Petroleo Brasileiro S.A. (or *Petrobras*), with six additional one-year extension options exercisable by Petrobras. Pursuant to our omnibus agreement with Teekay Offshore, Teekay LNG and others, we are obligated to offer to Teekay Offshore our 50% interest in this FPSO project at our fully built-up cost, within approximately one year after the commencement of the charter with Petrobras.

### **Private Placement by Teekay Offshore**

In July 2012, Teekay Offshore issued 1.7 million common units to a group of institutional investors for net proceeds, including the General Partner's 2% proportionate capital contribution, of \$45.9 million. Upon completion of the private placement, Teekay Offshore had 72.3 million common units outstanding. Teekay Offshore will use the proceeds from the issuance of common units to partially finance the shipyard instalments for four Suezmax newbuilding shuttle tankers. As a result of this private placement, Teekay's ownership of Teekay Offshore was reduced to 32.3% (including the Company's 2% general partner interest). Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and will continue to consolidate the subsidiary.

### **Public Offering by Teekay Offshore**

In September 2012, Teekay Offshore commenced a public offering of 7.4 million common units for net proceeds, including its general partner's 2% proportionate capital contribution, of \$201.2 million. Upon completion of the public offering, expected in mid-September 2012, Teekay Offshore will have 79.7 million common units outstanding. Teekay Offshore intends to use the proceeds from the issuance of common units to partially finance the purchase price of the *Voyageur Spirit* FPSO unit as described above. As a result of this public offering, our ownership of Teekay Offshore will be reduced to 29.5% (including our 2% general partner interest). We maintain control of Teekay Offshore by virtue of our control of the general partner and will continue to consolidate the subsidiary.

## **OTHER SIGNIFICANT PROJECTS AND DEVELOPMENTS**

### **Angola LNG Project**

Teekay LNG has a 33% interest in a joint venture to charter four newbuilding 160,400-cubic meter LNG carriers for a period of 20 years to the Angola LNG Project. Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd., have 34% and 33% interests in the joint venture, respectively. In February 2011, we offered to sell to Teekay LNG our 33% ownership interest in these vessels and related charter contracts, in accordance with existing agreements. Teekay LNG agreed to purchase our 33% ownership interest in these vessels and related charter contracts at a total equity purchase price of approximately \$76 million (net of assumed debt of approximately \$259 million). Teekay LNG acquired the ownership interests and paid a proportionate share of the purchase price as each vessel delivered. Three of the Angola LNG carriers delivered in 2011 and the remaining Angola LNG carrier delivered on January 12, 2012.

Each of the four newbuilding LNG carriers are chartered at fixed rates, subject to inflation adjustments, to the Angola LNG Project for a period of 20 years since delivery from the shipyard, with two extension periods for five years each. The charterer has the option to terminate the charter upon 120 days' notice and payment of an early termination fee, which would equal approximately 50% of the fully built-up cost of the applicable vessel. The charterer may also terminate the charter under other circumstances typical in our long-term charters, such as excessive off-hire during which we do not provide a replacement vessel, or certain force majeure events.

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

On December 7, 2011, the Petrojarl Banff FPSO unit (or *Banff*), which operates on the Banff field in the U.K. sector of the North Sea, encountered a severe storm event and sustained damage to its moorings, turret and subsea equipment, which necessitated the shutdown of production on the unit. Due to the damage, we declared force majeure under the customer contract on December 8, 2011 and the *Banff* FPSO unit commenced a period of off-hire which is currently expected to continue until the third quarter of 2013 while repairs are assessed and completed. We expect to incur losses of operating cash flow of approximately \$35 million in 2012 and \$20 million in 2013. After the repairs are completed, the *Banff* FPSO unit is expected to resume production on the Banff field, where it is expected to remain under contract until the end of 2018.

We expect that repair costs to the *Banff* FPSO unit and equipment and costs associated with the emergency response to prevent loss or further damage during the December 7, 2011 storm event will be primarily reimbursed through our insurance coverage subject to a \$0.8 million deductible and the other terms and conditions of the applicable policies. We also expect to recover certain of the costs not covered by insurance from the charterer, excluding lost operating cash flow, subject to commercial discussions. It is not determinable at this time if all repair costs will be recovered through insurance coverage or the charterer.

**Table of Contents****RESULTS OF OPERATIONS**

We use a variety of financial and operational terms and concepts when analyzing our results of operations. In addition, you should consider certain factors when evaluating our historical financial performance and assessing our future prospects. These items can be found in Item 5 - Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2011.

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

We manage our business and analyze and report our results of operations on the basis of four reportable segments: the shuttle tanker and FSO segment, the FPSO segment, the liquefied gas segment, and the conventional tanker segment. In order to provide investors with additional information about our conventional tanker segment, we have divided the conventional tanker segment into the fixed-rate tanker sub-segment and the spot tanker sub-segment. Please read Item 1 Financial Statements: Note 3 Segment Reporting.

***Shuttle Tanker and FSO Segment***

Our shuttle tanker and floating storage and offtake (or FSO) segment (which includes our Teekay Shuttle and Offshore business unit) includes our shuttle tankers and FSO units. As at June 30, 2012, our shuttle tanker fleet consisted of 36 vessels that operate under fixed-rate contracts of affreightment, time charters and bareboat charters. Of the 36 shuttle tankers, six were owned through 50% owned subsidiaries, three through a 67% owned subsidiary and four were chartered-in, with the remainder owned 100% by us. Our FSO fleet consists of five vessels that operate under fixed-rate time charters or fixed-rate bareboat charters. We have 100% ownership interests in these units. We also have four newbuilding shuttle tankers on order which are scheduled to deliver in mid to late 2013. Please read Item 1 Financial Statements: Note 10(a) Commitments and Contingencies Vessels Under Construction. We use these vessels to provide transportation and storage services to oil companies operating offshore oil field installations, primarily in the North Sea and Brazil. Our shuttle tankers in this segment service the conventional spot market from time to time.

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

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Three Months Ended<br>June 30, |         |          | Six Months Ended<br>June 30, |         |          |
|---|--------------------------------|---------|----------|------------------------------|---------|----------|
|   | 2012                           | 2011    | % Change | 2012                         | 2011    | % Change |
| Revenues  | 153,130                        | 148,647 | 3.0      | 308,469                      | 299,859 | 2.9      |
| Voyage expenses   | 32,252                         | 26,351  | 22.4     | 59,267                       | 45,680  | 29.7     |
| Net revenues  | 120,878                        | 122,296 | (1.2)    | 249,202                      | 254,179 | (2.0)    |
| Vessel operating expenses   | 40,656                         | 50,558  | (19.6)   | 84,808                       | 101,392 | (16.4)   |
| Time-charter hire expense   | 12,969                         | 18,751  | (30.8)   | 26,586                       | 38,378  | (30.7)   |
| Depreciation and amortization   | 32,037                         | 32,125  | (0.3)    | 63,829                       | 62,744  | 1.7      |
| General and administrative <sup>(1)</sup>                                 | 14,960                         | 12,982  | 15.2     | 29,010                       | 31,288  | (7.3)    |
| Loss on sale of vessels and write-downs of vessels                        | 1,048                          |         | 100.0    | 1,048                        | 171     | 512.7    |
| Restructuring charges   |                                | 117     | (100.0)  |                              | 4,037   | (100.0)  |
| Income from vessel operations   | 19,208                         | 7,763   | 147.4    | 43,921                       | 16,169  | 171.6    |
| <b>Calendar-Ship-Days</b>   |                                |         |          |                              |         |          |
| Owned Vessels   | 3,097                          | 3,227   | (4.0)    | 6,194                        | 6,114   | 1.3      |
| Chartered-in Vessels  | 332                            | 493     | (32.7)   | 680                          | 1,034   | (34.2)   |

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|       |       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|-------|
| Total | 3,429 | 3,720 | (7.8) | 6,874 | 7,148 | (3.8) |
|-------|-------|-------|-------|-------|-------|-------|

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

The average size of our shuttle tanker and FSO segment fleet decreased for the three and six months ended June 30, 2012 compared to the same periods last year. The decrease was primarily due to the redelivery of one bareboat chartered-in vessel to its owner in October 2011, a decreased number of spot chartered-in vessels, more off-hire days in our shuttle fleet and the sale of the *Karratha Spirit* FSO unit in March 2011, partially offset by the delivery of two newbuilding shuttle tankers, the *Peary Spirit* and the *Scott Spirit*, in August 2011 and October 2011, respectively (or the *2011 Newbuilding Shuttle Tanker Acquisitions*). Included in calendar-ship-days are two owned shuttle tankers which have been in lay-up since July 2011 and May 2012, respectively, following their redelivery to us upon termination of their time-charter-out contracts in March 2011 and April 2012.

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Net Revenues. Net revenues decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to:

decreases of \$2.2 million and \$4.4 million, respectively, for the three and six months ended June 30, 2012, due to the lay-up of two vessels since July 2011 and May 2012 following their redeliveries in March 2011 and April 2012, respectively, following completion of their time-charter agreements; and

decreases of \$2.2 million for the six months ended June 30, 2012, due to lower revenues related to the sale of the *Karratha Spirit*; and  
partially offset by

net increases of \$0.9 million and \$2.9 million, respectively, for the three and six months ended June 30, 2012, due to increases in our time-chartered-out fleet revenues from entering into a new contract and an increase in rates as provided in certain time-charter-out contracts, partially offset by fewer revenue days from the redelivery of three vessels in July 2011, February 2012, and March 2012 as they completed their time-charter agreements; and

an increase of \$0.9 million for the three months ended June 30, 2012 due to more opportunities compared to the same period last year to trade excess capacity in the conventional spot tanker market as a result of increased demand for conventional crude transportation.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to:

decreases of \$4.7 million and \$6.1 million, respectively, for the three and six months ended June 30, 2012, due to decrease in costs related to services and spares and the number of vessels dry docked;

decreases of \$2.5 million and \$3.9 million, respectively, for the three and six months ended June 30, 2012, relating to the lay-up of two of our shuttle tankers since July 2011 and May 2012, respectively, and the reduction of costs due to the anticipated lay-up of one of our shuttle tankers in the third quarter of 2012;

decreases of \$2.3 million and \$3.8 million, respectively, for the three and six months ended June 30, 2012 in crew and manning costs as compared to the same periods last year primarily from a change in crew composition and reduced helicopter usage;

decreases of \$1.4 million and \$3.0 million, respectively, for the three and six months ended June 30, 2012, relating to the redelivery of one of our bareboat-in vessels to its owner in October 2011;

a decrease of \$2.2 million for the six months ended June 30, 2012, due to the sale of the *Karratha Spirit* in March 2011; and

decreases of \$0.7 million and \$1.4 million, respectively, for the three and six months ended June 30, 2012, due to decreases in the consumption and use of consumables, lube oil and freight compared to the same periods last year;  
partially offset by

increases of \$2.7 million and \$4.2 million, respectively, for the three and six months ended June 30, 2012, due to the 2011 Newbuilding Shuttle Tanker Acquisitions;

increases of \$0.1 million and \$0.4 million, respectively, for the three and six months ended June 30, 2012, due to an increase in wages relating to the *Dampier Spirit* compared to the same periods last year; and

an increase of \$0.8 million for the six months ended June 30, 2012 relating to the net realized and unrealized changes in fair value of our foreign currency forward contracts that are or have been designated as hedges for accounting purposes.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to:

decreases of \$2.2 million and \$4.5 million, respectively, for the three and six months ended June 30, 2012, due to the redelivery of one bareboat-in vessel to its owner in October 2011;

decreases of \$1.9 million and \$4.4 million, respectively, for the three and six months ended June 30, 2012, due to decreased spot in-chartering of vessels and utilizing capacity of our owned fleet; and

decreases of \$1.1 million and \$2.8 million, respectively, for the three and six months ended June 30, 2012 due to more off-hire days in the in-chartered fleet.

