TEEKAY SHIPPING CORP
Form 6-K
August 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

For the quarterly period ended June 30, 2005

Commission file number 1- 12874

TEEKAY SHIPPING CORPORATION

(Exact name of Registrant as specified in its charter)

TK House
Bayside Executive Park
West Bay Street & Blake Road
P.O. Box AP-59212, Nassau, Bahamas
(Address of principal executive office)

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

Form 20-F __X__ Form 40- F _____

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

Yes _____ No __X__

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

Yes _____ No __X__

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

Yes _____ No __X__

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____]

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

INDEX

ITEM 1 FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Teekay Shipping Corporation

We have reviewed the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of June 30, 2005, the related consolidated statements of income for the three and six months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six months ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of income, changes in stockholders equity and cash flows for the year then ended, and the related schedule as of and for the year ended December 31, 2004 (not presented herein) and in our report dated February 18, 2005, we expressed an unqualified opinion on those consolidated financial statements and related schedule when considered in relation to the financial statements taken as a whole. In our opinion, the information set forth in the consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Vancouver, Canada,
July 22, 2005

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended June 30,		Six Months
	2005	2004	2005
	$	$	$
VOYAGE REVENUES	480,140	477,622	997,551
OPERATING EXPENSES			
Voyage expenses	98,296	108,708	196,825
Vessel operating expenses	51,341	53,765	105,781
Time-charter hire expense	124,454	106,574	233,036
Depreciation and amortization	50,306	60,846	104,389
General and administrative	40,179	25,816	73,877
Writedown / (gain) on sale of vessels and equipment *(note 11)*	(15,894)	(450)	(117,747)
Restructuring charge	-	240	-

Total operating expenses	348,682	355,499	596,161
Income from vessel operations	131,458	122,123	401,390
OTHER ITEMS			
Interest expense	(33,319)	(30,672)	(71,016)
Interest income	8,426	4,883	16,656
Equity income from joint ventures	2,884	3,288	5,711
Foreign exchange gain (loss) *(note 7)*	21,665	(5,407)	47,539
Other - net *(note 12)*	(26,545)	4,328	(16,665)
Total other items	(26,889)	(23,580)	(17,775)
Net income *(note 13)*	104,569	98,543	383,615
Earnings per common share *(note 15)*			
- Basic	1.31	1.19	4.72
- Diluted	1.23	1.13	4.42
Weighted-average number of common shares			
- Basic	79,953,740	82,603,379	81,279,750
- Diluted	85,314,815	87,340,951	86,741,711

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at June 30, 2005 $
ASSETS	
Current	
Cash and cash equivalents *(note 7)*	246,832
Restricted cash *(note 8)*	90,781
Accounts receivable	109,767
Vessels held for sale *(note 11)*	-
Net investment in direct financing leases - current	18,338
Prepaid expenses and other assets	65,522
Total current assets	531,240
Restricted cash *(note 8)*	303,800
Vessels and equipment *(note 7)*	
At cost, less accumulated depreciation of $749,545 (December 31, 2004 - $960,597)	2,517,461
Vessels under capital leases, at cost, less accumulated	

depreciation of $22,838 (December 31, 2004 - $11,047) *(note 8)*	654,154
Advances on newbuilding contracts *(note 10)*	259,656
Total vessels and equipment	3,431,271
Net investment in direct financing leases	96,527
Investment in joint ventures	60,546
Other assets	69,066
Intangible assets - net *(note 5)*	264,417
Goodwill *(note 5)*	171,898
	4,928,765
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current	
Accounts payable	47,725
Accrued liabilities	113,411
Current portion of long-term debt *(note 7)*	183,549
Current obligation under capital leases *(note 8)*	81,979
Total current liabilities	426,664
Long-term debt *(note 7)*	1,321,151
Obligation under capital leases *(note 8)*	514,839
Other long-term liabilities	201,374
Total liabilities	2,464,028
Commitments and contingencies *(notes 8, 10 and 14)*	
Minority interest	161,018
Stockholders' equity	
Capital stock *(note 9)*	513,149
Retained earnings	1,918,175
Accumulated other comprehensive loss *(note 14)*	(127,605)
Total stockholders' equity	2,303,719
Total liabilities and stockholders' equity	4,928,765

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Six Mont 2005 $
Cash and cash equivalents provided by (used for)	

