

TEEKAY CORP
Form 6-K
May 31, 2011

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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 March 31, 2011

Commission file number 1-12874

TEEKAY CORPORATION

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

69 Pitts Bay Road

Hamilton, HM 08 Bermuda

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

TEEKAY CORPORATION AND SUBSIDIARIES
REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011
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Table of Contents**ITEM 1 - FINANCIAL STATEMENTS****TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)****(in thousands of U. S. dollars, except share and per share amounts)**

	Three Months Ended March 31,	
	2011	2010
	\$	\$
REVENUES	488,024	572,875
OPERATING EXPENSES		
Voyage expenses	45,126	72,550
Vessel operating expenses <i>(note 15)</i>	161,577	154,535
Time-charter hire expense	63,031	79,251
Depreciation and amortization	105,038	108,230
General and administrative <i>(notes 9 and 15)</i>	70,218	48,091
Loss on sale of vessels and equipment net of write-downs of vessels and equipment <i>(note 7)</i>	3,593	760
Restructuring charges <i>(note 12)</i>	4,961	3,783
Total operating expenses	453,544	467,200
Income from vessel operations	34,480	105,675
OTHER ITEMS		
Interest expense	(32,794)	(32,152)
Interest income	2,465	4,274
Realized and unrealized gain (loss) on non-designated derivative instruments <i>(note 15)</i>	23,257	(87,847)
Equity income (loss) from joint ventures	6,394	(2,666)
Foreign exchange (loss) gain <i>(notes 8 and 15)</i>	(20,340)	29,026
Loss on notes repurchase <i>(note 8)</i>		(12,108)
Other income <i>(note 13)</i>	94	2,422
Net income before income taxes	13,556	6,624
Income tax (expense) recovery <i>(note 16)</i>	(811)	7,307
Net income	12,745	13,931
Less: Net income attributable to non-controlling interests	(42,402)	(27,933)
Net loss attributable to stockholders of Teekay Corporation	(29,657)	(14,002)
Per common share of Teekay Corporation <i>(note 17)</i>		
Basic loss attributable to stockholders of Teekay Corporation	(0.41)	(0.19)

Diluted loss attributable to stockholders of Teekay Corporation	(0.41)	(0.19)
Cash dividends declared	0.3163	0.3163
Weighted average number of common shares outstanding (note 17)		
Basic	71,946,997	72,788,591
Diluted	71,946,997	72,788,591

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

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars, except share and per share amounts)

	As at March 31, 2011 \$	As at December 31, 2010 \$
ASSETS		
Current		
Cash and cash equivalents (<i>note 8</i>)	567,325	779,748
Restricted cash	92,733	86,559
Accounts receivable, including non-trade of \$30,972 (2010 \$35,960)	283,303	244,879
Net investment in direct financing leases (<i>note 5</i>)	26,126	26,791
Prepaid expenses	128,563	94,282
Current portion of derivative assets (<i>note 15</i>)	41,293	27,215
Other assets	2,538	2,616
Total current assets	1,141,881	1,262,090
Restricted cash non-current	493,633	489,712
Vessels and equipment (<i>note 8</i>)		
At cost, less accumulated depreciation of \$2,070,325 (2010 \$1,997,411)	5,618,789	5,692,812
Vessels under capital leases, at cost, less accumulated amortization of \$177,866 (2010 \$172,113)	872,396	880,576
Advances on newbuilding contracts (<i>note 10a</i>)	261,335	197,987
Total vessels and equipment	6,752,520	6,771,375
Net investment in direct financing leases non-current (<i>note 5</i>)	454,122	460,725
Marketable securities	22,849	21,380
Loans to joint ventures and joint venture partners, bearing interest between 4.4% to 8.0%	33,500	32,750
Derivative assets (<i>note 15</i>)	46,301	55,983
Deferred income tax asset (<i>note 16</i>)	17,268	17,001
Investment in joint ventures (<i>note 10b</i>)	220,563	207,633
Investment in term loans (<i>note 4</i>)	186,184	116,014
Other non-current assets	109,142	117,351
Intangible assets net	151,306	155,893
Goodwill	203,191	203,191
Total assets	9,832,460	9,911,098

LIABILITIES AND EQUITY

Current

Accounts payable	52,709	44,990
Accrued liabilities	369,142	377,119
Current portion of derivative liabilities (<i>note 15</i>)	130,913	144,111
Current portion of long-term debt (<i>note 8</i>)	472,074	276,508
Current obligation under capital leases	270,945	267,382
Current portion of in-process revenue contracts	42,926	43,469
Loans from joint venture partners	14,500	59
Total current liabilities	1,353,209	1,153,638
Long-term debt, including amounts due to joint venture partners of \$13,383 (2010 \$13,282) (<i>note 8</i>)	3,979,815	4,155,556
Long-term obligation under capital leases	470,910	470,752
Derivative liabilities (<i>note 15</i>)	245,504	387,124
Asset retirement obligation	24,092	23,018
In-process revenue contracts	142,313	152,637
Other long-term liabilities	192,343	194,640
Total liabilities	6,408,186	6,537,365
Commitments and contingencies (<i>notes 5, 10 and 15</i>)		
Redeemable non-controlling interest (<i>note 10d</i>)	40,614	41,725
Equity		
Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 71,822,916 shares outstanding (2010 72,012,843); 74,142,366 shares issued (2010 73,749,793)) (<i>note 9</i>)	685,430	672,684
Retained earnings	1,157,117	1,313,934
Non-controlling interest	1,544,239	1,353,561
Accumulated other comprehensive loss (<i>note 14</i>)	(3,126)	(8,171)
Total equity	3,383,660	3,332,008
Total liabilities and equity	9,832,460	9,911,098

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

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2011	2010
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	12,745	13,931
Non-cash items:		
Depreciation and amortization	105,038	108,230
Amortization of in-process revenue contracts	(10,867)	(13,435)
Loss on sale of vessels and equipment	193	239
Write-down of vessels and equipment	3,400	521
Loss on repurchase of notes		12,108
Equity (income) loss	(6,394)	2,666
Income tax expense (recovery)	811	(7,307)
Share-based compensation	13,891	3,923
Unrealized foreign exchange loss (gain)	25,408	(22,556)
Unrealized (gain) loss on derivative instruments	(148,468)	49,763
Other	(1,813)	(1,328)
Change in operating assets and liabilities	(78,764)	(48,279)
Expenditures for drydocking	(7,854)	(3,695)
Net operating cash flow	(92,674)	94,781
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt (note 8)	227,005	771,249
Debt issuance costs	(1,320)	(9,565)
Scheduled repayments of long-term debt	(68,662)	(38,413)
Prepayments of long-term debt	(165,407)	(609,928)
Repayments of capital lease obligations	(1,172)	(727)
Proceeds from loans from joint venture partner	14,500	591
Repayment of loans from joint venture partner	(59)	(1,164)
Increase in restricted cash	(4,602)	(428)
Net proceeds from issuance of Teekay Offshore Partners L.P. units (note 6)		94,114
Net proceeds from issuance of Teekay Tankers Ltd. shares (note 6)	107,233	
Issuance of Common Stock upon exercise of stock options	3,862	1,974
Repurchase of Common Stock (note 9)	(19,888)	
Distribution from subsidiaries to non-controlling interests	(48,110)	(33,083)
Cash dividends paid	(23,172)	(22,999)
Net financing cash flow	20,208	151,621

INVESTING ACTIVITIES

Expenditures for vessels and equipment	(76,112)	(44,696)
Proceeds from sale of vessels and equipment	5,055	10,045
Investment in term loan (<i>note 4</i>)	(70,170)	
Investment in joint ventures	(4,191)	(145)
Advances to joint ventures and joint venture partners	(1,830)	651
Investment in direct financing lease assets		(4,199)
Direct financing lease payments received	7,268	4,827
Other investing activities	23	(34)
Net investing cash flow	(139,957)	(33,551)
(Decrease) increase in cash and cash equivalents	(212,423)	212,851
Cash and cash equivalents, beginning of the period	779,748	422,510
Cash and cash equivalents, end of the period	567,325	635,361

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)

	Thousands of Shares of Common Stock Outstanding #	Common Stock and Additional Paid-in Capital \$	TOTAL EQUITY			Total \$
			Common Retained Earnings \$	Accumulated Other Comprehensive Income (Loss) \$	Non- controlling Interest \$	
Balance as at December 31, 2010	72,013	672,684	1,313,934	(8,171)	1,353,561	3,332,008
Net (loss) income			(29,657)		41,064	11,407
Other comprehensive income (loss):						
Unrealized gain on marketable securities				1,468		1,468
Pension adjustments, net of taxes				192		192
Unrealized loss on qualifying cash flow hedging instruments (<i>note 15</i>)				4,042	1,456	5,498
Realized loss on qualifying cash flow hedging instruments (<i>note 15</i>)				(657)	(328)	(985)
Comprehensive income					42,192	17,580
Dividends declared			(23,175)		(48,110)	(71,285)
Reinvested dividends	1	3				3
Exercise of stock options	393	3,862				3,862
Repurchase of Common Stock (<i>note 9</i>)	(583)	(5,010)	(14,878)			(19,888)
Employee stock option compensation (<i>note 9</i>)		13,891				13,891
Dilution gain on public offering of Teekay Tankers (<i>note 6</i>)			5,736			5,736
Sale of 49% interest of OPCO to Teekay Offshore (<i>note 6</i>)			(94,843)		94,843	
Increase to non-controlling interest from share and unit issuances of subsidiaries and other					101,753	101,753
Balance as at March 31, 2011	71,824	685,430	1,157,117	(3,126)	1,544,239	3,383,660

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TEEKAY CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of U.S. dollars)

	Three Months Ended March	
	2011	2010
	\$	\$
Net income	12,745	13,931
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	1,468	(1,777)
Pension adjustments, net of taxes	192	349
Unrealized gain (loss) on qualifying cash flow hedging instruments	5,498	(3,940)
Realized (gain) loss on qualifying cash flow hedging instruments	(985)	1,013
Other comprehensive income (loss)	6,173	(4,355)
Comprehensive income	18,918	9,576
Less: Comprehensive income attributable to non-controlling interests	(43,530)	(27,476)
Comprehensive loss attributable to stockholders of Teekay Corporation	(24,612)	(17,900)

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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)

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, it is suggested that these interim financial statements be read in conjunction with the Company's audited financial statements for the year ended December 31, 2010, included in the Company's Annual Report on Form 20-F. In the opinion of management, these unaudited financial statements reflect all adjustments, 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 months ended March 31, 2011, 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 the 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 revenues of \$8.3 million for the three months ended March 31, 2010 from time-charter hire expense to revenues in the consolidated statements of income (loss).