Depreciation and Amortization Expense. Depreciation and amortization expense increased for the six months ended June 30, 2012, compared to the same period last year, primarily related to accelerated depreciation related to a change in the estimated useful life on six older shuttle tankers and the 2011 Newbuilding Shuttle Tanker Acquisitions, partially offset by less depreciation relating to the impairment and write-down of three older shuttle tankers in 2011 to fair value and the write-down of the carrying value of the FSO unit *Navion Saga* to its fair value in December 2011.



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**Loss on Sale of Vessels and Write-downs of Vessels.** Write-down of vessels increased for the three and six months ended June 30, 2012. In the second quarter of 2012, we decided to pursue the sale of one older shuttle tanker. The carrying value of this vessel was written down to fair value, which is its sales price. The vessel was subsequently sold in early August 2012.

**Restructuring Charges.** Restructuring charges decreased for the six months ended June 30, 2012, compared to the same period last year, primarily due to the termination of the charter contract of one of our vessels and employment costs related to the termination of certain crew members that relate to the sale of the *Karratha Spirit*.

### FPSO Segment

Our floating, production, storage and offloading (or *FPSO*) segment (which includes our Teekay Petrojarl business unit) includes the FPSO units and other vessels used to service our FPSO contracts. As at June 30, 2012, in addition to the seven 100% owned FPSO units, FPSO segment had one FPSO unit under construction, scheduled to deliver in late 2013, a 50% interest in one FPSO unit under conversion and accounted for one FPSO unit to be acquired later in 2012 as a variable interest entity (or *VIE*). We use these units and vessels to provide transportation, production, processing and storage services to oil companies operating offshore oil field installations. These services are typically provided under long-term fixed-rate time-charter contracts or FPSO service contracts. Historically, the utilization of FPSO units and other vessels in the North Sea is higher in the winter months, as favorable weather conditions in the summer months provide opportunities for repairs and maintenance to our offshore oil platforms, which generally reduce oil production.

The following table presents our FPSO segment's operating results for the three and six months ended June 30, 2012 and 2011 and also provides a summary of the calendar-ship-days for our FPSO segment:

The following table presents our FPSO segment's operating results:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Three Months Ended<br>June 30, |         |          | Six Months Ended<br>June 30, |         |          |
|---|--------------------------------|---------|----------|------------------------------|---------|----------|
|   | 2012                           | 2011    | % Change | 2012                         | 2011    | % Change |
| Revenues  | 136,198                        | 102,658 | 32.7     | 264,866                      | 207,276 | 27.8     |
| Voyage expenses   |                                |         | 0.0      | 232                          |         | 100.0    |
| Vessel operating expenses   | 80,222                         | 61,509  | 30.4     | 148,363                      | 117,011 | 26.8     |
| Depreciation and amortization   | 34,415                         | 23,215  | 48.2     | 67,563                       | 46,946  | 43.9     |
| General and administrative <sup>(1)</sup>                                 | 15,481                         | 13,494  | 14.7     | 32,999                       | 28,217  | 16.9     |
| Income from vessel operations   | 6,080                          | 4,440   | 36.9     | 15,709                       | 15,102  | 4.0      |
| Calendar-Ship-Days Owned Vessels  | 910                            | 728     | 25.0     | 1,820                        | 1,448   | 25.7     |

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

The number of our FPSO units for the three and six months ended June 30, 2012 increased compared to the same period last year, due to our acquisition of the *Hummingbird Spirit* FPSO unit, the acquisition of *Piranema Spirit* FPSO unit by Teekay Offshore, and our agreement to acquire the *Voyageur Spirit* upon completion of certain upgrades (expected during the fourth quarter of 2012) from Sevan during the fourth quarter of 2011 (or the *Sevan Acquisitions*). The *Voyageur Spirit* has been accounted for as a *VIE* since the fourth quarter of 2011.

**Revenues.** Revenues increased for the three and six months ended June 30, 2012 compared to the same periods last year, primarily due to:

increases of \$44.0 million and \$82.5 million, respectively, for the three and six months ended June 30, 2012, due to the Sevan Acquisitions;

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increases of \$3.7 million and \$1.4 million, respectively, for the three and six months ended June 30, 2012, due to higher supplemental efficiency and tariff payments received on the *Petrojarl Foinaven* FPSO contract;

an increase of \$1.3 million for the six months ended June 30, 2012, due to increased rates on the *Petrojarl Varg* FPSO unit in accordance with the annual escalation adjustments of the charter contract; and

increases of \$0.4 million and \$1.4 million, respectively, for the three and six months ended June 30, 2012, due to increased rates on the *Rio das Ostras* FPSO unit in accordance with the annual escalation adjustments of the charter contract; partially offset by

decreases of \$13.7 million and \$27.2 million, respectively, for the three and six months ended June 30, 2012, due the weather-related incident with the *Petrojarl Banff* FPSO unit;

decreases of \$0.4 million and \$3.5 million, respectively, for the three and six months ended June 30, 2012, relating to payments during 2011 to us for services previously rendered to the charterer of the *Rio das Ostras* FPSO unit; and

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decreases of \$1.3 million and \$1.5 million, respectively, for the three and six months ended June 30, 2012, due to decreased incentive payments and lower production on the *Petrojarl Varg* FPSO unit, partly due to a planned maintenance shutdown in the second quarter of 2012.

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**Vessel Operating Expenses.** Vessel operating expenses increased during the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to:

increases of \$28.4 million and \$47.0 million, respectively, for the three and six months ended June 30, 2012, due to the Sevan Acquisitions;  
partially offset by

decreases of \$5.7 million and \$7.8 million, respectively, for the three and six months ended June 30, 2012 due the weather-related incident with the *Petrojarl Banff* FPSO unit;

decreases of \$0.8 million and \$3.7 million, respectively, for the three and six months ended June 30, 2012, due to repairs on the *Rio das Ostras* FPSO unit while on yard stay and higher consumables and spares during the first quarter of 2011 and deployment to the field during the second quarter of 2011;

decreases of \$2.2 million and \$3.0 million, respectively, for the three and six months ended June 30, 2012, due to lower repair and maintenance costs on the *Petrojarl Foinaven* FPSO unit and *Petrojarl I* FPSO unit;

decreases of \$1.5 million and \$2.0 million, respectively, for the three and six months ended June 30, 2012, due to the strengthening of the U.S. Dollar against the Norwegian Kroner compared to the same periods last year; and

a decrease of \$0.8 million for the three and six months ended June 30, 2012, due to lower crew and manning costs relating to the *Rio das Ostras* FPSO unit due to the deployment to the field during the second quarter of 2011.

**Depreciation and Amortization Expense.** Depreciation and amortization expense increased for the three and six months ended June 30, 2012 from the same periods last year, primarily due to the Sevan Acquisitions.

**Liquefied Gas Segment**

Our liquefied gas segment (which includes our Teekay Gas Services business unit) consists of liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) carriers subject to long-term, fixed-rate time-charter contracts. The following table presents our liquefied gas segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure.

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Three Months Ended<br>June 30, |        |          | Six Months Ended<br>June 30, |         |          |
|---|--------------------------------|--------|----------|------------------------------|---------|----------|
|   | 2012                           | 2011   | % Change | 2012                         | 2011    | % Change |
| Revenues  | 69,289                         | 68,002 | 1.9      | 141,739                      | 132,635 | 6.9      |
| Voyage expenses   | 53                             | 3,778  | (98.6)   | 149                          | 3,827   | (96.1)   |
| Net revenues  | 69,237                         | 64,224 | 7.8      | 141,591                      | 128,808 | 9.9      |
| Vessel operating expenses   | 10,821                         | 13,145 | (17.7)   | 21,632                       | 24,222  | (10.7)   |
| Depreciation and amortization   | 17,445                         | 16,196 | 7.7      | 34,683                       | 31,052  | 11.7     |
| General and administrative <sup>(1)</sup>                                 | 5,541                          | 4,133  | 34.1     | 11,667                       | 10,738  | 8.7      |
| Restructuring charges   |                                | 42     | (100.0)  |                              | 171     | (100.0)  |

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|  |        |        |      |        |        |      |
|--|--------|--------|------|--------|--------|------|
| Income from vessel operations                          | 35,429 | 30,708 | 15.4 | 73,608 | 62,625 | 17.5 |
| <b>Calendar-Ship-Days</b>                              |        |        |      |        |        |      |
| Owned Vessels and Vessels under Direct Financing Lease | 1,456  | 1,198  | 21.5 | 2,912  | 2,368  | 23.0 |

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

As at June 30, 2012, our liquefied gas segment fleet (in which our interests ranged from 33% to 100%) included 27 LNG carriers and five LPG/multigas carriers. Our partial interests in LNG carriers include our 33% interest in the four Angola LNG carriers, our 40% interest in Teekay Nakilat (III) Corporation, which owns four LNG carriers (or the *RasGas 3 LNG Carriers*), our 50% interest in our joint ventures with Exmar NV (the *Excalibur and Excelsior Joint Ventures*), which own two LNG carriers (the *Excalibur and Excelsior LNG Carriers*), our 52% interest in the Teekay LNG Marubeni Joint Venture, which owns six LNG carriers (or the *MALT LNG Carriers*), our 70% interest in the Teekay Tangguh Joint Venture, which owns the *Tangguh Hiri* and the *Tangguh Sago* (or the *Tangguh LNG Carriers*), and our 70% interest in Teekay Nakilat Corporation (or *Teekay Nakilat*), which is the lessee under 30-year capital lease arrangements relating to three LNG carriers (or the *RasGas II LNG Carriers*). All of our LNG and LPG carriers operate under medium or long-term, fixed-rate charters.

