

OVERSEAS SHIPHOLDING GROUP INC  
Form 10-Q  
August 10, 2009

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended **JUNE 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**  
(IRS Employer Identification No.)

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(State or other jurisdiction of incorporation or organization)

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

10017  
(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  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  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

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

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 August 6, 2009 26,865,088



## OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

DOLLARS IN THOUSANDS

	June 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 571,362	\$ 343,609
Voyage receivables, including unbilled of \$111,286 and \$170,403	160,416	219,500
Other receivables, including federal income taxes recoverable	59,471	64,773
Inventories, prepaid expenses and other current assets	110,079	50,407
Total Current Assets	901,328	678,289
Capital Construction Fund	40,629	48,681
Vessels and other property, less accumulated depreciation of \$602,129 and \$570,394	2,602,126	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	62,430	79,837
Total Vessels, Deferred Drydock and Other Property	2,664,556	2,818,060
Investments in Affiliated Companies	170,417	98,620
Intangible Assets, less accumulated amortization of \$18,995 and \$15,247	102,837	106,585
Goodwill	9,589	9,589
Other Assets	49,383	130,237
Total Assets	\$ 3,938,739	\$ 3,890,061
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable, accrued expenses and other current liabilities	\$ 191,595	\$ 167,615
Current installments of long-term debt	26,351	26,231
Current obligations under capital leases		1,092
Total Current Liabilities	217,946	194,938
Long-term Debt	1,342,958	1,396,135
Deferred Gain on Sale and Leaseback of Vessels	121,074	143,948
Deferred Federal Income Taxes (\$201,310 and \$196,815) and Other Liabilities	263,202	330,407
<b>Equity:</b>		
Overseas Shipholding Group, Inc. Stockholders' Equity	1,894,561	1,722,867
Noncontrolling Interest	98,998	101,766
Total Equity	1,993,559	1,824,633
Total Liabilities and Equity	\$ 3,938,739	\$ 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Shipping Revenues:</b>				
Pool revenues, including \$25,406, \$32,816, \$64,681 and \$62,994 received from companies accounted for by the equity method	\$ 105,439	\$ 226,018	\$ 241,843	\$ 449,464
Time and bareboat charter revenues	83,974	90,374	171,343	182,861
Voyage charter revenues	93,243	111,832	194,274	206,575
	282,656	428,224	607,460	838,900
<b>Operating Expenses:</b>				
Voyage expenses	34,271	42,110	66,286	76,952
Vessel expenses	69,948	77,785	143,478	150,654
Charter hire expenses	104,595	103,368	215,937	194,039
Depreciation and amortization	44,890	47,315	88,771	94,906
General and administrative	29,107	34,509	56,407	71,794
Severance and relocation costs	148		2,317	
Shipyards contract termination costs	(3,670)		32,215	
(Gain)/loss on disposal of vessels	2,568	(23,686)	(127,295)	(23,691)
Total Operating Expenses	281,857	281,401	478,116	564,654
Income from Vessel Operations	799	146,823	129,344	274,246
Equity in Income of Affiliated Companies	1,116	4,048	3,588	5,377
Operating Income	1,915	150,871	132,932	279,623
Other Income/(Expense)	(1,824)	(46,404)	481	(43,435)
	91	104,467	133,413	236,188
Interest Expense	10,903	17,191	22,275	35,554
Income/(loss) before Federal Income Taxes	(10,812)	87,276	111,138	200,634
Credit for Federal Income Taxes	2,991	771	4,303	771
Net Income/(Loss)	(7,821)	88,047	115,441	201,405
Less: Net Income Attributable to the Noncontrolling Interest	(973)	(1,112)	(2,485)	(2,035)
<b>Net Income/(Loss) Attributable to Overseas Shipholding Group, Inc.</b>	<b>\$ (8,794)</b>	<b>\$ 86,935</b>	<b>\$ 112,956</b>	<b>\$ 199,370</b>
<b>Weighted Average Number of Common Shares Outstanding:</b>				
Basic	26,861,081	30,615,359	26,863,462	30,861,429
Diluted	26,861,081	30,895,367	26,869,961	31,072,727
<b>Per Share Amounts:</b>				
Basic net income/(loss) attributable to Overseas Shipholding Group, Inc. common stockholders	\$ (0.33)	\$ 2.84	\$ 4.20	\$ 6.46
Diluted net income/(loss) attributable to Overseas Shipholding Group, Inc. common stockholders	\$ (0.33)	\$ 2.81	\$ 4.20	\$ 6.42
Cash dividends declared	\$ 0.88	\$ 0.75	\$ 1.31	\$ 1.06

See notes to condensed consolidated financial statements.