OPERATING ACTIVITIES	
Net income	383,615
Non-cash items:	
Depreciation and amortization	104,389
Writedown / (gain) on sale of vessels and equipment	(117,747)
Loss on repurchase of bonds	8,775
Gain on sale of marketable securities	-
Equity income (net of dividends received: June 30, 2005 - $5,893; June 30, 2004 - $6,871)	183
Income taxes	(9,872)
Loss from settlement of interest rate swaps	7,820
Writeoff of capitalized loan costs	7,462
Unrealized foreign exchange (gain) loss and other - net	(62,926)
Change in non-cash working capital items related to operating activities	33,528
Expenditures for drydocking	(8,437)
Net operating cash flow	346,790
FINANCING ACTIVITIES	
Proceeds from long-term debt	1,224,900
Capitalized loan costs	(2,066)
Scheduled repayments of long-term debt	(55,046)
Prepayments of long-term debt	(1,732,460)
Repayments of capital lease obligations	(3,940)
Decrease (increase) in restricted cash	16,599
Settlement of interest rate swaps	(143,295)
Net proceeds from sale of 22.3% of Teekay LNG Partners L.P. *(note 3)*	139,395
Issuance of common stock upon exercise of stock options	12,109
Repurchase of common stock *(note 9)*	(223,482)
Cash dividends paid	(22,534)
Net financing cash flow	(789,820)
INVESTING ACTIVITIES	
Expenditures for vessels and equipment	(160,729)
Proceeds from sale of vessels and equipment	433,748
Proceeds from sale of marketable securities	-
Purchase of Teekay Shipping Spain S.L. *(note 4)*	-
Net investment in direct financing leases	(5,915)
Other	(4,279)
Net investing cash flow	262,825
Decrease in cash and cash equivalents	(180,205)
Cash and cash equivalents, beginning of the period	427,037
Cash and cash equivalents, end of the period	246,832

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS(in thousands of U.S. dollars) 6

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. They include the accounts of Teekay Shipping Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (or the *Company*). Certain information and footnote disclosures required by generally accepted accounting principles for complete annual financial statements have been omitted and, therefore, it is suggested that these interim financial statements be read in conjunction with the Company s audited financial statements for the year ended December 31, 2004. In the opinion of management, these statements reflect all adjustments (consisting only of normal recurring accruals) necessary to present fairly, in all material respects, the Company s consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of those for a full fiscal year.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

2. Segment Reporting

The Company has three reportable segments: its spot tanker segment, its fixed-rate tanker segment, and its fixed-rate liquefied natural gas (or *LNG*) segment. The Company s spot tanker segment consists of conventional crude oil tankers and product carriers operating in the spot market or subject to time charters or contracts of affreightment priced on a spot-market basis or on short-term, fixed-rate contracts. The Company considers contracts that have an original term of less than three years in duration to be short-term. The Company s fixed-rate tanker segment consists of shuttle tankers, floating storage and offtake vessels, liquid petroleum gas carriers and conventional crude oil and product tankers subject to long-term, fixed-rate time-charter contracts or contracts of affreightment. The Company s fixed-rate LNG segment consists of LNG carriers subject to long-term, fixed-rate time-charter contracts. The Company had no LNG operations prior to its acquisition of Teekay Shipping Spain S.L. (or *Teekay Spain*) on April 30, 2004 (see Note 4). Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company s consolidated financial statements.

The following tables present results for these segments for the three and six months ended June 30, 2005 and 2004.

Three-months ended June 30, 2005	Spot Tanker Segment $	Fixed-Rate Tanker Segment $	Fixed-Rate LNG Segment $
Voyage revenues - external............	266,566	188,796	24,778
Voyage expenses.......................	81,354	16,940	2
Vessel operating expenses.............	16,068	31,453	3,820
Time-charter hire expense.............	72,280	52,174	-
Depreciation and amortization.........	12,684	30,099	7,523
General and administrative(1).........	23,310	13,607	3,262
Writedown / (gain) on sale of vessels and equipment..............	(26,147)	10,253	-
Income from vessel operations(2).......	87,017	34,270	10,171
Voyage revenues - intersegment.......	-	1,158	-
Total assets as at June 30, 2005.......	898,422	2,020,002	1,506,716

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

Three months ended June 30, 2004	Spot Tanker Segment $	Fixed-Rate Tanker Segment $	Fixed-Rate LNG Segment $
Voyage revenues - external............	290,688	178,935	7,999
Voyage expenses.......................	87,723	20,870	115
Vessel operating expenses.............	23,752	28,376	1,637
Time-charter hire expense.............	60,369	46,205	-
Depreciation and amortization.........	25,976	32,493	2,377
General and administrative (1)........	12,081	12,994	741
Writedown / (gain) on sale of vessels and equipment..............	(450)	-	-
Restructuring charge..................	240	-	-
Income from vessel operations.........	80,997	37,997	3,129
Voyage revenues - intersegment.........	-	1,146	-
Total assets as at June 30, 2004.......	1,263,773	2,103,898	1,139,314

Six months ended June 30, 2005	Spot Tanker Segment $	Fixed-Rate Tanker Segment $	Fixed-Rate LNG Segment $
Voyage revenues - external............	587,550	360,958	49,043
Voyage expenses.......................	165,550	31,225	50
Vessel operating expenses.............	33,875	63,743	8,163
Time-charter hire expense.............	138,496	94,540	-
Depreciation and amortization.........	28,550	60,794	15,045
General and administrative (1)........	41,635	26,040	6,202
Writedown / (gain) on sale of vessels and equipment..............	(123,116)	5,369	-
Income from vessel operations(2)	302,560	79,247	19,583
Voyage revenues - intersegment.......	-	2,291	-