During the three and six months ended June 30, 2012, our liquefied gas segment's operating results included 11 LNG carriers (excluding the six MALT LNG Carriers, the four Angola LNG carriers, the four RasGas 3 LNG Carriers and the Excalibur and Excelsior Carriers that are all accounted for under the equity method) and five LPG carriers. Our total calendar-ship-days increased by 21.5% and 23.0%, respectively, for the three and six months ended June 30, 2012, compared to the same periods last year, primarily as a result of the delivery of two multigas carriers, the *Norgas Unikum*, on June 15, 2011, and the *Norgas Vision*, on October 17, 2011, and the delivery of an LPG carrier, the *Norgas Camilla*, on September 15, 2011 (collectively, the *2011 Gas Carrier Deliveries*).

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**Net Revenues.** Net revenues increased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to:

increases of \$3.5 million and \$7.3 million, respectively, for the three and six months ended June 30, 2012, due to the 2011 Gas Carrier Deliveries;

increases of \$2.7 million and \$6.4 million, respectively, for the three and six months ended June 30, 2012 due to the *Arctic Spirit* and *Polar Spirit* being off-hire in the second quarter of 2011 and the increase in hire rates under the new charter contracts signed in April 2011;

an increase of \$0.7 million for the six months ended June 30, 2012 due to one additional calendar day during 2012; and

increases of \$0.1 million and \$0.9 million, respectively, for the three and six months ended June 30, 2012, due to operating expense recovery adjustments and increase in the charter-hire rates for the *Tangguh Hiri* and *Tangguh Sago*; partially offset by

a decrease of \$1.4 million for the three and six months ended June 30, 2012 due to the *Hispania Spirit* being off-hire for 21 days in the second quarter of 2012 for scheduled dry docking; and

a decrease of \$0.9 million for the three and six months ended June 30, 2012 due to a one-time payment made to the charterer of the *Galicia Spirit* for delaying the scheduled dry docking.

**Vessel Operating Expenses.** Vessel operating expenses decreased for the three and six months ended June 30, 2011, compared to the same periods last year, primarily due to:

a decrease of \$1.2 million for the three and six months ended June 30, 2012 primarily due to the effect on our Euro-denominated crew manning expenses from the weakening of the Euro against the U.S. Dollar during 2012 compared to 2011 (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew) and lower manning levels due to timing of scheduled crew changes;

decreases of \$0.6 million and \$0.8 million, respectively, for the three and six months ended June 30, 2012, due to the cancellation of loss of hire insurance on *Tangguh Hiri* and *Tangguh Sago* in the third quarter of 2011 and lower insurance premiums on certain LNG carriers; and

decreases of \$0.6 million and \$0.8 million, respectively, for the three and six months ended June 30, 2012, due to maintenance on the *Tangguh Hiri* during the second quarter of 2011 relating to a scheduled dry docking.

**Depreciation and Amortization.** Depreciation and amortization increased for the three and six months ended June 30, 2012, from the same periods last year, primarily as a result of:

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an increase of \$1.0 million and \$2.2 million, respectively, for the three and six months ended June 30, 2012, due to the 2011 Gas Carrier Deliveries; and

an increase of \$0.3 million and \$1.1 million, respectively, for the three and six months ended June 30, 2012, as a result of amortization of dry-dock expenditures incurred in 2011 and the first quarter of 2012.

### **Conventional Tanker Segment**

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

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

Our fixed-rate tanker sub-segment, a subset of our conventional tanker segment (which includes our Teekay Tankers Services business unit), includes conventional crude oil and product tankers on fixed-rate time charters with an original duration of more than one year. In addition, we have a 50% interest in a VLCC under construction that is scheduled for delivery in 2013, which will be accounted for under the equity basis. Upon delivery, this vessel will commence operation under a time-charter for a term of five years. Please read Item 1 Financial Statements: Note 10(b) Commitments and Contingencies Joint Ventures.

The following table presents our fixed-rate tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure.

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| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Three Months Ended<br>June 30, |        |          | Six Months Ended<br>June 30, |         |          |
|---|--------------------------------|--------|----------|------------------------------|---------|----------|
|   | 2012                           | 2011   | % Change | 2012                         | 2011    | % Change |
| Revenues  | 76,481                         | 90,523 | (15.5)   | 161,445                      | 178,510 | (9.6)    |
| Voyage expenses   | 1,917                          | 835    | 129.5    | 3,235                        | 1,996   | 62.1     |
| Net revenues  | 74,564                         | 89,688 | (16.9)   | 158,210                      | 176,514 | (10.4)   |
| Vessel operating expenses   | 24,717                         | 29,344 | (15.8)   | 53,830                       | 55,187  | (2.5)    |
| Time-charter hire expense   | 7,324                          | 9,214  | (20.5)   | 13,960                       | 16,609  | (16.0)   |
| Depreciation and amortization   | 17,989                         | 19,428 | (7.4)    | 37,994                       | 41,337  | (8.1)    |
| General and administrative <sup>(1)</sup>                                 | 7,230                          | 10,383 | (30.4)   | 14,658                       | 26,009  | (43.6)   |
| Gain on sale of vessels and write-downs of vessels                        |                                | (133)  | (100.0)  |                              |         |          |
| Restructuring charges   |                                | (19)   | (100.0)  |                              | 1,060   | (100.0)  |
| Income from vessel operations   | 17,304                         | 21,471 | (19.4)   | 37,768                       | 36,312  | 4.0      |
| Calendar-Ship-Days  |                                |        |          |                              |         |          |
| Owned Vessels   | 2,870                          | 2,913  | (1.5)    | 5,873                        | 5,852   | 0.4      |
| Chartered-in Vessels  | 335                            | 497    | (32.6)   | 699                          | 902     | (22.5)   |
| Total   | 3,205                          | 3,410  | (6.0)    | 6,572                        | 6,754   | (2.7)    |

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

The average fleet size of our fixed-rate tanker sub-segment (including vessels chartered-in), as measured by calendar-ship-days, decreased for the three and six months ended June 30, 2012 compared with the same periods last year due to:

the transfer of six Aframax tankers and two Suezmax tankers to the spot-rate tanker sub-segment; and

the redeliveries to the owners upon termination of charter-in contracts of one Suezmax tanker and one Very-Large Crude Carrier (VLCC);  
partially offset by

the transfer of three Aframax tankers to the fixed-rate tanker sub-segment;

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

Net Revenues. Net revenues decreased for the three and six months ended June 30, 2012 compared to the same periods last year, primarily due to:

decreases of \$15.2 million and \$18.8 million, respectively, for the three and six months ended June 30, 2012, due to the Net Fleet Reductions;  
partially offset by



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increases of \$0.1 million and \$0.5 million, respectively, for the three and six months ended June 30, 2012, due to adjustments to the daily charter rates based on inflation and an increase in interest rates in accordance with the time-charter contracts for five Suezmax tankers.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2012 from the same periods last year, primarily due to:

decreases of \$3.4 million and \$0.2 million, respectively, for the three and six months ended June 30, 2012, due to the Net Fleet Reductions; and

a decrease of \$1.2 million for the three and six months ended June 30, 2012, relating to the effect on our Euro-denominated crew manning expenses from the weakening of the Euro against the U.S. Dollar during 2012 compared to 2011 (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew) and lower manning levels due to timing of scheduled crew changes.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to a net decrease in the number of in-chartered vessel days as vessels were redelivered to their owners upon expiration of in-chartered contracts.

Depreciation and Amortization. Depreciation and amortization expense decreased for the three and six months ended June 30, 2012, compared to the same period last year, primarily due to lower net book values for certain vessels in the fixed tanker sub-segment as a result of write-downs taken in 2011.

**Table of Contents****b) Spot Tanker Sub-Segment**

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

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

The following table presents our spot tanker sub-segment's operating results and compares its net revenues (which is a non-GAAP financial measure) to revenues, the most directly comparable GAAP financial measure:

| (in thousands of U.S. dollars, except calendar-ship-days and percentages) | Three Months Ended<br>June 30, |          |          | Six Months Ended<br>June 30, |          |          |
|---|--------------------------------|----------|----------|------------------------------|----------|----------|
|   | 2012                           | 2011     | % Change | 2012                         | 2011     | % Change |
| Revenues  | 46,813                         | 75,092   | (37.7)   | 100,956                      | 154,666  | (34.7)   |
| Voyage expenses   | 4,954                          | 20,925   | (76.3)   | 14,930                       | 45,512   | (67.2)   |
| Net revenues  | 41,859                         | 54,167   | (22.7)   | 86,026                       | 109,154  | (21.2)   |
| Vessel operating expenses   | 15,940                         | 20,161   | (20.9)   | 30,924                       | 38,482   | (19.6)   |
| Time-charter hire expense   | 11,198                         | 25,449   | (56.0)   | 34,924                       | 61,458   | (40.0)   |
| Depreciation and amortization   | 13,182                         | 14,272   | (7.6)    | 25,613                       | 28,195   | (9.2)    |
| General and administrative <sup>(1)</sup>                                 | 7,565                          | 10,281   | (26.4)   | 15,816                       | 25,239   | (37.3)   |
| Loss on sale of vessels and write - downs of vessels                      | 2,221                          | 5,945    | (62.6)   | 2,024                        | 9,234    | (78.1)   |
| Restructuring charges   | 1,525                          | 318      | 379.6    | 1,525                        | 151      | 909.9    |
| Loss from vessel operations   | (9,772)                        | (22,259) | (56.1)   | (24,800)                     | (53,605) | (53.7)   |
| <b>Calendar-Ship-Days</b>   |                                |          |          |                              |          |          |
| Owned Vessels   | 1,936                          | 2,001    | (3.2)    | 3,756                        | 3,922    | (4.2)    |
| Chartered-in Vessels  | 777                            | 1,436    | (45.9)   | 2,060                        | 3,081    | (33.1)   |
| Total   | 2,713                          | 3,437    | (21.1)   | 5,816                        | 7,003    | (16.9)   |

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

The average size of our spot tanker fleet (including vessels chartered-in), as measured by calendar-ship-days, decreased for the three and six months ended June 30, 2012, compared to the same period last year, primarily due to:

the sale of one Aframax tanker in 2011;

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the redeliveries, on a net basis, of three Aframax tankers and four Suezmax tankers;

the redelivery of two in-chartered Long Range 2 (LR2) product tankers and one in-chartered Very Large Crude Carrier (VLCC); and

the transfer of three Aframax tankers to the fixed-rate tanker sub-segment;  
partially offset by

the transfer of six Aframax tankers and two Suezmax tankers, on a net basis, to the spot-rate tanker sub-segment.  
The collective impact from the above noted fleet changes are referred to below as the *Net Spot Fleet Reductions*.

### Tanker Market and TCE Rates

Crude tanker rates softened during the second quarter of 2012 due to a combination of tanker supply growth, reduced tanker demand and seasonal factors. According to the International Energy Agency (IEA), global oil demand declined by 0.6 million barrels per day (*mb/d*) during the second quarter of 2012 due to refinery turnarounds in both the Atlantic and Pacific basins. A decline in non-Organization for Economic Co-operation and Development (or OECD) oil stockpiling following heavy build-ups during the first quarter of 2012 also reduced demand for crude tankers. The onset of oilfield maintenance in the North Sea and a strike by Norwegian oil workers also negatively impacted crude tanker rates during the second quarter of 2012.

