OVERSEAS SHIPHOLDING GROUP INC
Form 10-Q
May 05, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2011

OR

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

For the transition period from to

Commission File Number 1-6479-1

OVERSEAS SHIPHOLDING GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	13-2637623
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

666 Third Avenue, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

(212) 953-4100
Registrant's telephone number, including area code

No Change
Former name, former address and former fiscal year, if changed since last report

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “accelerated filer”, “large accelerated filer” and “smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Shares outstanding as of May 2, 2011 – 30,466,447

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
DOLLARS IN THOUSANDS

	March 31, 2011, (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$257,681	$ 253,649
Short-term investments	20,047	20,047
Voyage receivables, including unbilled of $132,414 and $118,695	170,576	160,993
Other receivables, including income taxes recoverable	59,827	99,611
Inventories, prepaid expenses and other current assets	74,687	60,577
Total Current Assets	582,818	594,877
Vessels and other property, including construction in progress of $737,825 and $806,818, less accumulated depreciation of $774,284 and $756,988	3,218,736	3,195,383
Vessels held for sale	—	3,305
Deferred drydock expenditures, net	43,109	46,827
Total Vessels, Deferred Drydock and Other Property	3,261,845	3,245,515
Investments in Affiliated Companies	277,185	265,096
Intangible Assets, less accumulated amortization of $30,740 and $29,444	81,842	83,137
Goodwill	9,589	9,589
Other Assets	53,563	42,889
Total Assets	$4,266,842	$ 4,241,103
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$127,126	$ 129,178
Current installments of long-term debt	50,844	44,607
Total Current Liabilities	177,970	173,785
Long-term Debt	2,010,130	1,941,583
Deferred Gain on Sale and Leaseback of Vessels	31,297	40,876
Deferred Income Taxes and Other Liabilities	273,961	274,716
Total Liabilities	2,493,358	2,430,960
Equity:		
Overseas Shipholding Group, Inc.'s Equity	1,773,484	1,810,143
Total Equity	1,773,484	1,810,143
Total Liabilities and Equity	$4,266,842	$ 4,241,103

See notes to condensed consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS
(UNAUDITED)

	Three Months Ended March 31, 2011	2010
Shipping Revenues:		
Pool revenues, including $21,478 and $23,461 received from companies accounted for by the equity method	$77,217	$108,584
Time and bareboat charter revenues	60,456	65,546
Voyage charter revenues	125,995	95,624
	263,668	269,754
Operating Expenses:		
Voyage expenses	57,106	39,893
Vessel expenses	69,409	64,074
Charter hire expenses	95,350	90,614
Depreciation and amortization	42,308	41,926
General and administrative	24,468	26,829
Shipyard contract termination recoveries	—	(231)
Loss on disposal of vessels, including impairments in 2010	868	2,256
Total Operating Expenses	289,509	265,361
(Loss)/ Income from Vessel Operations	(25,841)	4,393
Equity in Income/(Loss) of Affiliated Companies	5,642	(2,298)
Operating (Loss)/Income	(20,199)	2,095
Other Income/(Expense)	1,824	(146)
	(18,375)	1,949
Interest Expense	(17,739)	(12,294)
Loss before Income Taxes	(36,114)	(10,345)
Income Tax Benefit	1,556	992
Net Loss	$(34,558)	$(9,353)
Weighted Average Number of Common Shares Outstanding:		
Basic	30,210,882	27,760,420
Diluted	30,210,882	27,760,420
Per Share Amounts:		
Basic net loss	$(1.15)	$(0.34)
Diluted net loss	$(1.15)	$(0.34)
Cash dividends declared	$0.4375	$0.4375

See notes to condensed consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
DOLLARS IN THOUSANDS
(UNAUDITED)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash Flows from Operating Activities:		
Net loss	$(34,558)	$(9,353)
Items included in net loss not affecting cash flows:		
Depreciation and amortization	42,308	41,926
Amortization of deferred gain on sale and leasebacks	(9,580)	(10,613)
Amortization of debt discount and other deferred financing costs	782	659
Loss on write-down of vessels	—	3,607
Compensation relating to restricted stock and stock option grants	2,451	2,740
Deferred income tax (benefit)/provision	(1,055)	(1,118)
Unrealized gains on forward freight agreements and bunker swaps	(688)	(54)
Undistributed earnings of affiliated companies	(1,104)	7,791
Deferred payment obligations on charters-in	1,284	1,172
Other – net	1,096	(659)
Items included in net loss related to investing and financing activities:		
(Gain)/loss on sale of securities and other investments – net	(431)	458
Loss/(gain) on disposal of vessels – net	868	(1,351)
Payments for drydocking	(2,863)	(1,945)
Changes in operating assets and liabilities	11,945	(47,472)
Net cash provided by/(used in) operating activities	10,455	(14,212)
Cash Flows from Investing Activities:		
Long-term investments	(13,406)	—
Disposal of short-term investments	—	50,000
Proceeds from sales of investments	960	190
Expenditures for vessels	(63,653)	(112,054)
Proceeds from disposal of vessels	8,737	—
Expenditures for other property	(320)	(568)
Distributions from/(Investments in and advances to) affiliated companies – net	556	(92,251)
Shipyard contract termination payments	—	(839)
Other – net	47	1,351
Net cash used in investing activities	(67,079)	(154,171)
Cash Flows from Financing Activities:		
Issuance of common stock, net of issuance costs	—	158,155
Decrease in restricted cash	—	7,945
Purchases of treasury stock	(824)	(1,281)
Issuance of debt, net of issuance costs	84,541	289,789
Payments on debt	(9,902)	(407,947)
Cash dividends paid	(13,384)	(11,809)
Issuance of common stock upon exercise of stock options	225	374
Other – net	—	(1,138)

