OVERSEAS SHIPHOLDING GROUP INC
Form 10-Q
November 06, 2009

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 SEPTEMBER 30, 2009

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 Webs site, 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 ¨ 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 November 2, 2009 – 26,865,594

Form 10-Q

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

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 583,170	$ 343,609
Short-term investments	50,000	—
Voyage receivables, including unbilled of $105,239 and $170,403	143,081	219,500
Other receivables, including federal income taxes recoverable	66,364	64,773
Inventories, prepaid expenses and other current assets	82,890	50,407
Total Current Assets	925,505	678,289
Capital Construction Fund	40,679	48,681
Restricted cash	7,945	—
Vessels and other property, less accumulated depreciation of $644,224 and $570,394	2,738,320	2,683,147
Vessels under capital leases, less accumulated amortization of $7,217 (2008)	—	1,101
Vessels held for sale	—	53,975
Deferred drydock expenditures, net	63,386	79,837
Total Vessels, Deferred Drydock and Other Property	2,801,706	2,818,060
Investments in Affiliated Companies	155,345	98,620
Intangible Assets, less accumulated amortization of $20,869 and$15,247	100,962	106,585
Goodwill	9,589	9,589
Other Assets	45,362	130,237
Total Assets	$ 4,087,093	$ 3,890,061
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 158,885	$ 167,615
Current installments of long-term debt	33,155	26,231
Current obligations under capital leases	—	1,092
Total Current Liabilities	192,040	194,938
Long-term Debt	1,592,598	1,396,135
Deferred Gain on Sale and Leaseback of Vessels	93,152	143,948
Deferred Federal Income Taxes ($198,474 and $196,815) and Other Liabilities	264,188	330,407
Equity:		
Overseas Shipholding Group, Inc. Stockholders' Equity	1,851,049	1,722,867
Noncontrolling Interest	94,066	101,766
Total Equity	1,945,115	1,824,633
Total Liabilities and Equity	$ 4,087,093	$ 3,890,061

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 September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Shipping Revenues:				
Pool revenues, including $19,036, $50,315, $83,717 and $113,310 received from companies accounted for by the equity method	$ 78,352	$ 277,782	$ 320,195	$ 727,246
Time and bareboat charter revenues	79,289	92,702	250,632	275,563
Voyage charter revenues	85,935	102,188	280,209	308,763
	243,576	472,672	851,036	1,311,572
Operating Expenses:				
Voyage expenses	36,278	37,938	102,564	114,890
Vessel expenses	66,673	79,395	210,151	230,049
Charter hire expenses	93,505	115,271	309,442	309,310
Depreciation and amortization	40,977	46,436	129,748	141,342
General and administrative	28,313	32,430	84,720	104,224
Severance and relocation costs	—	—	2,317	—
Shipyard contract termination costs	(5,141)	—	27,074	—
(Gain) on disposal of vessels – net of impairments	(830)	(31,517)	(128,125)	(55,208)
Total Operating Expenses	259,775	279,953	737,891	844,607
Income/(Loss) from Vessel Operations	(16,199)	192,719	113,145	466,965
Equity in Income of Affiliated Companies	2,480	3,574	6,068	8,951
Operating Income/(Loss)	(13,719)	196,293	119,213	475,916
Other Income/(Expense)	873	10,491	1,354	(32,944)
	(12,846)	206,784	120,567	442,972
Interest Expense	10,933	12,295	33,208	47,849
Income/(Loss) before Federal Income Taxes	(23,779)	194,489	87,359	395,123
Credit for Federal Income Taxes	1,850	1,071	6,153	1,842
Net Income/(Loss)	(21,929)	195,560	93,512	396,965
Less: Net (Income)/Loss Attributable to the Noncontrolling Interest	2,305	2,280	(180)	245
Net Income/(Loss) Attributable to Overseas Shipholding Group, Inc.	$ (19,624)	$ 197,840	$ 93,332	$ 397,210
Weighted Average Number of Common Shares Outstanding:				
Basic	26,864,527	29,353,025	26,863,817	30,358,628
Diluted	26,864,527	29,572,378	26,871,110	30,572,611
Per Share Amounts:				
Basic net income/(loss) attributable to Overseas Shipholding Group, Inc. common stockholders	$ (0.73)	$ 6.74	$ 3.47	$ 13.08
Diluted net income/(loss) attributable to Overseas Shipholding Group, Inc. common stockholders	$ (0.73)	$ 6.69	$ 3.47	$ 12.99