Long Range 2 (LR2) product tanker rates strengthened considerably during the second quarter of 2012 and as of July 2012 had risen to their highest level since the third quarter of 2010. The recovery in LR2 rates was driven by an increase in Asian naphtha imports from the Middle East and Europe coupled with reduced competition from uncoated Aframax newbuildings for gasoil cargoes loading in the Far East.

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The global tanker fleet grew by a net 11.0 million deadweight (*mdwt*), or 2.3%, through the first half of 2012 compared to fleet growth of 15.6 *mdwt*, or 3.5%, for the same period of 2011. Fleet growth accelerated during the second quarter of 2012 due to an increase in vessel deliveries and a decrease in scrapping compared to the first quarter of 2012. The decline in scrapping partially reflects the reduction in scrap prices, which as of end-of-July 2012 averaged \$380 per lightweight tonne (*lwt*) compared to \$480 per *lwt* at the beginning of 2012.

The outlook for the global economy has weakened in July and August 2012 due to ongoing stress in the Euro zone and slower growth in the United States and China. The International Monetary Fund (*IMF*) downgraded its outlook for global economic growth in 2012 and 2013 to 3.5% and 3.9%, respectively (from 3.6% and 4.1% in their previous forecast). As a result, the Energy Information Administration downgraded its global oil demand growth forecast for 2013 to 0.7 *mb/d* from 1.5 *mb/d* forecasted at the start of 2012. This is expected to translate into slower tanker demand growth during 2013 than was previously expected, although a simultaneous slowdown in tanker supply growth could help offset this weaker demand outlook.

The following table outlines the time-charter equivalent (or *TCE*) rates earned by the vessels in our spot tanker sub-segment for the three and six months ended June 30, 2012 and 2011, and excludes the realized results of synthetic time-charters (or *STCs*) and forward freight agreements (or *FFAs*), which we enter into at times as hedges against a portion of our exposure to spot tanker market rates.

| Vessel Type                       | Three Months Ended     |              |             |                        |              |             |
|-----------------------------------|------------------------|--------------|-------------|------------------------|--------------|-------------|
|                                   | June 30, 2012          |              |             | June 30, 2011          |              |             |
|                                   | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ |
| Spot Fleet <sup>(1)</sup>         |                        |              |             |                        |              |             |
| Suezmax Tankers                   | 24,093                 | 991          | 24,312      | 20,526                 | 1,182        | 17,363      |
| Aframax Tankers                   | 13,159                 | 1,138        | 11,564      | 26,688                 | 1,710        | 15,608      |
| Large/Medium Product Tankers/VLCC | 4,607                  | 320          | 14,396      | 7,287                  | 494          | 14,758      |
| Other <sup>(2)</sup>              |                        |              |             | (334)                  |              |             |
| Totals                            | 41,859                 | 2,449        | 17,092      | 54,167                 | 3,386        | 15,997      |

  

| Vessel Type                       | Six Months Ended       |              |             |                        |              |             |
|-----------------------------------|------------------------|--------------|-------------|------------------------|--------------|-------------|
|                                   | June 30, 2012          |              |             | June 30, 2011          |              |             |
|                                   | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ | Net Revenues (\$000 s) | Revenue Days | TCE Rate \$ |
| Spot Fleet <sup>(1)</sup>         |                        |              |             |                        |              |             |
| Suezmax Tankers                   | 48,124                 | 1,990        | 24,183      | 43,083                 | 2,397        | 17,972      |
| Aframax Tankers                   | 29,057                 | 2,565        | 11,328      | 51,072                 | 3,537        | 14,440      |
| Large/Medium Product Tankers/VLCC | 8,846                  | 775          | 11,414      | 14,839                 | 993          | 14,947      |
| Other <sup>(2)</sup>              |                        |              |             | 160                    |              |             |
| Totals                            | 86,027                 | 5,330        | 16,140      | 109,154                | 6,927        | 15,758      |

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

(2) Includes the cost of spot in-charter vessels servicing fixed-rate contract of affreightment cargoes, the write-off of doubtful debts and the cost of fuel while offhire.

Average spot tanker TCE rates decreased for the three and six months ended June 30, 2012 compared to the same period last year. The TCE rates for the three and six months ended June 30, 2012 generally reflect continued weak global oil demand caused by the global economic slowdown. Partially in response to this global economic slowdown, we reduced our exposure to the spot tanker market by selling certain vessels that were trading on the spot market, entering into fixed-rate time charters for certain tankers that were previously trading in the spot market, and re-delivering in-chartered vessels. This shift away from our spot tanker employment to fixed-rate employment provided increased cash flow

stability during a volatile spot tanker market.

Net Revenues. Net revenues decreased for the three and six months ended June 30, 2012 compared to the same periods last year primarily due to:

decreases of \$9.4 million and \$22.2 million for the three and six months ended June 30, 2012, respectively, relating to the Net Spot Fleet Reductions; and

decreases of \$2.9 million and \$0.9 million for the three and six months ended June 30, 2012, respectively, from decreases in our average spot tanker TCE rates due to the relative weakening of the spot tanker market.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to the Net Spot Fleet Reductions, and decreases of \$2.0 million and \$0.3 million, respectively, for the three and six months ended June 30, 2012 related to the timing of repairs and maintenance.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to a decrease in the in-charter contract hire rates and redeliveries of in-chartered vessels that reached the end of their contract term.

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**Depreciation and Amortization.** Depreciation and amortization expense decreased for the three and six months ended June 30, 2012, compared to the same periods last year, primarily due to the sale of three Aframax tankers and lower net book values for certain vessels in the spot tankers sub-segment as a result of write-downs taken in 2011.

**Loss on Sale of Vessels and Write-downs of Vessels.** Loss on sale of vessels and equipment for the three and six months ended June 30, 2012, relates primarily to a loss on sale of a 1997-built conventional tanker. Please read Item 1 Financial Statements: Note 7 (a) Vessel Sales.

**Restructuring Charges.** Restructuring charges for the three and six months ended June 30, 2012 primarily relate to costs incurred in association with the reorganization of our marine operations. Please read Item 1 Financial Statements: Note 12 Restructuring Charges.

**Other Operating Results**

The following table compares our other operating results for the three and six months ended June 30, 2012 and 2011:

| (in thousands of U.S. dollars, except percentages)                      | Three Months Ended<br>June 30, |           |          | Six Months Ended<br>June 30, |           |          |
|---|--------------------------------|-----------|----------|------------------------------|-----------|----------|
|   | 2012                           | 2011      | % Change | 2012                         | 2011      | % Change |
| General and administrative  | (50,777)                       | (51,273)  | (1.0)    | (104,150)                    | (121,491) | (14.3)   |
| Interest expense  | (42,707)                       | (33,516)  | 27.4     | (85,007)                     | (66,310)  | 28.2     |
| Interest income   | 1,645                          | 2,457     | (33.0)   | 3,691                        | 4,922     | (25.0)   |
| Realized and unrealized losses on non-designated derivative instruments | (94,598)                       | (102,140) | (7.4)    | (89,783)                     | (78,883)  | 13.8     |
| Equity income (loss)  | 5,291                          | (6,053)   | (187.4)  | 22,936                       | 341       | 6,626.1  |
| Foreign exchange gain (loss)  | 17,835                         | (7,157)   | (349.2)  | 2,011                        | (27,497)  | (107.3)  |
| Other income  | 89                             | 958       | (90.7)   | 2,432                        | 1,052     | 131.1    |
| Income tax recovery (expense)   | 1,849                          | (2,022)   | (191.4)  | 5,417                        | (2,833)   | (291.2)  |

**General and Administrative.** General and administrative expenses decreased to \$50.8 million and \$104.2 million, respectively, for the three and six months ended June 30, 2012, from \$51.3 million and \$121.5 million, respectively, for the same periods last year. General and administrative expenses for the six months ended June 30, 2012 decreased compared to the same period last year primarily due to the following changes:

a decrease of \$11.5 million in salaries and benefits, primarily due to a one-time pension expense in the six months ended June 30, 2011 related to the retirement of our former President and Chief Executive Officer;

a decrease of \$8.0 million in equity-based compensation for management, primarily due to the accelerated timing of accounting recognition of certain stock awards as a result of certain management employees meeting retirement eligibility criteria for the six months ended June 30, 2011;

a decrease of \$2.5 million in travel and entertainment costs in the six months ended June 30, 2012; partially offset by

an increase of \$2.6 million as a result of the Sevan Acquisitions; and

an increase of \$2.3 million from our short-term incentive program for employees and management.

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In May 2012, we commenced the reorganization of our marine operations to create greater alignment with our business units and our three publicly-listed subsidiaries. We expect to incur approximately \$10 million of restructuring charges associated with this reorganization and realize annual cost savings of approximately \$10 million commencing in the fourth quarter of 2012. Please read Item 1 Financial Statements: Note 12 Restructuring Charges.

Interest Expense. Interest expense increased to \$42.7 million and \$85.0 million, respectively, for the three and six months ended June 30, 2012 from \$33.5 million and \$66.3 million, respectively, for the same periods last year, primarily due to:

increases of \$2.3 million and \$5.0 million, respectively, for the three and six months ended June 30, 2012 due to the acquisition of the *Hummingbird Spirit* FPSO unit and *Piranema Spirit* FPSO unit in November 2011;

increases of \$1.9 million and \$3.5 million, respectively, for the three and six months ended June 30, 2012 from the issuance of the NOK 600 million senior unsecured bonds in January 2012;

increases of \$1.1 million and \$1.9 million, respectively, for the three and six months ended June 30, 2012 related to the new \$130 million debt facility secured by the *Piranema Spirit* FPSO unit in February 2012;

an increase of \$1.5 million for the three and six months ended June 30, 2012 as a result of the NOK bond issuance by Teekay LNG in May 2012;

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increases of \$0.8 million and \$1.6 million, respectively, for the three and six months ended June 30, 2012, due to an increase in our borrowings upon our acquisitions of three LPG/multigas vessels during the second, third and fourth quarters of 2011;

increases of \$0.2 million and \$0.6 million, respectively, for the three and six months ended June 30, 2012 due to the acquisition of the *Scott Spirit* and *Peary Spirit* shuttle tankers;

increases of \$2.1 million and \$6.1 million, respectively, for the three and six months ended June 30, 2012 due to increased LIBOR rates and higher average debt balances in the first and second quarters of 2012; and

increases of \$0.5 million and \$1.1 million, respectively, for the three and six months ended June 30, 2012 as a result of higher margins on the refinancing of a debt facility;  
partially offset by

a decrease of \$1.3 million and \$2.6 million, respectively, for the three and six months ended June 30, 2012, due to the termination of the *Madrid Spirit* LNG carrier capital lease in the fourth quarter of 2011. The *Madrid Spirit* was financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in the interest income from restricted cash.