Net cash provided by financing activities	60,656	34,088
Net increase/(decrease) in cash and cash equivalents	4,032	(134,295)
Cash and cash equivalents at beginning of year	253,649	474,690
Cash and cash equivalents at end of period	$257,681	$340,395

See notes to condensed consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
DOLLARS IN THOUSANDS
(UNAUDITED)

	Common Stock*	Paid-in Additional Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss**	Total
Balance at January 1, 2011	$ 44,291	$ 403,601	$ 2,279,822	13,880,753	$ (840,683)	$ (76,888)	$ 1,810,143
Net Loss			(34,558)				(34,558)
Net Change in Unrealized Holding Loss on Available-for-Sale Securities						(190)	(190)
Effect of Derivative Instruments						9,778	9,778
Effect of Pension and Other Postretirement Benefit Plans						(157)	(157)
Comprehensive Income/(Loss)							(25,127)
Cash Dividends Declared			(13,384)				(13,384)
Issuance of Restricted Stock Awards		(940)		(74,118)	940		—
Compensation Related to Options Granted		781					781
Amortization of Restricted Stock Awards		1,670					1,670
Options Exercised and Employee Stock Purchase Plan		147		(6,282)	78		225
Purchases of Treasury Stock				22,788	(824)		(824)
Balance at March 31, 2011	$ 44,291	$ 405,259	$ 2,231,880	13,823,141	$ (840,489)	$ (67,457)	$ 1,773,484
Balance at January 1, 2010	$ 40,791	$ 262,117	$ 2,465,949	13,933,435	$ (840,238)	$ (60,764)	$ 1,867,855
Net Loss			(9,353)				(9,353)
Net Change in Unrealized Holding Loss on Available-for-Sale						384	384

Securities							
Effect of Derivative Instruments						(6,861)	(6,861)
Effect of Pension and Other Postretirement Benefit Plans						(694)	(694)
Comprehensive Loss							(16,524)
Cash Dividends Declared			(11,809)				(11,809)
Issuance of Common Stock	3,500	154,655					158,155
Issuance of Restricted Stock Awards		(810)		(70,748)	810		—
Compensation Related to Options Granted		994					994
Amortization of Restricted Stock Awards		1,746					1,746
Options Exercised and Employee Stock Purchase Plan		217		(12,313)	157		374
Purchases of Treasury Stock				25,046	(1,281)		(1,281)
Balance at March 31, 2010	$ 44,291	$ 418,919	$ 2,444,787	13,875,420	$ (840,552)	$ (67,935)	$ 1,999,510

* Par value $1 per share; 120,000,000 shares authorized; 44,290,759 shares issued as of March 31, 2011.

** Amounts are net of tax.

See notes to condensed consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note A — Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the results have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated balance sheet as of December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Note B — Earnings per Common Share:

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock units using the treasury stock method. The components of the calculation of basic earnings per share and diluted earnings per share are as follows:

	Three Months Ended March 31,	
Dollars in thousands	2011	2010
Net loss	$(34,558)	$(9,353)
Common shares outstanding, basic:		
Weighted average shares outstanding, basic	30,210,882	27,760,420
Common shares outstanding, diluted:		
Weighted average shares outstanding, basic	30,210,882	27,760,420
Dilutive equity awards	—	—
Weighted average shares outstanding, diluted	30,210,882	27,760,420

Awards of 1,842,289 and 1,736,224 shares of common stock for the three months ended March 31, 2011 and 2010, respectively, were not included in the computation of diluted earnings per share because inclusion of these awards would be anti-dilutive.

Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered to be participating securities and have been included in the computation of earnings per share pursuant to the two-class method.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note C — Business and Segment Reporting:

The Company has three reportable segments: International Crude Tankers, International Product Carriers and U.S. vessels. Segment results are evaluated based on income/(loss) from vessel operations before general and administrative expenses, severance and relocation costs, shipyard contract termination costs, gain/(loss) on disposal of vessels and impairment charges. The accounting policies followed by the reportable segments are the same as those followed in the preparation of the Company's consolidated financial statements. Information about the Company's reportable segments as of and for the three months ended March 31, 2011 and 2010 follows:

