TEEKAY CORP
Form 20-F
April 30, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________
For the transition period from __________ to __________
Commission file number 1-12874
TEEKAY CORPORATION
(Exact name of Registrant as specified in its charter)
Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)
4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
(Address of principal executive offices)
Roy Spires
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530 Fax: (441) 292-3931
(Contact Information for Company Contact Person)
Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Stock, par value of $0.001 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

72,694,345 shares of Common Stock, par value of $0.001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

TEEKAY CORPORATION
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PART I

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this Annual Report to Teekay, we, us and our and similar terms refer to Teekay Corporation and its subsidiaries.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words expect, intend, plan, believe, anticipate, estimate and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

- our future financial condition or results of operations and future revenues and expenses;
- tanker market conditions and fundamentals, including the balance of supply and demand in these markets and spot tanker charter rates and oil production;
- offshore, liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) market conditions and fundamentals, including the balance of supply and demand in these markets;
- our future growth prospects;
- our expected benefits of the OMI acquisition;
- the sufficiency of our working capital for short-term liquidity requirements;
- future capital expenditure commitments and the financing requirements for such commitments;
- estimated costs and timing of implementation of the EU Directive to burn only low sulphur fuel, and our ability to timely comply with this Directive;
- delivery dates of and financing for newbuildings, and the commencement of service of newbuildings under long-term time-charter contracts;
- potential newbuildings order cancellations;
- construction and delivery delays in the tanker industry generally;
- the future valuation of goodwill;
- the adequacy of restricted cash deposits to fund capital lease obligations;
- our compliance with covenants under our credit facilities;
- our ability to fulfill our debt obligations;
- compliance with financing agreements and the expected effect of restrictive covenants in such agreements;
- declining market values of our vessels and the effect on our liquidity;
- operating expenses, availability of crew and crewing costs, number of off-hire days, drydocking requirements and durations and the adequacy and cost of insurance;
- our ability to capture some of the value from the volatility of the spot tanker market and from market imbalances by utilizing forward freight agreements;
- the ability of the counterparties to our derivative contracts to fulfill their contractual obligations;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term contracts;
- the cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;
- the impact of future regulatory changes or environmental liabilities;
- taxation of our company and of distributions to our stockholders;
- the expected life-spans of our vessels;
- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;

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- anticipated funds for liquidity needs and the sufficiency of cash flows;
- our hedging activities relating to foreign exchange, interest rate, spot market and bunker fuel risks;
- the effectiveness of our risk management policies and procedures;
- the growth of global oil demand;
- the recent economic downturn and financial crisis in the global market, including disruptions in the global credit and stock markets and potential negative effects of any reoccurrence of such disruptions on our customers ability to charter our vessels and pay for our services;
- our exemption from tax on our U.S. source international transportation income;
- the potential benefits to us of renegotiated contract for the *Foinaven* floating production, storage and offloading (or *FPSO*) unit;
- our ability to competitively pursue new FPSO projects;
- our competitive positions in our markets;
- our business strategy and other plans and objectives for future operations; and
- our ability to pay dividends on our common stock.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed below in Item 3: Key Information Risk Factors and other factors detailed from time to time in other reports we file with the U.S. Securities and Exchange Commission (or *SEC*).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay for fiscal years 2009, 2008, 2007, 2006, and 2005, which have been derived from our consolidated financial statements. The data below should be read in conjunction with the consolidated financial statements and the notes thereto and the Report of Independent Registered Public Accounting Firm therein with respect to fiscal years 2009, 2008, and 2007 (which are included herein) and Item 5. Operating and Financial Review and Prospects.

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Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

	2005	2006	2007	2008	2009
	(in thousands, except share and per common share data and ratios)				
Income Statement Data:					
Revenues	$ 1,958,479	$ 2,015,871	$ 2,387,625	$ 3,229,443	$ 2,172,049
Total operating expenses [(1)]	(1,319,937)	(1,601,528)	(2,028,595)	(2,969,324)	(2,002,261)
Income from vessel operations	638,542	414,343	359,030	260,119	169,788
Interest expense	(111,189)	(173,672)	(294,848)	(290,933)	(141,448)
Interest income	33,943	58,835	101,199	97,111	19,999
Realized and unrealized (loss) gain on non-designated derivative instruments	(38,470)	55,646	(45,322)	(567,074)	140,046
Foreign exchange gain (loss)	61,635	(46,423)	(61,571)	24,727	(20,922)
Equity income (loss) from joint ventures	11,897	6,099	(12,404)	(36,085)	52,242
Other (loss) income	(19,054)	3,566	23,170	(3,935)	12,961
Income tax recovery (expense)	2,787	(8,811)	3,192	56,176	(22,889)
Net income (loss)	580,091	309,583	72,446	(459,894)	209,777
Less: Net income attributable to non-controlling interests	(13,475)	(6,759)	(8,903)	(9,561)	(81,365)
Net income (loss) attributable to stockholders of Teekay Corp. [(2)]	566,616	302,824	63,543	(469,455)	128,412
Per Common Share Data:					
Net earnings (loss) basic	$ 7.25	$ 4.14	$ 0.87	$ (6.48)	$ 1.77
Net income (loss) diluted	6.78	4.03	0.85	(6.48)	1.76
Cash dividends declared	0.6200	0.8600	0.9875	1.1413	1.2650
Balance Sheet Data (at end of year):					
Cash and cash equivalents	$ 236,984	$ 343,914	$ 442,673	$ 814,165	$ 422,510
Restricted cash	311,084	679,992	686,196	650,556	615,311
Vessels and equipment	3,721,674	5,603,316	6,846,875	7,267,094	6,835,597
Net investments in direct financing leases	121,236	108,396	101,176	79,508	512,412
Total assets	5,287,030	8,110,329	10,418,541	10,215,001	9,510,916
Total debt (including capital lease obligations)	2,432,978	4,106,062	6,120,864	5,770,133	5,203,441
Capital stock and additional paid-in capital	471,784	596,712	628,786	642,911	656,193
Non-controlling interest	287,432	461,887	544,339	583,938	855,580
Total equity	2,526,250	2,981,034	3,200,293	2,652,405	3,095,670
Number of outstanding shares of common stock	71,375,593	72,831,923	72,772,529	72,512,291	72,694,345

Other Financial Data:					
Net revenues [3]	$ 1,537,721	$ 1,493,816	$ 1,856,552	$ 2,471,055	$ 1,877,958
EBITDA [4]	860,079	657,196	592,016	96,554	791,291
Adjusted EBITDA [4]	707,882	630,408	660,485	892,616	563,217
Total debt to total capitalization [5] [6]	49.1%	57.9%	65.7%	68.5%	62.7%
Net debt to total net capitalization [6] [7]	42.7%	50.8%	60.9%	61.9%	57.4%
Capital expenditures:					
Vessel and equipment purchases [8]	$ 555,142	$ 442,470	$ 910,304	$ 716,765	$ 495,214

(1) Total operating expenses include the following:

	2005	2006	2007	2008	2009
			(in thousands)		
Gain (loss) on sale of vessels and equipment, net of write-downs	$ 139,184	$ 1,341	$ 16,531	$ 50,267	$ (12,629)
Unrealized (losses) gains on derivative instruments			(143)	(8,325)	14,915
Restructuring charges	(2,882)	(8,929)		(15,629)	(14,444)
Goodwill impairment charge				(334,165)	
	$ 136,302	$ (7,588)	$ 16,388	$ (307,852)	$ (12,158)

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(2) In January 2009, we adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 810, *Consolidations*, which requires us to change the portion of net income (loss) that is attributable to the non-controlling interest. This change was not applied retroactively, please read Item 18 Financial Statements: Note 1 Adoption of New Accounting Pronouncements to see the pro forma net income attributable to the stockholders of Teekay Corporation had we not adopted FASB ASC 810.

(3) Consistent with general practice in the shipping industry, we use net revenues (defined as revenues less

voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time-charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time-charters the charterer pays the voyage expenses, which are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, whereas under voyage-charter contracts the ship-owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship-owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call "net revenues," are comparable across the different types of contracts. We principally use net revenues, a non-GAAP financial measure, because it provides more meaningful information to us than revenues, the most directly comparable GAAP financial measure. Net revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net revenues with revenues.

	2005	2006	2007	2008	2009
			(in thousands)		
Revenues	$ 1,958,479	$ 2,015,871	$ 2,387,625	$ 3,229,443	$ 2,172,049
Voyage expenses	(420,758)	(522,055)	(531,073)	(758,388)	(294,091)
Net revenues	$ 1,537,721	$ 1,493,816	$ 1,856,552	$ 2,471,055	$ 1,877,958

(4) EBITDA represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before restructuring charges, unrealized foreign exchange loss (gain), loss (gain) on sale of vessels and equipment net of write-downs, goodwill impairment charge, amortization of in-process revenue contracts, unrealized (gains) losses on derivative instruments, realized losses (gains) on interest rate swaps and share of realized and unrealized (gains) losses on interest rate swaps in non-consolidated

joint ventures. EBITDA and Adjusted EBITDA are used as supplemental financial measures by management and by external users of our financial statements, such as investors, as discussed below.

Financial and operating performance. EBITDA and Adjusted EBITDA assist our management and security holders by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA or Adjusted EBITDA-based information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization (or other items in determining Adjusted EBITDA), which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA as a financial and operating measure benefits security holders in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our equity, or debt securities, as applicable.

Liquidity. EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay dividends and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as drydocking expenditures, working capital changes and foreign currency exchange gains and losses (which may very significantly from period to period), EBITDA and Adjusted EBITDA provide a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our dividend policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits security holders to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including dividends on shares of our common stock and repayments under debt instruments.

Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

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The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net income, and our historical consolidated Adjusted EBITDA to net operating cash flow.

	2005	2006	2007	2008	2009
			(in thousands)		
Income statement data: Reconciliation of EBITDA and Adjusted EBITDA to Net income					
Net income (loss)	$ 580,091	$ 309,583	$ 72,446	$ (459,894)	$ 209,777
Income tax (recovery) expense	(2,787)	8,811	(3,192)	(56,176)	22,889
Depreciation and amortization	205,529	223,965	329,113	418,802	437,176
Interest expense, net of interest income	77,246	114,837	193,649	193,822	121,449
EBITDA	860,079	657,196	592,016	96,554	791,291
Restructuring charge	2,882	8,929		15,629	14,444
Foreign exchange (gain) loss	(61,635)	46,423	61,571	(24,727)	20,922
(Gain) loss on sale of vessels and equipment net of write-downs	(139,184)	(1,341)	(16,531)	(50,267)	12,629
Goodwill impairment charge				334,165	
Amortization of in-process revenue contracts		(22,404)	(70,979)	(74,425)	(75,977)
Unrealized losses (gains) on derivative instruments	33,203	(57,246)	99,055	530,283	(293,174)
Realized losses (gains) on interest rate swaps and foreign exchange contracts	12,537	(1,149)	(4,647)	32,445	127,936
Unrealized losses (gains) on interest rate swaps in non-consolidated joint ventures				32,959	(34,854)
Adjusted EBITDA	707,882	630,408	660,485	892,616	563,217
Reconciliation of Adjusted EBITDA to net operating cash flow					
Net operating cash flow	609,042	545,716	304,429	523,641	368,251
Expenditures for drydocking	20,668	31,120	85,403	101,511	78,005
Interest expense, net of interest income	77,246	114,837	193,649	193,822	121,449
Change in operating assets and liabilities	8,644	(50,360)	43,871	28,816	(148,655)
Gain on sale of marketable securities		1,422	9,577	4,576	
				(20,157)	

Write-down of marketable securities					
Loss on repurchase of bonds	(13,255)	(375)	(947)	(1,310)	(566)
Equity income (net of dividends received)	2,670	(486)	(11,419)	(30,352)	49,299
Other net	(12,552)	(9,949)	50,245	25,153	(837)
Employee stock option compensation		(9,297)	(9,676)	(14,117)	(11,255)
Restructuring charge	2,882	8,929		15,629	14,444
Realized losses (gains) on interest rate swaps and foreign exchange contracts	12,537	(1,149)	(4,647)	32,445	127,936
Unrealized losses (gains) on interest rate swaps in non-consolidated joint ventures				32,959	(34,854)
Adjusted EBITDA	707,882	630,408	660,485	892,616	563,217

(5) Total capitalization represents total debt and total equity.

(6) Until February 16, 2006, we had $143.7 million of Premium Equity Participating Security Units due May 18, 2006 (or *Equity Units)* outstanding. If these Equity Units were presented as equity, our total debt to total capitalization would have been 46.2% as of December 31, 2005 and our net debt to total capitalization would have been 39.5% as

of December 31, 2005. We believe that this presentation as equity for the purposes of these calculations is consistent with the requirement that each Equity Unit holder purchase for $25 a specified fraction of a share of our common stock on February 16, 2006.

(7) Net debt represents total debt less cash, cash equivalents and restricted cash. Total net capitalization represents net debt and total equity.

(8) Excludes vessels purchased in connection with our acquisitions of Teekay Petrojarl ASA (or *Teekay Petrojarl*) in 2006, and 50% of OMI Corporation (or *OMI*) in 2007. Please read Item 5 Operating and Financial Review and Prospects. The expenditures for

vessels and equipment exclude non-cash investing activities Please Read Item 18 Financial Statements: Note 17 Supplemental Cash Flow Information.

Risk Factors

The cyclical nature of the tanker industry may lead to volatile changes in charter rates, which may adversely affect our earnings.

Historically, the tanker industry has been cyclical, experiencing volatility in profitability due to changes in the supply of, and demand for, tanker capacity and changes in the supply of and demand for oil and oil products. If the tanker market is depressed, our earnings may decrease, particularly with respect to our spot tanker segment, a subset of our conventional tanker segment, which accounted for approximately 24% and 43% of our net revenues during 2009 and 2008, respectively. The cyclical nature of the tanker industry may cause significant increases or decreases in the revenue we earn from our vessels and may also cause significant increases or decreases in the value of our vessels. The factors affecting the supply of and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

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Factors that influence demand for tanker capacity include:

- demand for oil and oil products;
- supply of oil and oil products;
- regional availability of refining capacity;
- global and regional economic conditions;
- the distance oil and oil products are to be moved by sea; and
- changes in seaborne and other transportation patterns.

Factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- conversion of tankers to other uses;
- the number of vessels that are out of service; and
- environmental concerns and regulations.

Changes in demand for transportation of oil over longer distances and in the supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows.

Changes in the oil and natural gas markets could result in decreased demand for our vessels and services.

Demand for our vessels and services in transporting oil, petroleum products and LNG depend upon world and regional oil and natural gas markets. Any decrease in shipments of oil, petroleum products or LNG in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, petroleum products and LNG, and competition from alternative energy sources. A slowdown of the U.S. and world economies may result in reduced consumption of oil, petroleum products and natural gas and decreased demand for our vessels and services, which would reduce vessel earnings.

Changes in the spot tanker market may result in significant fluctuations in the utilization of our vessels and our profitability.

During 2009 and 2008, we derived approximately 24% and 43%, respectively, of our net revenues from the vessels in our spot tanker segment (which includes vessels operating under charters with an initial term of less than three years), a subset of our conventional tanker segment. Our spot tanker segment consists of conventional crude oil tankers and product carriers operating on the spot tanker market or subject to time charters, or contracts of affreightment priced on a spot-market basis or fixed-rate contracts with a term less than three years. Part of our conventional Aframax and Suezmax tanker fleets and our large and medium product tanker fleets are among the vessels included in our spot tanker segment. Our shuttle tankers may also trade in the spot tanker market when not otherwise committed to perform under time-charters or contracts of affreightment. Due to activity in the spot-charter market, declining spot rates in a given period generally will result in corresponding declines in operating results for that period.