2. Adoption of New Accounting Policies

In January 2011, the Company adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 605, *Revenue Recognition*, that provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverables in a multiple-element arrangement cannot be determined, the Company will be required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. This amendment became effective for the Company on January 1, 2011. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

3. Segment Reporting

The following tables present results for the Company's four segments for the three months ended March 31, 2011 and 2010.

	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
	\$	\$	\$	\$	\$
Three Months ended March 31, 2011					
Revenues	151,212	104,618	64,633	167,561	488,024
Voyage expenses	19,329		49	25,748	45,126
Vessel operating expenses	53,614	52,722	11,077	44,164	161,577
Time-charter hire expense	19,627			43,404	63,031
Depreciation and amortization	30,619	23,731	14,856	35,832	105,038
General and administrative ⁽²⁾	18,306	14,723	6,605	30,584	70,218
	171			3,422	3,593

Loss on sale of vessels and equipment, net of write-downs of vessels and equipment					
Restructuring charges	3,920		129	912	4,961
Income (loss) from vessel operations	5,626	13,442	31,917	(16,505)	34,480
Segment assets	1,815,116	1,214,009	2,879,614	2,844,395	8,753,134

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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)

Three Months ended March 31, 2010	Shuttle Tanker and FSO Segment \$	FPSO Segment \$	Liquefied Gas Segment \$	Conventional Tanker Segment \$	Total \$
Revenues ⁽¹⁾	155,948	131,998	62,534	222,395	572,875
Voyage expenses	29,303		(27)	43,274	72,550
Vessel operating expenses	43,321	47,965	11,370	51,879	154,535
Time charter hire expense	25,038			54,213	79,251
Depreciation and amortization	30,559	23,748	15,527	38,396	108,230
General and administrative ⁽²⁾	12,145	8,826	4,771	22,349	48,091
Loss on sale of vessels and equipment, net of write-downs vessels and equipment				760	760
Restructuring charges	325		119	3,339	3,783
Income from vessel operations	15,257	51,459	30,774	8,185	105,675
Segment assets	1,700,867	1,201,301	2,836,617	2,844,239	8,583,024

(1) FPSO segment includes \$30.0 million in revenue for the three months ended March 31, 2010, related to operations in previous years as a result of executing a contract amendment in March 2010.

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

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

	March 31, 2011 \$	December 31, 2010 \$
Total assets of all segments	8,753,134	8,673,337
Cash	567,325	779,748
Accounts receivable and other assets	512,001	458,013
Consolidated total assets	9,832,460	9,911,098

4. Investment in Term Loans

In February 2011, Teekay loaned \$70 million to an unrelated ship-owner of a 2011-built Very Large Crude Carrier (or VLCC). The loan bears interest at 9% per annum and is payable quarterly. The loan is repayable in full in February 2014. However, it may be repaid prior to maturity at the option of the borrower. The loan is collateralized by a first priority mortgage on a 2011-built VLCC, together with other related collateral.

5. Vessel Charters

In addition to the Company's minimum charter hire payments to be paid and received under the Head Leases and Subleases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements included in the Company's Annual Report on Form 20-F for the year ended December 31, 2010, the additional minimum estimated charter hire payments in the next five fiscal years, as at March 31, 2011, for the Company's vessels chartered-in and vessels chartered-out were as follows:

		Remainder of 2011	2012	2013	2014	2015
(in millions of U.S. dollars)						
Charters-in	operating leases	132.3	110.2	66.3	23.0	16.0
Charters-in	capital lease ⁽¹⁾	301.8	24.0	24.0	24.0	24.0
		434.1	134.2	90.3	47.0	40.0
Charters-out	operating lease ⁽²⁾	875.8	948.8	718.2	602.7	560.3
Charters-out	direct financing leases	51.4	62.4	49.5	48.1	47.1
		927.2	1,011.2	767.7	650.8	607.4

- (1) As at March 31, 2011 and December 31, 2010, the Company had \$565.3 million and \$559.8 million, respectively of cash which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Company also maintains restricted cash deposits relating to certain term loans, which cash totaled \$16.6 million and \$12.3 million as at March 31, 2011 and December 31, 2010, respectively.
- (2) The minimum scheduled future charter hire payments for vessels chartered out should not be construed to reflect total charter hire revenues for any of the periods. In addition, minimum scheduled future revenues have been reduced by estimated off-hire time for period maintenance. The amounts may vary given unscheduled future events such as vessel maintenance.

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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)

6. Financing Transactions

In February 2011, Teekay's subsidiary, Teekay Tankers Ltd. (or *Teekay Tankers*) completed a public offering of 9.9 million common shares of its Class A Common Stock (including 1.3 million common shares issued upon the exercise of the underwriters' over-allotment option) at a price of \$11.33 per share, for gross proceeds of approximately \$112.1 million. As a result, Teekay's ownership of Teekay Tankers was reduced to 26.0%. 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 the offering, the Company recorded an increase to retained earnings of \$5.7 million, which represents the Company's dilution gain from the issuance of shares in Teekay Tankers during the three months ended March 31, 2011.

In March 2011, Teekay sold a 49% interest in Teekay Offshore Operating L.P. (or *OPCO*) to Teekay's subsidiary, Teekay Offshore Partners L.P. (or *Teekay Offshore*), for a total purchase price of \$386.3 million. The sale increased Teekay Offshore's ownership in OPCO from 51% to 100%. The purchase price was paid with \$175 million in cash (less \$15 million in distributions made by OPCO to Teekay between December 31, 2010 and the date of acquisition) and 7.6 million newly issued Teekay Offshore common units. Teekay's ownership in Teekay Offshore increased to 36.9% (including the Company's 2% general partner interest). Consequently, the Company recognized a decrease to retained earnings and an increase in non-controlling interest of \$94.8 million as the Company accounts for changes in its ownership interest in controlled subsidiaries as equity transactions.

See Note 19 to these unaudited consolidated financial statements for information relating to an equity offering by Teekay's subsidiary, Teekay LNG Partners L.P. (or *Teekay LNG*) in April 2011.

7. Vessel Sale and Write-down**a) Vessel Sale**

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 FSO and shuttle tanker segment. The Company realized a loss of \$0.2 million from the sale of the FSO unit.

b) Vessel Write-down

The Company's consolidated statements of income (loss) for the three months ended March 31, 2011, include a \$3.4 million write-down for impairment of a 1993-built Aframax tanker to its estimated fair value of \$14.5 million, as the vessel carrying value exceeded the estimated fair value. The fair value was calculated based on the value of its estimated discounted cash flows which primarily includes the estimated sales price. The write-down is included within the Company's conventional tanker segment.

8. Long-Term Debt

	March 31, 2011	December 31, 2010
	\$	\$
Revolving Credit Facilities	1,723,469	1,697,237
Senior Notes (8.875%) due July 15, 2011	16,201	16,201
Senior Notes (8.5%) due January 15, 2020	446,623	446,559
Norwegian Kroner-denominated Bonds due November 2013	108,315	103,061
U.S. Dollar-denominated Term Loans due through 2021	1,752,359	1,782,423
Euro-denominated Term Loans due through 2023	391,539	373,301
U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners	13,383	13,282
Total	4,451,889	4,432,064

Less current portion	472,074	276,508
Long-term portion	3,979,815	4,155,556

As of March 31, 2011, the Company had 15 long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to \$3.3 billion, of which \$1.6 billion was undrawn. Interest payments are based on LIBOR plus margins; at March 31, 2011 and December 31, 2010, the margins ranged between 0.45% and 3.25%. At March 31, 2011 and December 31, 2010, the three-month LIBOR was 0.30%. The total amount available under the Revolvers reduces by \$223.3 million (remainder of 2011), \$353.3 million (2012), \$760.2 million (2013), \$791.8 million (2014), \$226.4 million (2015) and \$930.4 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 64 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts.

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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)

In January 2010, the Company completed a public offering of senior unsecured notes due January 15, 2020 (or the *8.5% Notes*) 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 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 senior unsecured notes. The *8.5% Notes* and the *8.875%* senior unsecured notes due July 15, 2011 (or the *8.875% 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* and *8.875% 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. In 2010, the Company repurchased a principal amount of \$160.5 million of the *8.875% Notes*, using a portion of the proceeds of the *8.5% Notes* offering, and recognized a loss on repurchase of \$12.6 million.

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 have been made as at March 31, 2011. In November 2010, Teekay Offshore issued NOK 600 million in senior unsecured bonds that mature in November 2013 in the Norwegian bond market. Teekay Offshore capitalized issuance costs of \$1.3 million, which is recorded in other non-current assets in the consolidated balance sheet and is amortized over the term of the senior unsecured bonds. The bonds are listed on the Oslo Stock Exchange. Interest payments on the senior unsecured bonds are based on NIBOR plus a margin of 4.75%. Teekay Offshore has entered into a cross currency swap arrangement to swap the interest payments from NIBOR into LIBOR and principal from Norwegian Kroner to U.S. dollars (see Note 15).

As of March 31, 2011, the Company had 14 U.S. Dollar-denominated term loans outstanding, which totaled \$1.8 billion (December 31, 2010 - \$1.8 billion). Certain of the term loans with a total outstanding principal balance of \$406.2 million as at March 31, 2011 (December 31, 2010 - \$417.4 million) bear interest at a weighted-average fixed rate of 5.3% (December 31, 2010 - 5.3%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At March 31, 2011 and December 31, 2010, the margins ranged between 0.3% and 3.25%. At March 31, 2011 and December 31, 2010, the three-month LIBOR was 0.30%. 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 13 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 27 (December 31, 2010 - 28) of the Company's vessels, together with certain other security. In addition, at March 31, 2011, all but \$105.7 million (December 31, 2010 - \$122.5 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

The Company has two Euro-denominated term loans outstanding, which, as at March 31, 2011, totaled 276.5 million Euros (\$391.5 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 March 31, 2011 and December 31, 2010, the margins ranged between 0.6% and 0.66% and the one-month EURIBOR at March 31, 2011, was 0.97% (December 31, 2010 - 0.78%). 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 loss of \$20.3 million during the three months ended March 31, 2011 (2010 \$29.0 million gain).

The Company has two U.S. Dollar-denominated loans outstanding owing to two joint venture partners, which, as at March 31, 2011, totaled \$13.4 million (2010 one loan totaling \$13.8 million), including accrued interest. Interest payments on the loan, which are based on a fixed interest rate of 4.84%, commenced in February 2008. This loan is repayable on demand no earlier than February 27, 2027.