Six months ended June 30, 2004	Spot Tanker Segment $	Fixed-Rate Tanker Segment $	Fixed-Rate LNG Segment $
Voyage revenues - external............	666,544	354,530	7,999
Voyage expenses.......................	175,498	36,979	115
Vessel operating expenses.............	47,205	53,835	1,637
Time-charter hire expense.............	119,924	95,315	-
Depreciation and amortization.........	50,862	61,221	2,377
General and administrative (1)........	25,099	27,601	741

Writedown / (gain) on sale of vessels and equipment..............	(1,053)	-	-
Restructuring charge..................	1,002	-	-
Income from vessel operations..........	248,007	79,579	3,129
Voyage revenues - intersegment.......	-	2,291	-

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

(2) The Company's subsidiary, Teekay LNG Partners L.P., contributed $2.1 million and $7.1 million, respectively, of income from vessel operations to the Company's fixed-rate tanker segment and fixed-rate LNG segment for the period from May 10, 2005 (the date of the subsidiary's initial public offering) to June 30, 2005.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

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

	As at June 30, 2005 $
Total assets of all segments..	4,425,140
Cash and restricted cash..	252,400
Accounts receivable and other assets....................................	251,225
Consolidated total assets	4,928,765

3. Initial Public Offering of Teekay LNG Partners L.P.

On May 10, 2005, the Company s subsidiary Teekay LNG Partners L.P. (or *Teekay LNG*) completed its initial public offering (or the *Offering*) of 6.9 million common units at a price of $22.00 per unit. This included 0.9 million common units sold to the underwriters in connection with the exercise of their over-allotment option. As a result of this transaction, the Company recorded a $12.1 million reduction to stockholders equity. The Company accounts for gains or losses from the issuance of shares by its subsidiaries as an adjustment to stockholders equity. The proceeds received from the Offering and the use of those proceeds are summarized as follows:

Proceeds received:
Sale of 6,900,000 common units at $22.00 per unit....................................

Use of proceeds from sale of common units:
Underwriting and structuring fees..
Professional fees and other offering expenses..............................
Repayment of loans from Teekay Shipping Corporation........................
Working capital...

Teekay LNG is a Marshall Islands limited partnership formed by the Company as part of its strategy to expand its operations in the LNG shipping sector. Teekay LNG will provide LNG and crude oil marine transportation service under long-term, fixed-rate contracts with major energy and utility companies through its fleet of LNG carriers and Suezmax class crude oil tankers, primarily consisting of the vessels obtained through its acquisition of Teekay Spain in April 2004.

Immediately preceding the Offering, the Company entered into an omnibus agreement with Teekay LNG governing, among other things, when the Company and Teekay LNG may compete with each other and certain rights of first offering on LNG carriers and Suezmax tankers. Under this agreement, Teekay LNG has granted to the Company a 30-day right of first offer on any proposed (a) sale, transfer or other disposition of any of the Company s Suezmax tankers or (b) re-chartering of any of the Company s Suezmax tankers pursuant to a time-charter with a term of at least three years if the existing charter expires or is terminated early. Likewise, the Company has granted a similar right of first offer to Teekay LNG for any LNG carriers it might own.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

4. Acquisition of Teekay Shipping Spain S.L.

On April 30, 2004, the Company acquired all of the outstanding shares of Naviera F. Tapias S.A. and its subsidiaries and renamed it Teekay Shipping Spain S.L. (or *Teekay Spain*). Teekay Spain engages in the marine transportation of crude oil and LNG. The Company acquired Teekay Spain for $298.2 million in cash, plus the assumption of debt and remaining newbuilding commitments. Management believes the acquisition of the Teekay Spain business has provided the Company with a strategic platform from which to expand its presence in the LNG shipping sector and immediate access to reputable LNG operations. The Company anticipates this will benefit it when bidding on future LNG projects. These benefits contributed to the recognition of goodwill. In the transaction, Teekay also entered into an agreement with an entity controlled by the former controlling shareholder of Teekay Spain to establish a 50/50 joint venture that will pursue new business in the oil and gas shipping sectors that relate only to the Spanish market or are led by Spanish entities or entities controlled by a Spanish company. Teekay Spain s results of operations have been consolidated with the Company s results commencing May 1, 2004.

As at June 30, 2005, the Company s LNG fleet consisted of seven LNG vessels, including three newbuildings. All seven vessels were contracted under long-term, fixed-rate time charters to major energy companies. As at June 30, 2005, Teekay Spain s conventional crude oil tanker fleet consisted of five Suezmax tankers, including one newbuilding, which was subsequently delivered in July 2005. All five Suezmax tankers are contracted under long-term, fixed-rate time charters with a major Spanish oil company.

The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at April 30, 2004, the date of the Teekay Spain acquisition.