The spot-charter market is highly volatile and fluctuates based upon tanker and oil supply and demand. The successful operation of our vessels in the spot-charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. During 2009, there have been periods when spot rates have declined below the operating cost of vessels. Before rebounding somewhat in the fourth quarter of 2009, spot tanker rates declined to multi-year lows in the third quarter of 2009, primarily due to the ongoing effects of reduced global oil demand coupled with tanker fleet growth. Future spot rates may not be sufficient to enable our vessels trading in the spot tanker market to operate profitably or to provide sufficient cash flow to service our debt obligations.

Reduction in oil produced from offshore oil fields could harm our shuttle tanker and FPSO businesses.

As at December 31, 2009, we had 35 vessels operating in our shuttle tanker fleet and five FPSO units operating in our FPSO fleet. A majority of our shuttle tankers and all of our FPSOs units earn revenue that depends upon the volume of oil we transport or the volume of oil produced from offshore oil fields. Oil production levels are affected by several factors, all of which are beyond our control, including:

- geologic factors, including general declines in production that occur naturally over time;
- the rate of technical developments in extracting oil and related infrastructure and implementation costs; and

operator decisions based on revenue compared to costs from continued operations.

Factors that may affect an operator s decision to initiate or continue production include: changes in oil prices; capital budget limitations; the availability of necessary drilling and other governmental permits; the availability of qualified personnel and equipment; the quality of drilling prospects in the area; and regulatory changes. In addition, the volume of oil we transport may be adversely affected by extended repairs to oil field installations or suspensions of field operations as a result of oil spills, operational difficulties, strikes, employee lockouts or other labor unrest. The rate of oil production at fields we service may decline from existing or future levels, and may be terminated, all of which could harm our business and operating results. In addition, if such a reduction or termination occurs, the spot tanker market rates, if any, in the conventional oil tanker trades at which we may be able to redeploy the affected shuttle tankers may be lower than the rates previously earned by the vessels under contracts of affreightment, which would also harm our business and operating results.

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The redeployment risk of FPSO units is high given their lack of alternative uses and significant costs.

FPSO units are specialized vessels that have very limited alternative uses and high fixed costs. In addition, FPSO units typically require substantial capital investments prior to being redeployed to a new field and production service agreement. Unless extended, certain of our FPSO production service agreements will expire during the next 10 years. Our clients may also terminate certain of our FPSO production service agreements prior to their expiration under specified circumstances. Any idle time prior to the commencement of a new contract or our inability to redeploy the vessels at acceptable rates may have an adverse effect on our business and operating results.

The duration of many of our shuttle tanker and FSO contracts is the life of the relevant oil field or is subject to extension by the field operator or vessel charterer. If the oil field no longer produces oil or is abandoned or the contract term is not extended, we will no longer generate revenue under the related contract and will need to seek to redeploy affected vessels.

Two of our shuttle tanker contracts have a life-of-field duration, which means that the contract continues until oil production at the field ceases. If production terminates for any reason, we no longer will generate revenue under the related contract. Other shuttle tanker and floating storage and off-take (or *FSO*) contracts under which our vessels operate are subject to extensions beyond their initial term. The likelihood of these contracts being extended may be negatively affected by reductions in oil field reserves, low oil prices generally or other factors. If we are unable to promptly redeploy any affected vessels at rates at least equal to those under the contracts, if at all, our operating results will be harmed. Any potential redeployment may not be under long-term contracts, which may affect the stability of our business and operating results.

Charter rates for conventional oil and product tankers may fluctuate substantially over time and may be lower when we are attempting to recharter conventional oil or product tankers, which could adversely affect our operating results. Any changes in charter rates for LNG or LPG carriers, shuttle tankers or FSO or FPSO units could also adversely affect redeployment opportunities for those vessels.

Our ability to recharter our conventional oil and product tankers following expiration of existing time-charter contracts and the rates payable upon any renewal or replacement charters will depend upon, among other things, the state of the conventional tanker market. Conventional oil and product tanker trades are highly competitive and have experienced significant fluctuations in charter rates based on, among other things, oil, refined petroleum product and vessel demand. For example, an oversupply of conventional oil tankers can significantly reduce their charter rates. There also exists some volatility in charter rates for LNG and LPG carriers, shuttle tankers and FSO and FPSO units, which could also adversely affect redeployment opportunities for those vessels. As of December 31, 2009, we have 23 time-charter contracts covering our conventional tankers two time-charters covering our FPSO units, 10 time-charters covering our shuttle tankers and one time-charter covering an LNG carrier that expire during the next three years.

Over time, the value of our vessels may decline, which could adversely affect our operating results.

Vessel values for oil and product tankers, LNG and LPG carriers and FPSO and FSO units can fluctuate substantially over time due to a number of different factors. Vessel values may decline substantially from existing levels. If operation of a vessel is not profitable, or if we cannot re-deploy a chartered vessel at attractive rates upon charter termination, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel s future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings.

Our growth depends on continued growth in demand for LNG and LPG and LNG and LPG shipping as well as offshore oil transportation, production, processing and storage services.

A significant portion of our growth strategy focuses on continued expansion in the LNG and LPG shipping sectors and on expansion in the shuttle tanker, FSO and FPSO sectors.

Expansion of the LNG and LPG shipping sectors depends on continued growth in world and regional demand for LNG and LPG and LNG and LPG shipping and the supply of LNG and LPG. Demand for LNG and LPG and LNG and LPG shipping could be negatively affected by a number of factors, such as increases in the costs of natural gas derived from LNG relative to the cost of natural gas generally, increases in the production of natural gas in areas linked by pipelines to consuming areas, increases in the price of LNG and LPG relative to other energy sources, the availability of new energy sources, and negative global or regional economic or political conditions. Reduced demand for LNG or LPG and LNG or LPG shipping would have a material adverse effect on future growth of our liquefied gas segment, and could harm that segment s results. Growth of the LNG and LPG markets may be limited by infrastructure constraints and community and environmental group resistance to new LNG and LPG infrastructure over concerns about the environment, safety and terrorism. If the LNG or LPG supply chain is disrupted or does not continue to grow, or if a significant LNG or LPG explosion, spill or similar incident occurs, it could have a material adverse effect on growth and could harm our business, results of operations and financial condition.

Expansion of the shuttle tanker, FSO and FPSO sectors depends on continued growth in world and regional demand for these offshore services, which could be negatively affected by a number of factors, such as:

- decreases in the actual or projected price of oil, which could lead to a reduction in or termination of production of oil at certain fields we service or a reduction in exploration for or development of new offshore oil fields;
- increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;

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availability of new, alternative energy sources; and

negative global or regional economic or political conditions, particularly in oil consuming regions, which could reduce energy consumption or its growth.

Reduced demand for offshore marine transportation, production, processing or storage services would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

The intense competition in our markets may lead to reduced profitability or expansion opportunities.

Our vessels operate in highly competitive markets. Competition arises primarily from other vessel owners, including major oil companies and independent companies. We also compete with owners of other size vessels. Our market share is insufficient to enforce any degree of pricing discipline in the markets in which we operate and our competitive position may erode in the future. Any new markets that we enter could include participants that have greater financial strength and capital resources than we have. We may not be successful in entering new markets.

One of our objectives is to enter into additional long-term, fixed-rate time charters for our LNG and LPG carriers, shuttle tankers, FSO and FPSO units. The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. We expect substantial competition for providing services for potential LNG, LPG, shuttle tanker, FSO and FPSO projects from a number of experienced companies, including state-sponsored entities and major energy companies. Some of these competitors have greater experience in these markets and greater financial resources than do we. We anticipate that an increasing number of marine transportation companies, including many with strong reputations and extensive resources and experience will enter the LNG and LPG transportation, shuttle tanker, FSO and FPSO sectors. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

The loss of any key customer or its inability to pay for our services could result in a significant loss of revenue in a given period.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. One customer accounted for 16% or $346.6 million, of our consolidated revenues during 2009 (14% or $443.5 million 2008 and 20% or $472.3 million 2007). The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer, or the inability of a significant customer to pay for our services, could have a material adverse effect on our business, financial condition and results of operations.

A recurrence of recent adverse economic conditions, including disruptions in the global credit markets, could adversely affect our results of operations.

The recent economic downturn and financial crisis in the global markets produced illiquidity in the capital markets, market volatility, heightened exposure to interest rate and credit risks and reduced access to capital markets in 2008 and the first half of 2009. We may face restricted access to the capital markets or secured debt lenders, such as our revolving credit facilities in the future. The decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. For further information about regulations affecting our business and related requirements on us, please read Item 4. Information on the Company C. Regulations.

We may be unable to make or realize expected benefits from acquisitions, and implementing our strategy of growth through acquisitions may harm our financial condition and performance.

A principal component of our strategy is to continue to grow by expanding our business both in the geographic areas and markets where we have historically focused as well as into new geographic areas, market segments and services. We may not be successful in expanding our operations and any expansion may not be profitable. Our strategy of growth through acquisitions involves business risks commonly encountered in acquisitions of companies, including:

- interruption of, or loss of momentum in, the activities of one or more of an acquired company s businesses and our businesses;
- additional demands on members of our senior management while integrating acquired businesses, which would decrease the time they have to manage our existing business, service existing customers and attract new customers;
- difficulties in integrating the operations, personnel and business culture of acquired companies;

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- difficulties of coordinating and managing geographically separate organizations;
- adverse effects on relationships with our existing suppliers and customers, and those of the companies acquired;
- difficulties entering geographic markets or new market segments in which we have no or limited experience; and
- loss of key officers and employees of acquired companies.

Acquisitions may not be profitable to us at the time of their completion and may not generate revenues sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our results of operations and financial condition, including risks that we may: fail to realize anticipated benefits, such as cost-savings, revenue and cash flow enhancements and earnings accretion; decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions; incur additional indebtedness, which may result in significantly increased interest expense or financial leverage, or issue additional equity securities to finance acquisitions, which may result in significant shareholder dilution; incur or assume unanticipated liabilities, losses or costs associated with the business acquired; or incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

The strain that growth places upon our systems and management resources may harm our business.

Our growth has placed and we believe it will continue to place significant demands on our management, operational and financial resources. As we expand our operations, we must effectively manage and monitor operations, control costs and maintain quality and control in geographically dispersed markets. In addition, our three publicly-traded subsidiaries have increased our complexity and placed additional demands on our management. Our future growth and financial performance will also depend on our ability to recruit, train, manage and motivate our employees to support our expanded operations and continue to improve our customer support, financial controls and information systems.

These efforts may not be successful and may not occur in a timely or efficient manner. Failure to effectively manage our growth and the system and procedural transitions required by expansion in a cost-effective manner could have a material adverse affect on our business.

Our insurance may not be sufficient to cover losses that may occur to our property or as a result of our operations.

The operation of oil and product tankers, LNG and LPG carriers, FSO and FPSO units is inherently risky. Although we carry hull and machinery (marine and war risk) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, we do not generally carry insurance on our vessels covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims relating to our operations covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available may be significantly more expensive than our existing coverage.

Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.

Our vessels and their cargoes are at risk of being damaged or lost because of events such as:

- marine disaster;

- bad weather;
- mechanical failures;
- grounding, fire, explosions and collisions;
- piracy;
- human error; and
- war and terrorism.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or environmental damage or pollution;
- delays in the delivery of cargo;
- loss of revenues from or termination of charter contracts;
- governmental fines, penalties or restrictions on conducting business;

- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results.

Our operating results are subject to seasonal fluctuations.

We operate our conventional tankers in markets that have historically exhibited seasonal variations in demand and, therefore, in charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, our revenues have historically been weaker during the fiscal quarters ended June 30 and September 30, and stronger in our fiscal quarters ended March 31 and December 31.

Due to harsh winter weather conditions, oil field operators in the North Sea typically schedule oil platform and other infrastructure repairs and maintenance during the summer months. Because the North Sea is our primary existing offshore oil market, this seasonal repair and maintenance activity contributes to quarter-to-quarter volatility in our results of operations, as oil production typically is lower in the fiscal quarters ended June 30 and September 30 in this region compared with production in the fiscal quarters ended March 31 and December 31. Because a significant portion of our North Sea shuttle tankers operate under contracts of affreightment, under which revenue is based on the volume of oil transported, the results of our shuttle tanker operations in the North Sea under these contracts generally reflect this seasonal production pattern. When we redeploy affected shuttle tankers as conventional oil tankers while platform maintenance and repairs are conducted, the overall financial results for our North Sea shuttle tanker operations may be negatively affected if the rates in the conventional oil tanker markets are lower than the contract of affreightment rates. In addition, we seek to coordinate some of the general drydocking schedule of our fleet with this seasonality, which may result in lower revenues and increased drydocking expenses during the summer months.

We expend substantial sums during construction of newbuildings and the conversion of tankers to FPSOs or FSOs without earning revenue and without assurance that they will be completed.

We are typically required to expend substantial sums as progress payments during construction of a newbuilding, but we do not derive any revenue from the vessel until after its delivery. In addition, under some of our time charters if our delivery of a vessel to a customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double the hire rate during the delay. For prolonged delays, the customer may terminate the time charter and, in addition to the resulting loss of revenues, we may be responsible for additional substantial liquidated charges.

Substantially all of our newbuilding financing commitments have been pre-arranged. However, if we were unable to obtain financing required to complete payments on any of our newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made. As of December 31, 2009, we had 11 newbuildings on order with deliveries scheduled between June 2010 and January 2012. As of December 31, 2009, progress payments made towards these newbuildings, excluding payments made by our joint venture partners, totaled $183.1 million.

In addition, conversion of tankers to FPSO and FSO units expose us to a numbers of risks, including lack of shipyard capacity and the difficulty of completing the conversion in a timely and cost effective manner. During conversion of a vessel, we do not earn revenue from it. In addition, conversion projects may not be successful.

We make substantial capital expenditures to expand the size of our fleet. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our financial leverage could increase or our stockholders could be diluted.

We regularly evaluate and pursue opportunities to provide the marine transportation requirements for various projects, and we have currently submitted bids to provide transportation solutions for LNG and LPG projects. We may submit additional bids from time to time. The award process relating to LNG and LPG transportation opportunities typically involves various stages and takes several months to complete. If we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to build the related LNG and LPG carriers.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in obtaining necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities. Issuing additional equity securities may result in significant stockholder dilution and would increase the aggregate amount of cash required to pay quarterly dividends.

Exposure to currency exchange rate and interest rate fluctuations results in fluctuations in our cash flows and operating results.

Substantially all of our revenues are earned in U.S. Dollars, although we are paid in Euros, Australian Dollars, Norwegian Kroner and British Pounds under some of our charters. A portion of our operating costs are incurred in currencies other than U.S. Dollars. This partial mismatch in operating revenues and expenses leads to fluctuations in net income due to changes in the value of the U.S. dollar relative to other currencies, in particular the Norwegian Kroner, the Australian Dollar, the Canadian Dollar, the Singapore Dollar, the Japanese Yen, the British Pound and the Euro. We also make payments under two Euro-denominated term loans. If the amount of these and other Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations.

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Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to other currencies also result in fluctuations of our reported revenues and earnings. Under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant non-monetary foreign currency exchange gains or losses each period. For 2009 and 2008, we had foreign exchange (losses) gains of $(20.9) million and $24.7 million, respectively. The primary source of these gains and losses is our Euro-denominated term loans.

Many seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt operations and adversely affect our cash flows.