In thousands	Crude Tankers	International Product Carriers	Other	U.S.	Totals
Three months ended March 31, 2011:					
Shipping revenues	$103,705	$77,864	$4,036	$78,063	$263,668
Time charter equivalent revenues	88,810	45,271	4,036	68,445	206,562
Depreciation and amortization	17,688	9,044	1,450	14,126	42,308
Loss on disposal of vessels	(73)	(65)	—	(730)	(868)
Income/(loss) from vessel operations	2,705	(9,617)	(110)	6,517	(505)
Equity in income of affiliated companies	3,732	—	1,454	456	5,642
Investments in affiliated companies at March 31, 2011	220,489	3,855	52,359	482	277,185
Total assets at March 31, 2011	1,912,635	862,982	61,110	1,077,025	3,913,752
Expenditures for vessels	3,731	25,331	—	34,591	63,653
Payments for drydockings	2,270	264	—	329	2,863
Three months ended March 31, 2010:					
Shipping revenues	150,477	65,422	1,935	51,920	269,754
Time charter equivalent revenues	132,132	50,121	1,935	45,673	229,861
Depreciation and amortization	18,399	8,946	1,537	13,044	41,926
Adjustment to shipyard contract termination costs	—	—	—	231	231
Gain/(loss) on disposal of vessels	(55)	63	—	1,343	1,351
Loss on write-down of vessels	—	—	—	3,607	3,607
Income/(loss) from vessel operations	36,702	1,314	(137)	(4,632)	33,247
Equity in income/(loss) of affiliated companies	(4,216)	—	1,633	285	(2,298)
Investments in affiliated companies at March 31, 2010	212,011	1,350	57,782	327	271,470
Total assets at March 31, 2010	1,917,528	788,554	66,835	932,838	3,705,755
Expenditures for vessels	55,693	31,870	—	24,491	112,054
Payments for drydockings	200	134	15	1,596	1,945

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note C — Business and Segment Reporting (continued):

Reconciliations of time charter equivalent revenues of the segments to shipping revenues as reported in the consolidated statements of operations follow:

	Three Months Ended March 31,	
In thousands	2011	2010
Time charter equivalent revenues	$206,562	$229,861
Add: Voyage expenses	57,106	39,893
Shipping revenues	$263,668	$269,754

Consistent with general practice in the shipping industry, the Company uses time charter equivalent revenues, which represents shipping revenues less voyage expenses, as a measure to compare revenue generated from a voyage charter to revenue generated from a time charter. Time charter equivalent revenues, a non-GAAP measure, provides additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance.

Reconciliations of income/(loss) from vessel operations of the segments to loss before income taxes, as reported in the consolidated statements of operations follow:

	Three Months Ended March 31,	
In thousands	2011	2010
Total (Loss)/income from vessel operations of all segments	$(505)	$33,247
General and administrative expenses	(24,468)	(26,829)
Shipyard contract termination recoveries	—	231
Loss on disposal of vessels, including impairments in 2010	(868)	(2,256)
Consolidated (loss)/income from vessel operations	(25,841)	4,393
Equity in income/(loss) of affiliated companies	5,642	(2,298)
Other income/(expense)	1,824	(146)
Interest expense	(17,739)	(12,294)
Loss before income taxes	$ (36,114)	$(10,345)

Reconciliations of total assets of the segments to amounts included in the consolidated balance sheets follow:

In thousands as of March 31,	2011	2010
Total assets of all segments	$3,913,752	$3,705,755
Corporate cash and securities, including Capital Construction Fund	277,728	381,103
Other unallocated amounts	75,362	121,041
Consolidated total assets	$4,266,842	$4,207,899

Note D — Vessels:

Purchase and Construction Commitments

As of March 31, 2011, the Company had remaining commitments for vessels to be wholly owned by the Company of $177,227,000 on non-cancelable contracts for the construction of eight vessels (two VLCCs, two Panamax Product Carriers, two Handysize Product Carriers, and two Aframaxes) and two tug boats. These vessels are scheduled for delivery between 2011 and 2013.

Vessel Impairments

During the first and second quarters of 2010, the Company recorded impairment charges totaling $3,607,000 and $25,176,000, respectively, to write-down a total of eight vessels to their estimated fair values. These write-downs covered (i) two single-hulled International Flag Aframaxes engaged in lightering in the U.S. Gulf, (ii) four single-hulled U.S. Flag vessels, including one vessel for which an impairment charge was previously recorded in the third quarter of 2009, (iii) an older double-hulled U.S. Flag tanker with an inefficient gas turbine engine and (iv) a 1981-built U.S. Flag lightering ATB. The write-downs were the result of difficulties experienced in employing single-hulled vessels and changes in requirements for the Delaware Bay lightering business.

As of March 31, 2011, only two of the vessels (one of the single-hulled International flag Aframaxes and the 1981-built U.S. Flag lightering ATB) discussed in the preceding paragraph remained in the Company's operating fleet; all four single-hulled U.S. Flag vessels, the older double-hulled U.S. Flag tanker and one of the two chartered-in single-hulled International Flag Aframaxes have been delivered to buyers. No additional information was identified during the quarter that would suggest that the assumptions used in the Company's 2010 impairment analysis for the two unsold vessels have changed. Accordingly, no impairment test was performed on these vessels as of March 31, 2011. The Company also gave consideration to events or changes in circumstances that could indicate that the carrying amounts of the vessels in the Company's International Flag fleet may not be recoverable and concluded that the current depressed charter rates in the International Tanker and Product Carrier markets were not an indicator that would warrant a test for impairment as of March 31, 2011.