ASSETS	
Cash, cash equivalents and short-term restricted cash....................................	
Other current assets..	
Vessels and equipment..	
Restricted cash - long term..	
Other assets - long-term..	
Intangible assets subject to amortization:	
Time-charter contracts (weighted-average useful life of 19.2 years)	

Goodwill ($3.6 million fixed-rate tanker segment and $35.7 million fixed-rate LNG segment)	
Total assets acquired........	
LIABILITIES	
Current liabilities........	
Long-term debt	
Obligations under capital leases........	
Other long-term liabilities........	
Total liabilities assumed........	
Net assets acquired (cash consideration)	

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The following table shows comparative summarized consolidated pro forma financial information for the Company for the six months ended June 30, 2004, giving effect to the acquisition of 100% of the outstanding shares in Teekay Spain as if it had taken place on January 1, 2004:

	P Six M Jun
Voyage revenues........	
Net income (1)........	
Earnings per share	
- Basic........	
- Diluted........	

(1) The results of Teekay Spain for the six months ended June 30, 2004 included foreign approximately $11.1 million. Substantially all of these foreign exchange losses were

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2005 for the Company s reporting segments, are as follows:

	Spot Tanker Segment $	**Fixed-Rate Tanker Segment $**	**Fixed-Rate LNG Segment $**	**O**
Balance as of December 31, 2004........	-	132,223	35,631	1,
Goodwill acquired........	-	2,308	-	
Balance as of June 30, 2005........	-	134,531	35,631	1,

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As at June 30, 2005, intangible assets consisted of:

	Weighted-Average Amortization Period (years)	Gross Carrying Amount $	Accumulate Amortizati $
Contracts of affreightment................	10.2	124,250	38,759
Time-charter contracts....................	19.2	182,552	8,760
Intellectual property.....................	7.0	7,701	2,567
	15.4	314,503	50,086

Aggregate amortization expense of intangible assets for the three and six months ended June 30, 2005 was approximately $6.8 million ($6.5 million 2004) and $13.1 million ($11.4 million 2004), respectively. Amortization of intangible assets for the next five fiscal years is expected to be $12.1 million (remainder of 2005), $22.3 million (2006), $21.3 million (2007), $20.3 million (2008), $19.3 million (2009) and $169.1 million (thereafter).

6. Cash Flows

Cash interest paid by the Company during the six months ended June 30, 2005 and 2004 totaled approximately $70.1 million and $50.7 million, respectively.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

7. Long-Term Debt

	June 30, 2005 $
Revolving Credit Facilities..	620,000
First Preferred Ship Mortgage Notes (8.32%)............................	-
Premium Equity Participating Security Units (7.25%) due May 18, 2006.....	143,750
Senior Notes (8.875%) due July 15, 2011................................	294,565
U.S. Dollar-denominated Term Loans due through 2017.....................	57,212
EURO-denominated Term Loans due through 2023............................	389,173
	1,504,700
Less current portion..	183,549
Total..	1,321,151

As at June 30, 2005, the Company had five long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for borrowings of up to $1,785.0 million, of which $1,165.0 million was undrawn. The amount available under the Revolvers reduces by $73.0 million (2005), $146.9 million (2006), $148.2 million (2007), $363.4 million (2008), $189.7 million (2009) and $863.8 million (thereafter). All of the Revolvers are collateralized by first-priority mortgages granted on 49 of the Company s vessels, together with other related collateral, and include a guarantee from Teekay for all amounts outstanding under the Revolvers.

On February 1, 2005, the Company repaid $45.0 million of the 8.32% First Preferred Ship Mortgage Notes (or the *8.32% Notes*). On March 30, 2005, the Company effectively repaid the remaining $5.9 million outstanding by placing an amount on deposit with the trustee, The Bank of New York, that satisfies the outstanding principal and accrued interest on the remaining two semi-annual repayment dates. As a result of these transactions, the 8.32% Notes are no longer collateralized by first-preferred mortgages on any of the Company s vessels and they are not guaranteed by any of the Company s subsidiaries.

The 7.25% Premium Equity Participating Security Units due May 18, 2006 (or the *Equity Units*) are unsecured and subordinated to all of the Company s senior debt. The Equity Units are not guaranteed by any of the Company s subsidiaries and effectively rank behind all existing and future secured debt of the Company and all existing and future debt of the Company s subsidiaries. Each Equity Unit includes (a) a forward contract that requires the holder to purchase for $25 a specified fraction of a share of the Company s common stock on February 16, 2006 and (b) a $25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement on February 16, 2006 of the $5.75 million forward contracts included in the Equity Units, the Company will issue between 6,534,300 and 7,982,150 shares of its common stock (depending on the average closing price of the common stock for the 20-trading day period ending on February 13, 2006).