A significant portion of our seafarers are employed under collective bargaining agreements. We may become subject to additional labor agreements in the future. We may suffer to labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Salaries are typically renegotiated annually or bi-annually for seafarers and annually for onshore operational staff and may increase our cost of operation. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.

Our success depends in large part on our ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. If crew costs increase, and we are not able to increase our rates to customers to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Terrorist attacks, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of business.

Terrorist attacks, piracy and the current conflicts in Iraq and Afghanistan and other current and future conflicts, may adversely affect our business, operating results, financial condition, and ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of oil production and distribution, which could result in reduced demand for our services.

In addition, oil facilities, shipyards, vessels, pipelines and oil fields could be targets of future terrorist attacks and our vessels could be targets of pirates or hijackers. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of oil to be shipped by us could entitle customers to terminate the charters and impact the use of shuttle tankers under contracts of affreightment, which would harm our cash flow and business.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Throughout 2009, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden and Indian Ocean. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage can increase significantly and such insurance coverage may be more difficult to obtain. The cost of these premium increases is usually passed on to our customers. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

Our substantial operations outside the United States expose us to political, governmental and economic instability, which could harm our operations.

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in Southeast Asia or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business and ability to make cash distributions. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant s maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another of our ships.

Declining market values of our vessels could adversely affect our liquidity and result in breaches of our financing agreements.

Market values of vessels fluctuate depending upon general economic and market conditions affecting relevant markets and industries and competition from other shipping companies and other modes of transportation. In addition, as vessels become older, they generally decline in value. Declining vessel values of our tankers could adversely affect our liquidity by limiting our ability to raise cash by refinancing vessels. Declining vessel values could also result in a breach of loan covenants and events of default under certain of our credit facilities that require us to maintain certain loan-to-value ratios. If we are unable to pledge additional collateral in the event of a decline in vessel values, the lenders under these facilities could accelerate our debt and foreclose on our vessels pledged as collateral for the loans. As of December 31, 2009, the total outstanding debt under credit facilities with this type of covenant tied to conventional tanker values was $211.8 million.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil and gas will lessen dramatically over the short term, in the long term climate change may reduce the demand for oil and gas or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

We have substantial debt levels and may incur additional debt.

As of December 31, 2009, our consolidated debt and capital lease obligations totaled $5.2 billion and we had the capacity to borrow an additional $1.5 billion under our credit facilities. These facilities may be used by us for general corporate purposes. Our consolidated debt and capital lease obligations could increase substantially. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and dividends to stockholders;
- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and
- our debt level may limit our flexibility in obtaining additional financing, pursuing other business opportunities and responding to changing business and economic conditions.

Our ability to service our debt will depend on certain financial, business and other factors, many of which are beyond our control.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. In addition, we rely on distributions and other intercompany cash flows from our subsidiaries to repay our obligations. Financing arrangements between some of our subsidiaries and their respective lenders contain restrictions on distributions from such subsidiaries.

If we are unable to generate sufficient cash flow to service our debt service requirements, we may be forced to take actions such as:

- restructuring or refinancing our debt;
- seeking additional debt or equity capital;
- seeking bankruptcy protection;
- reducing distributions;
- reducing or delaying our business activities, acquisitions, investments or capital expenditures; or
- selling assets.

Such measures might not be successful and might not enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms. In addition, our credit agreements and the indenture governing the notes may restrict our ability to implement some of these measures.

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Financing agreements containing operating and financial restrictions may restrict our business and financing activities.

The operating and financial restrictions and covenants in our revolving credit facilities, term loans and in any of our future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements restrict our ability to:

- pay dividends;
- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- grant liens on our assets;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in the financing agreements, our obligations may become immediately due and payable, and the lenders commitment under our credit facilities, if any, to make further loans may terminate. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. holders.

A foreign entity taxed as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company (or *PFIC*) for U.S. federal income tax purposes if at least 75.0 percent of its gross income for any taxable year consists of certain types of passive income, or at least 50.0 percent of the average value of the entity s assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties, other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. By contrast, income derived from the performance of services does not constitute passive income.

There are legal uncertainties involved in determining whether the income derived from our time chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the U.S. Internal Revenue Code of 1986, as amended (or the *Code*), and a recent unofficial IRS pronouncement issued to provide guidance to IRS field employees and examiners, which cites the *Tidewater* decision favorably in support of the conclusion that income derived by foreign taxpayers from time-chartering vessels engaged in the exploration for, or exploitation of, natural resources on the Outer Continental Shelf in the Gulf of Mexico is characterized as leasing or rental income for purposes of the income sourcing provisions of the Code. However, we believe that the nature of our time chartering activities, as well as our time charter contracts, differ in certain material respects from those at issue in *Tidewater*. Consequently, based on our current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that the IRS or a court of law, will accept our position, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to determine that we are or have been a PFIC for any taxable year, U.S. holders of our common stock will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those U.S. holders timely make certain elections available under the Code, such holders would be liable to pay tax at ordinary income tax rates plus interest upon certain distributions and upon any gain from the disposition of our common stock, as if such distribution or gain had been recognized ratably over the U.S. holder s holding period. Please read Item 10. Additional Information-Material U.S. Federal Income Tax Considerations United States Federal Income Taxation of U.S. Holders Consequences of Possible PFIC Classification.

The preferential tax rates applicable to qualified dividend income are temporary, and the absence of legislation extending the term would cause our dividends to be taxed at ordinary graduated tax rates.

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to U.S. individual stockholders (and certain other U.S. stockholders). In the absence of legislation extending the term for these preferential tax rates or providing for some other treatment, all dividends received by such U.S. taxpayers in tax years after December 31, 2010 or later will be taxed at ordinary graduated tax rates. Please read Item 10. Additional Information Material U.S. Federal Income Tax Considerations United States Federal Income Taxation of U.S. Holders Distributions.

Changes in the ownership of our stock may cause us and certain of our subsidiaries to be unable to claim an exemption from United States tax on our United States source income.

Changes in the ownership of our stock may cause us to be unable to claim an exemption from U.S. federal income tax under Section 883 of the United States Internal Revenue Code (or the *Code*). If we were not exempt from tax under Section 883 of the Code, we or our subsidiaries that are currently claiming exemptions will be subject to U.S. federal income tax on shipping income attributable to our subsidiaries transportation of cargoes to or from the U.S. to the extent it is treated as derived from U.S. sources. Certain of our subsidiaries currently are unable to claim this exemption and, as a result, we estimate that they will be subject to less than $500,000 of U.S. federal income tax annually. To the extent we or our other subsidiaries are subject to U.S. federal income tax on shipping income from U.S. sources, our net income and cash flow will be reduced by the amount of such tax. We cannot give any assurance that future changes and shifts in ownership of our stock will not preclude us or our other subsidiaries from being able to satisfy an exemption under Section 883. Please read Item 4. Information on the Company Taxation of the Company United States Taxation.

We may be subject to taxes, which could affect our operating results.

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations, which reduces our operating results. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing our operating results. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. Also, jurisdictions in which we or our subsidiaries are organized, own assets or have operations may change their tax laws, or we may enter into new business transactions relating to such jurisdictions, which could result in increased tax liability and reduce our operating results.

Item 4. Information on the Company

A. Overview, History and Development

Overview

We are a leading provider of international crude oil and petroleum product transportation services. Over the past decade, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included our expansion into the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors through our publicly-listed subsidiary Teekay LNG Partners L.P. (NYSE: TGP) (or *Teekay LNG*), further growth of our operations in the offshore production, storage and transportation sector through our publicly-listed subsidiary Teekay Offshore Partners L.P. (NYSE: TOO) (or *Teekay Offshore*), through our 100% ownership interest in Teekay Petrojarl AS, and expansion of our conventional tanker business through our publicly-listed subsidiary, Teekay Tankers Ltd. (NYSE: TNK) (or *Teekay Tankers*). With an owned and in-chartered fleet of over 150 vessels, offices in 16 countries and approximately 6,300 seagoing and shore-based employees, Teekay provides comprehensive marine services to the world s leading oil and gas companies, helping them seamlessly link their upstream energy production to their downstream processing operations. Our goal is to create the industry s leading asset management company, focused on the Marine Midstream sector.

Our shuttle tanker and FSO segment and FPSO segment includes our shuttle tanker operations, floating storage and off-take (or *FSO*) units, and our floating production, storage and offloading (or *FPSO*) units, which primarily operate under long-term fixed-rate contracts. As of December 31, 2009, our shuttle tanker fleet, including newbuildings on order, had a total cargo capacity of approximately 4.7 million deadweight tones (or *dwt*), which represented more than 50% of the total world shuttle tanker fleet. Please read Item 4 Information on the Company: Our Fleet.

Our liquefied gas segment includes our LNG and LPG carriers. Substantially all of our LNG and LPG carriers are subject to long-term, fixed-rate time-charter contracts. As of December 31, 2009, this fleet, including newbuildings on order, had a total cargo carrying capacity of approximately 3.1 million cubic meters. Please read Item 4 Information on the Company: Our Fleet.

Our conventional tanker segment includes our conventional crude oil tankers and product carriers. In order to provide investors with additional information about our conventional tanker segment, we have divided this operating segment into the fixed-rate tanker segment and the spot tanker segment. As of December 31, 2009, our Aframax tankers in the spot tanker sub-segment, which had a total cargo capacity of approximately 4.4 million dwt, represented approximately 7% of the total tonnage of the world Aframax fleet. Please read Item 4 Information on the Company: Our Fleet.

Our fixed-rate tanker segment includes our conventional crude oil and product tankers on long-term fixed-rate time-charter contracts. Please read Item 4 Information on the Company: Our Fleet .

The Teekay organization was founded in 1973. We are incorporated under the laws of the Republic of The Marshall Islands as Teekay Corporation and maintain our principal executive headquarters at 4th floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530. Our principal operating office is located at Suite 2000, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 2K2. Our telephone number at such address is (604) 683-3529.

Recent Business Acquisitions

Acquisition of 50% of OMI Corporation

On June 8, 2007, we and A/S Dampskibsselskabet TORM (or *TORM*) acquired, through a jointly-owned subsidiary all of the outstanding shares of OMI Corporation (or *OMI*). Our 50% share of the acquisition price was approximately $1.1 billion. We funded our portion of the acquisition with a combination of cash and borrowings under existing revolving credit facilities and a new $700 million credit facility.

OMI was an international owner and operator of tankers, with a total fleet of approximately 3.5 million dwt comprised of 13 Suezmax tankers (seven of which it owned and six of which were chartered-in) and 32 product tankers, 28 of which it owned and four of which were chartered-in. In addition, OMI had two product tankers under construction, which were delivered in 2009.

Acquisition of Petrojarl ASA

During 2006, we acquired 64.7% of the outstanding shares of Petrojarl ASA (or *Petrojarl*), which was listed on the Oslo Stock Exchange, for $536.8 million. Petrojarl is a leading independent operator of FPSO units in the North Sea. On December 1, 2006, we renamed the company Teekay Petrojarl AS (or *Teekay Petrojarl*). We financed our acquisition of Petrojarl through a combination of bank financing and cash balances. In June and July 2008, we acquired the remaining 35.3% interest (26.5 million common shares) in Teekay Petrojarl for a total purchase price of $304.9 million. As a result of these transactions, we own 100% of Teekay Petrojarl.

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Equity Offerings by Subsidiaries

Equity Offerings by Teekay Tankers Ltd.

On December 18, 2007, our subsidiary Teekay Tankers completed its initial public offering of 11.5 million shares of its Class A common stock at a price of $19.50 per share for net proceeds of approximately $208.0 million. We owned the remaining capital stock of Teekay Tankers, including its outstanding shares of Class B common stock, which entitle the holders to five votes per share, subject to a 49% aggregate Class B Common Stock voting power maximum.

On June 24, 2009, Teekay Tankers completed a follow-on public offering of 7.0 million common shares at a price of $9.80 per share, for gross proceeds of $68.6 million. As a result of this offering, our ownership of Teekay Tankers was reduced from 54.0% to 42.2%. Teekay Tankers used the total net offering proceeds of approximately $65.6 million to acquire a 2003-built Suezmax tanker from Teekay for $57.0 million and to repay a portion of its outstanding debt under its revolving credit facility.

As of December 31, 2009, Teekay Tankers owned nine Aframax tankers, which it acquired from Teekay upon the closing of the initial public offering, and three Suezmax tankers it acquired from Teekay in April 2008 and June 2009. Teekay Tankers is expected to grow through the acquisition of additional crude oil and product tanker assets from third parties and from us. Please read Item 18 - Financial Statements: Note 5 Equity Offerings by Subsidiaries.

During April 2010, Teekay Tankers completed a follow-on public offering of 7.7 million common shares at a price of $12.25 per share, for gross proceeds of $94.3 million. The underwriters subsequently exercised their over-allotment option to purchase an additional 1,079,500 common shares, providing additional gross proceeds of $13.2 million. Teekay purchased 2,612,244 unregistered common shares at the April 2010 offering price. As a result, our ownership of Teekay Tankers has been reduced from 42.2% to 37.1%. We maintain voting control of Teekay Tankers and continue to consolidate this subsidiary. Teekay Tankers used the net offering proceeds and borrowings under its revolving credit facility to acquire three oil tankers from Teekay. Please read Item 18 Financial Statements: Note 24(c) Subsequent Events.

Equity Offerings by Teekay Offshore Partners L.P.

On December 19, 2006, our subsidiary Teekay Offshore sold as part of its initial public offering 8.1 million of its common units, representing limited partner interests, at $21.00 per unit for net proceeds of $155.3 million.

During June 2008, Teekay Offshore, completed a follow-on public offering by issuing an additional 7.4 million of its common units to the public and 3.3 million common units to Teekay in a concurrent private placement at a price of $20.00 per unit for net proceeds of $198.8 million. In connection with the follow-on public offering, we contributed $4.2 million to Teekay Offshore to maintain our 2% general partner interest in it. During July 2008, the underwriters exercised their over-allotment option and purchased 375,000 common units at $20.00 per unit for proceeds of $7.2 million, net of commissions.

During August 2009, Teekay Offshore completed a follow-on public offering of 7.475 million common units (including 975,000 units issued upon the exercise in full of the underwriter s overallotment option) at a price of $14.32 per unit, for total gross proceeds of $107.0 million (including the general partner s $2.2 million proportionate capital contribution). As a result, our ownership of Teekay Offshore was reduced from 50.0% to 40.5% (including our 2% general partner interest), and we recorded an increase to retained earnings of $26.9 million, which represents the Company s dilution gain from the issuance of units. The total net offering proceeds were used to reduce amounts outstanding under one of Teekay Offshore s revolving credit facilities.

Teekay Offshore owns 51% of Teekay Offshore Operating L.P. (or *OPCO*), including its 0.01% general partner interest and an additional 25% limited partnership interest it acquired from us upon the closing of the June 2008 public offering. As of December 31, 2009, OPCO owned and operated a fleet of 33 of our shuttle tankers (including 8 chartered-in vessels and 5 vessels owned by 50% owned joint ventures), 4 of our FSO units, and 11 of our conventional Aframax tankers. In addition, Teekay Offshore has direct ownership interests in two of our shuttle tankers (including one through a 50%-owned joint venture), one FSO and one FPSO. As of December 31, 2009, we indirectly own 49% of OPCO and 40.5% of Teekay Offshore, including our 2% general partner interest. As a result, we effectively own 69.6% of OPCO. Please read Item 18 Financial Statements: Note 5 Equity Offerings by Subsidiaries.