Vessel Sales

During the quarter ended March 31, 2011, the Company delivered its two remaining single-hulled U.S. Flag Tankers to buyers. The Company recognized a gain of $1,070,000 on the sale of these vessels.

Vessel Acquisitions and Deliveries

There were no vessel acquisitions or newbuild deliveries during the quarter ended March 31, 2011, however the Company completed construction on a U.S. Flag ATB, which delivered on April 1, 2011. During the quarter ended March 31, 2010 the Company completed construction of one VLCC, one International Flag Handysize Product Carrier and one ATB.

Note E — Equity Method Investments:

Investments in affiliated companies include joint ventures accounted for using the equity method. As of March 31, 2011, the Company had approximately a 50% interest in two joint ventures. One joint venture operates four LNG Carriers. The other joint venture converted two ULCCs to FSOs, one of which commenced service on January 5, 2010 and the other which commenced service on August 30, 2010. In addition, the Company has a 37.5% interest in Alaska Tanker Company, LLC that manages vessels carrying Alaskan crude for BP.

Floating Storage and Offloading Service Vessels ("FSO") Joint Venture

In February 2008, Maersk Oil Qatar AS ("MOQ") awarded two service contracts to a joint venture between OSG and Euronav NV for terms of approximately eight years ending in 2017. The service contracts provided for two ULCCs to be converted to FSOs. The first ULCC, the TI Asia, which was wholly owned by Euronav NV, was sold to the joint venture in October 2008 for approximately $200,000,000. The second ULCC, the TI Africa, which was wholly owned by OSG, was sold to the joint venture in January 2009. Conversion of both vessels to FSOs was delayed. The FSO Asia completed conversion in November 2009 and costs incurred subsequent thereto have been expensed by the joint venture. The FSO Asia experienced mechanical problems and effective hook-up did not occur until January 5, 2010. The service contract for the FSO Africa (formerly named the TI Africa) required that its conversion to an FSO be completed and it begin providing FSO services to MOQ by January 19, 2010 (the "Africa Cancellation Date"). On January 21, 2010, MOQ issued a notice of cancellation to the joint venture partners concerning the FSO Africa service contract due to the delayed delivery.

The service contracts provided for the payment of liquidated damages by the joint ventures to MOQ for delays in delivery of the FSOs. Such liquidated damages, which were paid either through the date of delivery of the FSO Asia or termination of the service contract of the FSO Africa, were expensed by the joint venture as incurred.

The FSO Africa was completed on March 14, 2010 and costs incurred subsequent thereto have been expensed by the joint venture. The FSO Africa commenced a three-year service contract with MOQ on August 30, 2010.

The joint venture financed the purchase of the vessels through long-term secured bank financing and partner loans. The joint venture entered into a $500,000,000 secured credit facility to partially finance the acquisition of the two ULCCs and the cost of the conversion. In connection with the secured bank financing, the partners severally issued guaranties. As of March 31, 2011 and December 31, 2010, the carrying value of the Company's guaranty, which is included in other liabilities in the accompanying balance sheet, was $230,000 and $278,000, respectively. As a result of the cancellation of the service contract of the FSO Africa, the joint venture partners were required to post $143,000,000 in cash collateral in consideration of the banks agreeing to waive, for a period that ended on November 30, 2010, the acceleration of amounts outstanding under the facility related to the FSO Africa, which aggregated $143,000,000 as of January 21, 2010 and approximately $120,000,000 as of November 30, 2010. On December 1, 2010, the joint venture entered into an agreement with the lenders to restructure the FSO Africa tranche of the loan facility reducing the available balance to $120,000,000, shortening the term of the loan to approximately three years and increasing the margin over LIBOR ("London Interbank Offered Rate"). As a result of this amendment, cash collateral aggregating $111,000,000 was released to the joint venture partners in December 2010.

Note E – Equity Method Investments (continued):

The joint venture entered into floating-to-fixed interest rate swaps with major financial institutions that were being accounted for as cash flow hedges as of December 31, 2009. The interest rate swaps, covering notional amounts aggregating $418,597,000 and $439,622,000 as of March 31, 2011 and December 31, 2010, respectively, pay fixed rates of 3.9% and receive floating rates based on LIBOR. These agreements have maturity dates ranging from July to September 2017. In the first quarter of 2010, as a result of the delays in the completion of conversion and commencement of the service contract for the FSO Africa, the joint venture concluded that it was no longer probable that the forecasted transaction applicable to the FSO Africa swaps would occur. Accordingly, as a result of the de-designation of the FSO Africa swaps, amounts previously included in accumulated comprehensive income/(loss) and all subsequent changes in the market value of the swaps have been recognized in the joint venture's statement of operations. The Company's share of losses recognized in equity in income/(loss) from affiliated companies for the quarter ended March 31, 2011 and 2010 was $65,000 and $4,548,000, respectively. As of March 31, 2011 and December 31, 2010, the joint venture had a liability of $24,829,000 and $28,815,000, respectively, for the fair value of the swaps associated with the FSO Africa and FSO Asia. The Company's share of the effective portion of such amounts, aggregating $5,908,000 and $6,990,000, at March 31, 2011 and December 31, 2010, respectively, is included in accumulated other comprehensive loss in the accompanying balance sheet and is associated with the FSO Asia swaps only, since the swaps associated with the FSO Africa have been de-designated and deemed to be ineffective.