**Interest Income.** Interest income decreased by \$0.8 million and \$1.2 million, respectively, for the three months and six months ended June 30, 2012, compared to the same periods last year, primarily due to the termination of the capital lease on one LNG carrier, the *Madrid Spirit*, during the fourth quarter of 2011, which was funded from restricted cash, partially offset by an increase in interest rates earned in other restricted cash deposits in the first and second quarters of 2012, compared to the same periods last year.

**Realized and unrealized losses on non-designated derivative instruments.** Realized and unrealized losses related to derivative instruments that are not designated as hedges for accounting purposes are included as a separate line item in the consolidated statements of income (loss). Net realized and unrealized losses on non-designated derivatives were \$94.6 million and \$89.8 million, respectively, for the three and six months ended June 30, 2012, compared to \$102.1 million and \$78.9 million, respectively, for the three and six months ended June 30, 2011, as detailed in the table below:

| (in thousands of U.S. Dollars)                                   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--|--------------------------------|----------|------------------------------|-----------|
|  | 2012                           | 2011     | 2012                         | 2011      |
| Realized (losses) gains relating to:                             |                                |          |                              |           |
| Interest rate swap agreements                                    | (29,669)                       | (32,692) | (60,085)                     | (66,689)  |
| Interest rate swap agreement amendments                          |                                |          |                              | (92,672)  |
| Foreign currency forward contracts                               | 147                            | 3,558    | 1,384                        | 4,883     |
| Forward freight agreements and bunker fuel swap contracts        |                                | (7)      |                              | 42        |
| Foinaven embedded derivative                                     |                                |          | 11,452                       |           |
|  | (29,552)                       | (29,141) | (47,249)                     | (154,436) |
| Unrealized (losses) gains relating to:                           |                                |          |                              |           |
| Interest rate swap agreements                                    | (58,425)                       | (73,331) | (41,290)                     | 68,527    |
| Foreign currency forward contracts                               | (6,651)                        | 540      | 2,141                        | 7,248     |
| Forward freight agreements, bunker fuel swap contracts and other |                                | 7        |                              |           |
| Foinaven embedded derivative                                     |                                | (215)    | (3,385)                      | (222)     |
|  | (65,076)                       | (72,999) | (42,534)                     | 75,553    |



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|   |          |           |          |          |
|---|----------|-----------|----------|----------|
| Total realized and unrealized losses on non-designated derivative instruments | (94,598) | (102,140) | (89,783) | (78,883) |
|---|----------|-----------|----------|----------|

The realized losses relate to amounts we actually realized or paid to settle such derivative instruments and interest rate swap agreement amendments. The unrealized losses on interest rate swaps for the three months and six months ended June 30, 2012 and 2011 were primarily due to changes in the forward interest swap rates.

During the three and six months ended June 30, 2012 and 2011, we had interest rate swap agreements with aggregate average net outstanding notional amounts of approximately \$4.6 billion and \$4.8 billion for the respective periods, with average fixed rates of approximately 3.8% and 4.2%, respectively. Short-term variable benchmark interest rates during these periods were generally less than 1.0% and, as such, we incurred realized losses of \$29.6 million and \$60.1 million, during the three and six months ended June 30, 2012 compared to \$32.7 million and \$66.7 million, for the respective periods in the prior year under the interest rate swap agreements. We also incurred realized losses \$92.7 million during the six months ended June 30, 2011 for amending the terms of five interest rate swaps to reduce the weighted-average fixed interest rate from 5.1% to 2.5%.

Primarily as a result of significant changes in long-term benchmark interest rates during the three and six months ended June 30, 2012, we recognized unrealized losses of \$65.1 million and \$42.5 million, respectively, and in the three and six months ended June 30, 2011 we recognized an unrealized loss of \$73.0 million and an unrealized gain of \$75.6 million. Please read Financial Statements: Note 15 - Derivative Instruments and Hedging Activities.

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**Equity Income (Loss).** Our equity income was \$5.3 million and \$22.9 million, respectively, for the three and six months ended June 30, 2012, compared to an equity loss of \$6.1 million and an equity income of \$0.3 million, respectively, for the same periods last year. Equity income was primarily comprised of our share of the Angola LNG Project, and from the Exmar and RasGas 3 joint ventures. The acquisition of a 52% ownership interest in the six MALT LNG carriers in February 2012 accounted for \$2.8 million and \$13.4 million, respectively, of the equity income in the three and six months ended June 30, 2012. For the three and six months ended June 30, 2012, equity income includes \$(10.4) million and \$3.5 million, respectively, which relates to our share of unrealized (losses) gains on interest rate swaps, compared to unrealized gains on interest rate swaps of \$12.4 million and \$8.2 million, respectively, included in equity income for the same periods last year.

**Foreign Exchange Gain (Loss).** Foreign currency exchange gains were \$17.8 million and \$2.0 million, respectively, for the three and six months ended June 30, 2012, compared to losses of (\$7.2) million and (\$27.5) million, respectively, for the same periods last year. Our foreign currency exchange gains (losses), substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of our Norwegian Kroner-denominated debt and our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes and the realized and unrealized gains (losses) on our cross currency swaps. Gains on Norwegian Kroner-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the Norwegian Kroner and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on Norwegian Kroner-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the Norwegian Kroner and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

**Income Tax Recovery (Expense).** Income tax recovery was \$1.8 million and \$5.4 million, for the three and six months ended June 30, 2012, compared to income tax expense of \$2.0 million and \$2.8 million, for the same periods last year. The increase to income tax recovery was primarily due to (i) having no deferred tax expense relating to our Norwegian entities in the current period, as we have taken a full valuation allowance against the deferred tax asset relating to Norwegian tax losses since the third quarter of 2011, (ii) a reversal of uncertain tax positions accrual in the second quarter of 2012 and (iii) the settlement of an uncertain tax position in Spain in the first quarter of 2012.

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

Our primary sources of liquidity are cash and cash equivalents, cash flows provided by our operations, our undrawn credit facilities, proceeds from the sale of vessels, and capital raised through financing transactions by us or our subsidiaries. Our short-term liquidity requirements are for the payment of operating expenses, debt servicing costs, dividends, scheduled repayments of long-term debt, as well as funding our working capital requirements. As at June 30, 2012, our total cash and cash equivalents totaled \$665.7 million, compared to \$692.1 million as at December 31, 2011. As at June 30, 2012 and December 31, 2011, our total liquidity, including cash and undrawn credit facilities, was \$1.5 billion.

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

As at June 30, 2012, we had \$651.2 million of scheduled debt repayments coming due within the next twelve months. In addition, as at June 30, 2012, we had \$170.6 million of capital lease obligations for five Suezmax tankers coming due within the next twelve months. We are obligated to purchase one of the tankers after the end of its respective lease term which ends during 2012 and we may be obligated to purchase the other four tankers, as the lessor has the option to sell these vessels to us any time after 2012. While this is unlikely to occur in the next twelve months, as we do not expect the lessor to exercise its right to terminate the leases, such exercise would require us to satisfy the purchase price either by assuming the existing vessel financing, if the lender consents, or by financing the purchase using existing liquidity or by obtaining new debt or equity financing. We believe that our existing cash and cash equivalents and undrawn long-term borrowings, in addition to other sources of cash such as cash from operations and other debt and equity financings, will be sufficient to meet our existing liquidity needs for at least the next twelve months. Our operations are capital intensive. We finance the purchase of our vessels primarily through a combination of borrowings from commercial banks or our joint venture partners, the issuance of equity securities and publicly traded debt instruments and cash generated from operations. In addition, we may use sale and lease-back arrangements as a source of long-term liquidity. Occasionally, we use our revolving credit facilities to temporarily finance capital expenditures until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under revolving credit facilities. We have pre-arranged financing of approximately \$589 million, which mostly relates to our remaining 2012 capital expenditure commitments. We are currently in the process of obtaining additional debt financing for our remaining capital commitments relating to our portion of newbuildings on order as at June 30, 2012.

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

As at June 30, 2012, our revolving credit facilities provided for borrowings of up to \$2.9 billion, of which \$0.8 billion was undrawn. The amount available under these revolving credit facilities reduces by \$197.5 million (remainder of 2012), \$747.5 million (2013), \$780.1 million (2014), \$226.4 million (2015), \$146.4 million (2016) and \$784.0 million (thereafter). The revolving credit facilities are collateralized by first-priority mortgages granted on 62 of our vessels, together with other related security, and are guaranteed by us or our subsidiaries.

Our outstanding term loans reduce in monthly, quarterly or semi-annual payments with varying maturities through 2023. Some of the term loans also have bullet or balloon repayments at maturity and are collateralized by first-priority mortgages granted on 38 of our vessels, together with other related security, and are generally guaranteed by us or our subsidiaries.

Among other matters, our long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and certain loan agreements require the maintenance of market value to loan ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2012, this amount was \$100.0 million. Most of the loan agreements also require that we maintain an aggregate level of free liquidity and undrawn revolving credit lines with at least six months to maturity, of 5% to 7.5% of total debt. As at June 30, 2012, this amount was \$314.5 million. We were in compliance with all of our loan covenants at June 30, 2012.

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

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We are exposed to market risk from foreign currency fluctuations and changes in interest rates, spot tanker market rates for vessels and bunker fuel prices. We use forward foreign currency contracts, cross currency and interest rate swaps, forward freight agreements and bunker fuel swap contracts to manage currency, interest rate, spot tanker rates and bunker fuel price risks. Please read [Item 3 Quantitative and Qualitative Disclosures About Market Risk](#).

**Cash Flows**

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

| (in thousands of U.S. Dollars) | Six Months ended June 30, |           |
|--------------------------------|---------------------------|-----------|
|                                | 2012                      | 2011      |
| Net operating cash flows       | 139,484                   | 7,199     |
| Net financing cash flows       | 41,097                    | 129,141   |
| Net investing cash flows       | (206,971)                 | (418,539) |

**Operating Cash Flows**

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

Net cash flow from operating activities increased to \$139.5 million for the six months ended June 30, 2012, from \$7.2 million for the six months ended June 30, 2011. This increase was primarily due to an \$82.7 million net increase in operating earnings before depreciation, amortization, gains/losses from asset disposals and write-downs of our four reportable segments. In addition, there was a \$87.3 million decrease in interest expense (including interest income and realized losses on interest rate swaps) in the six months ended June 30, 2012 compared to the same period in 2011. Of the \$87.3 million decrease in interest expense, \$92.7 million was paid in the six months ended June 30, 2011 to the counterparties of five interest rate swap agreements with notional amounts totaling \$665.1 million in consideration for amending the terms of such agreements to reduce the weighted average fixed interest rate from 5.1% to 2.5%. There was a decrease of \$10.1 million on expenditures for dry docking for the six months ended June 30, 2012 compared to the corresponding period in the prior year, which also contributed to the increase in cash flows from operating activities. Partially offsetting these increases was a \$48.0 million decrease in the change in operating assets and liabilities in the six months ended June 30, 2012 compared to the same period in 2011.