During March 2010, Teekay Offshore completed a public offering of 5.06 million common units (including 660,000 units issued upon the exercise in full of the underwriter s over-allotment option) at a price of $19.48 per unit, for gross proceeds of $100.6 million (including the general partner s $2.0 million proportionate capital contribution). Teekay Offshore used the total net proceeds from the offering to repay to us the vendor financing of $60.0 million for the acquisition from us of the *Petrojarl Varg* FPSO unit and to finance a portion of the acquisition of the *Falcon Spirit*, an FSO unit, from us for $43.4 million. Teekay s ownership in Teekay Offshore reduced to 35.9% as a result of a public offering in March 2010. We maintain control of Teekay Offshore by virtue of our control of the general partner and continue to consolidate this subsidiary. Please read Item 18 Financial Statements: Note 24(b) Subsequent Events.

Equity Offerings by Teekay LNG Partners L.P.

During May 2007, our subsidiary Teekay LNG completed a follow-on public offering of 2.3 million common units at a price of $38.13 per unit, for net proceeds of $84.2 million.

During April 2008, Teekay LNG completed a follow-on public offering of 5.0 million of its common units at a price of $28.75 per unit, for net proceeds of $137.6 million. Subsequently the underwriters exercised their over-allotment option and purchased 375,000 common units resulting in an additional $10.8 million in gross proceeds to Teekay LNG. Concurrently with the follow-on public offering, we acquired 1.74 million common units of Teekay LNG at the same public offering price for a total cost of $50.0 million.

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During March 2009, Teekay LNG completed a follow-on public offering of 4.0 million common units at a price of $17.60 per unit, for gross proceeds of approximately $71.8 million. Teekay LNG used the total net proceeds from the offerings to prepay amounts outstanding on two of its revolving credit facilities.

During November 2009, Teekay LNG completed a follow-on public offering of 3.5 million of its common units at a price of $24.40 per unit, for gross proceeds of $87.1 million (including the general partner s 2% proportionate capital contribution). Subsequently the underwriters exercised their over-allotment option and purchased 450,650 common units resulting in an additional $11.2 million (including the general partner s 2% proportionate capital contribution) in gross proceeds to Teekay LNG. Teekay LNG used the total net proceeds from the offering to prepay amounts outstanding under one or more of its revolving credit facilities.

As a result of the above transactions, we own a 49.2% interest in Teekay LNG, including its 2% general partner interest. We maintain control of Teekay LNG by virtue of our control of the general partner and continue to consolidate this subsidiary. Please read Item 18 Financial Statements: Note 5 Equity Offerings by Subsidiaries.

B. Operations

Our organization is divided into the following key areas: the shuttle tanker and FSO segment (included in our Teekay Navion Shuttle Tankers and Offshore business unit*)*, the FPSO segment (included in our Teekay Petrojarl business unit), the liquefied gas segment (included in our Teekay Gas Services business unit), the conventional tanker segment, consisting of spot tanker sub-segment and fixed-rate tanker sub-segment (both included in our Teekay Tanker Services business unit). These centers of expertise work closely with customers to ensure a thorough understanding of our customers requirements and to develop tailored solutions.

- Teekay Navion Shuttle Tankers and Offshore; and Teekay Petrojarl provide marine transportation, processing and storage services to the offshore oil industry, including shuttle tanker, FSO and FPSO services. Our expertise and partnerships with third parties allow us to create solutions for customers producing crude oil from offshore installations.
- Teekay Gas Services provides gas transportation services, primarily under long-term fixed-rate contracts to major energy and utility companies. These services currently include the transportation of LNG and LPG.
- Teekay Tanker Services is responsible for the commercial management of our conventional crude oil and product tanker transportation services. We offer a full range of shipping solutions through our worldwide network of commercial offices.

Shuttle Tanker and FSO Segment and FPSO Segment

The main services our shuttle tanker and FSO segment and our FPSO segment provide to customers are:

- offloading and transportation of cargo from oil field installations to onshore terminals via dynamically positioned, offshore loading shuttle tankers;
- floating storage for oil field installations via FSO units; and
- floating production, processing and storage services via FPSO units.

Shuttle Tankers

A shuttle tanker is a specialized ship designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries. Shuttle tankers are equipped with sophisticated loading systems and dynamic positioning systems that allow the vessels to load cargo safely and reliably from oil field installations, even in harsh weather conditions. Shuttle tankers were developed in the North Sea as an alternative to pipelines. The first cargo from an offshore field in the North Sea was shipped in 1977, and the first dynamically positioned shuttle tankers were introduced in the early 1980s. Shuttle tankers are often described as floating pipelines because these vessels typically shuttle oil from offshore installations to onshore facilities in much the same way a pipeline would transport oil along the ocean floor.

Our shuttle tankers are primarily subject to long-term, fixed-rate time-charter contracts or bareboat charter contracts for a specific offshore oil field, where a vessel is hired for a fixed period of time, or under contracts of affreightment for various fields, where we commit to be available to transport the quantity of cargo requested by the customer from time to time over a specified trade route within a given period of time. The number of voyages performed under these contracts of affreightment normally depends upon the oil production of each field. Competition for charters is based primarily upon price, availability, the size, technical sophistication, age and condition of the vessel and the reputation of the vessel s manager. Technical sophistication of the vessel is especially important in harsh operating environments such as the North Sea. Although the size of the world shuttle tanker fleet has been relatively unchanged in recent years, conventional tankers can be converted into shuttle tankers by adding specialized equipment to meet customer requirements. Shuttle tanker demand may also be affected by the possible substitution of sub-sea pipelines to transport oil from offshore production platforms.

As of December 31, 2009, there were approximately 75 vessels in the world shuttle tanker fleet (including 18 newbuildings), the majority of which operate in the North Sea. Shuttle tankers also operate in Brazil, Canada, Russia, Australia and Africa. As of December 31, 2009, we owned 31 shuttle tankers (including four newbuildings) and chartered-in an additional eight shuttle tankers. Other shuttle tanker owners include Knutsen OAS Shipping AS, JJ Ugland Group and Transpetro, which as of December 31, 2009 controlled small fleets of 3 to 15 shuttle tankers each. We believe that we have significant competitive advantages in the shuttle tanker market as a result of the quality, type and dimensions of our vessels combined with our market share in the North Sea.

FSO Units

FSO units provide on-site storage for oil field installations that have no storage facilities or that require supplemental storage. An FSO unit is generally used in combination with a jacked-up fixed production system, floating production systems that do not have sufficient storage facilities or as supplemental storage for fixed platform systems, which generally have some on-board storage capacity. An FSO unit is usually of similar design to a conventional tanker, but has specialized loading and offtake systems required by field operators or regulators. FSO units are moored to the seabed at a safe distance from a field installation and receive the cargo from the production facility via a dedicated loading system. An FSO unit is also equipped with an export system that transfers cargo to shuttle or conventional tankers. Depending on the selected mooring arrangement and where they are located, FSO units may or may not have any propulsion systems. FSO units are usually conversions of older single-hull conventional oil tankers. These conversions, which include installation of a loading and offtake system and hull refurbishment, can generally extend the lifespan of a vessel as an FSO unit by up to 20 years over the normal conventional tanker lifespan of 25 years.

Our FSO units are generally placed on long-term, fixed-rate time-charters or bareboat charters as an integrated part of the field development plan, which provides more stable cash flow to us. Under a bareboat charter, the customer pays a fixed daily rate for a fixed period of time for the full use of the vessel and is responsible for all crewing, management and navigation of the vessel and related expenses.

As of December 2009, there were approximately 90 FSO units operating and five FSO units on order in the world fleet. As at December 31, 2009, we had six FSO units. The major markets for FSO units are Asia, the Middle East, West Africa, South America and the North Sea. Our primary competitors in the FSO market are conventional tanker owners, who have access to tankers available for conversion, and oil field services companies and oil field engineering and construction companies who compete in the floating production system market. Competition in the FSO market is primarily based on price, expertise in FSO operations, management of FSO conversions and relationships with shipyards, as well as the ability to access vessels for conversion that meet customer specifications.

FPSO Units

FPSO units are offshore production facilities that are typically ship-shaped and store processed crude oil in tanks located in the hull of the vessel. FPSO units are typically used as production facilities to develop marginal oil fields or deepwater areas remote from existing pipeline infrastructure. Of four major types of floating production systems, FPSO units are the most common type. Typically, the other types of floating production systems do not have significant storage and need to be connected into a pipeline system or use an FSO unit for storage. FPSO units are less weight-sensitive than other types of floating production systems and their extensive deck area provides flexibility in process plant layouts. In addition, the ability to utilize surplus or aging tanker hulls for conversion to an FPSO unit provides a relatively inexpensive solution compared to the new construction of other floating production systems. A majority of the cost of an FPSO comes from its top-side production equipment and thus FPSO units are expensive relative to conventional tankers. An FPSO unit carries on-board all the necessary production and processing facilities normally associated with a fixed production platform. As the name suggests, FPSO units are not fixed permanently to the seabed but are designed to be moored at one location for long periods of time. In a typical FPSO unit installation, the untreated wellstream is brought to the surface via subsea equipment on the sea floor that is connected to the FPSO unit by flexible flow lines called risers. The risers carry oil, gas and water from the ocean floor to the vessel, which processes it onboard. The resulting crude oil is stored in the hull of the vessel and subsequently transferred to tankers either via a buoy or tandem loading system for transport to shore.

Traditionally for large field developments, the major oil companies have owned and operated new, custom-built FPSO units. FPSO units for smaller fields have generally been provided by independent FPSO contractors under life-of-field production contracts, where the contract s duration is for the useful life of the oil field. FPSO units have been used to develop offshore fields around the world since the late 1970s. As of December 2009 there were approximately 159 FPSO units operating and 31 FPSO units on order in the world fleet. At December 31, 2009, we had five FPSO units. Most independent FPSO contractors have backgrounds in marine energy transportation, oil field services or oil field engineering and construction. The major independent FPSO contractors are SBM Offshore N.V., MODEC, Prosafe SE, BW Offshore, Sevan Marine ASA, Bluewater and Maersk.

During 2009, a total of approximately 47% of our net revenues were earned by the vessels in our shuttle tankers and FSO segment and FPSO segment, compared to approximately 37% in 2008 and 47% in 2007. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Liquefied Gas Segment

The vessels in our liquefied gas segment compete in the LNG and LPG markets. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts with durations between 20 and 25 years, and with charter rates payable to the owner on a monthly basis. LNG shipping historically has been transacted with these long-term, fixed-rate time-charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the level of spot voyages (typically consisting of a single voyage) and short-term time-charters of less than 12 months duration have grown in the past few years.

In the LNG markets, we compete principally with other private and state-controlled energy and utilities companies, which generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as major energy companies have continued to divest non-core businesses. Major operators of LNG carriers are Malaysian International Shipping, NYK Line, Qatar Gas Transport (Nakilat), Shell Group and Mitsui O.S.K.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1 / 600^{th} of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. LNG carriers include a sophisticated containment system that holds and insulates the LNG so it maintains its liquid form. The LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or *regasified*) and then shipped by pipeline for distribution to natural gas customers.

LPG carriers are mainly chartered to carry LPG on time charters of three to five years, on contracts of affreightment or spot voyage charters. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives.

Most new LNG carriers, including all of our vessels, are being built with a membrane containment system. These systems consist of insulation between thin primary and secondary barriers and are designed to accommodate thermal expansion and contraction without overstressing the membrane. New LNG carriers are generally expected to have a lifespan of approximately 40 years. New LPG carriers are generally expected to have a lifespan of approximately 30 to 35 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG and LPG carriers after they reach a certain age. As at December 31, 2009, there were approximately 338 vessels in the world LNG fleet, with an average age of approximately 10 years, and an additional 43 LNG carriers under construction or on order for delivery through 2012. As of December 31, 2009, the worldwide LPG tanker fleet consisted of approximately 1,149 vessels with an average age of approximately 16 years and approximately 136 additional LPG vessels were on order for delivery through 2013. LPG carriers range in size from approximately 500 to approximately 70,000 cubic meters (or cbm). Approximately 55% (in terms of vessel numbers) of the worldwide fleet is less than 5,000 cbm.

Our liquefied gas segment primarily consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. As at December 31, 2009, we had 15 LNG carriers, as well as an additional four newbuilding LNG carriers on order which were scheduled to commence operations upon delivery under long-term fixed-rate time-charters and in which our interest is 33%. In addition, as at December 31, 2009, we had six LPG carriers, of which three are under construction.

During 2009, approximately 13% of our net revenues were earned by the vessels in our liquefied gas segment, compared to approximately 9% in 2008, and 9% in 2007. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Conventional Tanker Segment

a) Spot Tanker Sub-Segment

The vessels in our spot tanker segment compete primarily in the Aframax and Suezmax tanker markets. In these markets, international seaborne oil and other petroleum products transportation services are provided by two main types of operators: captive fleets of major oil companies (both private and state-owned) and independent ship-owner fleets. Many major oil companies and other oil trading companies, the primary charterers of our vessels, also operate their own vessels and transport their own oil and oil for third-party charterers in direct competition with independent owners and operators. Competition for charters in the Aframax and Suezmax spot charter market is intense and is based upon price, location, the size, age, condition and acceptability of the vessel, and the reputation of the vessel s manager.

We compete principally with other owners in the spot-charter market through the global tanker charter market. This market is comprised of tanker broker companies that represent both charterers and ship-owners in chartering transactions. Within this market, some transactions, referred to as market cargoes, are offered by charterers through two or more brokers simultaneously and shown to the widest possible range of owners; other transactions, referred to as private cargoes, are given by the charterer to only one broker and shown selectively to a limited number of owners whose tankers are most likely to be acceptable to the charterer and are in position to undertake the voyage.

Certain of our vessels in the spot tanker segment operate pursuant to pooling arrangements. Under a pooling arrangement, different vessel owners pool their vessels, which are managed by a pool manager, to improve utilization and reduce expenses. In general, revenues generated by the vessels operating in a pool, less related voyage expenses (such as fuel and port charges) and pool administrative expenses, are pooled and allocated to the vessel owners according to a pre-determined formula. As of December 31, 2009, we participated in three main pooling arrangements. These include an Aframax tanker pool, an LR2 tanker pool and a Suezmax tanker pool (the Gemini Pool). As of December 31, 2009, 18 of our Aframax tankers operated in the Aframax tanker pool, four of our LR2 tankers operated in the LR2 tanker pool and 13 of our Suezmax tankers operated in the Gemini Pool. Each of these pools is either solely or jointly managed by us.

Our competition in the Aframax (80,000 to 119,999 dwt) market is also affected by the availability of other size vessels that compete in that market. Suezmax (120,000 to 199,999 dwt) vessels and Panamax (55,000 to 79,999 dwt) vessels can compete for many of the same charters for which our Aframax tankers compete. Similarly, Aframax tankers and Very Large Crude Carriers (200,000 to 319,999 dwt) (or *VLCCs*) can compete for many of the same charters for which our Suezmax vessels compete. Because VLCCs comprise a substantial portion of the total capacity of the market, movements by such vessels into Suezmax trades or of Suezmax vessels into Aframax trades would heighten the already intense competition.

We believe that we have competitive advantages in the Aframax and Suezmax tanker market as a result of the quality, type and dimensions of our vessels and our market share in the Indo-Pacific and Atlantic Basins. As of December 31, 2009, our Aframax tanker fleet (excluding Aframax-size shuttle tankers and newbuildings) had an average age of approximately 11 years and our Suezmax tanker fleet (excluding Suezmax-size shuttle tankers and newbuildings) had an average age of approximately six years. This compares to an average age for the world oil tanker fleet of approximately 11.4 years, for the world Aframax tanker fleet of approximately 8.2 years and for the world Suezmax tanker fleet of approximately 8.7 years.