LNG Joint Venture

In November 2004, the Company formed a joint venture with Qatar Gas Transport Company Limited (Nakilat) whereby companies in which OSG holds a 49.9% interest ordered four 216,200 cbm LNG Carriers. Upon delivery in late 2007 and early 2008, these vessels commenced 25-year time charters to Qatar Liquefied Gas Company Limited (II). The aggregate construction cost for such newbuildings was financed by the joint venture through long-term bank financing that is nonrecourse to the partners and partner contributions.

The joint venture entered into floating-to-fixed interest rate swaps with a group of major financial institutions pursuant to which it pays fixed rates of approximately 4.9% and receives a floating rate based on LIBOR. The interest rate swaps agreements have maturity dates ranging from July to November 2022 and cover notional amounts aggregating $812,611,000 and $819,987,000 at March 31, 2011 and December 31, 2010, respectively. These swaps are being accounted for as cash flow hedges. As of March 31, 2011 and December 31, 2010, the joint venture recorded a liability of $90,407,000 and $102,705,000, respectively, for the fair value of these swaps. The Company's share of the effective portion of the fair value of these swaps, $45,041,000 and $51,174,000 at March 31, 2011 and December 31, 2010, respectively, is included in accumulated other comprehensive loss in the accompanying balance sheet.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note E — Equity Method Investments (continued):

A condensed summary of the results of operations of the equity method investments follows:

	Three Months Ended March 31,	
In thousands	2011	2010
Shipping revenues	$81,800	$72,103
Ship operating expenses	(55,331)	(51,190)
Income from vessel operations	26,469	20,913
Other income/(expense)	(340)	(411)
Interest expense *	(15,650)	(27,006)
Net income/(loss)	$10,479	$ (6,504)

* Interest is net of amounts capitalized in connection with vessel construction of nil and $509 for the three months ended March 31, 2011 and 2010, respectively.

Note F – Variable Interest Entities (“VIEs”):

As of March 31, 2011, the Company participates in five commercial pools and three joint ventures. Two of the pools and the FSO joint venture, described in Note E above, were determined to be VIEs. The Company is not considered a primary beneficiary of either of the two pools or the joint venture.

The following table presents the carrying amounts of assets and liabilities in the balance sheet related to the VIEs as of March 31, 2011:

In thousands	Consolidated Balance Sheet
Investments in Affiliated Companies	$ 218,128
Deferred Income Taxes and Other Liabilities (1)	230

(1) Represents the Company’s valuation of its several guaranty of the FSO joint venture’s outstanding debt at March 31, 2011.

In accordance with accounting guidance, the Company evaluated its maximum exposure to loss related to these VIEs by assuming a complete loss of the Company’s investment in these VIEs and that it would incur an obligation to repay the full amount of the VIE’s outstanding secured debt. The table below compares the Company’s liability in the consolidated balance sheet to the maximum exposure to loss at March 31, 2011:

In thousands	Consolidated Balance Sheet	Maximum Exposure to Loss
Deferred Income Taxes and Other Liabilities	$ 230	$ 384,512

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Note F – Variable Interest Entities (continued):

In addition, as of March 31, 2011, the Company had approximately $22,937,000 of trade receivables from pools that were determined to be VIEs. These trade receivables, which are included in voyage receivables in the accompanying balance sheet, have been excluded from the above tables and the calculation of OSG's maximum exposure to loss. The Company does not record the maximum exposure to loss as a liability because it does not believe that such a loss is probable of occurring as of March 31, 2011. Further, the joint venture debt is secured by the joint venture's FSOs. Therefore, the Company's exposure to loss under its several guaranty would first be reduced by the fair value of such FSOs.

Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents—The carrying amounts reported in the consolidated balance sheet for interest-bearing deposits approximate their fair value.

Short-term investments—The carrying amounts reported in the consolidated balance sheet for short-term investments, which consisted of interest-bearing time deposits approximated their fair value.

Restricted cash—The carrying amounts reported in the consolidated balance sheet for restricted cash, which consisted of interest-bearing deposits approximated their fair value.

Debt—The fair values of the Company's debt are estimated using discounted cash flow analyses, based on the rates currently available for debt with similar terms and remaining maturities.

Forward freight agreements and bunker swaps—The fair values of forward freight agreements and bunker swaps are the estimated amounts that the Company would receive or pay to terminate the agreements at the reporting date, which include an adjustment for the counterparty or the Company's credit risk, as appropriate.

Interest rate swaps—The fair values of interest rate swaps are the estimated amounts that the Company would receive or pay to terminate the swaps at the reporting date, which include adjustments for the counterparty or the Company's credit risk, as appropriate.