For further discussion of our four reportable segments, please read [Results of Operations](#).

**Financing Cash Flows**

We have three publicly-traded subsidiaries, Teekay LNG, Teekay Offshore and Teekay Tankers (collectively, the *Daughter Companies*), in which we have less than 100% ownership interests. It is our intention that the Daughter Companies hold most of our liquefied gas transportation assets (Teekay LNG), our offshore assets, including shuttle tankers, FPSO units and FSO units (Teekay Offshore), and our conventional tanker assets (Teekay Tankers). From and including the respective initial public offerings of these subsidiaries, Teekay has been selling assets that are a part of these lines of businesses to the Daughter Companies. The Daughter Companies distribute operating cash flows to their owners in the form of distributions or dividends. The Daughter Companies typically finance acquisitions, including acquisitions of assets from Teekay Corporation, with a combination of debt and new equity from public or private investors or the assumption of debt related to acquired vessels. The Daughter Companies raised net proceeds from issuances of new equity to the public and to third-party investors of \$65.9 million in the six months ended June 30, 2012, compared to \$265.6 million in the same period last year. As the size of the Daughter Companies have grown through acquisitions, whether from Teekay or otherwise, the amount of the operating cash flows generally have increased, which has resulted in larger aggregate distributions. Consequently, distributions from the Daughter Companies to non-controlling interests have increased to \$121.1 million in the six months ended June 30, 2012, from \$101.3 million in the same period last year.

We use our revolving credit facilities to finance capital expenditures. Occasionally, we will do this until longer-term financing is obtained, at which time we typically use all or a portion of the proceeds from the longer-term financings to prepay outstanding amounts under the revolving credit facilities. Our proceeds from the issuance of long-term debt, net of debt issuance costs and prepayments of long-term debt, increased to

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\$332.4 million in the six months ended June 30, 2012, from \$205.5 million in the same period last year. The net proceeds from the issuance of long-term debt increased as a result of capital expenditures incurred on our newbuilding projects and our acquisition of FPSO units from Sevan and the acquisition of our 52% interest in the six MALT LNG Carriers through the Teekay LNG Marubeni Joint Venture.

We actively manage the maturity profile of our outstanding financing arrangements. Our scheduled repayments of long-term debt were \$154.3 million in the six months ended June 30, 2012, compared to \$123.5 million in the same period last year.

In October 2010, Teekay announced a \$200 million share repurchase program. We repurchased \$nil and \$83.7 million of common stock during the six months ended June 30, 2012 and 2011, respectively. As at June 30, 2012, the total remaining amount under the share repurchase authorization was \$37.7 million.

Dividends paid during the six months ended June 30, 2012 were \$45.0 million, compared to \$46.5 million for the six months ended June 30, 2011, or \$0.6325 per share. Subject to financial results and declaration by the Board of Directors, we currently intend to continue to declare and pay a regular quarterly dividend on our common stock. We have paid a quarterly dividend since 1995.

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In January 2012, Teekay Offshore issued in the Norwegian bond market NOK 600 million in senior unsecured bonds that mature in January 2017. The aggregate principal amount of the bonds was equivalent to approximately \$100 million at June 30, 2012. The interest payments on the bonds are based on NIBOR plus a margin of 5.75%. In connection with the bond issuance, Teekay Offshore entered into a cross currency rate swap to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 7.49%, and the transfer of the principal amount fixed at \$101.4 million upon maturity in exchange for NOK 600 million. The proceeds of the bonds were used for general corporate purposes.

In February 2012, Teekay Tankers completed a follow-on public offering of 17.3 million shares of Class A common stock at \$4.00 per share. Please read Item 1 - Financial Statements: Note 6 Financing Transactions.

In May 2012, Teekay LNG issued in the Norwegian bond market NOK 700 million in senior unsecured bonds that mature in May 2017. The interest payments on the bonds are based on the NIBOR plus a margin of 5.25%. The aggregate principal amount of the bonds is equivalent to approximately \$117.5 million at June 30, 2012. Teekay LNG entered into a cross currency rate swap to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88%, and the transfer of principal fixed at \$125.0 million upon maturity in exchange for NOK 700 million. The proceeds of the bonds were used to prepay the outstanding debt under two credit facilities and for general corporate purposes. Please read Item 1 - Financial Statements: Note 8 Long-Term Debt.

In July 2012, Teekay Offshore issued 1.7 million common units to a group of institutional investors for net proceeds, including its general partner's 2% proportionate capital contribution, of \$45.9 million. Upon completion of the private placement, Teekay Offshore had 72.3 million common units outstanding. Teekay Offshore used the proceeds from the issuance of common units to partially finance the shipyard instalments for four Suezmax newbuilding shuttle tankers. Please read Item 1 - Financial Statements: Note 20 Subsequent Events.

In September 2012, Teekay LNG completed a public offering of 4.6 million common units for net proceeds, including its general partner's 2% proportionate capital contribution, of approximately \$173.7 million. Upon completion of the public offering, Teekay LNG had 70.9 million common units outstanding. Teekay LNG will use the proceeds from the offering for general corporate purposes, which may include funding potential future newbuilding deliveries or vessel acquisitions. Pending the use of the proceeds, Teekay LNG intends to repay a portion of its outstanding debt under two of its revolving credit facilities. Please read Item 1 - Financial Statements: Note 20 Subsequent Events.

In September 2012, Teekay Offshore commenced a public offering of 7.4 million common units for net proceeds, including its general partner's 2% proportionate capital contribution, of \$201.2 million. Upon completion of the public offering, expected in mid-September 2012, Teekay Offshore will have 79.7 million common units outstanding. Teekay Offshore intends to use the proceeds from the issuance of common units to partially finance the purchase price of the *Voyageur Spirit* FPSO unit that Teekay Offshore has agreed to acquire from Teekay. Please read Item 1 - Financial Statements: Note 20 Subsequent Events.

## Investing Cash Flows

During 2012, we incurred capital expenditures for vessels and equipment for the six months ended June 30, 2012 of \$205.2 million, primarily for capitalized vessel modifications and shipyard construction installment payments on our newbuilding shuttle tankers and the installment payments and conversion costs of our FPSO units under construction or conversion. We received net proceeds of \$192.0 million from the sale of the Tiro and Sidon FPSO project to the 50% joint venture with Odebrecht and \$9.8 million from the sale of a 1997-built conventional tanker. In addition, we invested \$161.2 million in our equity accounted investees, mainly related to the Teekay LNG-Marubeni Joint Venture (including working capital contribution and acquisition costs), and advanced \$58.9 million to our equity accounted investees.

During 2011, we incurred capital expenditures for vessels and equipment of \$358.6 million, primarily for capitalized vessel modifications and shipyard construction installment payments on our newbuilding shuttle tankers and the conversion costs of an FPSO unit. In addition, we invested \$70.4 million in a term loan that bears interest at an interest rate of 9% per annum and has a fixed term of three years, repayable in full on maturity and which is collateralized by a first priority mortgage on a 2011-built VLCC. We also received net proceeds of \$5.1 million in March 2011 from the sale of a 1988-built FSO unit.

## **CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

The following table summarizes our long-term contractual obligations as at June 30, 2012:

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| In millions if U.S. Dollars                                    | Total          | Remainder of<br>2012 | 2013 and<br>2014 | 2015 and<br>2016 | Beyond<br>2016 |
|--|----------------|----------------------|------------------|------------------|----------------|
| <b>U.S. Dollar-Denominated Obligations</b>                     |                |                      |                  |                  |                |
| Long-term debt <sup>(1)</sup>                                  | 4,961.3        | 223.8                | 1,845.4          | 605.9            | 2,286.2        |
| Chartered-in vessels (operating leases)                        | 174.3          | 49.6                 | 90.2             | 25.1             | 9.4            |
| Commitments under capital leases <sup>(2)</sup>                | 189.6          | 47.4                 | 108.2            | 7.1              | 26.9           |
| Commitments under capital leases <sup>(3)</sup>                | 989.1          | 12.0                 | 48.0             | 48.0             | 881.1          |
| Commitments under operating leases <sup>(4)</sup>              | 418.9          | 12.5                 | 50.0             | 50.0             | 306.4          |
| Newbuilding installments/conversions <sup>(5)(6)</sup>         | 1,001.6        | 258.8                | 742.8            |                  |                |
| Purchase obligation <sup>(7)</sup>                             | 170.2          | 170.2                |                  |                  |                |
| Asset retirement obligation                                    | 22.2           |                      |                  |                  | 22.2           |
| <b>Total U.S. Dollar-Denominated Obligations</b>               | <b>7,927.2</b> | <b>774.3</b>         | <b>2,884.6</b>   | <b>736.1</b>     | <b>3,532.2</b> |
| <b>Euro-Denominated Obligations <sup>(8)</sup></b>             |                |                      |                  |                  |                |
| Long-term debt <sup>(9)</sup>                                  | 334.3          | 6.7                  | 29.4             | 33.8             | 264.4          |
| <b>Total Euro-Denominated Obligations</b>                      | <b>334.3</b>   | <b>6.7</b>           | <b>29.4</b>      | <b>33.8</b>      | <b>264.4</b>   |
| <b>Norwegian Kroner-Denominated Obligations <sup>(8)</sup></b> |                |                      |                  |                  |                |
| Long-term debt <sup>(10)</sup>                                 | 318.9          |                      | 100.7            |                  | 218.2          |
| <b>Total Norwegian Kroner-Denominated Obligations</b>          | <b>318.9</b>   |                      | <b>100.7</b>     |                  | <b>218.2</b>   |
| <b>Total</b>   | <b>8,580.4</b> | <b>781.0</b>         | <b>3,014.7</b>   | <b>769.9</b>     | <b>4,014.8</b> |