Cash dividends declared	$ 0.44	$ 0.44	$ 1.75	$ 1.50

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash Flows from Operating Activities:		
Net income	$ 93,512	$ 396,965
Items included in net income not affecting cash flows:		
Depreciation and amortization	129,748	141,342
Amortization of deferred gain on sale and leasebacks	(34,336)	(36,350)
Compensation relating to restricted stock and stock option grants	9,969	9,204
Provision/(credit) for deferred federal income taxes	(7,000)	(1,809)
Unrealized (gains)/losses on forward freight agreements and bunker swaps	(1,200)	6,152
Undistributed earnings of affiliated companies	8,894	(3,195)
Other – net	7,273	9,602
Items included in net income related to investing and financing activities:		
Loss on sale or write-down of securities – net	3,290	193
Gain on disposal of vessels – net	(128,125)	(55,208)
Payments for drydocking	(24,590)	(40,732)
Distributions from subsidiaries to noncontrolling interest owners	(7,880)	(7,033)
Changes in operating assets and liabilities	148,633	(122,801)
Net cash provided by operating activities	198,188	296,330
Cash Flows from Investing Activities:		
Short-term investments	(50,000)	—
Purchases of marketable securities	—	(15,112)
Sale of marketable securities	159	5,327
Expenditures for vessels	(362,548)	(458,181)
Withdrawals from Capital Construction Fund	8,265	82,385
Proceeds from disposal of vessels	301,182	272,241
Expenditures for other property	(3,093)	(9,197)
Distributions from affiliated companies – net	8,822	14,196
Shipyard contract termination payments	(20,476)	—
Other – net	2,120	112
Net cash used in investing activities	(115,569)	(108,229)
Cash Flows from Financing Activities:		
Increase in restricted cash	(7,945)	—
Purchases of treasury stock	(1,013)	(199,918)
Issuance of debt, net of issuance costs	299,156	110,812
Payments on debt and obligations under capital leases	(96,870)	(226,219)
Cash dividends paid	(35,338)	(32,493)
Issuance of common stock upon exercise of stock options	334	513
Other – net	(1,382)	(540)
Net cash provided by/(used in) financing activities	156,942	(347,845)
Net increase/(decrease) in cash and cash equivalents	239,561	(159,744)

Cash and cash equivalents at beginning of year	343,609	502,420
Cash and cash equivalents at end of period	$ 583,170	$ 342,676

See notes to condensed consolidated financial statements.

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

	Overseas Shipholding Group, Inc. Stockholders								
	Common Stock*	Paid-in Additional Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss**	Total Overseas Shipholding Group, Inc. Stockholders	Noncontrolling Interest	Total
Balance at January 1, 2009	$ 40,791	$ 224,522	$ 2,442,907	13,898,541	$ (838,994)	$ (146,359)	$ 1,722,867	$ 101,766	$ 1,824,633
Net Income			93,332				93,332	180	93,512
Net Unrealized Holding Gain on Available-for-Sale Securities						3,701	3,701		3,701
Effect of Derivative Instruments						69,954	69,954		69,954
Effect of Pension and Other Postretirement Benefit Plans						(1,002)	(1,002)		(1,002)
Comprehensive Income							165,985***	180	166,165
Cash Dividends Declared			(47,093)				(47,093)		(47,093)
Compensation Related to Options Granted		3,867					3,867		3,867
Amortization of Restricted Stock Awards		6,102					6,102		6,102
Options Exercised and Employee Stock Purchase Plan		135		(15,598)	199		334		334
Purchases of Treasury Stock				40,871	(1,013)		(1,013)		(1,013)
Distributions from Subsidiary to Noncontrolling Interest Owners								(7,880)	(7,880)
Balance at September 30, 2009	$ 40,791	$ 234,626	$ 2,489,146	13,923,814	$ (839,808)	$ (73,706)	$ 1,851,049	$ 94,066	$ 1,945,115