Foreign Currency Contracts—The fair values of foreign currency contracts are the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, which include adjustments for the counterparty or the Company's credit risk, as appropriate.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

The estimated fair values of the Company’s financial instruments at March 31, 2011 and December 31, 2010, other than derivatives, follow:

In thousands	March 31, 2011 Carrying Amount	March 31, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
Financial assets (liabilities)				
Cash and cash equivalents	$257,681	$257,681	$253,649	$253,649
Short-term investments	20,047	20,047	20,047	20,047
Debt	(2,060,974)	(1,998,099)	(1,986,190)	(1,926,685)

Derivatives

The Company is exposed to certain risks relating to its ongoing business operations. The risks, managed by using derivative instruments, are volatility with respect to spot (voyage) charter rates, fuel prices, interest rates and foreign currency exchange rates.

Spot Market Rate Volatility Risk

The Company enters into Forward Freight Agreements (“FFAs”) and bunker swaps with an objective to utilize them as economic hedging instruments, some of which qualify as cash flow hedges for accounting purposes, that reduce the Company’s exposure to changes in TCE revenue earned by some of its vessels operating in the spot market. The FFAs and bunker swaps involve contracts to provide a fixed number of theoretical voyages at fixed rates, which generally range from one month to one year and settle monthly based on a published index. These contracts expired on various dates through September 30, 2010. The Company may from time to time enter into FFAs and bunker swaps for trading purposes to take advantage of short term fluctuations in the market.

Fuel Price Volatility Risk

The Company enters into stand alone bunker swaps to protect the Company against future increases in fuel prices in the normal course of its International Crude Tankers lightering business, which includes a number of fixed rate Contracts of Affreightment. In August 2010, the Company entered into an agreement with a counterparty to purchase 787 metric tons per month of fuel oil for $430 per metric ton through June 2011. In January 2011, the Company entered into two additional agreements with a counterparty to purchase 400 metric tons per month of fuel for $511 and $522 per metric ton, respectively. These contracts settle on a net basis at the end of each calendar month through September 2012, respectively, based on the average daily closing prices, as quoted by the Baltic Exchange, of the commodity during each month. These swaps do not qualify as cash flow hedges for accounting purposes.

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Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

Interest Rate Risk

The Company uses interest rate swaps for the management of interest rate risk exposure. The interest rate swaps effectively convert a portion of the Company's debt from a floating to a fixed rate and are designated and qualify as cash flow hedges. The Company is a party to floating-to-fixed interest rate swaps with various major financial institutions covering notional amounts aggregating approximately $311,356,000 at March 31, 2011 pursuant to which it pays fixed rates ranging from 3.3% to 4.7% and receives floating rates based on the three-month LIBOR (approximately 0.3% at March 31, 2011). These agreements contain no leverage features and have various final maturity dates ranging from March 2012 to August 2014.

Foreign Exchange Risk

The Company seeks to reduce its exposure to fluctuations in foreign exchange rates related to recurring monthly foreign currency denominated general and administrative expenses through the use of foreign currency forward contracts and through the purchase of bulk quantities of currencies at rates that management considers favorable. At March 31, 2011, the notional amounts of the foreign currency forward contracts aggregated approximately €4,000,000 settling monthly through May 2011. Such contracts qualify as cash flow hedges.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

Tabular disclosure of derivatives location

Derivatives are recorded in the balance sheet on a net basis by counterparty when a legal right of setoff exists. The following tables present information with respect to the fair values of derivatives reflected in the balance sheet on a gross basis by transaction. The tables also present information with respect to gains and losses on derivative positions reflected in the statement of operations or in the balance sheet, as a component of accumulated other comprehensive loss.

Fair Values of Derivative Instruments:

	Asset Derivatives		Liability Derivatives	
In thousands at March 31, 2011	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Derivatives designated as hedging instruments:				
Interest rate swaps:				
Current portion	Other receivables, including income taxes recoverable	$ —	Accounts payable, accrued expenses and other current liabilities	$ (9,201)
Long-term portion	Other assets	—	Deferred income taxes and other liabilities	(4,114)
Foreign currency contracts:				
Current portion	Inventories, prepaid expenses and other current assets	651	Accounts payable, accrued expenses and other current liabilities	—
Total derivatives designated as hedging instruments		$ 651		$ (13,315)
Derivatives not designated as hedging instruments:				
Bunker swaps:				
Current portion	Inventories, prepaid expenses and other current assets	$ 790	Accounts payable, accrued expenses and other current liabilities	$ —
Long-term portion	Other assets	168	Deferred income taxes and other liabilities	—
Total derivatives not designated as hedging instruments		$ 958		$ —
Total derivatives		$ 1,609		$ (13,315)

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Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