As of December 31, 2009, other large operators of Aframax tonnage (including newbuildings on order) included Malaysian International Shipping Corporation (approximately 63 Aframax vessels), Sovcomflot (approximately 41 vessels), Aframax International Pool (approximately 41 Aframax vessels) and the Sigma Pool (approximately 31 vessels). Other large operators of Suezmax tonnage (including newbuildings on order) included Sovcomflot (approximately 21 vessels), the Blue Fin Pool (approximately 16 vessels), Delta Tankers (approximately 13 vessels) and the Stena Sonangol Pool (approximately 13 vessels).

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We have chartering staff located in Tokyo, Japan; Singapore; London, England; Houston, Texas; and Stamford, Connecticut. Each office serves our clients headquartered in that office s region. Fleet operations, vessel positions and charter market rates are monitored around the clock. We believe that monitoring such information is critical to making informed bids on competitive brokered business.

During 2009, approximately 24% of our net revenues were earned by the vessels in our spot tanker segment, compared to approximately 43% in 2008 and 33% in 2007. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

b) Fixed-Rate Tanker Sub-Segment

The vessels in our fixed-rate tanker segment primarily consist of Aframax and Suezmax tankers that are employed on long-term time-charters. We consider contracts that have an original term of less than three years in duration to be short term. The only difference between the vessels in the spot tanker segment and the fixed-rate tanker segment is the duration of the contracts under which they are employed. Charters of more than three years are not as common as short-term charters and voyage charters for conventional tankers. During 2009, approximately 16% of our net revenues were earned by the vessels in the fixed-rate tanker segment, compared to approximately 11% in 2008 and 10% in 2007. Please read Item 5 Operating and Financial Review and Prospects: Results of Operations.

Our Fleet

As at December 31, 2009, our fleet (excluding vessels managed for third parties) consisted of 158 vessels, including chartered-in vessels, and newbuildings on order. The following table summarizes our fleet as at December 31, 2009:

	Number of Vessels			
	Owned Vessels	Chartered-in Vessels	Newbuildings	Total
Shuttle Tanker and FSO Segment				
Shuttle Tankers	25(1)	8(2)	4	37
FSO Units	5(3)			5
Total Shuttle Segment	30	8	4	42
FPSO Segment				
Shuttle Tankers	2(1)			2
FSO Unit	1(3)			1
FPSO Units	5(4)			5
Total FPSO Segment	8			8
Liquefied Gas Segment				
LNG Carriers	15(6)		4(7)	19
LPG Carriers	3		3	6
Total Liquefied Gas Segment	18		7	25
Spot Tanker Segment				
Suezmax Tankers	9(8)	4		13
Aframax Tankers	13(9)	12		25
Large Product Tankers	4(10)	2		6

Total Spot Tanker Segment	26	18		44
Fixed-Rate Tanker Segment				
Conventional Tankers	32(5)	7		39
Total Fixed-Rate Tanker Segment	32	7		39
Total	**114**	**33**	**11**	**158**

The following footnotes indicate the vessels in the table above that are owned or chartered-in by non-wholly owned subsidiaries of Teekay Corporation or have been or will be offered to Teekay LNG, Teekay Offshore or Teekay Tankers:

(1) Includes 25 vessels owned by OPCO (including five through 50% controlled subsidiaries) and two vessels owned by Teekay Offshore (including one through a 50% controlled subsidiary).

(2) All eight vessels chartered-in by OPCO.

(3) Includes four FSO units owned by OPCO (including one through an 89% subsidiary) and one FSO unit owned by Teekay Offshore.

(4) Includes four FPSO units owned by Teekay

Petrojarl. Teekay is required to offer to sell to Teekay Offshore any of these units that are servicing contracts in excess of three years in length. One FPSO is owned by Teekay Offshore. Certain of our FPSO contracts include the services of shuttle tankers and an FSO unit, and as such, these vessels are included in the FPSO segment.

(5) Includes eight vessels owned by Teekay LNG, two vessels owned by OPCO, and five vessels owned by Teekay Tankers.

(6) Includes nine LNG carriers owned by Teekay LNG, a 70% interest in two LNG carriers, and 40% interest in four LNG carriers.

(7) Includes Teekay s 33% interest in four LNG

newbuildings. Teekay is required to offer to sell these vessels to Teekay LNG.

(8) Includes one Suezmax tanker that Teekay is required to offer Teekay Tankers.

(9) Includes six vessels owned by Teekay Offshore, all of which are chartered to Teekay and five vessels owned by Teekay Tankers.

(10) Includes one product tanker owned by Teekay Tankers.

Our vessels are of Australian, Bahamian, Cayman Islands, Liberian, Marshall Islands, Norwegian, Norwegian International Ship, Russian, and Spanish registry.

Many of our Aframax and Suezmax vessels and some of our shuttle tankers have been designed and constructed as substantially identical sister ships. These vessels can, in many situations, be interchanged, providing scheduling flexibility and greater capacity utilization. In addition, spare parts and technical knowledge can be applied to all the vessels in the particular series, thereby generating operating efficiencies.

As of December 31, 2009, we had 11 vessels under construction. Please read Item 5 Operating and Financial Review and Prospects: Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 18 Financial Statements: Notes 16(a) and 16(b) Commitments and Contingencies Vessels Under Construction and Joint Ventures.

Please read Item 18 Financial Statements: Note 8 Long-Term Debt for information with respect to major encumbrances against our vessels.

Safety, Management of Ship Operations and Administration

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2008, we introduced the Quality Assurance and Training Officers (or *QATO*) Program to conduct rigorous internal audits of our processes and provide our seafarers with onboard training. In 2007, we introduced a behavior-based safety program called Safety in Action to improve the safety culture in our fleet. We are also committed to reducing our emissions and waste generation.

Key performance indicators facilitate regular monitoring of our operational performance. Targets are set on an annual basis to drive continuous improvement, and indicators are reviewed monthly to determine if remedial action is necessary to reach the targets.

Teekay Corporation, through certain of its subsidiaries, assists our operating subsidiaries in managing their ship operations. All vessels are operated under Teekay s comprehensive and integrated Marine Operations Management System (or *MOMS*) that complies with the International Safety Management Code (or *ISM Code*), the International Standards Organization s (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, and Occupational Health and Safety Advisory Services (or *OHSAS*) 18001. MOMS is certified by Det Norske Veritas (or *DNV*), the Norwegian classification society. It has also been separately approved by the Australian and Spanish Flag administrations. Although certification is valid for five years, compliance with the above mentioned standards is confirmed on a yearly basis by a rigorous auditing procedure that includes both internal audits as well as external verification audits by DNV and certain flag states.

Teekay Corporation provides, through certain of its subsidiaries, expertise in various functions critical to the operations of our operating subsidiaries. We believe this arrangement affords a safe, efficient and cost-effective operation. Teekay subsidiaries also provide to us access to human resources, financial and other administrative functions pursuant to administrative services agreements.

Ship management services are provided by the Teekay Marine Services division, a subsidiary of Teekay Corporation, located in various offices around the world. These include such critical ship management functions as:

- vessel maintenance (including repairs and drydocking) and certification;
- crewing by competent seafarers;
- procurement of stores, bunkers and spare parts;
- management of emergencies and incidents;
- supervision of shipyard and projects during new-building and conversions;
- insurance; and
- financial management services.

Integrated onboard and onshore systems support the management of maintenance, inventory control and procurement, crew management and training and assist with budgetary controls.

Teekay Corporation s day-to-day focus on cost efficiencies is applied to all aspects of our operations. We believe that the generally uniform design of some of our existing and new-building vessels and the adoption of common equipment standards provides operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering. In addition, in 2003, Teekay Corporation and two other shipping companies established a purchasing alliance, Teekay Bergesen Worldwide (or *TBW*), which leverages the purchasing power of the combined fleets, mainly in such commodity areas as lube oils, paints and other chemicals.

Risk of Loss and Insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation of crude oil, petroleum products, LNG and LPG is subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

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We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies us against liabilities incurred while operating vessels, including injury to our crew or third parties, cargo loss and pollution. The current available amount of our coverage for pollution is $1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism) and, for some of our LNG carriers, loss of revenues resulting from vessel off-hire due to marine casualty. We believe that our current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage. However, we cannot assure that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. In addition, more stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

We use in our operations a thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations.

Operations Outside of the United States

Because our operations are primarily conducted outside of the United States, we are affected by currency fluctuations and by changing economic, political and governmental conditions in the countries where we engage in business or where our vessels are registered.

Past political conflicts in that region, particularly in the Arabian Gulf, have included attacks on tankers, mining of waterways and other efforts to disrupt shipping in the area. Vessels trading in the region have also been subject to acts of piracy. In addition to tankers, targets of terrorist attacks could include oil pipelines, LNG facilities and offshore oil fields. The escalation of existing, or the outbreak of future, hostilities or other political instability in this region or other regions where we operate could affect our trade patterns, increase insurance costs, increase tanker operational costs and otherwise adversely affect our operations and performance. In addition, tariffs, trade embargoes, and other economic sanctions by the United States or other countries against countries in the Indo-Pacific Basin or elsewhere as a result of terrorist attacks or otherwise may limit trading activities with those countries, which could also adversely affect our operations and performance.

Customers

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Our customers include major energy and utility companies, major oil traders, large oil and LNG consumers and petroleum product producers, government agencies, and various other entities that depend upon marine transportation. One customer, an international oil company, accounted for 16% ($346.6 million) of our consolidated revenues during 2009 (14% or $443.5 million 2008 and 20% or $472.3 million 2007). No other customer accounted for more than 10% of our consolidated revenues during 2009, 2008, or 2007. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could have a material adverse effect on our business, financial condition and results of operations.

Classification, Audits and Inspections

The hull and machinery of all of our vessels have been classed by one of the major classification societies: Det Norske Veritas, Lloyd s Register of Shipping or American Bureau of Shipping. In addition, the processing facilities of our FPSO units are classed by Det Norske Veritias. The classification society certifies that the vessel has been built and maintained in accordance with the rules of that classification society. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an *Intermediate Survey*) and the fifth annual inspection being the most comprehensive survey (a *Special Survey*). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each Intermediate and Special Survey for inspection of the underwater parts of the vessel in addition to a more detailed inspection of hull and machinery. Many of our vessels have qualified with their respective classification societies for drydocking every five years in connection with the Special Survey and are no longer subject to drydocking at

Intermediate Surveys. To qualify, we were required to enhance the resiliency of the underwater coatings of each vessel hull and to mark the hull to facilitate underwater inspections by divers.

The vessel s flag state, or the vessel s classification society if nominated by the flag state, also inspect our vessels to ensure they comply with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a signatory. Port state authorities, such as the U.S. Coast Guard and the Australian Maritime Safety Authority, also inspect our vessels when they visit their ports. Many of our customers also regularly inspect our vessels as a condition to chartering.

We believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

Our vessels are also regularly inspected by our seafaring staff which perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect our vessels at least twice a year. Upon completion of each inspection, action plans are developed to address any items requiring improvement. All action plans are monitored until they are completed. The objectives of these inspections are to ensure:

- adherence to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give full reliability in service;
- we are optimizing performance in terms of speed and fuel consumption; and
- the vessel s appearance will support our brand and meet customer expectations.

To achieve the vessel structural integrity objective, we use a comprehensive Structural Integrity Management System we developed. This system is designed to closely monitor the condition of our vessels and to ensure that structural strength and integrity are maintained throughout a vessel s life.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater inspection and safety requirements on all vessels in the oil tanker and LNG and LPG carrier markets and will accelerate the scrapping of older vessels throughout these markets.

Properties

Other than our vessels, we do not have any material property.

Organizational Structure

Our organizational structure includes, among others, our interests in Teekay Offshore and Teekay LNG. These limited partnerships were set up primarily to hold our assets that generate long-term fixed-rate cash flows. The strategic rationale for establishing these entities was to:

- illuminate higher value of fixed-rate cash flows to Teekay investors;
- realize advantages of a lower cost of equity when investing in new offshore or LNG projects;
- enhance returns to Teekay through fee-based revenue and ownership of the limited partnership s incentive distribution rights, which entitle the holder to disproportionate distributions of available cash as cash distribution levels to unit holders increase; and
- access to capital to grow each of our businesses in offshore, LNG, and conventional tankers.

The following chart provides an overview of our organizational structure as at December 31, 2009. Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as at December 31, 2009.

(1) The partnership is controlled by its general partner. Teekay Corporation has a 100% beneficial ownership in the general partner. However in certain limited cases, approval of a majority of the common unit holders is required to approve certain actions.

(2) Proportion of voting power held is 51.6%.

(3) Including our 100% interest in Teekay Petrojarl.

Teekay Offshore is a Marshall Islands limited partnership formed by us in 2006 as part of our strategy to expand our operations in the offshore oil marine transportation, processing and storage sectors. Teekay Offshore owns 51% of OPCO, including its 0.01% general partner interest. OPCO owns and operates a fleet of 33 of our shuttle tankers (including eight chartered-in vessels), four of our FSO units, and 11 of our conventional Aframax tankers. In addition, Teekay Offshore has direct ownership interests in two of our shuttle tankers, one of our FSO units and one of our FPSO units. All of OPCO s vessels operate under long-term, fixed-rate contracts. We directly own 49% of OPCO and 40.5% of Teekay Offshore, including its 2% general partner interest. As a result, we effectively own 69.6% of OPCO.

Teekay Offshore also has rights to participate in certain FPSO opportunities relating to Teekay Petrojarl. Pursuant to an omnibus agreement we entered into in connection with Teekay Offshore s initial public offering in 2006, we have also agreed to offer to Teekay Offshore existing FPSO units of Teekay Petrojarl that are servicing contracts in excess of three years in length. Teekay s ownership in Teekay Offshore reduced to 35.9% as a result of a public offering in March 2010. Please read Item 18 Financial Statements: Note 24(b) Subsequent Events.

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Teekay LNG is a Marshall Islands limited partnership formed by us in 2005 as part of our strategy to expand our operations in the LNG shipping sector. Teekay LNG provides LNG, LPG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies through its fleet of 15 LNG carriers, six LPG carriers (including three newbuildings), and eight Suezmax tankers. In March 2010, Teekay sold two additional Suezmax tankers and one Handymax product tanker to Teekay LNG, all of which operate under long-term, fixed-rate contracts.

In December 2007, we added Teekay Tankers to our structure. Teekay Tankers is a Marshall Islands corporation formed by us to facilitate the growth of our conventional tanker business. As at December 31, 2009 Teekay Tankers owned a fleet of nine of our double-hull Aframax tankers and three double-hull Suezmax tankers, which trade in the spot tanker market and short- or medium-term, fixed-rate time-charter market. Teekay Tanker s primary objective is to grow through the acquisition of conventional tanker assets from third parties and from us. We have offered to Teekay Tankers the opportunity to purchase up to four Suezmax-class oil tankers, of which two were acquired by Teekay Tankers in April 2008, one in June 2009 and one which was acquired in April 2010. Through a wholly-owned subsidiary, we provide Teekay Tankers with commercial, technical, administrative, and strategic services under a long-term management agreement. In exchange, Teekay Tankers has agreed to pay us both a market-based fee and a performance fee under certain circumstances to motivate us to increase Teekay Tankers cash available for distribution to its stockholders. In April 2010, Teekay Tankers completed a follow-on public offering of 7.7 million common shares at a price of $12.25 per share. Teekay Tankers used the net offering proceeds and borrowings under a revolving credit facility for the balance to acquire from us two Suezmax tankers and one Aframax tanker for aggregate consideration of approximately $168.7 million.