The weighted-average effective interest rate on the Company's long-term aggregate debt as at March 31, 2011 was 2.3% (December 31, 2010 2.3%). 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 certain vessel market value-to-loan ratios and minimum consolidated financial covenants. Certain loan agreements require that a minimum level of free cash be maintained and as at March 31, 2011 and December 31, 2010, this amount was \$100.0 million. Certain of the loan agreements also require that the Company maintain an aggregate level of free liquidity and undrawn revolving credit lines with at least six months to maturity of at least 7.5% of total debt. As at March 31, 2011, this amount was \$236.7 million (December 31, 2010 \$236.5 million).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to March 31, 2011, are \$222.7 million (remainder of 2011), \$524.9 million (2012), \$463.2 million (2013), \$912.7 million (2014), \$216.8 million (2015) and \$2.1 billion (thereafter).

As at March 31, 2011, the Company was in compliance with all covenants in the credit facilities and long-term debt.

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9. Capital Stock

The authorized capital stock of Teekay at March 31, 2011 and December 31, 2010, 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. During the three months ended March 31, 2011, the Company issued 0.4 million shares of common stock upon the exercise of stock options, and repurchased 0.6 million shares. As at March 31, 2011, Teekay had 74,142,366 shares of Common Stock issued (December 31, 2010 73,749,793) and no shares of Preferred Stock issued. As at March 31, 2011, Teekay had 71,822,916 shares of Common Stock outstanding (December 31, 2010 72,012,843).

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, subject to cancellation upon approval by the Board of Directors. As at March 31, 2011, Teekay had repurchased approximately 1.8 million shares of Common Stock for \$60 million pursuant to such authorization. The total remaining share repurchase authorization at March 31, 2011, was \$140 million.

During March 2011, the Company granted 91,431 stock options with an exercise price of \$34.93 per share, 358,180 restricted stock units with a fair value of \$12.5 million, 73,349 performance shares with a fair value of \$3.7 million and 29,663 shares of restricted stock with a fair value of \$1.0 million to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit 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.

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 April 1, 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 relates 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 income (loss) for the three months ended March 31, 2011.

The weighted-average grant-date fair value of stock options granted during March 2011 was \$11.27 per option. The fair value of each stock option granted was estimated on 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 53.6%; expected life of four years; dividend yield of 3.8%; risk-free interest rate of 2.1%; and estimated forfeiture rate of 11%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

10. Commitments and Contingencies**a) Vessels Under Construction**

In October 2010, the Company signed a contract with Petroleo Brasileiro SA (or *Petrobras*) to provide a floating, production, storage and offloading (or *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, to be named the *Petrojarl Cidade de Itajai*, which is currently under conversion from an existing Aframax tanker, for a total estimated cost of approximately \$345 million, excluding capitalized interest. In May 2011, the Company signed an agreement with Odebrecht Oil & Gas S.A. (or *Odebrecht*) to be a 50% partner in this project. The new FPSO is scheduled to be delivered in the second quarter of 2012. Upon delivery, the unit will commence operations under a nine-year, fixed-rate time-charter contract to Petrobras with six additional one-year extension options.

As at March 31, 2011, the Company was committed to the construction of three liquefied petroleum gas (or *LPG*) carriers, two shuttle tankers and the conversion of an existing Aframax tanker to an FPSO unit (as described above), at a total cost of approximately \$702.4 million, excluding capitalized interest. One shuttle tanker delivered in May 2011 and the other shuttle tanker is scheduled for delivery in July 2011. The three *LPG* carriers are scheduled for delivery in 2011 and the FPSO unit is scheduled to be delivered in 2012. As at March 31, 2011, payments made towards these commitments totaled \$236.1 million (excluding \$22.3 million of capitalized interest and other miscellaneous construction costs), and long-term financing arrangements existed for \$191.8 million of the unpaid cost of these vessels. As at March 31, 2011, the remaining payments required to be made under these newbuilding contracts were \$403.2 million (remainder of 2011) and \$63.1 million (2012).

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b) Joint Ventures

The Company has a 33% interest in a joint venture that will charter four newbuilding 160,400-cubic meter liquefied natural gas (or *LNG*) carriers for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A. and ENI SpA. Final award of the charter was made in December 2007. The vessels will be chartered at fixed rates, with inflation adjustments, commencing in 2011. The other members of the joint venture are Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd., which hold 34% and 33% interests in the joint venture, respectively. In connection with this award, the joint venture has entered into agreements with Samsung Heavy Industries Co. Ltd. to construct the four LNG carriers at a total cost of approximately \$906.0 million (of which the Company's 33% portion is \$299.0 million), excluding capitalized interest. As at March 31, 2011, payments made towards these commitments by the joint venture company totaled \$339.7 million (of which the Company's 33% contribution was \$112.1 million), excluding capitalized interest and other miscellaneous construction costs. As at March 31, 2011, the remaining payments required to be made under these contracts were \$430.3 million (remainder of 2011) and \$135.9 million (2012), of which the Company's share is 33% of these amounts. In accordance with existing agreements, the Company is required to offer to its subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) its 33% interest in these vessels and related charter contracts, no later than 180 days before the scheduled delivery dates of the vessels. Deliveries of the vessels are scheduled between August 2011 and January 2012. In February 2011, the Company offered to Teekay LNG its 33% ownership interest in these vessels and related charter contracts. The transaction was approved in March 2011 by the Board of Directors of Teekay LNG's general partner and by its Conflicts Committee. The Company has also provided certain guarantees in relation to the performance of the joint venture company. The fair value of the guarantees were liabilities of \$1.7 million and \$1.8 million, respectively, as at March 31, 2011 and December 31, 2010 and are included as part of other long-term liabilities in the Company's consolidated balance sheets.

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 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 the Company's 50% portion is \$49 million), excluding capitalized interest and other miscellaneous construction costs. The vessel is expected to deliver during the second quarter of 2013. As at March 31, 2011, the remaining payments required to be made under this newbuilding contract, including Wah Kwong's 50% share, was \$nil (remainder of 2011), \$39.2 million (2012) and \$39.2 million (2013). As of March 31, 2011, the Joint Venture did not have any financing arrangements for these expenditures. 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. As of March 31, 2011, Teekay Tankers had advanced \$9.8 million to the Joint Venture and the amount is recorded in loans to joint ventures and joint venture partners in the consolidated balance sheet. A third party has agreed to time-charter the vessel following its delivery for a term of five years at a daily rate and has also agreed to pay the Joint Venture 50% of any additional amounts if the daily rate of any sub-charter earned by the third party exceeds a certain threshold.

c) Legal Proceedings and Claims

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

d) Redeemable Non-Controlling Interest

During February 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 March 31, 2011.

e) Other

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

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

For a description of how the Company estimates fair value, refer to Note 11 to the audited consolidated financial statements in the Company's Annual Report on Form 20-F for the year ended December 31, 2010. The estimated fair value of the Company's financial instruments and other non-financial assets and categorization using the fair value hierarchy for those financial instruments that are measured at fair value on a recurring basis is as follows:

	Fair Value Hierarchy Level ⁽¹⁾	March 31, 2011	Fair	December 31, 2010	Fair
		Carrying Amount Asset (Liability) \$	Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Value Asset (Liability) \$
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	1,176,540	1,176,540	1,377,399	1,377,399
Investment in term loans and interest receivable (note 4)		188,493	191,031	117,825	120,837
Loans to joint ventures and joint venture partners		33,500	33,500	32,750	32,750
Loans from joint venture partners		(14,500)	(14,500)	(59)	(59)
Long-term debt		(4,451,889)	(4,217,058)	(4,432,064)	(4,192,646)
Derivative instruments (note 15)					
Interest rate swap agreements ⁽²⁾	Level 2	(394,964)	(394,964)	(557,991)	(557,991)
Interest rate swap agreements ⁽²⁾	Level 2	55,631	55,631	66,869	66,869
Cross currency swap agreement	Level 2	10,503	10,503	4,233	4,233
Foreign currency contracts	Level 2	22,511	22,511	11,375	11,375
Forward freight agreements	Level 2	(7)	(7)		
Foinaven embedded derivative	Level 2	(3,507)	(3,507)	(3,500)	(3,500)

(1) The fair value hierarchy level is only applicable to each financial instrument on the consolidated balance sheets that are recorded at fair value on a recurring basis.

(2) The fair value of the Company's interest rate swap agreements at March 31, 2011 includes \$21.0 million (December 31, 2010 \$31.0 million) of net accrued interest which is recorded in accrued liabilities on the consolidated balance sheet.

Other than certain items disclosed in Note 7(b) to these consolidated financial statements, there are no other non-financial assets or non-financial liabilities carried at fair value at March 31, 2011.

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	March 31,	December
			2011	31, 2010
			\$	\$

Direct financing leases	Payment activity	Performing	480,248	487,516
Other loan receivables				
Investment in term loans and interest receivable	Collateral	Performing	188,493	117,825
Loans to joint ventures – current and long-term	Other internal metrics	Performing	34,682	33,932
Long-term receivable included in other assets	Payment activity	Performing	503	410
			703,926	639,683

12. Restructuring Charges

During the three months ended March 31, 2011, the Company incurred \$5.0 million of restructuring costs. 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 plans for termination of the employment of certain seafarers of the two vessels. At March 31, 2011 and December 31, 2010, \$3.8 and \$0.1 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

13. Other Income

	Three Months Ended March	
	31,	
	2011	2010
	\$	\$
Volatile organic compound emission plant lease income	903	1,430
Miscellaneous (loss) income	(809)	992
Other income	94	2,422

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14. Accumulated Other Comprehensive Loss

As at March 31, 2011 and December 31, 2010, the Company's accumulated other comprehensive loss consisted of the following components:

	March 31, 2011	December 31, 2010
	\$	\$
Unrealized gain on qualifying cash flow hedging instruments	5,692	2,307
Pension adjustments, net of tax recoveries	(17,359)	(17,551)
Unrealized gain on marketable securities	8,541	7,073
	(3,126)	(8,171)

15. Derivative Instruments and Hedging Activities

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

Foreign Exchange Risk

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

As at March 31, 2011, the Company was committed to the following foreign currency forward contracts:

	Contract Amount	Average Forward Rate ⁽¹⁾	Fair Value / Carrying Amount		Expected Maturity Remainder of	
			of Asset / (Liability)		2011	2012
			Hedge	Non-Hedge	(in millions of U.S. Dollars)	
Norwegian Kroner	910.5	6.24	\$ 7.1	\$ 9.2	\$ 93.7	\$ 52.3
Euro	41.9	0.75		2.9	39.9	16.2
Canadian Dollar	22.5	1.03	1.3		14.3	7.4
British Pounds	30.1	0.65	0.5	1.5	32.2	13.9
			\$ 8.9	\$ 13.6	\$ 180.1	\$ 89.8

(1) Average contractual exchange rate represents the contracted amount of foreign currency one U.S. Dollar will buy. The Company incurs interest expense on its Norwegian Kroner-denominated bonds. The Company entered into a cross currency swap agreement to economically hedge the foreign exchange risk on the principal and interest. As at March 31, 2011, the Company was committed to one cross currency swap with the notional amounts of NOK 600 million and \$98.5 million, which exchanges a receipt of floating interest based on NIBOR plus a margin of 4.75% with a payment of floating interest based on LIBOR plus a margin of 5.04%. In addition, the cross currency swap locks in the transfer of principal to \$98.5 million upon maturity in exchange for NOK 600 million. The fair value of the cross currency swap agreement as at March 31, 2011 and December 31, 2010 was \$10.5 million and \$4.2 million, respectively.