	Asset Derivatives		Liability Derivatives	
In thousands at December 31, 2010	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Derivatives designated as hedging instruments:				
Interest rate swaps:				
Current portion	Other receivables, including income taxes recoverable	$ —	Accounts payable, accrued expenses and other current liabilities	$ (9,852)
Long-term portion	Other assets	—	Deferred income taxes and other liabilities	(6,166)
Foreign currency contracts:				
Current portion	Inventories, prepaid expenses and other current assets	430	Accounts payable, accrued expenses and other current liabilities	(132)
Total derivatives designated as hedging instruments		$ 430		$ (16,150)
Derivatives not designated as hedging instruments:				
Bunker swaps:				
Current portion	Inventories, prepaid expenses and other current assets	$ 271	Accounts payable, accrued expenses and other current liabilities	$ —
Long-term portion	Other assets	—	Deferred income taxes and other liabilities	—
Total derivatives not designated as hedging instruments		$ 271		$ —
Total derivatives		$ 701		$ (16,150)

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

The effect of cash flow hedging relationships on the balance sheet as of March 31, 2011 and December 31, 2010 follows:

	Amount of Derivative Gain or (Loss) Reclassified to Accumulated Other Comprehensive Income/(Loss) (Effective Portion)	
In thousands	March 31, 2011	December 31, 2010
Interest rate swaps	$ (60,759)	$ (70,177)
Foreign currency contracts	651	291
Total	$ (60,108)	$ (69,886)

The effect of cash flow hedging relationships on the statement of operations for the quarter ended March 31, 2011 and 2010 are shown below:

	Statement of Operations			
	Effective Portion of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Income/(Loss)		Ineffective Portion	
In thousands for quarter ended March 31, 2011	Location	Amount of Gain/(Loss)	Location	Amount of Gain/(Loss)
Interest rate swaps	Interest expense	$ (1,272)	Interest expense	$ —
Foreign currency contracts	General and administrative expenses	(49)	General and administrative expenses	(6)
Total		$ (1,321)		$ (6)

	Statement of Operations			
	Effective Portion of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Income/(Loss)		Ineffective Portion	
In thousands for quarter ended March 31, 2010	Location	Amount of Gain/(Loss)	Location	Amount of Gain/(Loss)
FFAs and bunker swaps	Shipping revenues	$ 1,770	Shipping revenues	$ —
Interest rate swaps	Interest expense	(1,377)	Interest expense	—
Foreign currency contracts	General and administrative expenses	(194)	General and administrative expenses	—

Total	$	199	$	—

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note G —Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures (continued):

The effect of the gain/(loss) recognized on derivatives not designated as hedging instruments on the statements of operations for the three months ended March 31, 2011 and 2010 are as follows:

In thousands	Location	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
FFAs and bunker swaps	Other income/(expense)	$ 1,042	$ (68)

Fair Value Hierarchy

The following tables present the fair values, which are pre tax, for assets and liabilities measured on a recurring basis (excluding investments in affiliated companies):

In thousands	Fair Value	Level 1: Quoted prices in active markets for identical assets or liabilities		Level 2: Significant other observable inputs	
Assets/(Liabilities) at March 31, 2011:					
Trading marketable securities	$13,551	$ 13,551	(1)	$ —	
Available-for-sale marketable securities	$457	$ 457		$ —	
Derivative Assets	$1,609	$ 958	(2)	$ 651	(2)
Derivative Liabilities	$13,315	$ —		$ 13,315	(3)
Assets/(Liabilities) at December 31, 2010:					
Available-for-sale marketable securities	$646	$ 646		$ —	
Derivative Assets	$701	$ 271	(4)	$ 430	(4)
Derivative Liabilities	$(16,150)	$ —		$ 16,150	(5)

(1) Included in other assets in the accompanying consolidated balance sheet

(2) Bunker swaps (asset of $958) and foreign currency contracts (asset of $651)

(3) Standard interest rate swaps

(4) Bunker swaps (asset of $271) and foreign currency contracts (asset of $430)

(5) Standard interest rate swaps (liability of $16,018) and foreign currency contracts (liability of $132)

Cash Collateral Disclosures

The Company does not offset fair value amounts recognized for derivatives by the right to reclaim cash collateral or the obligation to return cash collateral. The amounts of collateral to be posted are defined in the terms of respective master agreements executed with counterparties or exchanges and are required when agreed upon threshold limits are exceeded. At March 31, 2011, the Company did not hold collateral related to its derivative transactions. At March 31, 2011, the Company had issued a $1,000,000 letter of credit related to its derivative activities.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note H — Debt:

Debt consists of the following:

In thousands as of	March 31, 2011	December 31, 2010
$1.8 billion unsecured revolving credit facility	$830,000	$ 807,000
8.125% notes due 2018, net of unamortized discount of $3,772 and $3,907	296,228	296,093
7.50% notes due 2024	146,000	146,000
8.75% debentures due 2013, net of unamortized discount of $32 and $34	73,236	73,234
Floating rate secured term loans, due through 2023	715,510	663,863
	2,060,974	1,986,190
Less current portion	50,844	44,607
Long-term portion	$2,010,130	$ 1,941,583

In February 2011, the maximum amount the Company can borrow under its $1,800,000,000 unsecured revolving credit facility decreased by $150,000,000 in accordance with the terms of the credit agreement.

In January 2011, the Company borrowed $61,548,000 under its secured credit facility with the Export-Import Bank of China to finance the construction of a VLCC.

As of March 31, 2011, the Company had unused long-term credit availability of approximately $819,000,000, which reflects $1,000,000 of letters of credit issued principally in connection with collateral requirements for derivative transactions.