Balance at January 1, 2008	$ 40,791	$ 208,817	$ 2,170,098	9,697,620	$ (583,708)	$ (17,973)	$ 1,818,025	$ 132,470	$ 1,950,495
Net Income			397,210				397,210	(245)	396,965
Net Unrealized Holding Gain on Available-for-Sale Securities						96	96		96
Effect of Derivative Instruments						(18,866)	(18,866)		(18,866)
Effect of Pension and Other Postretirement Benefit Plans						(221)	(221)		(221)
Comprehensive Income							378,219***	(245)	377,974
Cash Dividends Declared			(44,935)				(44,935)		(44,935)
Compensation Related to Options Granted		3,636					3,636		3,636
Issuance of Restricted Stock Awards		(1,277)		(113,161)	1,277		—		—
Amortization of Restricted Stock Awards		5,568					5,568		5,568
Options Exercised and Employee Stock Purchase Plan		404		(8,094)	109		513		513
Purchases of Treasury Stock				2,877,001	(199,918)		(199,918)		(199,918)
Increase in Loss on Public Offering of OSG America L.P. Units		(183)					(183)	(57)	(240)
Distributions from Subsidiary to Noncontrolling Interest Owners								(7,033)	(7,033)
Balance at September 30, 2008	$ 40,791	$ 216,965	$ 2,522,373	12,453,366	$ (782,240)	$ (36,964)	$ 1,960,925	$ 125,135	$ 2,086,060

* Par value $1 per share; 120,000,000 shares authorized; 40,790,759 shares issued.

** Amounts are net of tax.

*** Comprehensive income/(loss) for the three month periods ended September 30, 2009 and 2008 was $(35,286) and $216,978, respectively.

See notes to condensed consolidated financial statements.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements:

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 presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated balance sheet as of December 31, 2008 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. The 2008 financial information has been recast to reflect the adoption of an accounting pronouncement, which changed the presentation of noncontrolling interest.

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, 2008.

The Company evaluated events and transactions occurring after the balance sheet date and through the day the financial statements were issued. The date of issuance of the financial statements was November 6, 2009.

Newly Issued Accounting Standards

In May 2009, the Financial Accounting Standards Board established principles and requirements for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement introduces the concept of when financial statements are considered issued or are available to be issued. The statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this statement did not have an impact on the Company’s consolidated financial statements.

In June 2009, the Financial Accounting Standards Board amended the consolidation guidance for variable-interest entities (“VIEs”). The amended guidance requires companies to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and (2) has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. It also requires additional disclosures for any enterprise that holds a variable interest in a VIE. The new accounting and disclosure requirements become effective for the Company on January 1, 2010. The Company is in the process of evaluating the effect of these requirements on its consolidated financial statements.

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 September 30,		Nine Months Ended September 30,	
Dollars in thousands	2009	2008	2009	2008
Net income/(loss) attributable to Overseas Shipholding Group, Inc	$ (19,624)	$ 197,840	$ 93,332	$ 397,210
Common shares outstanding, basic:				
Weighted average shares outstanding, basic	26,864,527	29,353,025	26,863,817	30,358,628
Common shares outstanding, diluted:				
Weighted average shares outstanding, basic	26,864,527	29,353,025	26,863,817	30,358,628
Dilutive equity awards	—	219,353	7,293	213,983
Weighted average shares outstanding, diluted	26,864,527	29,572,378	26,871,110	30,572,611

Awards of 1,823,074 and 1,793,405 shares of common stock for the three and nine months ended September 30, 2009, respectively, were not included in the computation of diluted earnings per share because inclusion of these awards would be anti-dilutive. The anti-dilutive effects of equity awards that were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2008 were not material.

Accounting guidance provides that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

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 and gain/(loss) on disposal of vessels. 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 and nine months ended September 30, 2009 and 2008 follows:

In thousands	Crude Tankers	International Product Carriers	Other	U.S.	Totals
Three months ended September 30, 2009:					
Shipping revenues	$ 115,138	$ 57,867	$ 1,979	$ 68,592	$ 243,576
Time charter equivalent revenues	99,805	45,966	1,978	59,549	207,298
Depreciation and amortization	18,523	7,926	1,692	12,836	40,977
Reduction in shipyard contract termination costs	—	—	—	5,141	5,141
Gain/(loss) on disposal of vessels	13,828	(498)	—	(12,500)	830
Income/(loss) from vessel operations	5,309	(5,207)	(266)	6,307	6,143
Equity in income of affiliated companies	68	—	1,534	878	2,480
Investments in affiliated companies at September 30, 2009	107,041	900	45,353	2,051	155,345
Total assets at September 30, 2009	1,778,478	695,571	52,690	790,947	3,317,686
Nine months ended September 30, 2009:					
Shipping revenues	433,701	216,590	5,870	194,875	851,036
Time charter equivalent revenues	387,936	180,732	5,869	173,935	748,472
Depreciation and amortization	54,818	31,362	4,907	38,661	129,748
Shipyard contract termination costs	—	—	—	(27,074)	(27,074)
Gain/(loss) on disposal of vessels	143,530	(2,269)	—	(13,136)	128,125
Income/(loss) from vessel operations	74,259	6,007	(639)	19,504	99,131
Equity in income of affiliated companies	(1,334)	—	5,387	2,015	6,068
Expenditures for vessels	190,249	106,062	(163)	66,400	362,548
Payments for drydocking	9,543	10,102	—	4,945	24,590

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note C — Business and Segment Reporting (continued):

In thousands	Crude Tankers	International Product Carriers	Other	U.S.	Totals
Three months ended September 30, 2008:					
Shipping revenues	$ 310,456	$ 91,895	$ 4,588	$ 65,733	$ 472,672
Time charter equivalent revenues	295,099	80,589	4,458	54,588	434,734
Depreciation and amortization	18,123	13,728	1,685	12,900	46,436
Gain/(loss) on disposal of vessels	(128)	(2)	55,490	(23,843)	31,517
Income from vessel operations	164,718	20,816	918	7,180	193,632
Equity in income of affiliated companies	—	—	2,447	1,127	3,574
Investments in affiliated companies at September 30, 2008	727	900	73,037	2,789	77,453
Total assets at September 30, 2008	1,859,513	769,320	84,479	920,627	3,633,939
Nine months ended September 30, 2008:					
Shipping revenues	850,305	247,489	20,873	192,905	1,311,572
Time charter equivalent revenues	798,908	218,593	20,124	159,057	1,196,682
Depreciation and amortization	55,018	41,139	4,822	40,363	141,342
Gain/(loss) on disposal of vessels	12,886	9,931	55,489	(23,098)	55,208
Income from vessel operations	436,567	52,164	5,381	21,869	515,981
Equity in income of affiliated companies	(1,075)	—	7,276	2,750	8,951
Expenditures for vessels	287,640	46,798	(8,523)	132,266	458,181
Payments for drydocking	9,777	14,490	118	16,347	40,732

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Time charter equivalent revenues	$ 207,298	$ 434,734	$ 748,472	$ 1,196,682
Add: Voyage expenses	36,278	37,938	102,564	114,890
Shipping revenues	$ 243,576	$ 472,672	$ 851,036	$ 1,311,572

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.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note C — Business and Segment Reporting (continued):

Reconciliations of income from vessel operations of the segments to income/(loss) before federal income taxes, including net income attributable to noncontrolling interest, as reported in the consolidated statements of operations follow:

In thousands	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Total income from vessel operations of all segments	$ 6,143	$ 193,632	$ 99,131	$ 515,981
General and administrative expenses	(28,313)	(32,430)	(84,720)	(104,224)
Severance and relocation costs	—	—	(2,317)	—
Shipyard contract termination costs	5,141	—	(27,074)	—
Gain on disposal of vessels	830	31,517	128,125	55,208
Consolidated income/(loss) from vessel operations	(16,199)	192,719	113,145	466,965
Equity in income of affiliated companies	2,480	3,574	6,068	8,951
Other income/(expense)	873	10,491	1,354	(32,944)
Interest expense	(10,933)	(12,295)	(33,208)	(47,849)
Income /(loss) before federal income taxes	$ (23,779)	$ 194,489	$ 87,359	$ 395,123

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

In thousands as of September 30,	2009	2008
Total assets of all segments	$ 3,317,686	$ 3,633,939
Corporate cash and securities, including Capital Construction Fund and Restricted Cash	681,794	414,312
Other unallocated amounts	87,613	115,875
Consolidated total assets	$ 4,087,093	$ 4,164,126

Note D — Vessels:

As of September 30, 2009, the Company had remaining commitments for vessels to be wholly owned by the Company of $477,312,000 on non-cancelable contracts for the construction or purchase of 14 vessels (three VLCCs, four Panamax Product Carriers, five Handysize Product Carriers, and two ATBs). These vessels are scheduled for delivery between 2009 and 2011.