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.

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As at March 31, 2011, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company's floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Asset / (Liability) \$	Weighted- Average Remaining Term (Years)	Fixed Interest Rate (%) ⁽¹⁾
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	433,707	(50,108)	25.8	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	3,257,937	(292,565)	8.8	4.1
U.S. Dollar-denominated interest rate swaps ⁽³⁾	LIBOR	200,000	(36,636)	20.0	5.7
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	471,245	54,961	25.8	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps ^{(4) (5)}	EURIBOR	391,539	(14,985)	13.2	3.8

(1) Excludes the margins the Company pays on its variable-rate debt, which at of March 31, 2011 ranged from 0.30% to 3.25%.

(2) Principal amount reduces quarterly.

(3) Commencement dates of swaps are between June 2011 and September 2011 for a total principal amount of \$200 million.

(4) Principal amount reduces monthly to 70.1 million Euros (\$99.2 million) by the maturity dates of the swap agreements.

(5) Principal amount is the U.S. Dollar equivalent of 276.5 million Euros.

Spot Tanker Market Risk

In order to reduce variability in revenues from fluctuations in certain spot tanker market rates, from time to time the Company has entered into forward freight agreements (or FFAs). FFAs involve contracts to move a theoretical volume of freight at fixed-rates, thus attempting to reduce the Company's exposure to spot tanker market rates. These FFAs expire between April and June 2011. The Company has not designated these contracts as cash flow hedges for accounting purposes. Net gains and losses from FFAs are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of income (loss).

Commodity Price Risk

The Company enters into bunker fuel swap contracts relating to a portion of its bunker fuel expenditures. As at March 31, 2011, the Company had no bunker fuel swap contract commitments. Net gains and losses from bunker fuel swap contracts are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of income (loss).

Tabular Disclosure

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

	Current Portion of Derivative Assets	Derivative Assets	Accrued Liabilities	Current Portion of Derivative Liabilities	Derivative Liabilities
As at March 31, 2011:					
Derivatives designated as a cash flow hedge:					
Foreign currency contracts	6,890	2,030		(30)	
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	10,952	2,906		(237)	
Interest rate swaps	16,889	33,798	(21,250)	(123,265)	(245,504)
Cross currency swap agreement	2,695	7,567	241		
Forward freight agreements	7			(14)	
Foinaven embedded derivative	3,860			(7,367)	
	41,293	46,301	(21,009)	(130,913)	(245,504)
As at December 31, 2010:					
Derivatives designated as a cash flow hedge:					
Foreign currency contracts	3,437	1,546		(652)	
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	4,988	3,172		(1,050)	(66)
Interest rate swap agreements	16,759	45,524	(31,174)	(135,171)	(387,058)
Cross currency swap agreement	2,031	2,003	199		
Foinaven embedded derivative		3,738		(7,238)	
	27,215	55,983	(30,975)	(144,111)	(387,124)

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

Three Months Ended March 31, 2011			Three Months Ended March 31, 2010			
Balance Sheet (AOCI)	Statement of Income (Loss)		Balance Sheet (AOCI)	Statement of Income (Loss)		
Effective Portion	Effective Portion	Ineffective Portion	Effective Portion	Effective Portion	Ineffective Portion	
5,498	152	(179)				Vessel operating expenses
			(3,940)	(374)	(2,082)	General and administrative expenses
	833	95		(639)	(892)	Vessel operating expenses
5,498	985	(84)	(3,940)	(1,013)	(2,974)	General and administrative expenses

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 statements of income (loss) are as follows:

	Three Months Ended March 31,	
	2011	2010
	\$	\$
Realized (losses) gains relating to:		
Interest rate swap agreements	(33,997)	(38,586)
Interest rate swap agreement amendments	(92,672)	
Foreign currency forward contracts	1,325	(323)
Forward freight agreements and bunker fuel swap contracts	49	(2,149)
	(125,295)	(41,058)
Unrealized gains (losses) relating to:		
Interest rate swap agreements	141,859	(45,806)
Foreign currency forward contracts	6,707	(3,217)
Forward freight agreements and bunker fuel swap contracts	(7)	3,145
Foinaven embedded derivative	(7)	(911)
	148,552	(46,789)

Total realized and unrealized gains (losses) on non-designated derivative instruments	23,257	(87,847)
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Realized and unrealized gains (losses) of the cross currency swap are recognized in earnings and reported in foreign exchange gain (loss) in the consolidated statements of income (loss). For the three months ended March 31, 2011, an unrealized gain of \$6.2 million and a realized gain of \$0.7 million have been recognized in the consolidated statements of income (loss).

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%. The amount paid was reflected in the Company's 2011 consolidated financial statements as a realized loss on non-designated derivative instruments and a reduction in the outstanding liability of the interest rate swaps, which are accounted for at fair value.

As at March 31, 2011, the Company's accumulated other comprehensive loss included \$5.7 million of unrealized gains on foreign currency forward contracts designated as cash flow hedges. As at March 31, 2011, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately \$4.3 million of net gains 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. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

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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)

16. Income Tax (Expense) Recovery

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

	Three Months Ended March	
	31,	
	2011	2010
	\$	\$
Current	(395)	(1,643)
Deferred	(416)	8,950
Income tax (expense) recovery	(811)	7,307

The following is a roll-forward of the Company's unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2011 to March 31, 2011:

Balance of unrecognized tax benefits as at January 1, 2011	\$ 45,302
Increase for positions taken in prior years	767
Increase for positions related to the current period	1,039
Decrease related to statute of limitations	(3,408)
Balance of unrecognized tax benefits as at March 31, 2011	\$ 43,700

The majority of the increase for positions for the three months ended March 31, 2011 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 March 31,	
	2011	2010
	\$	\$
Net loss attributable to stockholders of Teekay Corporation	(29,657)	(14,002)
Weighted average number of common stock and common stock equivalents outstanding	71,946,997	72,788,591
Loss per common share:		
- Basic	(0.41)	(0.19)
- Diluted	(0.41)	(0.19)

The anti-dilutive effect attributable to outstanding stock-based awards is excluded from the calculation of diluted (loss) earnings per common share. For the three months ended March 31, 2011 and 2010, the anti-dilutive effect attributable to outstanding stock-based awards was 5.9 million shares and 6.5 million shares, respectively.

18. Supplemental Cash Flow Information

In February 2010, an unrelated party contributed a shuttle tanker with a value of \$35.0 million to a subsidiary of the Company in exchange for a 33% equity interest in the subsidiary as described in Note 10(d) to these unaudited consolidated financial statements. This contribution has been treated as a non-cash transaction in the Company's consolidated statement of cash flows for the three months ended March 31, 2010.

19. Subsequent Events

In April 2011, Teekay LNG completed a public offering of 4.3 million common units (including 0.6 million common units issued upon the partial exercise of the underwriters' overallotment option) at a price of \$38.88 per unit, for gross proceeds (including the general partner's proportionate capital contribution) of approximately \$168.7 million. As a result, Teekay's ownership of Teekay LNG was reduced to 43.6% (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.

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**TEEKAY CORPORATION AND SUBSIDIARIES
MARCH 31, 2011**

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 17 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, 2010.

SIGNIFICANT DEVELOPMENTS IN EARLY 2011

Public Offering by Teekay Tankers

During February 2011, our publicly-traded subsidiary Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*) completed a public offering of 9.9 million common shares of its Class A Common Stock (including 1.3 million common shares issued upon the exercise of the underwriters' overallotment option) at a price of \$11.33 per share, for gross proceeds of approximately \$112.1 million. Teekay Tankers used the net offering proceeds to repay a portion of its outstanding debt under its revolving credit facility. As a result of the transaction, our ownership of Teekay Tankers was reduced to 26.0% as of March 31, 2011. 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.

First Priority Ship Mortgage Loan

In February 2011, we made a \$70 million loan to a third party ship-owner. The loan bears interest at an interest rate of 9% per annum and has a fixed term of three years, repayable in full on maturity and is collateralized by a first-priority mortgage on one 2011-built VLCC.

Sale of Remaining Interest in OPCO to Teekay Offshore

In March 2011, we sold our remaining 49% interest in Teekay Offshore Operating L.P. (or *OPCO*), a subsidiary of our publicly-traded subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*), to Teekay Offshore for a combination of \$175 million in cash (less \$15 million in distributions made by OPCO to us between December 31, 2010 and the date of acquisition) and 7.6 million newly issued Teekay Offshore common units issued to us in a private placement. In addition, Teekay Offshore issued to its general partner a sufficient general partner interest in order for it to maintain its 2% general partner interest. The sale increased Teekay Offshore's ownership of OPCO from 51% to 100%. As a result of the transaction, our ownership of Teekay Offshore was increased to 36.9% (including our 2% general partner interest) as of March 31, 2011. We maintain control of Teekay Offshore by virtue of our control of the general partner and will continue to consolidate this subsidiary.

Public Offering by Teekay LNG

In April 2011, our publicly-traded subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*) completed a public offering of 4.3 million common units (including 0.6 million common units issued upon the partial exercise of the underwriters' overallotment option) at a price of \$38.88 per unit, for gross proceeds (including the general partner's proportionate capital contribution) of approximately \$168.7 million. Teekay LNG expects to use the net offering proceeds to fund the equity purchase price of its acquisition from Teekay of a 33% interest in four newbuilding LNG carriers. These four liquefied natural gas (or *LNG*) carriers will commence operations under time-charter to the Angola LNG Project (discussed below) upon each vessel's respective delivery, scheduled between late 2011 and early 2012. Pending delivery of the vessels, all interim and remaining net proceeds from the offering will be used to repay amounts outstanding on one of Teekay LNG's revolving credit facilities. As a result of the public offering, our ownership of Teekay LNG was reduced to 43.6% (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 this subsidiary.