The weighted average effective interest rate for debt outstanding at March 31, 2011 and December 31, 2010 was 3.6% and 3.8%, respectively. Such rates take into consideration related interest rate swaps.

On March 29, 2010, the Company issued $300,000,000 principal amount of senior unsecured notes at a discount pursuant to a Form S-3 shelf registration filed March 22, 2010. The notes are due in March 2018 and have a coupon of 8.125%. The Company received proceeds of approximately $289,745,000, after deducting underwriting discounts and expenses. Approximately $44,000 of additional expenses were recognized subsequent to March 31, 2010. The Company used the net proceeds to reduce the outstanding indebtedness under its unsecured revolving credit facility.

Agreements related to long-term debt provide for prepayment privileges (in certain instances with penalties). Certain of the Company's debt agreements contain loan-to-value clauses, which could require OSG, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions. The Company was in compliance with all of the financial covenants contained in the Company's debt agreements as of March 31, 2011.

Note H — Debt (continued):

As of March 31, 2011, 17 vessels, including two that are under construction, representing approximately 30% of the net book value of the Company’s vessels, are pledged as collateral under certain debt agreements.

Interest paid, excluding capitalized interest, amounted to $27,795,000 and $15,051,000 for the three months ended March 31, 2011 and 2010, respectively.

Note I — Taxes:

On October 22, 2004, the President of the U.S. signed into law the American Jobs Creation Act of 2004. The Jobs Creation Act reinstated tax deferral for OSG’s foreign shipping income for years beginning after December 31, 2004. Effective January 1, 2005, the earnings from shipping operations of the Company’s foreign subsidiaries are not subject to U.S. income taxation as long as such earnings are not repatriated to the U.S. The Company intends to permanently reinvest these earnings, as well as its share of the undistributed earnings of its less than 50%-owned foreign shipping joint ventures, in foreign operations. Accordingly, no provision for U.S. income taxes on the shipping income of its foreign subsidiaries or its less than 50%-owned foreign shipping joint ventures was required to date in 2011 or at any time in 2010. As of March 31, 2011, undistributed earnings on which U.S. income taxes have not been provided aggregated approximately $2,400,000,000, including $119,000,000 earned prior to 1976; the unrecognized deferred U.S. income tax attributable to such undistributed earnings approximated $840,000,000.

The components of the income tax (benefits)/provisions follow:

	Three Months Ended March 31,	
In thousands	2011	2010
Current	$(501)	$126
Deferred	(1,055)	(1,118)
	$(1,556)	$(992)

At December 31, 2010, the Company had a reserve of approximately $4,943,000 for benefits attributable to tax positions taken during the current and prior tax periods for which the probability of recognition is considered less than “more likely than not.” There was no material change in the reserve during the three months ended March 31, 2011.

Note J — Capital Stock and Stock Compensation:

On March 9, 2010, pursuant to a Form S-3 shelf registration, the Company sold 3,500,000 shares of its common stock at a price of $45.33 per share. The Company received net proceeds of $158,266,000, after deducting expenses. Approximately $111,000 of expenses recognized in the first quarter of 2010 were reversed subsequent to March 31, 2010.

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Note J — Capital Stock and Stock Compensation (continued):

Restricted Common Stock, Performance related Restricted Stock Units and Options

During the three months ended March 31, 2011 and 2010, the Company awarded a total of 82,544 and 71,008 shares, respectively, of restricted common stock at no cost to certain of its employees, including senior officers. Restrictions limit the sale or transfer of shares of restricted common stock until they vest, which occurs over a four or five-year period. During the restriction period, the shares will have voting rights and cash dividends will be paid if declared. The weighted average fair value of the restricted stock issued during the three months ended March 31, 2011 and 2010 was $34.90 and $43.40 per share, respectively (the market price at date of grant).

During the three months ended March 31, 2011 and 2010, the Company also granted a total of 54,329 and 44,142, respectively, performance related restricted stock units to certain of its employees, including senior officers. Each performance unit represents a contingent right to receive a variable number of shares of common stock of the Company, based upon certain market related performance goals being met and the covered employees being continuously employed through the end of the three-year period over which the performance goals are measured. The performance units have no voting rights and may not be transferred or otherwise disposed of until they vest. Dividends will be paid in the form of additional performance units when the performance period expires and are conditioned upon the attainment of the performance goals. The estimated weighted average grant-date fair value of the performance stock units awarded during the three months ended March 31, 2011 and 2010 was $40.19 and $52.43 per share, respectively. The performance related grants were valued using a Monte Carlo pricing model that takes into account the market related performance goals described in the grants.

Stock Options

During the quarter ended March 31, 2011 and 2010, options covering 176,312 and 141,988 shares, respectively, were granted at the market price at the date of the grant. Such options were valued using the Black-Scholes option pricing model and expire ten years from the grant date. The exercise price of options granted during the three months ended March 31, 2011 and 2010 was $34.90 and $43.40 per share, respectively (the market price at date of grant). The grant date fair value of options granted during the three months ended March 31, 2011 and 2010 was $10.04 and $13.53 per share, respectively.