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- (1) Excludes expected interest payments of \$104.2 million (remainder of 2012), \$245.0 million (2013 and 2014), \$188.2 million (2015 and 2016) and \$208.1 million (beyond 2016). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR at June 30, 2012, plus margins on debt that has been drawn that ranges up to 4.00% (variable-rate loans). The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge on certain of our floating-rate debt. In November 2011, we agreed to acquire the *Voyageur Spirit* upon completion of its upgrade. The *Voyageur Spirit* has been determined to be a VIE and we have been determined to be the primary beneficiary. As a result, we have consolidated the *Voyager Spirit*, including its existing U.S. Dollar-denominated term loan outstanding, which totalled \$230.5 million as at June 30, 2012.
- (2) Includes, in addition to lease payments, amounts we are required to pay to purchase certain leased vessels at the end of the lease terms. The lessor has the option to sell these vessels to us at any time during the remaining lease term after 2012; however, in this table we have assumed the lessor will not exercise its right to sell the vessels to us until after the lease terms expire, which is during the years 2012 to 2017. The purchase price will be based on the unamortized portion of the vessel construction financing costs for the vessels, which are included in the table above. We expect to satisfy the purchase price by assuming the existing vessel financing, although we may be required to obtain separate debt or equity financing to complete the purchases if the lenders do not consent to our assuming the financing obligations.
- (3) Existing restricted cash deposits of \$475.8 million, together with the interest earned on these deposits, are expected to be sufficient to repay the remaining amounts we currently owe under the lease arrangements.
- (4) We have corresponding leases whereby we are the lessor. We expect to receive approximately \$375.8 million for these leases from 2012 to 2029.
- (5) Represents remaining construction costs (excluding capitalized interest and miscellaneous construction costs for four shuttle tankers and one FPSO unit as of June 30, 2012). Please read Financial Statements: Note 10 (a) Commitments and Contingencies Vessels Under Construction.
- (6) We have a 50% interest in a joint venture that has entered into an agreement for the conversion of one FPSO unit and a 50% interest in a joint venture that has entered into an agreement for the construction of a VLCC. As at June 30, 2012, the remaining commitments on these vessels, excluding capitalized interest and other miscellaneous construction costs, totalled \$140.2 million, of which our share is \$70.1 million. Please read Financial Statements: Note 10 (b) Commitments and Contingencies Joint Ventures.
- (7) Represents remaining cost to upgrade and acquire the *Voyageur Spirit* (net of assumed debt of \$230 million) as of June 30, 2012. Please read Financial Statements: Note 10 (c) Commitments and Contingencies Purchase Obligation.
- (8) Euro-denominated and Norwegian-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as of June 30, 2012.
- (9) Excludes expected interest payments of \$3.1 million (remainder of 2012), \$11.9 million (2013 and 2014), \$10.8 million (2015 and 2016) and \$10.9 million (beyond 2016). Expected interest payments are based on EURIBOR at June 30, 2012, plus margins that range up to 2.25%, as well as the prevailing U.S. Dollar/Euro exchange rate as of June 30, 2012. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt. We also maintain restricted cash deposits relating to certain of our term loans, which cash totaled \$11.4 million Euros (\$14.4 million) as at June 30, 2012.
- (10) Excludes expected interest payments of \$12.1 million (remainder of 2012), \$40.5 million (2013 and 2014), \$34.0 million (2015 and 2016) and \$5.1 million (beyond 2016). Expected interest payments are based on NIBOR at June 30, 2012, plus a margin between 4.75% to 5.75%, as well as the prevailing U.S. Dollar/Norwegian Kroner exchange rate as of June 30, 2012. The expected interest payments and principal repayments do not reflect the effect of the related cross currency swap that we have used as an economic hedge of our foreign exchange and interest rate exposure associated with our Norwegian Kroner-denominated long-term debt.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. The details of our equity accounted investments are shown in Item 18 Financial Statements: Note 23 Equity Accounted Investments of our Annual Report on Form 20-F for the year ended December 31, 2011.

**CRITICAL ACCOUNTING ESTIMATES**

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could materially differ from our assumptions and estimates. Accounting estimates and assumptions that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties, are discussed in this section and Item 5 - Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2011. There were no significant changes in accounting estimates and assumptions from those discussed in the Form 20-F, except for the decrease in the estimated useful life of six older shuttle tankers. Please read Item 1 Financial Statements: Note 19 Change in Accounting Estimate.



**Goodwill**

At June 30, 2012, the shuttle tanker segment and liquefied gas segment had goodwill attributable to it. Based on conditions that existed at June 30, 2012, we do not believe that there is a reasonable possibility that the goodwill attributable to these reporting units might be impaired for the remainder of the year. However, certain factors that impact this assessment are inherently difficult to forecast and, as such, we cannot provide any assurance that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. These are discussed in more detail in the following section entitled Forward-Looking Statements.

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**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K for the three and six months ended June 30, 2012 contains certain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

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

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

offshore, LNG and LPG market conditions and fundamentals, including the balance of supply and demand in these markets;

our future growth prospects;

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

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

our acquisition of the *Voyageur Spirit* from Sevan and the estimated remaining time and cost to complete its upgrade;

Teekay Offshore's acquisition from us, of the *Voyageur Spirit*, including the purchase price, timing, and closing; of the transaction, which is conditioned upon, among other things, Teekay Offshore obtaining new financing;

the impact on the operating income of the *Petrojarl Banff* FPSO unit resulting from the storm damage to the unit which occurred in December 2011, and related expected recoveries from insurers and the charterer;

damage to the *Cidade de Itajai* FPSO unit;

the impact on Teekay and Teekay Tankers as a result of the acquisition by Teekay Tankers from Teekay of 13 conventional tankers, including effects on debt balances, liquidity and spot tanker market exposure;

potential newbuilding order cancellations;

the expected timing and costs of upgrades to any vessels;

the future valuation of goodwill;

our expectations as to any impairment of our vessels;

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

our ability to fulfill our debt obligations;

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

declining market vessel values and the effect on our liquidity;

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

our estimated restructuring charges and the amount and timing of expected cost savings associated with reorganization of our marine operations;

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

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

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

our expectations regarding the cost and outcome of litigation involving Navion Offshore Loading AS;

taxation of our company and of distributions to our stockholders;

the expected lifespans of our vessels;

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

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

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

the growth of global oil demand;

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

our expectation regarding uncertain tax positions;

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

our ability to competitively pursue new FPSO projects;

our competitive positions in our markets;

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

our ability to pay dividends on our common stock.

Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will likely result, or words or phrases of similar meanings. These statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to: tanker market fundamentals, including the balance of supply and demand in the tanker market and the impact of seasonal factors on spot tanker charter rates; the estimated cost and timing of delivery of FPSO and shuttle tanker newbuildings/conversions in progress and the effect on our future cash flows and profitability; the estimated timing of commencement of new charter contracts upon delivery of FPSO and shuttle tanker newbuildings/conversions in progress; the cost and timing of the *Voyageur Spirit* unit conversion; the satisfaction of closing conditions for our acquisition from Sevan of the *Voyageur Spirit* FPSO unit and of Teekay Offshore's subsequent acquisition from us of such unit; the impact on our cash flows from our general partner and limited partner ownership interests in Teekay LNG and Teekay Offshore resulting from acquisitions and delivery of assets by Teekay LNG and Teekay Offshore; the estimated timing for the completion of our takeover of technical management of the MALT LNG Carriers; the expected timing of the commencement of the new charter contract for the *Magellan Spirit* LNG carrier; expected timing of redeliveries of vessels chartered-in by us; expected timing for commencement of cost savings related to our ship management joint venture with Anglo-Eastern; our future capital expenditure commitments and the debt financings that we expect to obtain for our remaining unfinanced capital expenditure commitments; and fundamentals of the offshore and LNG industries and our ability to complete future growth projects and acquisitions. The following factors are among those that could cause actual results to differ materially from the forward-looking statements, which involve risks and uncertainties, and that should be considered in evaluating any such statement: changes in production of or demand for oil, petroleum products, LNG and LPG, either generally or in particular regions; greater or less than anticipated levels of tanker newbuilding orders or greater or less than anticipated rates of tanker scrapping; changes in trading patterns significantly affecting overall vessel tonnage requirements; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; changes in the typical seasonal variations in tanker charter rates; changes in the offshore production of oil or demand for shuttle tankers, FSOs and FPSOs; decreases in oil production by or increased operating expenses for FPSO units; trends in prevailing charter rates for shuttle tanker and FPSO contract renewals; the potential for early termination of long-term contracts and inability of us to renew or replace long-term contracts or complete existing contract negotiations; changes affecting the offshore tanker market; shipyard production delays and cost overruns; changes in our expenses; our future capital expenditure requirements and the inability to secure financing for such requirements; the inability of us to complete vessel sale transactions to our public company subsidiaries or to third parties; factors impeding the expected transfer of technical management of the MALT LNG Carriers; factors impeding or preventing the establishment of our ship management joint venture with Anglo-Eastern; conditions in the United States capital markets; and other factors discussed in our filings from time to time with the SEC, including our Report on Form 20-F for the fiscal year ended December 31, 2011. We

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expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.

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**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES**

JUNE 30, 2012

**PART I FINANCIAL INFORMATION****ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, bunker fuel prices and spot tanker market rates for vessels. We use foreign currency forward contracts, cross currency and interest rate swaps, bunker fuel swap contracts and forward freight agreements to manage currency, interest rate, bunker fuel price and spot tanker market rate risks but we do not use these financial instruments for trading or speculative purposes. Please read Item 1 Financial Statements: Note 15 Derivative Instruments and Hedging Activities.

**Foreign Currency Fluctuation Risk**

Our primary economic environment is the international shipping market. Transactions in this market generally utilize the U.S. Dollar. Consequently, a substantial majority of our revenues and most of our operating costs are in U.S. Dollars. We incur certain voyage expenses, vessel operating expenses, drydocking and overhead costs in foreign currencies, the most significant of which are the Australian Dollar, British Pound, Canadian Dollar, Euro, Norwegian Kroner and Singapore Dollar. There is a risk that currency fluctuations will have a negative effect on the value of cash flows.

We reduce our exposure by entering into foreign currency forward contracts. In most cases, we hedge a substantial majority of our net foreign currency exposure for the following 12 months. We generally do not hedge our net foreign currency exposure beyond three years forward.

As at June 30, 2012, we had the following foreign currency forward contracts:

|  | Expected Maturity Date |         | Contract amount | Total Fair value <sup>(1)</sup> |
|--|------------------------|---------|-----------------|---------------------------------|
|  | 2012                   | 2013    |                 |                                 |
| Norwegian Kroner:                                | \$ 59.5                | \$ 33.9 | \$ 93.4         | (\$ 0.3)                        |
| Average contractual exchange rate <sup>(2)</sup> | 6.00                   | 5.93    | 5.97            |                                 |
| Euro:  | \$ 20.3                | \$ 13.0 | \$ 33.3         | (\$ 2.0)                        |
| Average contractual exchange rate <sup>(2)</sup> | 0.73                   | 0.76    | 0.74            |                                 |
| Canadian Dollar:                                 | \$ 11.9                | \$ 9.2  | \$ 21.1         | (\$ 0.4)                        |
| Average contractual exchange rate <sup>(2)</sup> | 0.99                   | 1.01    | 1.00            |                                 |
| British Pound:                                   | \$ 21.7                | \$ 17.6 | \$ 39.3         | \$ 0.0                          |
| Average contractual exchange rate <sup>(2)</sup> | 0.63                   | 0.64    | 0.64            |                                 |

(1) Contract amounts and fair value amounts in millions of U.S. Dollars.