Recent Offshore Business Developments

We recently entered into a joint venture agreement with Odebrecht Oil & Gas S.A. (or *Odebrecht*) to jointly pursue floating, production, storage and offloading (or *FPSO*) projects in Brazil. We are currently working with Odebrecht on

potential project opportunities and have signed an agreement with Odebrecht to be a 50% partner in the Tiro Sidon FPSO project. Odebrecht is a well-established Brazil-based company that operates globally in the engineering and construction, petrochemical, bio-energy, energy, oil and gas, real estate and environmental engineering sectors.

In addition, we have signed a letter of intent with a major oil and gas company to provide a new harsh weather FPSO unit which will operate in the North Sea. Over the past several months, we have been involved in the front-end engineering and design study for this project and are currently working towards finalizing a contract with the customer. In connection with this project, we recently signed a conditional contract with a ship yard to construct a newbuilding FPSO unit.

Table of Contents**OTHER SIGNIFICANT PROJECTS****Angola LNG Project**

We have a 33% interest in a joint venture that will charter four newbuilding 160,400-cubic meter LNG carriers for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A., and Eni SpA. The vessels will be chartered at fixed rates, with inflation adjustments, commencing in 2011. Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd. have 34% and 33% interests in the joint venture, respectively. In accordance with existing agreements, we were required to offer to sell to Teekay LNG our 33% interest in these vessels and related charter contracts at our fully built-up cost, no later than 180 days before the scheduled delivery dates of the vessels. Deliveries of the vessels are scheduled between August 2011 and January 2012. In February 2011, we offered to sell to Teekay LNG our 33% ownership interest in these vessels and related charter contracts. In March 2011, the transaction was approved by the Board of Directors of Teekay LNG's general partner and by its Conflicts Committee. Please read Item 1 Financial Statements: Note 10(b) Commitments and Contingencies Joint Ventures.

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, 2010.

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 bulk 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 this operating 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 Navion Shuttle Tankers and Offshore* business unit) includes our shuttle tankers and FSO units. 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.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended March 31,		%
	2011	2010	
Revenues	151,212	155,948	(3.0)
Voyage expenses	19,329	29,303	(34.0)
Net revenues	131,883	126,645	4.1
Vessel operating expenses	53,614	43,321	23.8

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Time-charter hire expense	19,627	25,038	(21.6)
Depreciation and amortization	30,619	30,559	0.2
General and administrative ⁽¹⁾	18,306	12,145	50.7
Loss on sale of vessels and equipment, net of write-downs of vessels and equipment	171		
Restructuring charges	3,920	325	1,106.2
Income from vessel operations	5,626	15,257	(63.1)
Calendar-Ship-Days			
Owned Vessels	2,888	2,790	3.5
Chartered-in Vessels	541	676	(20.0)
Total	3,429	3,466	(1.1)

(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 fleet size of our shuttle tanker and FSO segment (including vessels chartered-in), as measured by calendar-ship-days, decreased for the three months ended March 31, 2011, compared to the same period last year, due to a decrease in the number of chartered-in shuttle tankers and the sale of an FSO unit in March 2011, partially offset by an increase in calendar days from the acquisition of a shuttle tanker in February 2010 and the delivery of two newbuilding shuttle tankers, the *Amundsen Spirit* and the *Nansen Spirit*, in July 2010 and October 2010. The shuttle tanker and FSO segment had two shuttle tankers under construction as at March 31, 2011, of which one shuttle was delivered in May 2011 and other is scheduled for delivery in July 2011.

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Net Revenues. Net revenues increased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

an increase of \$10.5 million due to delivery of the two shuttle tankers in July 2010 and October 2010; and

an increase of \$8.7 million due to a net increase in rates on certain contracts of affreightment, bareboat and time-charter contracts as provided for in existing contracts as well as due to entering into new contracts during 2010;

partially offset by

a decrease of \$13.6 million primarily due to fewer revenue days from our shuttle tankers due to declining oil production at mature oil fields in the North Sea and a decrease in revenue days in the conventional spot market from lower demand for conventional crude transportation.

Vessel Operating Expenses. Vessel operating expenses increased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

an increase of \$3.5 million due to delivery of the two shuttle tankers in July 2010 and October 2010;

an increase of \$3.5 million due primarily to increased crewing costs from planned increases in crew wages; and

an increase of \$3.3 million due to an increase in the number of vessels drydocked, and costs related to services and spares during 2011. Certain repair and maintenance items are more efficient to complete while a vessel is in drydock; consequently, repair and maintenance costs will typically increase in periods when there is an increase in the number of vessels drydocked.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to the redelivery of two chartered-in vessels to their owners in February 2010 and November 2010.

Restructuring Charges. Restructuring charges for the three months ended March 31, 2011, primarily relate to the sale of an FSO unit, the *Karratha Spirit*, and the termination of the time-charter for a shuttle tanker, the *Basker Spirit*.

FPSO Segment

Our FPSO segment (which includes our *Teekay Petrojarl* business unit) includes our FPSO units and other vessels used to service our FPSO contracts. 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, contracts of affreightment 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:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended		% Change
	2011	2010	
Revenues	104,618	131,998	(20.7)
Vessel operating expenses	52,722	47,965	9.9
Depreciation and amortization	23,731	23,748	(0.1)
General and administrative ⁽¹⁾	14,723	8,826	66.8
Income from vessel operations	13,442	51,459	(73.9)

Calendar-Ship-Days

Owned Vessels

720

720

(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*.

Revenues. Revenues decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

a decrease of \$30.0 million for payments received under the amended operating contract for our *Petrojarl Foinaven* FPSO unit related to operations in previous years recognized in the three months ended March 31, 2010; and

a decrease of \$2.3 million from the decrease in amortization of contract value liabilities relating to FPSO service contracts (as discussed below) due to extensions of the duration of the firm periods of certain contracts;

partially offset by

an increase of \$3.5 million primarily due to a one-time accrual in the three months ended March 31, 2011 relating to an agreed adjustment to revenue for services previously rendered to the charterer of the *Cidade de Rio das Ostras* FPSO unit (the *Rio das Ostras* FPSO).

As part of our acquisition of Teekay Petrojarl ASA (or *Teekay Petrojarl*), we assumed certain FPSO service contracts that had terms that were less favorable than prevailing market terms at the time of acquisition. This contract value liability, which was initially recognized on the date of acquisition, is being amortized to revenue over the remaining firm period of the current FPSO contracts on a weighted basis, based on the projected revenue to be earned under the contracts. The amount of amortization relating to these contracts included in revenue for the three months ended March 31, 2011 was \$10.8 million (2010 - \$13.1 million). The decrease for the three months ended March 31, 2011, compared to 2010, was due to increases in the amortization periods resulting from operating contract amendments and changes to expected contract durations for two of our FPSO units.

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Vessel Operating Expenses. Vessel operating expenses increased during the three months ended March 31, 2011, compared to the same period last year, primarily due to:

- an increase of \$2.0 million due to increased repairs compared to the same period last year related to work performed on the *Rio das Ostras* FPSO unit while on yard stay; and
- an increase of \$1.4 million due to increased crewing costs compared to the same period last year related to planned crew wage increases.

Liquefied Gas Segment

Our liquefied gas segment (which includes our *Teekay Gas Services* business unit) consists of 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 March 31,		% Change
	2011	2010	
Revenues	64,633	62,534	3.4
Voyage expenses	49	(27)	(281.5)
Net revenues	64,584	62,561	3.2
Vessel operating expenses	11,077	11,370	(2.6)
Depreciation and amortization	14,856	15,527	(4.3)
General and administrative ⁽¹⁾	6,605	4,771	38.4
Restructuring charges	129	119	8.4
Income from vessel operations	31,917	30,774	3.7

Calendar-Ship-Days

Owned Vessels and Vessels under Direct Financing Lease

	2011	2010	% Change
Owned Vessels and Vessels under Direct Financing Lease	1,170	1,260	(7.1)

(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 **Other Operating Results - General and Administrative Expenses**.

The decrease in the average fleet size of our liquefied gas segment, as measured by calendar-ship-days, was primarily due to the sale of the *Dania Spirit* LPG carrier in November 2010. At March 31, 2011, we had one LPG carrier and two multi-gas carriers under construction, which are scheduled for delivery in 2011. In addition, we have a 33% interest in four LNG carriers under construction that are scheduled for delivery between August 2011 and January 2012, and will be accounted for under the equity basis. Upon delivery, all of these vessels will commence operation under long-term, fixed-rate time-charters. Please read **Item 1 - Financial Statements: Note 10(a) Commitments and Contingencies - Vessels Under Construction** and **Note 10(b) Commitments and Contingencies - Joint Ventures**.

During the three months ended March 31, 2010 one of our vessels, the *Arctic Spirit* was offhire for 90 days, of which approximately 22 days were related to a scheduled drydocking, with the remainder due to the *Arctic Spirit* being offhire with no charter contract. The *Arctic Spirit* commenced a short-term voyage charter contract during the fourth quarter of 2010.

Net Revenues. Net revenues increased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

an increase of \$3.1 million due to the increased time-charter rate on the *Polar Spirit* and the *Arctic Spirit* being offhire during the three months ended March 31, 2010 as discussed above;

partially offset by

a decrease of \$1.2 million due to the sale of the *Dania Spirit* LPG carrier.

Vessel Operating Expenses. Vessel operating expenses decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

a decrease of \$0.8 million due to the sale of the *Dania Spirit* LPG carrier; and

a decrease of \$0.2 million due to reduced insurance premiums on our vessels;

partially offset by

an increase of \$0.6 million due to timing of services and an increase in manning levels for certain of our LNG carriers.

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Depreciation and Amortization. Depreciation and amortization expense decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

a decrease of \$0.5 million due to certain capitalized drydocking expenditures being fully amortized during 2010; and

a decrease of \$0.3 million from the sale of the *Dania Spirit* LPG carrier.

Conventional Tanker Segment

Our conventional tanker segment consists of conventional crude oil and product tankers that are: subject to long-term, fixed-rate time-charter contracts, which have an original term of one year or more; operate in the spot tanker market; or 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.