Teekay has entered into an omnibus agreement with Teekay LNG, Teekay Offshore and related parties governing, among other things, when Teekay, Teekay LNG, and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, FSO units and FPSO units. In addition, Teekay Tankers has agreed that we may pursue business opportunities attractive to both parties.

C. Regulations

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization (or IMO)

The IMO is the United Nations agency for maritime safety. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, be of a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*). Under this convention, a vessel s registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner s actual fault or when the spill is caused by the owner s intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Security Code for Ports and Ships (or *ISPS*), the ISM Code, the International Convention on Load Lines of 1966, and, specifically with respect to LNG and LPG carriers, the International Code for Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the *IGC Code*). The IMO Marine Safety Committee has also published guidelines for vessels with dynamic positioning (*DP*) systems, which would apply to shuttle tankers and DP-assisted FSO units and FPSO units. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states which have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS, the IGC Code for LNG and LPG carriers, and the specific requirements for shuttle tankers, FSO units and FPSO units under the NPD (Norway) and HSE (United Kingdom) regulations, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports. The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner s development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG and LPG carriers is currently IGC Code certified, and each of the shipbuilding contracts for our LNG newbuildings, and for the LPG newbuildings that we have agreed to acquire from Skaugen and Teekay Corporation, requires ICG Code compliance prior to delivery.

Annex VI to the IMO s International Convention for the Prevention of Pollution from Ships (or *Annex VI*) became effective on May 19, 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI came into force in the United States on January 8, 2009. We operate our vessels in compliance with Annex VI.

In addition, the IMO has proposed that all tankers of the size we operate that are built starting in 2012 contain ballast water treatment systems, and that all other such tankers install treatment systems by 2016. When this regulation becomes effective, we estimate that the installation of ballast water treatment systems on our tankers may cost between $2 million and $3 million per vessel.

European Union (or EU)

Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled.

The EU has also adopted legislation that: bans manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities after July 2003) from European waters; creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The EU is also considering the adoption of criminal sanctions for certain pollution events, including improper cleaning of tanks.

The EU Directive 33/2005 (or the *Directive*) came into force on January 1, 2010. Under this legislation, vessels are required to burn fuel with sulphur content below 0.1% while berthed or anchored in an EU port. Currently, the only grade of fuel meeting this low sulphur content requirement is low sulphur marine gas oil (or *LSMGO*). Certain modifications are necessary in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or *HFO*). The cost of such modifications will increase the capital expenditures of the relevant vessels in our fleet, which we estimate will total approximately $17.6 million. In addition, LSMGO is more expensive than HFO and this will impact the costs of operations. However, for vessels employed on fixed term business, all fuel costs, including any increases, are borne by the charterer. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. Given that the manufacturers of the equipment necessary to modify the vessels have not been able to supply parts and modification kits, the EU has issued a recommendation that member states adopt a phase in period for the first eight months of 2010 for vessel owners that have demonstrated actions to comply with the Directive. However, certain EU countries, including Sweden and Italy, are required under their national laws to either ban or impose fines on non-compliant vessels. We expect all vessels in our fleet trading to the EU will become compliant within the first eight months of 2010.

North Sea

Our shuttle tankers primarily operate in the North Sea. In addition to the regulations imposed by the IMO and EU, countries having jurisdiction over North Sea areas impose regulatory requirements in connection with operations in those areas, including HSE in the United Kingdom and NPD in Norway. These regulatory requirements, together with additional requirements imposed by operators in North Sea oil fields, require that we make further expenditures for sophisticated equipment, reporting and redundancy systems on the shuttle tankers and for the training of seagoing staff. Additional regulations and requirements may be adopted or imposed that could limit our ability to do business or further increase the cost of doing business in the North Sea. In Brazil, Petrobras serves in a regulatory capacity, and has adopted standards similar to those in the North Sea.

In Norway, the Norwegian Pollution Control Authority requires the installation of volatile organic compound emissions (or *VOC equipment)* on most shuttle tankers serving the Norwegian continental shelf. Oil companies bear the cost to install and operate the VOC equipment onboard the shuttle tankers.

United States

The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, bareboat charterers, and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances rather than oil and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products and LNG and LPG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG or LPG carriers and other vessels might fall within its scope.

Under OPA 90, vessel owners, operators and bareboat charters are responsible parties and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage;

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and

loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel s pollution liability coverage in the maximum coverage amount of $1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our existing tankers are double-hulled.

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or *Coast Guard*) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to provide guaranties through self-insurance or obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U. S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California, Washington and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of tankers operating in U.S. waters are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge ;

describe crew training and drills; and

identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG or LPG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction.

The United States Clean Water Act also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or *EPA*) titled the Vessel General Permit and comply with a range of best management practices, reporting, inspections and other requirements. The Vessel General Permit incorporates Coast Guard requirements for ballast water exchange and includes specific technology-based requirements for vessels. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards. We believe that the EPA may add requirements related to ballast water treatment technology to the Vessel General Permit requirements between 2012 and 2016 to correspond with the IMO s adoption of similar requirements as discussed above.

Since 2009, several environmental groups and industry associations have filed challenges in U.S. federal court to the EPA s issuance of the Vessel General Permit. These cases have not yet been resolved.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the *Kyoto Protocol*) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. The IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The European Union also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. In the United States, the EPA issued an endangerment finding regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, European Union, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. The United States implemented ISPS with the adoption of the Maritime Transportation Security Act of 2002 (or *MTSA*), which requires vessels entering U.S. waters to obtain certification by the Coast Guard of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and MTSA.

D. Taxation of the Company

The following discussion is a summary of the principal tax laws applicable to us. The following discussion of tax matters, as well as the conclusions regarding certain issues of tax law that are reflected in such discussion, are based on current law. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future factual matters and circumstances will in fact occur. Our views have no binding effect or official status of any kind, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.

United States Taxation

The following discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (or the *Code*), applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations.

Taxation of Operating Income. A significant portion of our gross income will be attributable to the transportation of crude oil and related products. For this purpose, gross income attributable to transportation (or *Transportation Income*) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time-charter or bareboat charter income.

Transportation Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States (or *U.S. Source International Transportation Income*) will be considered to be 50.0% derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (or *U.S. Source Domestic Transportation Income*) will be considered to be 100.0% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations will be considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally will not be subject to U.S. federal income tax.

We have made special U.S. tax elections to treat as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes some of our vessel-owning or vessel-operating subsidiaries that are potentially engaged in activities which could give rise to U.S. Source International Transportation Income. Other subsidiaries that are engaged in activities which could give rise to U.S. Source International Transportation Income rely on our ability to claim exemption under Section 883 of the Code (or the *Section 883 Exemption*).

The Section 883 Exemption. In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (or the *Section 883 Regulations*), it will not be subject to the net basis and branch taxes or 4.0% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption only applies to U.S. Source International Transportation Income. As discussed below, we believe the Section 883 Exemption will apply and we will not be taxed on our U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if it is organized in a jurisdiction outside the United States that grants an equivalent exemption from tax to corporations organized in the United States (or an *Equivalent Exemption*), it satisfies one of three ownership tests (or the *Ownership Test*) described in the Final Section 883 Regulations and it meets certain substantiation, reporting and other requirements.

We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption. Consequently, our U.S. Source International Transportation Income (including for this purpose, any such income earned by our subsidiaries that have properly elected to be treated as partnerships or disregarded as entities separate from us for U.S. federal income tax purposes) will be exempt from U.S. federal income taxation provided we meet the Ownership Test described in the Section 883 Regulations. We believe that we should satisfy the Ownership Test because our stock is primarily and regularly traded on an established securities market in the United States within the meaning of the Section 883 of the Code and the Treasury Regulations thereunder. We can give no assurance that any changes in the ownership of our stock subsequent to the date of this report will permit us to continue to qualify for the Section 883 exemption.

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The Net Basis Tax and Branch Profits Tax. If we earn U.S. Source International Transportation Income and the Section 883 Exemption does not apply, such income may be treated as effectively connected with the conduct of a trade or business in the United States (or *Effectively Connected Income*) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of bareboat charter income, is attributable to a fixed placed of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is received pursuant to bareboat charters attributable to a fixed place of business in the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which would result in such income being treated as Effectively Connected Income.

U.S. Source Domestic Transportation Income generally will be treated as Effectively Connected Income. However, we do not anticipate that any of our income has or will be U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 35.0%). In addition, if we earn income that is treated as Effectively Connected Income, a 30.0% branch profits tax imposed under Section 884 of the Code generally would apply to such income, and a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we could be subject to the net basis corporate income tax and to the 30.0% branch profits tax with respect to our gain not in excess of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

The 4.0% Gross Basis Tax. If the Section 883 Exemption does not apply and the net basis tax does not apply, we would be subject to a 4.0% U.S. federal income tax on the U.S. source portion of our gross U.S. Source International Transportation Income, without benefit of deductions. For 2009, we estimate the U.S. federal income tax on such U.S. Source International Transportation Income would have been approximately $6 million. In addition, we estimate that our subsidiaries unable to claim the Section 883 Exemption will be subject to less than $500,000 in the aggregate of U.S. federal income tax on the U.S. source portion of their U.S. Source International Transportation Income. The amount of such tax for which we or our subsidiaries may be liable for in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

Marshall Islands Taxation

We believe that neither we nor our subsidiaries will be subject to taxation under the laws of the Marshall Islands, or that distributions by our subsidiaries to us will be subject to any taxes under the laws of the Marshall Islands.

Other Taxation

We and our subsidiaries are subject to taxation in certain non- U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions. We intend that our business and the business of our subsidiaries will be conducted and operated in a manner that minimizes taxes imposed upon us and our subsidiaries. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read Item 18 Financial Statements: Note 21 Income Taxes.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Teekay Corporation (*Teekay* or *the Company*) is a leading provider of international crude oil and gas marine transportation services and also offer offshore oil production, storage and offloading services, primarily under long-term, fixed-rate contracts. Over the past decade, we have undergone a major transformation from being primarily an owner of ships in the cyclical spot tanker business to being a growth-oriented asset manager in the Marine Midstream sector. This transformation has included the expansion into the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *LPG*) shipping sectors through our publicly-listed subsidiary Teekay LNG Partners L.P. (*Teekay LNG*), further growth of our operations in the offshore production, storage and transportation sector through our publicly-listed subsidiary Teekay Offshore Partners L.P. (*Teekay Offshore*) and through Teekay Petrojarl AS (*Teekay Petrojarl*), and expansion of our conventional tanker business through our publicly-listed subsidiary Teekay Tankers Ltd. (*Teekay Tankers*). With a fleet of over 150 vessels, offices in 16 countries and approximately 6,300 seagoing and shore-based employees, Teekay provides comprehensive marine services to the world s leading oil and gas companies, helping them seamlessly link their upstream energy production to their downstream processing operations. Our goal is to create the industry s leading asset management company focused on the Marine Midstream space.

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SIGNIFICANT DEVELOPMENTS IN 2009 AND EARLY 2010

Public Offering of $450 Million Senior Unsecured Notes

In January 2010, we completed a public offering of $450 million senior unsecured notes due 2020, which bear interest at a rate of 8.5% per year. We used a portion of the offering proceeds to repurchase the majority of our outstanding 8.875% senior notes due 2011, and the remainder to repay amounts outstanding under a term loan and a portion of outstanding debt under one of our revolving credit facilities. Please read Item 18 Financial Statements: Note 24(a) Subsequent Events.

Sale of Vessels to Teekay LNG

During August 2009, Teekay LNG completed the purchase of 99% of our 70% interest in two 155,000 cubic meter newbuilding LNG carriers (or the *Tangguh LNG Carriers*) for approximately $70 million. The Tangguh LNG Carriers, which commenced operations in November 2008 and January 2009, provide transportation services to The Tangguh Production Sharing Contractors, a consortium led by a subsidiary of BP plc, to service the Tangguh LNG project in Indonesia. The vessels have been chartered at fixed rates, with inflation adjustments, for a period of 20 years. An Indonesian joint venture partner owns the remaining 30% interest in these vessels.

During March 2010, Teekay LNG acquired from us two 2009-built Suezmax tankers, the *Bermuda Spirit* and the *Hamilton Spirit*, and one 2007-built Handymax product tanker, the *Alexander Spirit*, for a total purchase price of $160 million. Teekay LNG financed the purchase by assumption of $126 million of existing debt related to two of the vessels and drew on one of its revolving credit facilities for the remainder. The *Bermuda Spirit* and the *Hamilton Spirit* are currently serving under 12-year fixed-rate contracts to Centrofin, an international owner of 28 vessels, and the *Alexander Spirit* is currently employed on a 10-year fixed-rate contract to Caltex Australia Petroleum Pty Ltd.

Public Offerings by Teekay LNG Partners L.P.

During March 2009, Teekay LNG completed a public offering of 4.0 million common units at a price of $17.60 per unit, for gross proceeds of $71.8 million (including the general partner s $1.4 million proportionate capital contribution). As result of the offering, our ownership of Teekay LNG was reduced from 57.7% to 53.1% (including our 2% general partner interest). The total net proceeds from the offering of approximately $68.5 million were used to prepay amounts outstanding on two of Teekay LNG s revolving credit facilities.

During November 2009, Teekay LNG completed a public offering of 3.5 million common units at a price of $24.40 per unit, for gross proceeds of $87.1 million (including the general partner s $1.7 million proportionate capital contribution). The underwriters partially exercised their over-allotment option and purchased an additional 450,600 million common units for an additional $11.2 million in gross proceeds (including the general partner s $0.3 million proportionate capital contribution). The total net proceeds from the offering were used to reduce amounts outstanding under one or more of Teekay LNG s revolving credit facilities. As a result of the offering including the underwriters exercise of the over-allotment option, our ownership of Teekay LNG was reduced from 53.1% to 49.2% (including our 2% general partner interest). We maintained control of Teekay LNG by virtue of our control of the general partner and continue to consolidate this subsidiary.

Public Offerings by and Sale of Vessels to Teekay Tankers Ltd.

During June 2009, Teekay Tankers completed a public offering of 7.0 million shares of Class A Common Stock at a price of $9.80 per share, for gross proceeds of $68.6 million. Teekay Tankers used the total net offering proceeds of approximately $65.6 million to acquire a 2003-built Suezmax tanker from Teekay for $57.0 million and to repay a portion of its outstanding debt under its revolving credit facility. As a result of the offering, our ownership of Teekay Tankers was reduced from 54.0% to 42.2%. We maintained voting control of Teekay Tankers and continue to consolidate this subsidiary.

During April 2010, Teekay Tankers completed a public offering of 7.7 million common shares at a price of $12.25 per share, for gross proceeds of $94.3 million. The underwriters partially exercised their overallotment option and purchased an additional 1,079,500 common shares, for an additional gross proceeds of $13.2 million. In connection with an existing agreement, Teekay agreed to offer to Teekay Tankers by June 18, 2010 the opportunity to purchase an additional Suezmax-class oil tanker at fair market value. The total net proceeds from the offering were used to acquire from Teekay this additional Suezmax tanker, the *Yamuna Spirit*, in addition to two other vessels: a Suezmax tanker, the *Kaveri Spirit*, and an Aframax tanker, the *Helga Spirit* for a total purchase price of $168.7 million. As part of the purchase price for these vessels, Teekay Tankers issued to us 2.6 million of unregistered common shares valued on a per-share basis at the public offering price of $12.25. As a result of the offering, including the underwriters exercise of the over-allotment option, we own 37.1 % in Teekay Tankers.