The 8.875% Senior Notes due July 15, 2011 (or the *8.875% Notes*) rank equally in right of payment with all of Teekay s existing and future senior unsecured debt and senior to Teekay s existing and future subordinated debt. During the three months ended June 30, 2005, the Company repurchased a principal amount of $56.8 million of the 8.875% Notes (See also Note 12). The 8.875% Notes are not guaranteed by any of Teekay s subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities, secured and unsecured, of its subsidiaries.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The Company has several term loans outstanding, which, as at June 30, 2005, totaled $57.2 million (U.S. Dollar-denominated) and 321.7 million Euros ($389.2 million). As part of certain capital leases, the Company has two long-term time-charter contracts that are denominated in Euros, the funds from which will be used to repay the associated Euro-denominated term loans. Interest payments on the U.S. Dollar denominated term loans are based on LIBOR plus a margin. Interest payments on the EURO-denominated term loans are based on EURIBOR plus a margin. At June 30, 2005, the margins ranged between 0.50% and 1.30%. The term loans reduce in monthly or quarterly payments with varying maturities through 2023. All term loans of the Company are collateralized by first-preferred mortgages on the vessels to which the loans relate, together with certain other collateral and guarantees from Teekay. Certain term loans of Teekay Spain totaling $403.6 million are not guaranteed by Teekay.

All Euro-denominated term loans are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due substantially to this revaluation, the Company recognized foreign exchange gains during the three and six months ended June 30, 2005, of $21.7 million ($5.4 million loss 2004) and $47.5 million ($6.3 million loss 2004), respectively.

Certain loan agreements require that a minimum level of free cash be maintained. As at June 30, 2005, this amount was $100.0 million. Certain of the loan agreements also require that the Company maintain a minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity. As at June 30, 2005, this amount was $157.6 million.

8. Capital Leases and Restricted Cash

Capital Leases

Aframax and Suezmax Tankers. As at June 30, 2005, the Company was party to capital leases on one Aframax tanker and four Suezmax tankers. Under the terms of the lease arrangements, which include the Company s contractual right to full operation of the vessels pursuant to bareboat charters, the Company is required to purchase these vessels at the end of their respective lease terms for a fixed price. As at June 30, 2005, the weighted-average interest rate implicit in these capital leases was 7.8%. As at June 30, 2005, the remaining commitments under these capital leases, including the purchase obligations, approximated $270.0 million, including imputed interest of $50.8 million, repayable as follows:

Year	
2005	$
2006	1
2007	
2008	
2009	
Thereafter	

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

LNG Carriers. As at June 30, 2005, the Company was a party to capital leases on two LNG carriers which are structured as Spanish tax leases. Under the terms of the Spanish tax leases, the Company will purchase these vessels at the end of their respective lease terms in 2006 and 2011, both of which purchase obligations have been fully funded with restricted cash deposits described below. As at June 30, 2005, the weighted-average interest rate implicit in the Spanish tax leases was 5.7%. As at June 30, 2005, the commitments under these capital leases, including the purchase obligations, approximated 365.3 million Euros ($441.9 million), including imputed interest of 53.2 million Euros ($64.3 million), repayable as follows:

Year	Commi
2005	77.1 million.Euro
2006	123.2 million.Euro
2007	23.3 million.Euro
2008	24.4 million.Euro
2009	25.6 million.Euro
Thereafter	91.7 million.Euro

Restricted Cash

Under the terms of the Spanish tax leases for the two LNG carriers, the Company is required to have on deposit with financial institutions an amount of cash that, together with interest 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. This amount was 317.8 million Euros ($384.4 million) as at June 30, 2005 and 309.5 million Euros ($421.6 million) at December 31, 2004. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and a Spanish government grant. The interest rates earned on the deposits approximate the interest rates implicit in the Spanish tax leases. As at June 30, 2005 and December 31, 2004, the weighted-average interest rate earned on the deposits was 5.3%.

The Company also maintains restricted cash deposits relating to certain term loans and other obligations. As at June 30, 2005 and December 31, 2004, these amounts were $10.2 million and $27.2 million, respectively.

9. Capital Stock

The authorized capital stock of Teekay at June 30, 2005 was 25,000,000 shares of Preferred Stock, with a par value of $1 per share, and 725,000,000 shares of common stock, with a par value of $0.001 per share. As at June 30, 2005, Teekay had 78,429,355 shares of common stock and no shares of Preferred Stock issued and outstanding. On May 17, 2004, Teekay effected a two-for-one stock split relating to its common stock. All earnings per share and share capital amounts disclosed in these financial statements give effect to this stock split retroactively.

In April 2005, Teekay announced that its Board of Directors had authorized the repurchase program of up to $225 million of shares of its common stock in the open market. As at June 30, 2005 Teekay had repurchased 3,604,100 shares of common stock subsequent to such authorization at an average price of $43.25 per share. (See also note 17(a))

In November 2004, Teekay announced that its Board of Directors had authorized the repurchase of up to 3,000,000 shares of its common stock in the open market. As at December 31, 2004, Teekay had repurchased 1,400,200 shares of common stock subsequent to such authorization at an average price of $43.73 per share. In January 2005, Teekay repurchased an additional 1,599,800 shares at an average price of $42.27, for a total of 3,000,000 shares repurchased at an average price of $42.95 per share.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

As at June 30, 2005, the Company had reserved pursuant to its 1995 Stock Option Plan and 2003 Equity Incentive Plan (collectively referred to as the *Plans*) 6,032,562 shares of common stock for issuance upon exercise of options or equity awards granted or to be granted. As at June 30, 2005, the number of options available for issuance under the Plans was 1,418,882. As at June 30, 2005, options to purchase a total of 4,613,680 shares of Teekay s common stock were outstanding, of which 2,816,358 options were then exercisable at prices ranging from $8.44 to $34.37 per share, with a weighted-average exercise price of $18.75 per share. All outstanding options have exercise prices ranging from $8.44 to $46.80 per share and a weighted-average exercise price of $24.37 per share. All outstanding options expire between July 19, 2005 and June 2, 2015, ten years after the date of each respective grant.