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Three Months Ended March 31,		% Change
	2011	2010	
Revenues	87,987	94,032	(6.4)
Voyage expenses	1,161	696	66.8
Net revenues	86,826	93,336	(7.0)
Vessel operating expenses	25,843	25,997	(0.6)
Time-charter hire expense	7,395	15,139	(51.2)
Depreciation and amortization	21,909	19,816	10.6
General and administrative ⁽¹⁾	15,626	8,979	74.0
Loss on sale of vessels and equipment, net of write-downs of vessels and equipment	133	765	(82.6)
Restructuring charges	1,078	106	917.0
Income from vessel operations	14,842	22,534	(34.1)
Calendar-Ship-Days			
Owned Vessels	2,939	2,866	2.5
Chartered-in Vessels	405	711	(43.1)
Total	3,343	3,577	(6.5)

(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 months ended March 31, 2011, compared to the same period last year, primarily due to:

- the transfer of two Aframax tankers, on a net basis, to the spot tanker sub-segment in 2010 and early 2011 upon commencement of charters, which have an original term of less than one year;
- the sale of one product tanker in August 2010;
- the transfer of one in-chartered VLCC to the spot tanker sub-segment in January 2011; and
- an overall decrease in the number of in-chartered vessels days;

partially offset by

- the transfer of one Suezmax tanker from the spot tanker sub-segment in April 2010.

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

The Aframax transfers, discussed above, consist of the transfer of five owned vessels from the spot tanker sub-segment, and the transfer of three owned vessels and four in-chartered vessels to the spot tanker sub-segment.

These transactions resulted in a decrease to the fixed tanker sub-segment's net revenues, time-charter hire expense, vessel operating expenses, and depreciation and amortization.

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Net Revenues. Net revenues decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

- a decrease of \$4.1 million from the Net Fleet Reductions;
- a decrease of \$3.2 million from the transfer of an in-chartered vessel to the spot tanker sub-segment in April 2010; and
- a decrease of \$3.0 million from the sale of a product tanker in August 2010;

partially offset by

- an increase of \$3.4 million resulting from interest income from our investment in term loans, as discussed below; and
- an increase of \$0.4 million due to adjustments to the daily charter rates based on inflation and increases from rising interest rates in accordance with the time-charter contracts for five Suezmax tankers (however, under the terms of these capital leases, we had corresponding increases in our lease payments, which are reflected as increases to interest expense; therefore, these and future similar interest rate adjustments do not affect our cash flow or net income (loss)).

We earned interest income of \$3.4 million for the three months ended March 31, 2011 from our investment in three term loans which totaled \$186 million as at March 31, 2011 and which are collateralized by first priority mortgages on three VLCCs. Please read Item 1 Financial Statements: Note 4 Investment in Term Loans.

Vessel Operating Expenses. Vessel operating expenses decreased for the three month ended March 31, 2011, compared to the same period last year, primarily due to:

- a decrease of \$2.1 million from the sale of a product tanker in August 2010; and
- a decrease of \$0.3 million from the Net Fleet Reductions;

partially offset by

- an increase of \$2.2 million relating to higher crewing costs, timing of repairs and maintenance costs and vessel damage claims.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to the transfer of an in-chartered VLCC to the spot tanker sub-segment and a decrease in the number of in-chartered vessel days as vessels were redelivered to their owners upon expiration of in-charter contracts.

Depreciation and Amortization. Depreciation and amortization expense increased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

- an increase of \$1.6 million from the Net Fleet Reductions; and
- an increase of \$0.5 million from an increase in capitalized drydocking expenditures incurred during the second half of 2010.

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.

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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		
	March 31,		
	2011	2010	% Change
Revenues	79,574	128,363	(38.0)
Voyage expenses	24,587	42,578	(42.3)
Net revenues	54,987	85,785	(35.9)
Vessel operating expenses	18,321	25,882	(29.2)
Time-charter hire expense	36,010	39,074	(7.8)
Depreciation and amortization	13,923	18,580	(25.1)
General and administrative ⁽¹⁾	14,958	13,370	11.9
Loss (gain) on sale of vessels and equipment, net of write-downs of vessels and equipment	3,289	(5)	(65,880.0)
Restructuring charges	(166)	3,233	(105.1)
Loss from vessel operations	(31,348)	(14,349)	118.5
Calendar-Ship-Days			
Owned Vessels	1,921	2,288	(16.0)
Chartered-in Vessels	1,645	1,437	(14.5)
Total	3,566	3,725	(4.3)

(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 months ended March 31, 2011, compared to the same period last year, primarily due to:

the sale two Aframax tankers in April 2010 and August 2010; and
the transfer of one Suezmax tanker to the fixed-rate tanker sub-segment in April 2010;

partially offset by

the transfer of one in-chartered VLCC from the fixed-rate tanker sub-segment in January 2011; and
the transfer of two Aframax tankers, on a net basis, from the fixed-rate tanker sub-segment in 2010 and early 2011

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

Tanker Market and TCE Rates

While average crude tanker freight rates improved slightly in the first quarter of 2011, they remained generally weak due primarily to an oversupply of vessels relative to demand. Rising bunker costs throughout the course of the first quarter also had a negative impact on tanker earnings. However, a number of factors led to a gradual improvement in tanker rates during the course of the quarter. In the Atlantic, severe ice conditions in the Baltic coupled with disruption to Libyan oil supply as a result of political unrest, led to volatility in European crude tanker rates, particularly in February 2011. The decline in Libyan production also prompted OPEC to increase crude oil production, adding to tanker tonne-mile demand. In the Pacific, the devastating earthquake in Japan in March 2011 resulted in an increase in fuel and crude oil imports for power generation, which provided support to Pacific Aframax rates in March and

April 2011.

The world tanker fleet grew by 8.1 million deadweight tonnes (or *mdwt*), or 1.8%, during the first quarter of 2011 compared to 5.2 *mdwt*, or 1.2%, in the same period last year. There has been a notable increase in charterer discrimination against first generation double-hull tankers with a small number of early 1990s-built vessels sold for scrap in the early part of this year. In combination with the current weakness in spot tanker rates, the rising trend in scrap steel prices may lead to an increase in scrapping later in 2011.

According to the International Energy Agency, global oil demand is expected to reach 89.2 million barrels per day (or *mb/d*) in 2011, an increase of 1.3 *mb/d*, or 1.5%, from 2010 as global GDP is projected to grow by 4.4% in 2011. Growth in global oil demand in 2011 is expected to arise entirely from non-OECD countries, in particular China where oil demand grew by 10% year-on-year in the first quarter of 2011.

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The following table outlines the TCE rates earned by the vessels in our spot tanker sub-segment for the three months ended March 31, 2011 and 2010, 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					
	March 31, 2011			March 31, 2010		
	Net Revenues (\$000 s)	Revenue Days	TCE Rate \$	Net Revenues (\$000 s)	Revenue Days	TCE Rate \$
Spot Fleet ⁽¹⁾						
Suezmax Tankers	22,557	1,215	18,562	37,815	1,237	30,563
Aframax Tankers	24,384	1,827	13,345	42,192	2,194	19,231
Large/Medium Product Tankers/VLCC	7,552	499	15,144	7,122	495	14,388
Other ⁽²⁾	494			(1,344)		
Totals	54,987	3,541	15,528	85,785	3,926	21,849

(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 amortization of in-process revenue contracts and the cost of fuel while offhire.

Average spot tanker TCE rates decreased for the three months ended March 31, 2011, compared to the same period last year. The TCE rates for the three months ended March 31, 2011 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 through the sale of certain vessels that were trading on the spot market, entered into fixed-rate time charters for certain tankers that were previously trading in the spot market, and re-delivered in-chartered vessels. This shift away from our spot tanker employment to fixed-rate employment provided increased cash flow stability through a volatile spot tanker market.

Net Revenues. Net revenues decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to a decrease of \$32.8 million primarily from decreases in our average spot tanker TCE rates due to the relative weakening of the spot tanker market and a decrease in the amortization of contract value liabilities relating to certain spot tanker contracts.

Vessel Operating Expenses. Vessel operating expenses decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

- a decrease of \$5.4 million from lower crewing costs due to the positive impact of foreign currency exchange rate fluctuations, a reduction in the number of crew on some vessels, as well as lower repairs and maintenance and consumable costs resulting from the review and renegotiation of several key supplier contracts in the prior periods; and
- a decrease of \$2.2 million from the Net Spot Fleet Reductions.

Time-Charter Hire Expense. Time-charter hire expense decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to a decrease in the in-charter contract hire rates.

Depreciation and Amortization. Depreciation and amortization expense decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to:

- a decrease of \$2.2 million from a decrease of amortization of certain intangible contracts which were fully amortized in 2010;

a decrease of \$1.5 million from the Net Spot Fleet Reductions; and
a net decrease of \$0.5 million from a decrease in amortization of capitalized vessels and equipment costs,
partially offset by an increase in amortization of capitalized drydocking expenditures.

Loss on Sale of Vessels and Equipment, Net of Write-downs of Vessels and Equipment. Loss on sale of vessels and equipment for the three months ended March 31, 2011, relates primarily to a \$3.4 million write-down for impairment of a 1993-built Aframax tanker to its estimated fair value, as the vessel carrying value exceeded the estimated fair value.

Restructuring Charges. Restructuring charges of \$3.2 million for the three months ended March 31, 2010, primarily relate to costs incurred for certain vessel crew changes.

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The following table compares our other operating results for the three months ended March 31, 2011 and 2010:

(in thousands of U.S. dollars, except percentages)	Three Months Ended		% Change
	2011	2010	
	March 31,		
General and administrative	(70,218)	(48,091)	46.0
Interest expense	(32,794)	(32,152)	2.0
Interest income	2,465	4,274	(42.3)
Realized and unrealized gains (losses) on non-designated derivative instruments	23,257	(87,847)	(126.5)
Equity income (loss) from joint ventures	6,394	(2,666)	(339.8)
Foreign exchange (loss) gain	(20,340)	29,026	(170.1)
Loss on notes repurchase		(12,108)	(100.0)
Other income	94	2,422	(96.1)
Income tax (expense) recovery	(811)	7,307	(111.1)

General and Administrative. General and administrative expense increased to \$70.2 million for the three months ended March 31, 2011, from \$48.1 million for the same period last year, primarily due to:

an increase of \$15.1 million in salaries and benefits due primarily to a one-time pension expense related to the retirement of our former President and Chief Executive Officer on March 31, 2011 and an increase in the number of shore-based employees;

an increase of \$9.6 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; and

an increase of \$0.8 million from higher personnel expenses associated with corporate education and training, employee relocation and hiring costs and from timing of other corporate expenses which included increased business development activity compared to 2010;

partially offset by

a decrease of \$2.2 million due to a favorable increase in unrealized and realized gains on foreign currency forward contracts; and

a decrease of \$1.2 million from our short-term incentive program for employees and management.