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

Although the majority of our transactions, assets and liabilities are denominated in U.S. Dollars, certain of our subsidiaries have foreign currency-denominated liabilities. There is a risk that currency fluctuations will have a negative effect on the value of our cash flows. As at June 30, 2012, we had Euro-denominated term loans of 264.1 million Euros (\$334.3 million). We receive Euro-denominated revenue from certain of our time-charters. These Euro cash receipts generally are sufficient to pay the principal and interest payments on our Euro-denominated term loans. Consequently, we have not entered into any foreign currency forward contracts with respect to our Euro-denominated term loans, although there is no assurance that our net exposure to fluctuations in the Euro will not increase in the future.

We enter into cross currency swaps and pursuant to these swaps we receive the principal amount in Norwegian Kroner (or NOK) on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in Norwegian Kroner based on NIBOR plus a margin for a payment of US Dollar fixed interest or US Dollar floating interest based on LIBOR plus a margin. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of

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interest and principal of our Norwegian Kroner Bonds due in 2013 and 2017. In addition, the cross currency swaps due in 2017 economically hedges the interest rate exposure on the Norwegian Kroner Bonds due in 2017. We have not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its Norwegian Kroner Bonds due in 2013 and 2017. As at June 30, 2012, we were committed to the following cross currency swaps:

| Maturity<br>Date | Notional      | Notional      | Floating Rate Receivable |        | Floating Rate Payable |        |                       | Fair Value | Weighted-Average<br>Remaining<br>Term<br>(years) |
|------------------|---------------|---------------|--------------------------|--------|-----------------------|--------|-----------------------|------------|--|
|                  | Amount<br>NOK | Amount<br>USD | Reference<br>Rate        | Margin | Reference<br>Rate     | Margin | Fixed Rate<br>Payable |            |  |
| 2013             | 600,000       | 98,500        | NIBOR                    | 4.75%  | LIBOR                 | 5.04%  | (1)                   | 2,775      | 1.3  |
| 2017             | 600,000       | 101,400       | NIBOR                    | 5.75%  |                       |        | 7.49%                 | (2,976)    | 4.5  |
| 2017             | 700,000       | 125,000       | NIBOR                    | 5.25%  |                       |        | 6.88%                 | (10,220)   | 4.8  |
|                  |               |               |                          |        |                       |        |                       | (10,421)   |  |

- (1) LIBOR subsequently fixed at 1.1%, subject to a LIBOR rate receivable cap of 3.5%. Please read Item 1 Financial statements: Note 15 Derivative Instruments and Hedging Activities.

**Table of Contents****Interest Rate Risk**

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR or EURIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to repay our debt. We use interest rate swaps to reduce our exposure to market risk from changes in interest rates. Generally our approach is to hedge a substantial majority of floating-rate debt associated with our vessels that are operating on long-term fixed-rate contracts. We manage the rest of our debt based on our outlook for interest rates and other factors.

In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The table below provides information about our financial instruments at June 30, 2012, which are sensitive to changes in interest rates, including our debt and capital lease obligations and interest rate swaps. For long-term debt and capital lease obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates.

**Expected Maturity Date**

|   | Balance of<br>2012 | 2013  | 2014  | 2015  | 2016  | Thereafter | Total   | Fair Value<br>Asset /<br>(Liability) | Rate <sup>(1)</sup> |
|---|--------------------|-------|-------|-------|-------|------------|---------|--------------------------------------|---------------------|
| <b>Long-Term Debt:</b>                          |                    |       |       |       |       |            |         |                                      |                     |
| Variable Rate (\$U.S.) <sup>(2)</sup>           | 201.6              | 827.4 | 929.4 | 278.1 | 239.3 | 1,674.9    | 4,150.7 | (3,496.9)                            | 1.8%                |
| Variable Rate (Euro) <sup>(3)(4)</sup>          | 6.7                | 14.2  | 15.2  | 16.3  | 17.5  | 264.4      | 334.3   | (300.4)                              | 1.9%                |
| Variable Rate (NOK) <sup>(4)(5)</sup>           |                    | 100.7 |       |       |       | 218.2      | 318.9   | (318.9)                              | 7.6%                |
| Fixed-Rate Debt (\$U.S.)                        | 22.2               | 44.3  | 44.3  | 44.3  | 44.3  | 611.2      | 810.6   | (1,024.7)                            | 7.1%                |
| Average Interest Rate                           | 5.2%               | 5.2%  | 5.2%  | 5.2%  | 5.2%  | 7.6%       | 7.1%    |                                      |                     |
| <b>Capital Lease Obligations <sup>(6)</sup></b> |                    |       |       |       |       |            |         |                                      |                     |
| Fixed-Rate (\$U.S.) <sup>(7)</sup>              | 42.2               | 68.2  | 29.6  | 2.3   | 2.3   | 26.0       | 170.6   | (170.6)                              | 7.4%                |
| Average Interest Rate <sup>(8)</sup>            | 6.6%               | 9.1%  | 7.8%  | 4.4%  | 4.4%  | 4.4%       | 7.4%    |                                      |                     |
| <b>Interest Rate Swaps:</b>                     |                    |       |       |       |       |            |         |                                      |                     |
| Contract Amount (\$U.S.) <sup>(6)(9)(10)</sup>  | 140.3              | 385.0 | 201.8 | 327.5 | 748.6 | 1,605.9    | 3,409.1 | (570.4)                              | 3.9%                |
| Average Fixed Pay Rate <sup>(2)</sup>           | 2.1%               | 2.2%  | 3.8%  | 4.0%  | 2.8%  | 5.0%       | 3.9%    |                                      |                     |
| Contract Amount (Euro) <sup>(4)</sup>           | 6.7                | 14.2  | 15.2  | 16.3  | 17.5  | 264.4      | 334.3   | (35.2)                               | 3.1%                |
| Average Fixed Pay Rate <sup>(3)</sup>           | 3.1%               | 3.1%  | 3.1%  | 3.1%  | 3.1%  | 3.1%       | 3.1%    |                                      |                     |

(1) Rate refers to the weighted-average effective interest rate for our long-term debt and capital lease obligations, including the margin we pay on our floating-rate, which, as of June 30, 2012, ranged from 0.3% to 4.0%. The average interest rate for our capital lease obligations is the weighted-average interest rate implicit in our lease obligations at the inception of the leases.

(2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR. The average fixed pay rate for our interest rate swaps excludes the margin we pay on our floating-rate debt.

(3) Interest payments on Euro-denominated debt and interest rate swaps are based on 1-month EURIBOR.

(4) Euro-denominated and Norwegian Kroner-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of June 30, 2012.

(5) Interest payments on our NOK-denominated debt and on our cross currency swaps are based on NIBOR. Our NOK-denominated debt has been economically hedged with three cross currency swaps, to swap all interest and principal payments at maturity into U.S. Dollars, with the interest payments fixed at a rate of 7.49%, 6.88% and interest rate payments swapped from NIBOR plus a margin of 4.75% into LIBOR plus a margin of 5.04%, and the transfer of principal fixed at \$101.4 million, \$125.0 million and \$98.5 million upon maturity in exchange for NOK 600 million, NOK 700 million and NOK 600 million, respectively.

(6)



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Under the terms of the capital leases for three LNG carriers (or the *RasGas II LNG Carriers*), (see Item 18 Financial Statements: Note 10 Capital Lease Obligations and Restricted Cash of our Annual Report on Form 20-F for the year ended December 31, 2011), we are required to have on deposit, subject to a variable rate of interest, an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the variable-rate leases. The deposits, which as at June 30, 2012 totaled \$475.8 million, and the lease obligations, which as at June 30, 2012 totaled \$471.7 million, have been swapped for fixed-rate deposits and fixed-rate obligations. Consequently, we are not subject to interest rate risk from these obligations and deposits and, therefore, the lease obligations, cash deposits and related interest rate swaps have been excluded from the table above. As at June 30, 2012, the contract amount, fair value and fixed interest rates of these interest rate swaps related to the RasGas II LNG Carriers capital lease obligations and restricted cash deposits were \$417.7 million and \$469.7 million, (\$130.8) million and \$166.5 million, and 4.9% and 4.8%, respectively.

- (7) The amount of capital lease obligations represents the present value of minimum lease payments together with our purchase obligation, as applicable.
- (8) The average interest rate is the weighted-average interest rate implicit in the capital lease obligations at the inception of the leases.
- (9) The average variable receive rate for our interest rate swaps is set quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.
- (10) Includes an interest rate swap where the LIBOR rate receivable is capped at 3.5% on a notional amount of \$98.5 million maturing in 2013.

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**ITEM 4 - CONTROLS AND PROCEDURES**

**(a) Changes in Internal Control Over Financial Reporting.**

During the quarter ended June 30, 2012, we implemented a new accounting system designed to improve the effectiveness and efficiency of our accounting and financial reporting processes. Although this implementation changed certain specific activities within the accounting function, it did not significantly affect the overall controls and procedures followed by the Company in establishing internal controls over financial reporting. Other than this accounting system implementation, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the first two quarters of 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Table of Contents****TEEKAY CORPORATION AND SUBSIDIARIES****JUNE 30, 2012****PART II OTHER INFORMATION****Item 1 Legal Proceedings**

None

**Item 1A Risk Factors**

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I,

Item 3. Key Information Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2011, which could materially affect our business, financial condition or results of operations.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3 Defaults Upon Senior Securities**

None

**Item 4 Mine Safety Disclosures**

None

**Item 5 Other Information**

The Company's 2012 Annual Meeting of Shareholders was held on June 6, 2012. The following persons were elected directors for a term of three years by the votes set forth opposite their names:

|                               |                  |                                  | <b>Shares which</b> | <b>Broker</b>    |
|-------------------------------|------------------|----------------------------------|---------------------|------------------|
| <b>Terms Expiring in 2015</b> | <b>Votes For</b> | <b>Votes Against or Withheld</b> | <b>Abstained</b>    | <b>Non-Votes</b> |
| Dr. Ian D. Blackburne         | 48,834,033       | 7,711,940                        | N/A                 | N/A              |
| William B. Berry              | 56,362,266       | 183,707                          | N/A                 | N/A              |
| C. Sean Day                   | 48,718,555       | 7,827,418                        | N/A                 | N/A              |

The terms of Directors Thomas Kuo-Yuen Hsu, Axel Karlshoej, Bjorn Moller, Peter Evensen, Peter S. Janson, Eileen A. Mercier and Tore I. Sandvold continued after the meeting.

**Item 6 Exhibits**

None

**THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE FOLLOWING REGISTRATION STATEMENTS OF THE COMPANY.**

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**REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 33-97746) FILED WITH THE SEC ON OCTOBER 4, 1995;**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-42434) FILED WITH THE SEC ON JULY 28, 2000;**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-119564) FILED WITH THE SEC ON OCTOBER 6, 2004;**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-147683) FILED WITH THE SEC ON NOVEMBER 28, 2007; AND**

**REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-166523) FILED WITH THE SEC ON MAY 5, 2010.**

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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.

TEEKAY CORPORATION

Date: September 17, 2012

By: /s/ Vincent Lok  
Vincent Lok  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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