Under Statement of Financial Accounting Standards No. 123 (or *SFAS 123*), Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, disclosures of stock-based compensation arrangements with employees are required and companies are encouraged (but not required) to record compensation costs associated with employee stock option awards, based on estimated fair values at the grant dates. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 (or *APB 25*), Accounting for Stock Issued to Employees. As the exercise price of the Company s employee stock options equals the market price of underlying stock on the date of grant, no compensation expense has been recognized under APB 25. The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS 123, as amended, to stock-based employee compensation.

	Three Months Ended June 30,		Si
	2005	2004	200
	$	$	$
Net income - as reported	104,569	98,543	383
Less: Total stock-based compensation expense	2,015	2,185	4
Net income - pro forma	102,554	96,358	379
Basic earnings per common share:			
- As reported	1.31	1.19	4
- Pro forma	1.28	1.17	4
Diluted earnings per common share:			
- As reported	1.23	1.13	4
- Pro forma	1.20	1.10	4

For the purpose of the above pro forma calculation, the fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the options granted: expected volatility of 35% in 2005 and 2004, expected life of five years, dividend yield of 1.5% in 2005 and 2.0% in 2004, and risk-free interest rate of 4.1% in 2005 and 2.7% in 2004.

As at June 30, 2005, the Company had 656,698 restricted stock units outstanding that were awarded in March 2005 as incentive based compensation. Each restricted stock unit is equal in value to one share of the Company s common stock and reinvested dividends from the date of the grant to the vesting of the restricted stock unit. Based on the June 30, 2005 share price of $43.90 per share, the restricted stock units outstanding at June 30, 2005 had a notional value of $28.8 million. The restricted stock units vest in three equal amounts on March

31, 2006, March 31, 2007 and November 30, 2007. Upon vesting, 127,191 of the restricted stock units will be paid to each grantee in the form of cash, and 529,507 of the restricted stock units will be paid to each grantee in the form of cash or shares of Teekay s common stock, at the election of the grantee. Shares of Teekay s common stock issued as payment of the restricted stock units will be purchased in the open market by the Company. During the three and six months ended June 30, 2005, the Company accrued $0.9 million and $5.1 million, respectively, related to restricted stock units, which is primarily included in general and administrative expenses.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

10. Commitments and Contingencies

a) Vessels Under Construction

As at June 30, 2005, the Company was committed to the construction of five Aframax tankers, one Suezmax tanker, three product tankers, and three LNG carriers scheduled for delivery between July 2005 and March 2008, at a total cost of approximately $916.5 million, excluding capitalized interest. As at June 30, 2005, payments made towards these commitments totaled $231.8 million, excluding $27.9 million of capitalized interest and other miscellaneous construction costs. Long-term financing arrangements existed for $673.7 million of the unpaid cost of these vessels. The Company intends to finance the remaining unpaid amount of $11.0 million through incremental debt or surplus cash balances, or a combination thereof. As at June 30, 2005, the remaining payments required to be made under these newbuilding contracts were: $237.0 million in 2005, $230.2 million in 2006, $166.7 million in 2007, and $50.7 million in 2008. Two of the Aframax tankers will be subject to 10-year time charters to Skaugen PetroTrans Inc., a joint venture of the Company, upon delivery in 2008. The three LNG carriers will be subject to 20-year, fixed-rate time charters to Ras Laffan Natural Gas Co. Limited (II), a joint venture between Qatar Gas Transport Company Ltd. and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation.

b) Joint Ventures

Under the terms of a joint venture agreement with an entity controlled by the former controlling shareholder of Teekay Spain, Teekay will make capital contributions to the joint venture company of $50.0 million in share premium. If Teekay has not contributed the $50.0 million equity prior to April 30, 2007, it will be required to pay the other partner up to $25.0 million calculated by a pre-determined formula based on the occurrence of certain future events.

Teekay and certain of its subsidiaries of Teekay have guaranteed their share of the outstanding mortgage debt in four 50%-owned joint venture companies. As at June 30, 2005, Teekay and these subsidiaries had guaranteed $96.8 million, or 50% of the total $193.7 million, in outstanding mortgage debt of the joint venture companies. These joint venture companies own an aggregate of four shuttle tankers.

c) Long-Term Incentive Program

In 2005, the Company adopted the Vision Incentive Plan (or *Plan*) to reward exceptional corporate performance and shareholder returns. This Plan will result in an award pool for senior management based on the following two measures: (a) economic profit from 2005 to 2010 (or the *Economic Profit*); and (b) market value added from 2001 to 2010 (or the *Market Value Added*). The Plan terminates on December 31, 2010. Under the Plan, the Economic Profit is the difference between the Company s annual return on invested capital (or *ROIC*) and its weighted-average cost of capital (or *WACC*) multiplied by its average invested capital employed during the year, and Market Value Added is the amount by which the average market value of the Company for the preceding 18 months exceeds the average book value of the Company for the same period.