Public Offerings by Teekay Offshore Partners L.P.

During August 2009, Teekay Offshore completed a public offering of 7.475 million common units (including 975,000 units issued upon the exercise in full of the underwriter s overallotment option) at a price of $14.32 per unit for net proceeds of $104.3 million. In connection with the public offering, we contributed $2.2 million to Teekay Offshore to maintain our 2% general partner interest. The total net proceeds from the offering were used to reduce amounts outstanding under one of Teekay Offshore s revolving credit facilities. As a result of the above transactions, our ownership of Teekay Offshore was reduced from 50.0% to 40.5% (including our 2% general partner interest).

During March 2010, Teekay Offshore completed a public offering of 4.4 million common units at a price of $19.48 per unit, for gross proceeds of $87.5 million (including the general partner s $1.7 million proportionate capital contribution). The underwriters concurrently exercised their overallotment option to purchase an additional 660,000 units on March 22, 2010, providing additional gross proceeds of $13.1 million (including the general partner s $0.3 million proportionate capital contribution). Teekay Offshore used the total net proceeds from the offering to repay the vendor financing of $60.0 million for the acquisition from us of the FPSO unit, the *Petrojarl Varg* (as discussed below) and to finance a portion of the April 2010 acquisition of the FSO unit, the *Falcon Spirit*, from us for $45.0 million. As a result of the above transactions, our ownership of Teekay Offshore was reduced from 40.5% to 35.9% (including our 2% general partner interest). We maintained control of Teekay Offshore by virtue of our control of the general partner and continue to consolidate this subsidiary.

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Sale of FPSO Unit to Teekay Offshore

On September 10, 2009, Teekay Offshore acquired the *Petrojarl Varg* floating production, storage and offtake (or *FPSO*) unit from us for a purchase price of $320 million. We provided vendor financing in the amount of $220 million with the remainder financed by Teekay Offshore from its existing debt facilities. A new $260 million revolving credit facility, secured by the *Petrojarl Varg* FPSO unit, was arranged and completed in November 2009. A portion of the new facility was drawn to repay $160 million of the $220 million vendor financing provided by us at the time of the *Petrojarl Varg* acquisition.

The fixed-rate contract with *Petrojarl Varg* FPSO unit operates under a fixed-rate contract, which was recently extended for four years with Talisman Energy on the Varg oil field in the North Sea, where the FPSO has been operating for over ten years. Talisman Energy also has options to extend the new contract for up to an additional nine years. The contract is comprised of a daily base time-charter rate plus an incentive component based on the operational performance of the FPSO, a tariff component based on the volume of oil produced and an annual adjustment for cost escalations. There is potential for additional upside from the tariff component if, as expected, nearby oil fields become operational and are tied into the *Petrojarl Varg*.

Long-term Charter to Caltex Australia Petroleum Pty Ltd.

In September 2009, we purchased a 2007-built, 40,000 deadweight tonne product tanker for approximately $35 million. The vessel, renamed the *Alexander Spirit*, commenced a 10-year, fixed-rate time charter to Caltex Australia Petroleum Pty Ltd. on September 3, 2009. As discussed above, we sold the *Alexander Spirit* to Teekay LNG in March 2010.

Foinaven FPSO Contract Amendment

In March 2010, we signed an agreement with the Foinaven operator and Foinaven co-venturers to amend the operating contract for our *Foinaven* FPSO unit, which also includes transportation services provided by two shuttle tankers. The amended contract provides a commercial agreement which secures the provision of operating services for the Foinaven field until at least 2021 and includes operating performance incentives which increase the revenue generated by the *Foinaven* FPSO unit.

The amended contract, which applied from January 1, 2010, is comprised of the following components: a daily rate, part of which is earned based on agreed operating performance incentives (adjusted annually based on industry indices); a production tariff based on the volume of oil produced; and a supplemental tariff based on both the volume of oil produced and the annual average Brent Crude Oil price. As a result, the *Foinaven* FPSO unit is expected to generate incremental operating cash flow and net income of approximately $30 million to $40 million per annum over the anticipated life of the contract period.

Under the amended contract, we will also receive payments of approximately $60 million, relating to the *Foinaven* FPSO unit s operations in previous years. The first installment of approximately $30 million is payable by the end of April 2010 and the balance is expected to be payable in the third quarter of 2010. We expect to recognize approximately $30 million in revenue in the first quarter of 2010 in conjunction with the signing of the amended agreement, and we expect the second $30 million will be recognized in the second quarter of 2010 upon the completion of certain conditions.

OTHER SIGNIFICANT PROJECTS

Angola LNG Project

We have a 33% interest in a consortium 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. Final award of the charter contract was made in December 2007. 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 consortium, respectively. In accordance with existing agreements, we are required to offer to Teekay LNG our 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. Please read Item 1 Financial Statements: Note 16(b) Commitments and Contingencies Joint Ventures.

IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS

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

Revenues. Revenues primarily include revenues from voyage charters, pool arrangements, time-charters accounted for under operating and direct financing leases, contracts of affreightment and FPSO service contracts. Revenues are affected by hire rates and the number of days a vessel operates and the daily production volume on FPSO units. Revenues are also affected by the mix of business between time-charters, voyage charters, contracts of affreightment and vessels operating in pool arrangements. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

Forward Freight Agreements. We are exposed to freight rate risk for vessels in our spot tanker segment from changes in spot tanker market rates for vessels. In certain cases, we use forward freight agreements (or *FFAs*) to manage this risk. FFAs involve contracts to provide a fixed number of theoretical voyages at fixed rates, thus hedging a portion of our exposure to the spot-charter market. These agreements are recorded as assets or liabilities and measured at fair value. 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).

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time-charters and FPSO service contracts and by us under voyage charters and contracts of affreightment.

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

Vessel Operating Expenses. Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. We expect these expenses to increase as our fleet matures and to the extent that it expands.

Income from Vessel Operations. To assist us in evaluating our operations by segment, we analyze our income from vessel operations for each segment, which represents the income we receive from the segment after deducting operating expenses, but prior to the deduction of interest expense, realized and unrealized gains (losses) on non-designated derivative instruments, income taxes, foreign currency and other income and losses.

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

Depreciation and Amortization. Our depreciation and amortization expense typically consists of:

- charges related to the depreciation and amortization of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;
- charges related to the amortization of drydocking expenditures over the useful life of the drydock; and
- charges related to the amortization of intangible assets, including the fair value of the time-charters, contracts of affreightment, customer relationships and intellectual property where amounts have been attributed to those items in acquisitions; these amounts are amortized over the period in which the asset is expected to contribute to our future cash flows.

Time-Charter Equivalent (TCE) Rates. Bulk shipping industry freight rates are commonly measured in the shipping industry at the net revenues level in terms of time-charter equivalent (or *TCE*) rates, which represent net revenues divided by revenue days.

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

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

Restricted Cash Deposits. Under the terms of the tax leases for four of our LNG carriers, we are required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases, including the obligations to purchase the LNG carriers at the end of the lease periods, where applicable. During vessel construction, however, the amount of restricted cash approximates the accumulated vessel construction costs. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and loans from our joint venture partners. Please read Item 18 Financial

Statements: Note 10 Capital Leases and Restricted Cash.

ITEMS YOU SHOULD CONSIDER WHEN EVALUATING OUR RESULTS

You should consider the following factors when evaluating our historical financial performance and assessing our future prospects:

Our revenues are affected by cyclicality in the tanker markets. The cyclical nature of the tanker industry causes significant increases or decreases in the revenue we earn from our vessels, particularly those we trade in the spot market. This affects the amount of dividends, if any, we pay on our common stock from period to period.

Tanker rates also fluctuate based on seasonal variations in demand. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and increased refinery maintenance. In addition, unpredictable weather patterns during the winter months tend to disrupt vessel scheduling, which historically has increased oil price volatility and oil trading activities in the winter months. As a result, revenues generated by our vessels have historically been weaker during the quarters ended June 30 and September 30, and stronger in the quarters ended December 31 and March 31.

The size of our fleet continues to change. Our results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries and vessel dispositions. Please read Results of Operations below for further details about vessel dispositions and deliveries. Due to the nature of our business, we expect our fleet to continue to fluctuate in size and composition.

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Our vessel operating expenses are facing industry-wide cost pressures. The oil shipping industry is experiencing a global manpower shortage due to growth in the world fleet. This shortage resulted in significant crew wage increases during 2007, 2008, and to a lesser degree in 2009. We expect the trend of significant crew compensation increases to abate in the short term. However, this could change if market conditions adjust. In addition, factors such as pressure on raw material prices and changes in regulatory requirements could also increase operating expenditures. We have taken various measures throughout 2009 in an effort to reduce costs, improve operational efficiencies, and mitigate the impact of inflation and price increases and will continue this effort during 2010.

Our net income is affected by fluctuations in the fair value of our derivatives. Our interest rate swaps and some of our foreign currency forward contracts are not designated as hedges for accounting purposes. Although we believe these derivative instruments are economic hedges, the changes in their fair value are included in our statements of income (loss) as unrealized gains or losses on non-designated derivatives. The changes in fair value do not affect our cash flows or liquidity.

The amount and timing of drydockings of our vessels can affect our revenues between periods. Our vessels are offhire at various points of time due to scheduled and unscheduled maintenance. During the years ended December 31, 2009 and 2008, we incurred 650 and 840 off-hire days relating to drydocking, respectively. The financial impact from these periods of offhire, if material, is explained in further detail below in Results of Operations . Twenty-six vessels are scheduled for drydocking in 2010.

RESULTS OF OPERATIONS

In accordance with 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 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 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 segment and the spot tanker segment. Please read Item 18 Financial Statements: Note 2 Segment Reporting.

Year Ended December 31, 2009 versus Year Ended December 31, 2008

Shuttle Tanker and FSO Segment

Our shuttle tanker and FSO segment (which includes our *Teekay Navion Shuttle Tankers and Offshore* business unit) includes our shuttle tankers and FSO units. The shuttle tanker and FSO segment had four shuttle tankers under construction as at December 31, 2009. Please read Item 18 Financial Statements: Note 16 Commitments and Contingencies. We use these vessels to provide transportation and storage services to oil companies operating offshore oil field installations. All of these shuttle tankers provide transportation services to energy companies, primarily in the North Sea and Brazil. Our shuttle tankers service the conventional spot market from time to time. Spot rates during 2009 have experienced significant declines compared to 2008 as a result of the contraction in the global economy.

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

	Twelve Months Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**2009**	**2008**	**% Change**

Revenues	583,320	705,461	(17.3)
Voyage expenses	86,499	171,599	(49.6)
Net revenues	496,821	533,862	(6.9)
Vessel operating expenses	170,312	173,067	(1.6)
Time-charter hire expense	113,786	134,100	(15.1)
Depreciation and amortization	122,630	117,198	4.6
General and administrative [(1)]	54,074	56,831	(4.9)
Loss (gain) on sale of vessels and equipment, net of write-downs	1,902	(3,771)	(150.4)
Restructuring charge	7,032	10,645	(33.9)
Income from vessel operations	27,085	45,792	(40.9)
Calendar-Ship-Days			
Owned Vessels	10,950	10,463	4.7
Chartered-in Vessels	2,727	3,765	(27.6)
Total	13,677	14,228	(3.9)

(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.

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The average fleet size of our shuttle tanker and FSO segment (including vessels chartered-in) decreased during 2009 compared to 2008. This was primarily the due to a decline in the number of chartered-in shuttle tankers.

Net Revenues. Net revenues decreased to $496.8 million for 2009, from $533.9 million for 2008, primarily due to:

- a decrease of $54.9 million due to fewer revenue days from shuttle tankers servicing contracts of affreightment and from trading in the conventional spot market, and lower spot rates achieved in the conventional spot market, compared the same period last year;
- a decrease from our FSO units of $2.9 million primarily due to unfavorable exchange rates compared to the prior period;
- a decrease of $2.5 million from the *Navion Saga* being offhire for 43 days in 2009 due to a scheduled drydock;
- a decrease of $1.8 million due to a decrease in the recovery of certain Norwegian environmental taxes from our customers; and
- a decrease of $1.5 million due to declining oil production at mature oil fields in the North Sea that are serviced by certain shuttle tankers on contracts of affreightment;

partially offset by

- an increase of $14.1 million for 2009 due to rate increases on certain contracts of affreightment, partially offset by rate decreases in certain time-charter and bareboat contracts;
- an increase of $5.3 million due to reduced non-reimbursable bunker costs resulting primarily from decreased voyage days, as compared to the same period last year;
- an increase of $3.5 million due to a decrease in the number of offhire days resulting from scheduled drydockings primarily in the time-chartered fleet, and unexpected repairs compared to the same periods last year; and
- an increase of $3.5 million due to reduced customer performance claims paid in 2009 under the terms of charter party agreements compared to 2008.

Vessel Operating Expenses. Vessel operating expenses decreased to $170.3 million for 2009, from $173.1 million for 2008, primarily due to:

- a decrease of $2.9 million in repairs and maintenance costs performed for certain vessels in 2009 as compared to last year;
- a decrease of $1.1 million primarily due to a reduction in projects during 2009 as compared to last year;
- a decrease of $0.8 million in crew and manning costs as compared to last year, resulting primarily from cost savings initiatives that began in 2009; and
- a decrease of $0.6 million in FSO unit operating expenses of primarily due to the offhire of one vessel in the third quarter of 2009;

partially offset by

- an increase of $3.6 million due to an increase in the number of vessels drydocked, and the consumption and use of consumables, lube oil, and freight during 2009.

Time-Charter Hire Expense. Time-charter hire expense decreased to $113.8 million for 2009, from $134.1 million for 2008, primarily due to a decrease in the number of chartered-in vessels.

Depreciation and Amortization. Depreciation and amortization expense increased to $122.6 million for 2009, from $117.2 million for 2008, primarily due to higher amortization expense relating to capitalized drydock and vessel upgrade costs for certain of our shuttle tankers, partially offset by lower amortization on our FSO units.

(Loss) Gain on Sale of Vessels and Equipment Net of Write-downs. Loss on sale of vessels and equipment for 2009 of $1.9 million was primarily due to a write-down of certain offshore vessel equipment.

Restructuring Charges. During the year ended December 31, 2009, we incurred restructuring charges of $7.0 million relating to costs incurred for the reflagging of certain vessels, the closure of one of our offices in Norway, and global staffing changes.

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 reduces oil production.

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The following table presents our FPSO segment s operating results and also provides a summary of the changes in calendar-ship-days for our FPSO segment:

(in thousands of U.S. dollars, except calendar-ship-days and percentages)	Twelve Months Ended December 31, 2009	2008	% Change
Revenues	390,576	383,752	1.8
Vessel operating expenses	197,480	216,998	(9.0)
Depreciation and amortization	102,316	91,734	11.5
General and administrative (1)	37,652	50,918	(26.1)
Goodwill impairment charge		334,165	(100.0)
Loss on sale of vessels and equipment, net of write-downs		12,019	(100.0)
Income (loss) from vessel operations	53,128	(322,082)	(116.5)
Calendar-Ship-Days			
Owned Vessels	3,101	3,205	(3.2)
Total	3,101	3,205	(3.2)

(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.

The average fleet size of our FPSO segment (including vessels chartered-in) decreased during 2009 compared to 2008. This was the result of one shuttle tanker that was converted to an FSO unit and transferred to the shuttle tanker and FSO segment in the fourth quarter of 2009.