In early 2009, OSG began negotiations with Bender Shipbuilding & Repair Co., Inc. ("Bender") to terminate the construction agreements covering the six ATBs and two tug boats associated with its U.S. Flag expansion plans due to repeated delays in vessel delivery dates from the original contract delivery dates, Bender's request for substantial price increases on all contracted vessels and OSG's concern about Bender's ability to complete the ATBs and tug boats within contract terms, including Bender's lack of performance under such agreements and its financial condition. The Company took an impairment charge of $105,111,000 in the fourth quarter of 2008 related to four of such ATBs.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note D — Vessels (continued):

On March 13, 2009, the Company entered into a termination agreement with Bender. Under the terms of the agreement, Bender agreed to transfer ownership of the unfinished vessels (and all related components and equipment) to OSG in their current state of completion in consideration for which OSG would, among other things (1) pay and/or reimburse Bender for the costs associated with positioning the units for transportation to the alternative shipyards and certain other material and labor costs related to construction of the units, (2) assume certain specified obligations related to construction of the units and (3) render a payment of $14,000,000 to a third party for the release of priority liens on the vessels being transferred to the Company. During the third quarter of 2009, the Company reduced its estimate of the amounts payable above that will be charged to expense by $5,141,000. The amounts referred to in (1), (2) and (3) above are estimated to approximate $47,000,000 of which $27,074,000 was charged to expense during the nine months ended September 30, 2009. The Company intends to complete two of the six ATBs and the two tug boats at alternative shipyards.

During the first quarter of 2009, the Company delivered one of its 2000-built VLCCs to the buyer pursuant to a forward sales agreement entered in 2007. Accordingly, OSG recognized a gain on the sale of $76,654,000 in the first quarter of 2009. Such vessel was classified as held for sale in the consolidated balance sheet as of December 31, 2008. In addition, a ULCC, the TI Africa, which was wholly-owned by OSG, was sold in January 2009 to a joint venture in which the Company has a 50% interest for conversion to an FSO for approximately $200,000,000. The Company recorded a gain of $106,686,000, of which $53,343,000 was recognized in the first quarter of 2009 with the balance deferred to be amortized over the remaining life of the vessel. The gain recognized on the transaction was equal to 50% of the excess of the sales price over the carrying amount of the vessel.

During the three months ended June 30, 2009, the Company sold three vessels and a barge: two International Flag Panamaxes for which the charterer had previously exercised purchase options and one U.S. Flag Tanker and one U.S. Flag Barge, both of which had been classified as held for sale.

During the second quarter of 2009, the Company changed its plans to sell a U.S. Flag tug boat previously classified as held for sale. The tug boat will be used as a replacement for certain other tug boats that will drydock in 2009. The impact of this change in classification on the statements of operations for the nine months ended September 30, 2009 was not material.

During the third quarter of 2009, the Company recorded impairment charges aggregating $12,500,000 to write down the carrying amount of two U.S. Flag vessels, an older double-hulled tanker with an inefficient gas turbine engine and one of its four single-hulled vessels, which have limited remaining useful lives, to their estimated fair values as of September 30, 2009.

Note E — Equity Method Investments:

Investments in affiliated companies include joint ventures accounted for using the equity method. As of September 30, 2009, the Company had a 50% interest in two joint ventures. One joint venture operates four LNG Carriers. The other joint venture is converting two ULCCs to FSOs, which are expected to commence service in the fourth quarter of 2009 and first quarter of 2010. In addition, the Company has a 37.5% interest in Alaska Tanker Company, LLC that manages vessels carrying Alaskan crude for BP.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note E — Equity Method Investments (continued):

Floating Storage and Offloading Service Vessels (“FSO”)

In February 2008, Maersk Oil Qatar AS (“MOQ”) awarded two service contracts to a joint venture between OSG and Euronav N.V. for terms of approximately eight years. The service contracts provide 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.