In 2008, if the Plan s award pool has a cumulative positive balance based on the Economic Profit contributions for the preceding three years, then an interim distribution may be made to participants in an amount not greater than half of the award pool. In 2011, the balance of the Plan award pool will be distributed to the participants. Fifty percent of any distribution from the award pool, in 2008 and in 2011, must be paid in a form that is equity-based, with vesting on half of this percentage deferred for one year and vesting on the remaining half of this percentage deferred for two years.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

The Economic Profit contributions added to the award pool each quarter are accrued when incurred. During the three and six months ended June 30, 2005, the Company accrued $2.5 million and $6.9 million, respectively, of Economic Profit contributions. The estimated Market Value Added contributions are accrued on a straight-line basis from the date of plan approval, which was March 9, 2005, until December 31, 2010. Any subsequent increases or decreases to the Market Value Added contribution are accrued on a straight-line basis until December 31, 2010. During the three and six months ended June 30, 2005, the Company accrued $2.6 million and $3.4 million, respectively, of Market Value Added contributions. The accruals for the Economic Profit contributions and the Market Value Added contributions are included in general and administrative expenses.

d) Other

The Company has been awarded a contract by a consortium of major oil companies to construct and install on six of its shuttle tankers volatile organic compound emissions plants, which reduce emissions during cargo operations. These plants are leased to the consortium of major oil companies. The construction and installation of these plants are expected to be completed by the end of 2005 at a total cost of approximately $99.4 million. As at June 30, 2005, the Company had made payments towards these commitments of approximately $71.1 million. As at June 30, 2005, the remaining payments required to be made towards these commitments were $28.3 million in 2005.

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

11. Writedown and Gain on Sale of Vessels and Equipment

During the second quarter of 2005, the Company completed the sale of one Suezmax tanker built in 1990 and three Aframax tankers built between 1988 and 1989, all of which were presented as held for sale at March 31, 2005. The results for the three months ended June 30, 2005 include gains from the sale of these vessels totaling $25.4 million.

In March 2005, the Company sold and leased back a 1991-built shuttle tanker that is now being accounted for as an operating lease. The sale generated a $2.1 million gain, which has been deferred and is being amortized over the 6.5 year term of the lease. The Company is also amortizing a deferred gain on the sale and lease back of three vessels sold in December 2003. The results for the three and six months ended June 30, 2005 include $0.7 million and $1.3 million, respectively, of amortization of these deferred gains.

The results for the six months ended June 30, 2005 include $126.7 million of gains on the sale of 11 Aframax tankers built between 1988 and 1991, one shuttle tanker built in 1986, one Suezmax tanker built in 1990 and one newbuilding Suezmax tanker which was sold concurrently upon its delivery in March 2005.

In June 2005, the Company recorded a writedown of $10.2 million of certain offshore equipment due to a lower estimated net realizable value arising from the early termination of a contract.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

12. Other net

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

	2005 $	2004 $	2005 $
Loss on bond redemption *(note 7)*..............	(8,775)	-	(8,775)
Loss from settlement of interest rate swaps *(note 14)*................................	(7,820)	-	(7,820)
Writeoff of capitalized loan costs............	(7,462)	-	(7,462)
Minority interest expense.....................	(6,482)	(624)	(7,075)
Income tax recovery (expense).................	555	(6,086)	9,872
Dividend income...............................	-	5,663	-
Gain on sale of marketable securities.........	-	2,232	-
Miscellaneous.................................	3,439	3,143	4,595
Other - net...................................	(26,545)	4,328	(16,665)

13. Comprehensive Income

	Three Months Ended June 30, 2005 $	Three Months Ended June 30, 2004 $	Six June 30, 2005 $
Net income..................................	104,569	98,543	383,615
Other comprehensive income:			
Unrealized gain (loss) on marketable securities..........................	-	(31,698)	-
Reclassification adjustment for gain on sale of marketable securities included in net income................	-	(1,151)	-
Unrealized loss on derivative instruments...........................	(101,412)	(16,338)	(86,176)
Reclassification adjustment for loss on derivative instruments included in net income............................	9,928	7,365	14,704
Comprehensive income..................	13,085	56,721	312,143

14. Derivative Instruments and Hedging Activities

The Company uses derivatives only for hedging purposes. The following summarizes the Company s risk strategies with respect to market risk from foreign currency fluctuations, changes in interest rates, spot market rates for vessels, bunker fuel prices.