Interest Expense. Interest expense increased to \$32.8 million for the three months ended March 31, 2011, from \$32.2 million for the same period last year, primarily due to:

an increase of \$0.6 million due to an increase of EURIBOR rates relating our Euro-denominated debt and from declining interest rates on our five Suezmax tanker capital lease obligations; and

an increase of \$0.4 million primarily due to the effect of the January 2010 public offering of our 8.5% senior unsecured notes due January 2020, with a principal amount of \$450 million, partially offset by the repurchase of a majority of our 8.875% senior notes due July 2011;

partially offset by

a decrease of \$0.4 million from the scheduled loan payments on the LNG carrier, the *Catalunya Spirit*, and scheduled capital lease repayments on the LNG carrier, the *Madrid Spirit* (the *Madrid Spirit* is 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).

The debt repayments under long-term revolving credit facilities for the three months ended March 31, 2011 were primarily funded with net proceeds from the issuance of equity securities by our publicly-listed subsidiaries and from the sale of assets to third parties. When one of our publicly-listed subsidiaries acquires an asset from us, a significant

portion of the acquisition typically has been financed through the issuance to the public of equity securities by the subsidiary. To the extent that there are no immediate investment opportunities, we have generally applied the proceeds from the issuance of these equity offerings and from the sale of assets to third parties towards debt reduction or increasing our cash balances.

Interest Income. Interest income decreased for the three months ended March 31, 2011, compared to the same period last year, primarily due to lower interest income earned on our cash account balances and scheduled capital lease repayment on one of our LNG carriers which was funded from restricted cash deposits that earn interest.

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Realized and unrealized gains (losses) on non-designated derivative instruments. Realized and unrealized gains (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). The realized gains (losses) relate to the amounts we actually received or paid to settle such derivative instruments and the unrealized gains (losses) relate to the change in fair value of such derivative instruments. For the three months ended March 31, 2011 and 2010, such realized and unrealized gains (losses) on non-designated derivative instruments were as follows:

(in thousands of U.S. Dollars)	Three Months Ended	
	March 31,	
	2011	2010
Realized (losses) gains relating to:		
Interest rate swap agreements	(33,997)	(38,586)
Interest rate swap agreement amendments	(92,672)	
Foreign currency forward contracts	1,325	(323)
Forward freight agreements and bunker fuel swap contracts	49	(2,149)
	(125,295)	(41,058)
Unrealized gains (losses) relating to:		
Interest rate swap agreements	141,859	(45,806)
Foreign currency forward contracts	6,707	(3,217)
Forward freight agreements, bunker fuel swap contracts and other	(14)	2,234
	148,552	(46,789)
Total realized and unrealized gains (losses) on non-designated derivative instruments	23,257	(87,847)

Foreign Exchange (Loss) Gain. The changes in foreign exchange (loss) gain for the three months ended March 31, 2011, compared to the same period last year were primarily attributable to the revaluation of our Euro-denominated term loans at the end of each period for financial reporting purposes, and substantially all of the gains or losses are unrealized. Gains reflect a stronger U.S. Dollar against the Euro on the date of revaluation. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation. Currently, our Euro-denominated revenues generally approximate our Euro-denominated operating expenses and our Euro-denominated interest and principal repayments.

Equity Income (Loss) from Joint Ventures. Our equity income (loss) from joint ventures was an income of \$6.4 million for the three months ended March 31, 2011, compared to a loss of \$2.7 million for the same period last year. The income or loss was primarily comprised of our share of the earnings (loss) from the Angola LNG Project, and from the Exmar and RasGas 3 Joint Ventures. For the three months ended March 31, 2011, \$4.2 million of the equity income relates to our share of unrealized gains on interest rate swaps, compared to unrealized losses on interest rate swaps of \$6.1 million, included in equity income (loss) for the same period last year.

Income Tax (Expense) Recovery. The increase to income tax expense for the three months ended March 31, 2011, compared to the same period last year were primarily due to an increase in deferred income tax expense relating to unrealized foreign exchange translation gains.

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 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 March 31, 2011, our total cash and cash equivalents totaled \$567.3 million, compared to \$779.7 million as at December 31, 2010. As at March 31, 2011, our total liquidity, including cash and undrawn credit facilities was \$2.2 billion, compared to \$2.4 billion as at December 31, 2010.

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 March 31, 2011, we had \$472.1 million of scheduled debt repayments and \$270.9 million of capital lease obligations coming due within the next 12 months, of which we are currently negotiating a refinancing of \$209 million of such debt. There is no assurance we will finalize negotiations to refinance this debt. 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, will be sufficient to meet our existing liquidity needs for at least the next 12 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 the revolving credit facilities. As of March 31, 2011, pre-arranged debt facilities were in place for a majority of our then remaining capital commitments relating to our portion of newbuildings then on order. 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.

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As at March 31, 2011, our revolving credit facilities provided for borrowings of up to \$3.3 billion, of which \$1.6 billion was undrawn. The amount available under these revolving credit facilities reduces by \$223.3 million (remainder of 2011), \$353.3 million (2012), \$760.2 million (2013), \$791.8 million (2014), \$226.4 million (2015) and \$930.4 million (thereafter). The revolving credit facilities are collateralized by first-priority mortgages granted on 64 of our vessels, together with other related security, and are guaranteed by Teekay 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 29 of our vessels, together with other related security, and are generally guaranteed by Teekay or our subsidiaries. Our unsecured 8.875% Senior Notes, amounting to \$16.2 million at March 31, 2011, are due July 15, 2011.

Among other matters, our long-term debt agreements generally provide for the maintenance of certain vessel market value-to-loan ratios and minimum consolidated financial covenants and prepayment privileges, in some cases with penalties. Certain of the loan agreements require that we maintain a minimum level of free cash and as at March 31, 2011, this amount was \$100.0 million. Certain 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 at least 7.5% of total debt and as at March 31, 2011, this amount was \$236.7 million. We were in compliance with all of our loan covenants at March 31, 2011.

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.

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. With the exception of some of our forward freight agreements, we do not use these financial instruments for trading or speculative purposes. 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 years presented:

	Three Months ended March	
	31,	
(in thousands of U.S. Dollars)	2011	2010
Net operating cash flows	(92,674)	94,781
Net financing cash flows	20,208	151,621
Net investing cash flows	(139,957)	(33,551)

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 historically has contributed significantly to fluctuations in operating cash flows as a result of highly cyclical spot tanker rates.

Net cash flow from operating activities decreased to a net cash outflow of \$85.0 million for the three months ended March 31, 2011, from a net cash inflow \$94.8 million for the three months ended March 31, 2010. The net cash flow from operating activities in the three months ended March 31, 2011 decreased due to increases in working capital related to our vessel operations, an increase in interest expense, restructuring charges in our shuttle tanker and FSO segment and a decrease from our spot tanker sub-segment due to a reduction in the size of our spot tanker sub-segment fleet and a reduction in the average TCE rate earned by these vessels during the three months ended

March 31, 2011 compared to the same period last year. The restructuring charges were related to the sale of an FSO unit, the *Karratha Spirit*, and the termination of the time-charter for a shuttle tanker, the *Basker Spirit*. The net cash flow from operating activities in the three months ended March 31, 2011 also includes payments totaling \$92.7 million to the counterparties of five interest rate swap agreements in consideration for amending the terms of such agreements to reduce the weighted average fixed interest rate from 5.1% to 2.5%. In the prior three month period ended March 31, 2010, our net cash flow from operating activities included \$30.0 million related to the Foinaven FPSO contract amendment.

The results of our four reportable segments are explained in further detail in [Results of Operations](#) .

Financing Cash Flows

In October 2010, Teekay announced that management intended to commence repurchasing shares under our \$200 million share repurchase program. Shares will be repurchased in the open market at times and prices considered appropriate by us. The timing of any purchases and the exact number of shares to be purchased will be dependent on market conditions. During the three months ended March 31, 2011, we repurchased 0.6 million shares of our common stock for \$19.9 million, at an average cost of \$34.14 per share, pursuant to the share repurchase program. The total remaining share repurchase authorization at March 31, 2011, was \$140 million. Please read [Item 1 Financial Statements: Note 9 Capital Stock](#).

During the three months ended March 31, 2011, our net proceeds from long-term debt net of debt issuance costs were \$225.7 million and our repayments and prepayments of long-term debt were \$234.1 million.

In February 2011, Teekay Tankers completed a public offering of 9.9 million common shares of its Class A Common Stock (including 1.3 million common shares issued upon the exercise of the underwriters' overallotment option) at a price of \$11.33 per share, for gross proceeds of approximately \$112.1 million. Please read [Item 1 Financial Statements: Note 6 Financing Transactions](#).

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In April 2011, Teekay LNG completed a public offering of 4.3 million common units (including 0.6 million common units issued upon the partial exercise of the underwriters' overallotment option) at a price of \$38.88 per unit, for gross proceeds (including the general partner's proportionate capital contribution) of approximately \$168.7 million. Please read Item 1 Financial Statements: Note 19 Subsequent Events.

Dividends paid during the three months ended March 31, 2011, were \$23.2 million, or \$0.3163 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 in such amount per share on our common stock. We have paid a quarterly dividend since 1995.

Distributions from subsidiaries to non-controlling interests during the three months ended March 31, 2011, were \$48.1 million.