The joint venture financed the purchase of the vessels through long-term secured bank financing and partner loans. The joint venture has 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 September 30, 2009, the carrying value of the Company’s guaranty, which is included in other liabilities in the accompanying balance sheet, was $537,000. The joint venture has entered into floating-to-fixed interest rate swaps with major financial institutions that are being accounted for as cash flow hedges. The interest rate swaps, covering notional amounts aggregating $480,000,000, pay fixed rates of 3.9% and receive floating rates based on LIBOR. These agreements became effective in the third quarter of 2009 and have maturity dates ranging from July to September 2017. As of September 30, 2009, the joint venture has recorded a liability of $23,205,000 for the effective portion of the fair value of these swaps. The Company’s share of such amount is included in accumulated other comprehensive loss in the accompanying balance sheet.

Conversion of both vessels to FSOs has been delayed. The joint venture owner of the FSO Asia (formerly named the TI Asia) has notified MOQ that the FSO Asia will begin providing services on November 11, 2009, before the November 19, 2009 cancellation date after which MOQ has the right to terminate both the FSO Asia and FSO Africa (formerly named the TI Africa) service contracts. The conversion of the FSO Africa to an FSO is expected to be completed in the first two months of 2010. Under the terms of the service contracts, if the conversion of the FSO Africa is not completed and the FSO Africa does not begin providing FSO services to MOQ by January 19, 2010 (the “Africa Cancellation Date”), MOQ has the right to terminate both the FSO Africa and the FSO Asia service contracts. It is uncertain whether the conversion of the FSO Africa will be completed and the vessel will be able to begin providing FSO services to MOQ by the Africa Cancellation Date. MOQ has notified the joint venture partners that MOQ reserves all of its rights if the FSO Africa does not begin providing services by the Africa Cancellation Date.

Management believes that both the FSO Asia and the FSO Africa are critical to MOQ’s multi-billion dollar expansion on the Al Shaheen field and that MOQ is unlikely to exercise its rights to terminate either or both of the service contracts if the FSO Africa does not begin providing FSO services by the Africa Cancellation Date. However, no assurance can be given that the FSO Africa will begin providing FSO services by the Africa Cancellation Date, or that in any such event MOQ will not exercise its rights to terminate either or both service contracts or request changes to contract terms. The service contracts provide for the payment of liquidated damages by the joint ventures to MOQ for delays in delivery of the FSOs. Such liquidated damages are expensed by the joint ventures as incurred.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note E — Equity Method Investments (continued):

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 of $918,026,000 was financed by the joint venture through long-term bank financing that is nonrecourse to the partners and partner contributions. The joint venture has entered into floating-to-fixed interest rate swaps with a group of major financial institutions that are being accounted for as cash flow hedges. The interest rate swaps cover notional amounts aggregating $853,878,000, pursuant to which it will pay fixed rates of approximately 4.9% and receive a floating rate based on LIBOR. These agreements have maturity dates ranging from July to November 2022. As of September 30, 2009, the joint venture has recorded a liability of $99,242,000 for the effective portion of the fair value of these swaps. The Company's share of such amount is included in accumulated other comprehensive loss in the accompanying balance sheet.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Shipping revenues	$ 62,160	$ 62,157	$ 182,855	$ 177,678
Ship operating expenses	(47,509)	(44,068)	(132,492)	(128,362)
Income from vessel operations	14,651	18,089	50,363	49,316
Other income/(loss)	(286)	252	(664)	1,408
Interest expense *	(12,820)	(10,235)	(39,844)	(28,210)
Net income/(loss)	$ 1,545	$ 8,106	$ 9,855	$ 22,514

* Interest is net of amounts capitalized in connection with vessel construction of $1,489 (three months ended September 30, 2009), $4,613 (nine months ended September 30, 2009) and $3,033 (nine months ended September 30, 2008).

Note F —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 consist of interest-bearing time deposits approximate their fair value.

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

Debt, including capital lease obligations—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.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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

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.

Interest rate swaps—The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the reporting date.

Foreign Currency Contracts—The fair value of foreign currency contracts is the estimated amount that the Company would receive or pay to terminate the contract at the reporting date.

The estimated fair values of the Company's financial instruments at September 30, 2009, other than derivatives, follow:

In thousands	Carrying Amount	Fair value
Financial assets (liabilities)		
Cash and cash equivalents	$ 583,170	$ 583,170
Short-term investments		