Revenues. Revenues increased to $390.6 million for 2009, from $383.8 million for 2008, primarily due to:

- an increase of $5.7 million, primarily from the delivery of a new FPSO unit in February 2008 (or the *FPSO Delivery*) and the *Petrojarl Varg* FPSO unit commencing a new four-year fixed-rate contract extension with Talisman Energy beginning in the third quarter of 2009, partially offset by lower revenues in other FPSO units due to lower oil production compared to the prior periods and the conversion of a shuttle tanker to an FSO unit; and
- an increase of $1.1 million, from the amortization of contract value liabilities relating to FPSO service contracts (as discussed below), which was recognized on the date of the acquisition by us of a controlling interest in Teekay Petrojarl.

As part of our acquisition of 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 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 2009 was $67.7 million (2008 $66.6 million). Please read Item 18 Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

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Vessel Operating Expenses. Vessel operating expenses decreased to $197.5 million for 2009, from $217.0 million for 2008, primarily due to:

- a decrease of $18.2 million from decreases in service costs due to the timing of certain projects, cost saving initiatives, and the strengthening of the U.S. Dollar against the Norwegian Kroner; and
- a decrease of $1.3 million from lower insurance charges.

Depreciation and Amortization. Depreciation and amortization expense increased to $102.3 million for 2009, from $91.7 million for 2008, primarily due to:

- an increase of $5.6 million from the finalization of preliminary estimates of fair value assigned to certain assets included in our acquisition of Teekay Petrojarl; and
- an increase of $5.0 million from the FPSO Delivery.

Loss on Sale of Vessels and Equipment Net of Write-downs. Loss on sale of vessels and equipment net of write-downs for 2009 was nil compared to the $12.0 million impairment write-down of a 1986-built shuttle tanker in the prior year.

Goodwill Impairment Charge. There was no goodwill impairment charge in 2009. In the prior year, management concluded that the carrying value exceeded the fair value of goodwill by $334.2 million in the FPSO segment as of December 31, 2008, and as a result this amount was recognized as an impairment loss in our consolidated statements of income (loss). Please read Item 18 Financial Statements: Note 6 Goodwill, Intangible Assets and In-Process Revenue Contracts.

Liquefied Gas Segment

Our liquefied gas segment (which includes our *Teekay Gas Services* business unit) consists of LNG and LPG carriers subject to long-term, fixed-rate time-charter contracts. We accepted delivery of two new LNG carriers between November 2008 and March 2009, and two new LPG carriers between April 2009 and November 2009. At December 31, 2009, we had one LPG carrier under construction and scheduled for delivery in June 2010. In addition, we have four LNG carriers under construction that are scheduled for delivery between August 2011 and January 2012, and two multi-gas carriers under construction are both scheduled for delivery in 2011. Upon delivery, all of these vessels will commence operation under long-term, fixed-rate time-charters. Please read Item 18 Financial Statements: Note 16(a) Commitments and Contingencies Vessels Under Construction and Note 16(b) - Commitments and Contingencies Joint Ventures.

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. The following table also provides a summary of the changes in calendar-ship-days by owned vessels for our liquefied gas segment:

	Twelve Months Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**2009**	**2008**	**% Change**
Revenues	246,472	221,930	11.1
Voyage expenses	1,018	1,009	0.9
Net revenues	245,454	220,921	11.1
Vessel operating expenses	49,466	48,185	2.7
Depreciation and amortization	59,868	58,371	2.6
General and administrative (1)	21,245	23,072	(7.9)
Restructuring charge	4,177	634	558.8
Income from vessel operations	110,698	90,659	22.1

Calendar-Ship-Days			
Owned Vessels and Vessels under Direct Financing Lease	4,637	3,701	25.3

(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.

The increase in the average fleet size of our liquefied gas segment from 2008 to 2009 was primarily due to the delivery of two new LNG carriers in November 2008 and March 2009, respectively (collectively the *Tangguh LNG Deliveries)* and the delivery of two new LPG carriers in April 2009 and November 2009 respectively (collectively the *LPG Deliveries)*.

Net Revenues. Net revenues increased to $245.4 million for 2009, from $220.9 million for 2008, primarily due to:

an increase of $35.6 million due to the commencement of the time-charters from the Tangguh LNG Deliveries and the LPG Deliveries;

an increase of $3.0 million due to the *Catalunya Spirit* being off-hire for 34.3 days during 2008 for repairs; and

an increase of $1.0 million due to the *Polar Spirit* being off-hire for 18.5 days during 2008 for a scheduled drydock;

partially offset by

- a decrease of $6.9 million due to lower net revenues from the *Arctic Spirit* as a result of a decrease in the time-charter rate;
- a decrease of $3.8 million due to the effect on our Euro-denominated revenues from the weakening of the Euro against the U.S. Dollar compared to the same period last year;
- a decrease of $2.1 million due to the *Madrid Spirit* being off-hire for 25.2 days during the third quarter of 2009 for a scheduled drydock; and
- a decrease of $1.8 million due to the *Galicia Spirit* being off-hire for 27.6 days during the third quarter of 2009 for a scheduled drydock.

Vessel Operating Expenses. Vessel operating expenses increased to $49.5 million for 2009, from $48.2 million for 2008, primarily due to:

- an increase of $6.0 million from the Tangguh LNG Deliveries;

partially offset by

- a decrease of $4.1 million relating to lower crew manning, insurance, and repairs and maintenance costs; and
- a decrease of $0.8 million due to the effect on our Euro-denominated vessel operating expenses from the weakening of the Euro against the U.S. Dollar compared to the same periods last year (a portion of our vessel operating expenses are denominated in Euros, which is primarily a function of the nationality of our crew; our Euro-denominated revenues currently generally approximate our Euro-denominated expenses and Euro-denominated loan and interest payments).

Depreciation and Amortization. Depreciation and amortization increased to $59.9 million in 2009, from $58.4 million in 2008, primarily due to:

- an increase of $1.1 million from the delivery of the *Tangguh Sago* in March 2009 prior to the commencement of the time-charter contract in May 2009 accounted for as a direct financing lease;
- an increase of $1.0 million from the LPG Deliveries;
- an increase of $0.2 million due to the amortization of costs associated with vessel cost expenditures during 2008; and
- an increase of $0.2 million relating to the amortization of drydock expenditures incurred during 2009;

partially offset by

- a decrease of $1.3 million due to revised depreciation estimates for certain of our vessels.

Restructuring Charges. During 2009, we incurred restructuring charges of $4.2 million relating to costs incurred for global staffing and office changes.

Conventional Tankers Segment

a) Fixed-Rate Tanker Segment

Our fixed-rate tanker segment, a subset of our conventional tanker segment (which includes our *Teekay Tankers Services* business unit), includes conventional crude oil and product tankers on long-term, fixed-rate time charters.

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

	Twelve Months Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	2009	2008	% Change
Revenues	297,385	265,849	11.9
Voyage expenses	5,505	5,010	9.9
Net revenues	291,880	260,839	11.9
Vessel operating expenses	80,285	68,065	18.0

Time-charter hire expense	44,026	43,048	2.3
Depreciation and amortization	59,610	44,578	33.7
General and administrative [1]	27,949	20,740	34.8
Loss on sale of vessels and equipment, net of write-downs	14,044	14,149	
Restructuring charge	1,044	1,991	(47.6)
Income from vessel operations	64,922	68,268	(4.9)
Calendar-Ship-Days			
Owned Vessels	9,143	6,824	34.0
Chartered-in Vessels	2,068	2,363	(12.5)
Total	11,211	9,187	22.0

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

The average fleet size of our fixed-rate tanker segment (including vessels chartered-in) increased in 2009 compared to 2008. This increase was primarily the result of:

- the delivery of two new Aframax tankers during January and March 2008 (collectively, the *Aframax Deliveries*);
- the transfer of two product tankers from the spot tanker segment in April 2008 upon commencement of long-term time-charters (the *Product Tanker Transfers*);
- the delivery of two new Suezmax tankers in June 2009 (collectively, the *Suezmax Deliveries*);
- the transfer of one Suezmax tanker from the spot tanker segment in November 2009 (the *Suezmax Transfer*);
- the purchase of a product tanker which commenced a 10-year fixed-rate time charter to Caltex Australia Petroleum Pty Ltd. during September 2009; and
- the transfer of six Aframax tankers, on a net basis, from the spot tanker segment in 2008 and 2009 upon commencement of long-term time-charters (the *Aframax Transfers*).

The Aframax Transfers consist of the transfer of six owned vessels and one chartered-in vessel from the spot tanker segment, and the transfer of one chartered-in vessel to the spot tanker segment. The effect of the transaction is to increase the fixed tanker segment s net revenues, time-charter expenses, vessel operating expenses, and depreciation and amortization expenses.

Net Revenues. Net revenues increased to $291.9 million for 2009, from $260.8 million for 2008, primarily due to:

- an increase of $31.3 million from the Aframax Transfers;
- an increase of $12.8 million from the Suezmax Deliveries;
- an increase of $4.1 million from the purchase of the new product tanker;
- an increase of $2.8 million from the Product Tanker Transfers;
- an increase of $1.9 million from the Suezmax Transfer;
- an increase of $1.4 million from the Aframax Deliveries; and
- an increase of $1.0 million as two of our Suezmax tankers were off-hire for 48 days for scheduled drydockings during 2008;

partially offset by

- a decrease of $16.2 million from decreased revenues earned by the *Teide Spirit* and the *Toledo Spirit* (the time charters for both these vessels provide for additional revenues to us beyond the fixed hire rate when spot tanker market rates exceed threshold amounts; the time-charter for the *Toledo Spirit* also provides for a reduction in revenues to us when spot tanker market rates are below threshold amounts); and
- a decrease of $6.3 million due to interest-rate adjustments to the daily charter rates under the time-charter contracts for five Suezmax tankers (however, under the terms of the capital lease for these vessels, we had corresponding decreases in our lease payments, which are reflected as decreases to interest expense; therefore, these and future interest rate adjustments do not and will not affect our cash flow or net (loss) income).

Vessel Operating Expenses. Vessel operating expenses increased to $80.3 million for 2009, from $68.1 million for 2008, primarily due to:

- an increase of $9.6 million from the Aframax Transfers;
- an increase of $2.5 million from the Suezmax Deliveries;
- an increase of $2.3 million from the purchase of the new product tanker;
- an increase of $1.4 million from the Product Tanker Transfers; and
- an increase of $0.7 million from the Suezmax Transfer;

partially offset by

- a decrease of $2.2 million due to the sale of a product tanker in the fourth quarter of 2009;
- a decrease of $0.9 million due to the effect on our Euro-denominated vessel operating expenses from the weakening of the Euro against the U.S. Dollar compared to the same period last year; and
- a decrease of $0.2 million relating to lower crew manning, insurance, and repairs and maintenance costs.

Time-Charter Hire Expense. Time-charter hire expense increased to $44.0 million for 2009, compared to $43.0 million for 2008, primarily due to an increase in the average time-charter hire rates, partially offset by a decrease in the number of in-chartered Aframax vessel days.

Depreciation and Amortization. Depreciation and amortization expense increased to $59.6 million for 2009, from $44.6 million for 2008, primarily due to the Aframax Transfers, Suezmax Deliveries, Product Tanker Transfers, and an increase in capitalized drydocking expenditures being amortized.

Loss on Sale of Vessels and Equipment Net of Write-downs. Loss on sale of vessels and equipment for 2009, primarily relates to an impairment write-down taken on one of our older fixed-rate vessels which was sold in the fourth quarter of 2009 and a write-down of intangible assets.

Restructuring Charges. During 2009, we incurred restructuring charges of $1.0 million relating to costs incurred for global staffing changes.

b) Spot Tanker Segment

Our spot tanker 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 three years 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 segment. We accepted delivery of five new Suezmax tankers in 2009, which are included in our spot tanker segment.

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

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

	Twelve Months Ended December 31,		
(in thousands of U.S. dollars, except calendar-ship-days and percentages)	**2009**	**2008**	**% Change**
Revenues	654,296	1,652,451	(60.4)
Voyage expenses	201,069	580,770	(65.4)
Net revenues	453,227	1,071,681	(57.7)
Vessel operating expenses	104,574	133,633	(21.7)
Time-charter hire expense	271,509	434,941	(37.6)
Depreciation and amortization	92,752	106,921	(13.3)
General and administrative [(1)]	71,563	89,009	(19.6)
Gain on sale of vessels and equipment, net of write-downs	(3,317)	(72,664)	(95.4)
Restructuring charge	2,191	2,359	(7.1)
(Loss) income from vessel operations	(86,045)	377,482	(122.8)

Calendar-Ship-Days

Owned Vessels	11,802	13,623	(13.4)
Chartered-in Vessels	10,334	17,647	(41.4)
Total	22,136	31,270	(29.2)

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

The number of calendar days for our spot tanker fleet decreased from 31,270 in 2008 to 22,136 in 2009, primarily due to:

- the transfer of two product tankers in April 2008 to the fixed tanker segment (or the *Spot Product Tanker Transfers*);
- the transfer of four Aframax tankers in November 2008 and two Aframax tankers in September 2009 to the fixed tanker segment (or the *Spot Aframax Tanker Transfers*);
- the sale of seven product tankers between March 2008 and May 2009 (or the *Spot Product Tanker Sales*);
- the sale of one Suezmax tanker in November 2008 (or the *Suezmax Tanker Sale*) and one Aframax tanker in November 2009;
- a net decrease in the number of chartered-in vessels, primarily from the sale of our 50% interest in the Swift Product Tanker Pool in November 2008, which included our interest in ten in-chartered intermediate product tankers; and
- the transfer of one Suezmax tanker in November 2009 to the fixed tanker segment;

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partially offset by

- the delivery of seven new Suezmax tankers between May 2008 and December 2009 (or the *Suezmax Deliveries*); and
- the delivery of one large product tanker in October 2008.

In addition, during February 2009, we sold and leased back one older Aframax tanker. This had the effect of decreasing the number of calendar days for our owned vessels and increasing the number of calendar-ship-days for our chartered-in vessels.

Tanker Market and TCE Rates

During the latter part of the fourth quarter of 2009, spot tanker rates recovered from the multi-year low rates of the previous quarter as a result of increased global oil demand, rising supply from both Organization of the Petroleum Exporting Nations (or *OPEC*) and non-OPEC sources, seasonal factors such as weather related vessel delays and an increase in floating storage volumes. Spot tanker rates remained strong during the first few weeks of 2010 largely due to severe winter weather conditions in the Northern Hemisphere which led to an increase in oil demand and caused weather-related delays. Subsequently, spot tanker rates have softened in late January and early February 2010 due to easing seasonal factors and an increase in available fleet capacity as a result of a reduction in global floating storage volumes.

In an update to its World Economic Outlook released in January 2010, the International Monetary Fund (or IMF) raised its global gross domestic product (or *GDP*) growth forecast for 2010 to 3.9% from 3.1%. The upward adjustment is a result of indications of a stronger and faster recovery of the global economy than was previously anticipated. The International Energy Agency (or *IEA*) has forecast that global oil demand in 2010 will average 86.5 million barrels per day (*mb/d*) in 2010 which represents a 1.6 million mb/d (or 1.8%) increase from 2009 when global oil demand contracted by 1.5% compared to 2008.

The following table outlines the TCE rates earned by the vessels in our spot tanker segment for 2009, 2008 and 2007 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 or for speculative purposes.

	Year Ended								
	December 31, 2009			December 31, 2008			December 31, 2007		
Vessel Type	Net Revenues ($000 s)	Revenue Days	TCE Rate $ &nb	Net Revenues ($000 s)	Revenue Days	TCE Rate $	Net Revenues ($000 s)	Revenue Days	TCE Rate $