Investing Cash Flows

During the three months ended March 31, 2011, we:

incurred capital expenditures for vessels and equipment of \$83.8 million, primarily for capitalized vessel modifications and shipyard construction installment payments on our newbuilding shuttle tankers and the conversion costs of an FPSO unit;

invested in a term loan for \$70.0 million 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 is collateralized by a first priority mortgage on a 2011-built VLCC; and

received net proceeds of \$5.1 million from the sale of a 1988-built FSO unit.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The following table summarizes our long-term contractual obligations as at March 31, 2011:

In millions of U.S. Dollars	Total	Remainder of 2011	2012 and 2013	2014 and 2015	Beyond 2015
U.S. Dollar-Denominated Obligations:					
Long-term debt ⁽¹⁾	4,060.4	212.2	762.2	1,112.2	1,973.8
Chartered-in vessels (operating leases)	366.2	132.3	176.5	39.0	18.4
Commitments under capital leases ⁽²⁾	192.0	192.0			
Commitments under capital leases ⁽³⁾	1,019.1	18.0	48.0	48.0	905.1
Commitments under operating leases ⁽⁴⁾	451.7	18.8	50.2	50.2	332.5
Newbuilding installments ⁽⁵⁾ ⁽⁶⁾	692.4	545.3	147.1		
Asset retirement obligation	24.1				24.1
Total U.S. Dollar-denominated obligations	6,805.9	1,118.6	1,184.0	1,249.4	3,253.9
Euro-Denominated Obligations: ⁽⁷⁾					
Long-term debt ⁽⁸⁾	391.5	10.4	226.0	17.3	137.8
Commitments under capital leases ⁽²⁾ ⁽⁹⁾	91.8	91.8			
Total Euro-denominated obligations	483.3	102.2	226.0	17.3	137.8
Total	7,289.2	1,220.8	1,410.0	1,266.7	3,391.7

(1)

Excludes expected interest payments of \$88.7 million (remainder of 2011), \$170.6 million (2012 and 2013), \$133.6 million (2014 and 2015) and \$245.6 million (beyond 2015). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR plus margins that ranged up to 3.25% at March 31, 2011 (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 of certain of our floating-rate debt.

- (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. We are obligated to purchase five of our existing Suezmax tankers upon the termination of the related capital leases, which may occur in 2011. The purchase price will be based on the unamortized portion of the vessel construction financing costs for the vessels, which we expect to range from \$31.7 million to \$39.2 million per vessel. 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 \$476.9 million, together with the interest earned on the 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 and expect to receive approximately \$411.9 million for these leases from 2011 to 2029. As at March 31, 2011, we had received \$98.5 million of lease receipts.
- (5) Represents remaining construction costs (excluding capitalized interest and miscellaneous construction costs) for one FPSO unit, one LPG carrier, two multi-gas carriers and two shuttle tankers as of March 31, 2011. Please read Item 1 Financial Statements: Note 10(a) Commitments and Contingencies Vessels Under Construction.

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- (6) We have a 33% interest in a joint venture that has entered into agreements for the construction of four LNG carriers and a 50% interest in a joint venture that has entered into an agreement for the construction of a VLCC. As at March 31, 2011, the remaining commitments on these vessels, excluding capitalized interest and other miscellaneous construction costs, totaled \$644.6 million of which our share is \$226.1 million. Please read Item 1 Financial Statements: Note 10(b) Commitments and Contingencies Joint Ventures.
- (7) Euro-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as at March 31, 2011.
- (8) Excludes expected interest payments of \$4.6 million (remainder of 2011), \$6.8 million (2012 and 2013), \$4.6 million (2014 and 2015) and \$11.4 million (beyond 2015). Expected interest payments are based on EURIBOR at March 31, 2011, plus margins that ranged up to 0.66%, as well as the prevailing U.S. Dollar/Euro exchange rate as of March 31, 2011. 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 floating-rate debt.
- (9) Existing restricted cash deposits of \$88.4 million, together with the interest earned on these deposits, are expected to equal the remaining amounts we owe under the lease arrangement, including our obligation to purchase the vessel at the end of the lease term.

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.

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 differ from our assumptions and estimates, and such differences could be material. 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, 2010.

FORWARD-LOOKING STATEMENTS

This Report on Form 6-K for the three months ended March 31, 2011, 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 growth prospects;
- our ability to competitively pursue new FPSO projects;
- tanker market fundamentals, including the balance of supply and demand in the tanker market and spot tanker charter rates;
- the expected return on our investment in first priority ship mortgage loans;
- the sufficiency of working capital for short-term liquidity requirements;
- future capital expenditure commitments and the financing requirements for such commitments;
- delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time-charter contracts;
- potential newbuilding order cancellations;
- the expected timing and costs of upgrades to any vessels;
- our ability to pay dividends on our common stock;
- the future valuation of goodwill;

our compliance with covenants under our credit facilities;
the outcome of our negotiations to refinance \$209 million of debt;
our hedging activities relating to foreign currency exchange and interest rate risks;
the adequacy of restricted cash deposits to fund capital lease obligations;
the effectiveness of our risk management policies and procedures and the ability of the counter-parties to our derivative contracts to fulfill their contractual obligations;
the condition of financial and economic markets, including interest rate volatility and the availability and cost of capital; and
the growth of global oil demand.

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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 , pr 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: changes in production of oil from offshore oil fields; changes in the demand for offshore oil transportation, processing and storage services; changes in demand for LNG and LPG; greater or less than anticipated levels of vessel newbuilding orders or greater or less than anticipated rates of vessel scrapping; changes in trading patterns; changes in volumes of oil purchased under the *Foinaven* contract and the related price of oil; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; loss of any customer, time-charter or vessel; shipyard production or vessel delivery delays; our potential inability to raise financing to purchase additional vessels; our exposure to foreign currency exchange, interest rate and tanker spot market rate fluctuations; conditions in the public equity markets; and other factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2010. We do not intend 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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TEEKAY CORPORATION AND SUBSIDIARIES
MARCH 31, 2011

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 do not use these financial instruments for trading or speculative purposes, except as noted below under Spot Tanker Market Rate Risk. 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 March 31, 2011, we had the following foreign currency forward contracts:

	Expected Maturity Date			
	Remainder of 2011	2012	Total	Total
	Contract Amount ⁽¹⁾	Contract Amount ⁽¹⁾	Contract Amount ⁽¹⁾	Fair value Asset ⁽¹⁾
Norwegian Kroner:	\$ 93.7	\$ 52.3	\$ 146.0	\$ 16.3
Average contractual exchange rate ⁽²⁾	6.15	6.34	6.24	
Euro:	\$ 39.9	\$ 16.2	\$ 56.1	\$ 2.9
Average contractual exchange rate ⁽²⁾	0.74	0.76	0.75	
Canadian Dollar:	\$ 14.3	\$ 7.5	\$ 21.8	\$ 1.3
Average contractual exchange rate ⁽²⁾	1.04	1.02	1.03	
British Pounds:	\$ 32.2	\$ 13.9	\$ 46.1	\$ 2.0
Average contractual exchange rate ⁽²⁾	0.65	0.66	0.65	

(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. We have not entered into any forward contracts to protect against the translation risk of our foreign currency-denominated liabilities. As at March 31, 2011, we had Euro-denominated term loans of 276.5 million Euros (\$391.5 million) included in long-term debt and Norwegian Kroner-denominated deferred income taxes of approximately 59.7 million (\$10.8 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 exposure to

fluctuations in the Euro will not increase in the future.

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.

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The table below provides information about our financial instruments at March 31, 2011, 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.

	2011	Expected Maturity Date					Total	Fair Value Asset / (Liability)	Rate ⁽¹⁾	
		2012	2013	2014	2015	Thereafter				
		(in millions of U.S. dollars, except percentages)								
Long-Term Debt:										
Variable Rate (\$U.S.) ⁽²⁾	162.8	262.3	411.2	860.0	163.6	1,318.3	3,178.1	(2,832.5)	1.2%	
Variable Rate (Euro) ^{(3) (4)}	10.4	218.3	7.7	8.3	8.9	137.9	391.5	(364.6)	1.6%	
Fixed-Rate Debt (\$U.S.)	60.6	44.4	44.3	44.3	44.3	655.5	882.3	(1,019.9)	7.0%	
Average Interest Rate	6.2%	5.2%	5.2%	5.2%	5.2%	7.5%	7.0%			
Capital Lease Obligations ^{(5) (6)}										
Fixed-Rate (\$U.S.) ⁽⁷⁾	183.1						183.1	(183.1)	7.4%	
Average Interest Rate ⁽⁸⁾	7.4%						7.4%			
Interest Rate Swaps:										
Contract Amount (\$U.S.) ^{(6) (9) (10)}	143.0	276.3	82.5	96.4	68.5	2,791.3	3,457.9	(329.2)	4.2%	
Average Fixed Pay Rate ⁽²⁾	3.2%	3.0%	4.6%	4.6%	4.6%	5.2%	4.2%			
Contract Amount (Euro) ^{(4) (9)}	10.4	218.3	7.7	8.3	8.9	138.0	391.6	(15.0)	3.8%	
Average Fixed Pay Rate ⁽³⁾	3.8%	3.8%	3.7%	3.7%	3.7%	3.8%	3.8%			

(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 March 31, 2011, ranged from 0.3% to 3.25%. 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 EURIBOR.

- (4) Euro-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of March 31, 2011.
- (5) Excludes capital lease obligations (present value of minimum lease payments) of 62.1 million Euros (\$87.9 million) on one of our existing LNG carriers with a weighted-average fixed interest rate of 5.8%. Under the terms of this fixed-rate lease obligation, we are required to have on deposit, subject to a weighted-average fixed interest rate of 5.1%, an amount of cash that, together with the interest earned thereon, will fully fund the amount owing under the capital lease obligation, including a vessel purchase obligation. As at March 31, 2011, the amount on deposit was 62.5 million Euros (\$88.4 million). Consequently, we are not subject to interest rate risk from these obligations or deposits.
- (6) Under the terms of the capital leases for the RasGas II LNG Carriers (see Item 1 Financial Statements: Note 5 Vessel Charters), 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 March 31, 2011 totaled \$476.9 million, and the lease obligations, which as at March 31, 2011 totaled \$470.9 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 March 31, 2011, 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 \$433.7 million and \$471.2 million, (\$50.1) million and \$55.0 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 monthly at the 1-month LIBOR or EURIBOR, quarterly at the 3-month LIBOR or semi-annually at the 6-month LIBOR.
- (10) Includes interest rate swaps of \$200 million that commence in June 2011 and September 2011.

Commodity Price Risk

From time to time we use bunker fuel swap contracts as economic hedges to protect against changes in forecasted bunker fuel costs for certain vessels being time-chartered-out and for vessels servicing certain contracts of affreightment. As at March 31, 2011, we have no bunker fuel swap commitments.

Spot Tanker Market Rate Risk

We use forward freight agreements (or *FFAs*) as economic hedges to protect against changes in spot tanker market rates earned by some of our vessels in our spot tanker segment. *FFAs* involve contracts to move a theoretical volume of freight at fixed-rates. As at March 31, 2011, the *FFAs* had a nominal net fair value liability. The *FFAs* expire between April 2011 and June 2011. We have not designated these contracts as cash flow hedges for accounting purposes.

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**TEEKAY CORPORATION AND SUBSIDIARIES
MARCH 31, 2011
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, 2010, 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 Reserved

None

Item 5 Other Information

None

Item 6 Exhibits

Exhibit 1.3 Amended and Restated Bylaws of Teekay Corporation

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

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: May 31, 2011

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

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