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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

DOLLARS IN THOUSANDS

(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 115,441	\$ 201,405
Items included in net income not affecting cash flows:		
Depreciation and amortization	88,771	94,906
Amortization of deferred gain on sale and leasebacks	(23,037)	(24,510)
Compensation relating to restricted stock and stock option grants	6,480	6,104
Provision/(credit) for deferred federal income taxes	(5,109)	1,437
Unrealized (gains)/losses on forward freight agreements and bunker swaps	(1,869)	29,500
Undistributed earnings of affiliated companies	1,758	379
Other net	6,511	(5,541)
Items included in net income related to investing and financing activities:		
Loss on sale or write-down of securities net	3,290	6
Gain on disposal of vessels	(127,295)	(23,691)
Payments for drydocking	(14,175)	(27,613)
Distributions from subsidiaries to noncontrolling interest owners	(5,253)	(4,168)
Changes in operating assets and liabilities	139,097	(156,485)
Net cash provided by operating activities	184,610	91,729
<b>Cash Flows from Investing Activities:</b>		
Purchases of marketable securities		(11,311)
Sale of marketable securities	159	
Expenditures for vessels	(181,609)	(252,260)
Withdrawals from Capital Construction Fund	8,265	49,830
Proceeds from disposal of vessels	298,844	216,884
Expenditures for other property	(2,604)	(7,207)
Distributions from affiliated companies net	14,527	14,226
Shipyards contract termination payments	(18,146)	
Other net	2,136	3
Net cash provided by investing activities	121,572	10,165
<b>Cash Flows from Financing Activities:</b>		
Purchases of treasury stock	(999)	(57,551)
Issuance of debt, net of issuance costs		59,000
Payments on debt and obligations under capital leases	(54,155)	(366,875)
Cash dividends paid	(23,503)	(19,385)
Issuance of common stock upon exercise of stock options	242	398
Other net	(14)	(377)
Net cash used in financing activities	(78,429)	(384,790)
Net increase/(decrease) in cash and cash equivalents	227,753	(282,896)
Cash and cash equivalents at beginning of year	343,609	502,420
Cash and cash equivalents at end of period	\$ 571,362	\$ 219,524

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/(Loss)			112,956				112,956	2,485	115,441
Net Unrealized Holding Gain on Available-for-Sale Securities						3,969	3,969		3,969
Effect of Derivative Instruments						85,255	85,255		85,255
Effect of Pension and Other Postretirement Benefit Plans						(909)	(909)		(909)
Comprehensive Income							201,271***	2,485	203,756
Cash Dividends Declared			(35,300)				(35,300)		(35,300)
Compensation Related to Options Granted		2,546					2,546		2,546
Amortization of Restricted Stock Awards		3,934					3,934		3,934
Options Exercised and Employee Stock Purchase Plan		87		(12,207)	155		242		242
Purchases of Treasury Stock				39,337	(999)		(999)		(999)
Distributions from Subsidiary to Noncontrolling Interest Owners								(5,253)	(5,253)
Balance at June 30, 2009	\$ 40,791	\$ 231,089	\$ 2,520,653	13,925,671	\$ (839,838)	\$ (58,044)	\$ 1,894,561	\$ 98,998	\$ 1,993,559
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			199,370				199,370	2,035	201,405
Net Unrealized Holding Gain on Available-for-Sale Securities						1,782	1,782		1,782
Effect of Derivative Instruments						(39,592)	(39,592)		(39,592)

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Effect of Pension and Other Postretirement Benefit Plans						(319)	(319)		(319)
Comprehensive Income							161,241***	2,035	163,276
Cash Dividends Declared						(32,670)	(32,670)		(32,670)
Compensation Related to Options Granted	2,448						2,448		2,448
Issuance of Restricted Stock Awards	(1,277)		(115,598)	1,277					
Amortization of Restricted Stock Awards	3,656						3,656		3,656
Options Exercised and Employee Stock Purchase Plan	315		(6,535)	83			398		398
Purchases of Treasury Stock			851,101	(57,551)			(57,551)		(57,551)
Increase in Loss on Public Offering of OSG America L.P. Units	(183)						(183)	(58)	(241)
Distributions from Subsidiary to Noncontrolling Interest Owners								(4,168)	(4,168)
Balance at June 30, 2008	\$ 40,791	\$ 213,776	\$ 2,336,798	10,426,588	\$ (639,899)	\$ (56,102)	\$ 1,895,364	\$ 130,279	\$ 2,025,643

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

\*\* Amounts are net of tax.

\*\*\* Comprehensive income for the three month periods ended June 30, 2009 and 2008 was \$45,664 and \$75,305, 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:**



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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 six months ended June 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 August 10, 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.



OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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:**

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Dollars in thousands	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income/(loss) attributable to Overseas Shipholding Group, Inc	\$ (8,794)	\$ 86,935	\$ 112,956	\$ 199,370
Common shares outstanding, basic:				
Weighted average shares outstanding, basic	26,861,081	30,615,359	26,863,462	30,861,429
Common shares outstanding, diluted:				
Weighted average shares outstanding, basic	26,861,081	30,615,359	26,863,462	30,861,429
Dilutive equity awards		280,008	6,499	211,298
Weighted average shares outstanding, diluted	26,861,081	30,895,367	26,869,961	31,072,727

The anti-dilutive effects of equity awards that were excluded from the calculation of diluted earnings per share 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.

## 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 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 six months ended June 30, 2009 and 2008 follows:

In thousands	Crude Tankers	International Product Carriers	Other	U.S.	Totals
Three months ended June 30, 2009:					
Shipping revenues	\$ 145,554	\$ 75,894	\$ 1,957	\$ 59,251	\$ 282,656
Time charter equivalent revenues	128,145	63,581	1,957	54,702	248,385
Depreciation and amortization	18,418	11,634	1,597	13,241	44,890
Shipyard contract termination costs				3,670	3,670
Gain/(loss) on disposal of vessels	(154)	(1,770)	(8)	(636)	(2,568)
Income from vessel operations	24,990	(302)	(162)	4,426	28,952
Equity in income of affiliated companies	(1,067)		1,610	573	1,116
Investments in affiliated companies at June 30, 2009	107,820	900	60,522	1,175	170,417
Total assets at June 30, 2009	1,664,538	712,271	70,229	787,553	3,234,591
Six months ended June 30, 2009:					
Shipping revenues	318,563	158,723	3,891	126,283	607,460
Time charter equivalent revenues	288,131	134,766	3,891	114,386	541,174
Depreciation and amortization	36,295	23,436	3,215	25,825	88,771
Shipyard contract termination costs				(32,215)	(32,215)
Gain/(loss) on disposal of vessels	129,799	(1,770)	(98)	(636)	127,295
Income from vessel operations	68,950	11,213	(372)	13,197	92,988
Equity in income of affiliated companies	(1,402)		3,853	1,137	3,588
Expenditures for vessels	29,849	102,417	(533)	49,876	181,609
Payments for drydocking	6,438	7,208		529	14,175

## OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note C Business and Segment Reporting (continued):

In thousands	Crude Tankers	International Product Carriers	Other	U.S.	Totals
<b>Three months ended June 30, 2008:</b>					
Shipping revenues	\$ 275,476	\$ 80,672	\$ 8,199	\$ 63,877	\$ 428,224
Time charter equivalent revenues	254,950	71,597	7,887	51,680	386,114
Depreciation and amortization	18,361	13,614	1,543	13,797	47,315
Gain on disposal of vessels	13,009	9,933		744	23,686
Income from vessel operations	135,345	15,972	2,084	4,245	157,646
Equity in income of affiliated companies	(193)		3,211	1,030	4,048
Investments in affiliated companies at					
June 30, 2008	697	900	83,188	1,661	86,446
Total assets at June 30, 2008	1,728,986	745,173	104,438	912,781	3,491,378
<b>Six months ended June 30, 2008:</b>					
Shipping revenues	539,850	155,593	16,285	127,172	838,900
Time charter equivalent revenues	503,810	138,004	15,666	104,468	761,948
Depreciation and amortization	36,895	27,411	3,137	27,463	94,906
Gain on disposal of vessels	13,014	9,933		744	23,691
Income from vessel operations	271,850	31,348	4,464	14,687	322,349
Equity in income of affiliated companies	(1,075)		4,829	1,623	5,377
Expenditures for vessels	140,840	18,682	41	92,697	252,260
Payments for drydocking	6,341	10,853	118	10,301	27,613

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

In thousands	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Time charter equivalent revenues	\$ 248,385	\$ 386,114	\$ 541,174	\$ 761,948
Add: Voyage expenses	34,271	42,110	66,286	76,952
Shipping revenues	\$ 282,656	\$ 428,224	\$ 607,460	\$ 838,900

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.

## 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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Total income from vessel operations of all segments	\$ 28,952	\$ 157,646	\$ 92,988	\$ 322,349
General and administrative expenses	(29,107)	(34,509)	(56,407)	(71,794)
Severance and relocation costs	(148)		(2,317)	
Shipyards contract termination costs	3,670		(32,215)	
Gain/(loss) on disposal of vessels	(2,568)	23,686	127,295	23,691
Consolidated income from vessel operations	799	146,823	129,344	274,246
Equity in income of affiliated companies	1,116	4,048	3,588	5,377
Other income/(expense)	(1,824)	(46,404)	481	(43,435)
Interest expense	(10,903)	(17,191)	(22,275)	(35,554)
Income /(loss) before federal income taxes	\$ (10,812)	\$		