The Company hedges portions of its forecasted expenditures denominated in foreign currencies with foreign exchange forward contracts. As at June 30, 2005, the Company was committed to foreign exchange contracts for the forward purchase of approximately Norwegian Kroner 422.3 million and Canadian Dollars 35.0 million for U.S. Dollars at an average rate of Norwegian Kroner 6.84 per U.S. Dollar and Canadian Dollar 1.28 per U.S. Dollar, respectively. The foreign exchange forward contracts mature as follows: $52.9 million in 2005; and $36.1 million in 2006.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

As at June 30, 2005, the Company was committed to the following interest rate swap agreements related to its LIBOR and EURIBOR based debt, whereby certain of the Company s floating-rate debt was swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount $	Fair Value/ Carrying Amount of Liability $	Weigh Aver Remai Te (yea
U.S. Dollar-denominated interest rate swaps..................................	LIBOR	700,000	1,229	3
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	1,184,000	69,212	11
Euro-denominated interest rate swaps (3) (4)................................	EURIBOR	389,173	14,985	19

(1) Excludes the margin the Company pays on its variable-rate debt, which as of June 30, 2005 ranged from 0.5% to 1.3%.

(2) Inception dates of swaps are 2006 ($678 million), 2007 ($256 million) and 2009 ($250 million).

(3) Principal amount reduces monthly to 70.1 million Euros ($84.8 million) by the maturity dates of the swap agreements.

(4) Principal amount is the U.S. Dollar equivalent of 321.7 million Euros.

During April 2005, the Company repaid term loans of $337.3 million on two LNG carriers and settled the related interest rate swaps. A loss of $7.8 million was recognized as a result of these interest rate swap settlements (See also Note 12). During April 2005, the Company also settled interest rate swaps associated with 322.8 million Euros ($390.5 million) of term loans and entered into new swaps of the same amount with a lower fixed interest rate. A loss of 39.2 million Euros ($50.4 million) has been deferred in accumulated other comprehensive income and will be recognized over the remaining term of the term loans. The cost to settle all of these interest rate swaps was $143.3 million.

The Company hedges certain of its voyage revenues through the use of forward freight agreements. Forward freight agreements involve contracts to provide a fixed number of theoretical voyages at fixed-rates, thus hedging a portion of the Company's exposure to the spot charter market. As at June 30, 2005, the Company was committed to forward freight agreements totaling 2.2 million metric tonnes with an aggregate notional principal amount of $17.9 million. The forward freight agreements expire between July and December 2005.

The Company hedges a portion of its bunker fuel expenditures with bunker fuel swap contracts. As at June 30, 2005, the Company was committed to contracts totalling 9,150 metric tonnes with a weighted-average price of $162.09 per tonne. The fuel swap contracts expire between July and December 2005.

The Company is exposed to credit loss in the event of non-performance by the counter parties to the foreign exchange forward contracts, interest rate swap agreements, forward freight agreements and bunker fuel swap contracts,; however, the Company does not anticipate non-performance by any of the counter parties.

During the three and six months ended June 30, 2005, the Company recognized a net loss of $0.9 million ($0.9 million - 2004) and $1.0 million ($2.0 million - 2004), respectively, relating to the ineffective portion of its interest rate swap agreements and foreign currency forward contracts. The ineffective portion of these derivative instruments is presented as interest expense and other (loss) income, respectively.

As at June 30, 2005 and December 31, 2004, the Company's accumulated other comprehensive loss consisted of unrealized losses on derivative instruments totaling $127.6 million and $56.1 million, respectively.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)

15. Earnings Per Share

	Three Months Ended June 30, 2005 $	Three Months Ended June 30, 2004 $	Si[x Months Ended] June 3[0,] 2005 $
Net income available for common stockholders........	104,569	98,543	383,61
Weighted-average number of common shares............	79,953,740	82,603,379	81,279,
Dilutive effect of employee stock options and restricted stock awards.........................	2,122,340	2,461,857	2,158,
Dilutive effect of Equity Units....................	3,238,735	2,275,715	3,303,
Common stock and common stock equivalents...........	85,314,815	87,340,951	86,741,
Earnings per common share:			
– Basic..	1.31	1.19	4.
– Diluted..	1.23	1.13	4.

For both the three and six months ended June 30, 2005, the anti-dilutive effect of 0.6 million shares attributable to outstanding stock options were excluded from the calculations of diluted earnings per share. There was a nominal amount of shares attributable to outstanding stock options that were anti-dilutive for each of the three and six months ended June 30, 2004, which were excluded from the calculation of diluted earnings per share.

16. Recent Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (or *FASB*) issued FASB Statement No. 123(R) (or *SFAS 123(R)*), Share-Based Payment , which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation . SFAS 123(R) supersedes APB 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an acceptable alternative.

SFAS 123(R) must be adopted for all fiscal years beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company expects to adopt SFAS 123(R) on January 1, 2006.

SFAS 123(R) permits public companies to adopt its requirements using one of the following two methods:

a) A modified prospective method in which compensation cost is recognized beginning with the effective date based on (a) the requirements