

OVERSEAS SHIPHOLDING GROUP INC
Form 10-Q
August 08, 2006

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, 2006**

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

(State or other jurisdiction of
incorporation or organization)

13-2637623

(IRS Employer Identification No.)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 4, 2006 39,538,291

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

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 177,295	\$ 188,588
Voyage receivables	124,527	157,334
Other receivables	55,665	22,202
Inventories and prepaid expenses	24,824	16,763
Total Current Assets	382,311	384,887
Capital Construction Fund	300,282	296,126
Vessels and other property, less accumulated depreciation of \$432,206 and \$383,587	2,108,682	2,288,481
Vessels held for sale	124,873	
Vessels under Capital Leases, less accumulated amortization of \$74,698 and \$71,242	34,325	36,267
Deferred drydock expenditures, net	35,540	19,805
Total Vessels, Deferred Drydock and Other Property	2,303,420	2,344,553
Investments in Affiliated Companies	285,149	269,657
Other Assets	56,558	53,457
Total Assets	\$ 3,327,720	\$ 3,348,680
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, sundry liabilities and accrued expenses	\$ 125,797	\$ 105,173
Short-term debt and current installments of long-term debt	20,938	20,066
Current obligations under capital leases	7,300	6,968
Total Current Liabilities	154,035	132,207
Long-term Debt	732,159	923,612
Obligations under Capital Leases	38,072	42,043
Deferred Gain on Sale and Leaseback of Vessels	211,929	233,456
Deferred Federal Income Taxes (\$104,816 and \$113,255) and Other Liabilities	133,017	141,334
Shareholders Equity	2,058,508	1,876,028
Total Liabilities and Shareholders Equity	\$ 3,327,720	\$ 3,348,680

See notes to condensed consolidated financial statements.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Shipping Revenues:				
Pool revenues including \$12,129, \$13,531, \$25,693 and \$27,490 received from a 50% owned company accounted for by the equity method	\$ 133,002	\$ 128,105	\$ 326,107	\$ 316,059
Time and bareboat charter revenues, including \$4,679 and \$9,358 in 2005 received from a 37.5% owned company accounted for by the equity method	68,252	65,965	139,100	135,876
Voyage charter revenues	29,499	44,314	56,572	61,856
	230,753	238,384	521,779	513,791
Operating Expenses:				
Voyage expenses	14,449	9,786	25,366	18,006
Vessel expenses	53,876	44,272	102,791	88,072
Time and bareboat charter hire expenses, including \$19,516 and \$43,655 in 2006 paid to a 44.5% owned company accounted for by the equity method	38,056	26,022	81,227	51,823
Depreciation and amortization	35,860	40,090	70,214	76,449
General and administrative	23,070	15,516	47,081	31,537
Loss/(gain) on disposal of vessels	3,498	(13,174)	3,619	(26,076)
Total Operating Expenses	168,809	122,512	330,298	239,811
Income from Vessel Operations	61,944	115,872	191,481	273,980
Equity in Income of Affiliated Companies	4,516	12,664	11,328	30,337
Operating Income	66,460	128,536	202,809	304,317
Other Income	6,794	7,671	16,186	18,894
	73,254	136,207	218,995	323,211
Interest Expense	15,134	25,569	37,741	48,400
Income before Federal Income Taxes	58,120	110,638	181,254	274,811
Credit for Federal Income Taxes	(2,111)	(3,523)	(7,341)	(4,269)
Net Income	\$ 60,231	\$ 114,161	\$ 188,595	\$ 279,080
Weighted Average Number of Common Shares Outstanding:				
Basic	39,536,097	39,447,473	39,526,087	39,441,276
Diluted	39,590,687	39,512,839	39,580,119	39,505,969
Per Share Amounts:				
Basic net income	\$ 1.52	\$ 2.89	\$ 4.77	\$ 7.08
Diluted net income	\$ 1.52	\$ 2.89	\$ 4.76	\$ 7.06
Cash dividends declared	\$ 0.50	\$ 0.35	\$ 0.675	\$ 0.525

See notes to condensed consolidated financial statements.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS

(UNAUDITED)

	Six Months Ended June 30,	
	2006	2005
Cash Flows from Operating Activities:		
Net income	\$ 188,595	\$ 279,080
Items included in net income not affecting cash flows:		
Depreciation and amortization	70,214	76,449
Amortization of deferred gain on sale and leasebacks	(20,861)	(1,526)
Deferred compensation relating to restricted stock and stock option grants	1,900	844
Deferred federal income tax credit	(5,400)	(2,317)
Undistributed earnings of affiliated companies	7,045	(8,629)
Other net	3,951	(3,784)
Items included in net income related to investing and financing activities:		
Gain on sale of securities net	(8,889)	(12,203)
Loss/(gain) on disposal of vessels	3,619	(26,076)
Payments for drydocking	(21,279)	(7,592)
Changes in operating assets and liabilities	18	(28,324)
Net cash provided by operating activities	218,913	265,922
Cash Flows from Investing Activities:		
Expenditures for vessels, including \$2,000 in 2006 related to vessels under construction	(5,394)	(1,215)
Proceeds from disposal of vessels		337,027
Acquisition of interest in affiliated company that owned four V-Pluses		(69,145)
Acquisition of Stelmar Shipping Ltd., net of cash acquired of \$107,911		(742,433)
Expenditures for other property	(3,293)	(6,368)
Investments in and advances to affiliated companies		(7,486)
Distributions from affiliated companies		20,660
Other net	(936)	15,562
Net cash (used in) investing activities	(9,623)	(453,398)
Cash Flows from Financing Activities:		
Issuance of debt, net of issuance costs	48,663	781,268
Payments on debt and obligations under capital leases	(242,889)	(904,374)
Cash dividends paid	(16,807)	(13,805)
Issuance of common stock upon exercise of stock options	215	156
Other net	(9,765)	(333)
Net cash (used in) financing activities	(220,583)	(137,088)
Net decrease in cash and cash equivalents	(11,293)	(324,564)
Cash and cash equivalents at beginning of year	188,588	479,181
Cash and cash equivalents at end of period	\$ 177,295	\$ 154,617

See notes to condensed consolidated financial statements.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

DOLLARS IN THOUSANDS

(UNAUDITED)

	Paid-in		Unearned		Treasury Stock		Accumulated	
	Common	Additional	Retained	Restricted	Shares	Amount	Other	Comprehensive
	Stock*	Capital	Earnings	Stock	Shares	Amount	Income**	Total
Balance at January 1, 2006	\$ 40,791	\$ 199,570	\$ 1,640,742	\$	1,341,718	\$ (17,019)	\$ 11,944	\$ 1,876,028
Net Income			188,595					188,595
Net Unrealized Holding Losses on Available-For-Sale Securities							(6,155)	(6,155)
Effect of Derivative Instruments							24,657	24,657
Minimum Pension Liability							(41)	(41)
Comprehensive Income								207,056 ***
Cash Dividends Declared			(26,691)					(26,691)
Deferred Compensation Related to Options Granted		756						756
Issuance of Restricted Stock Awards		(931)			(81,179)	931		
Amortization of Restricted Stock Awards		1,144						1,144
Options Exercised and Employee Stock Purchase Plan		115			(7,850)	100		215
Balance at June 30, 2006	\$ 40,791	\$ 200,654	\$ 1,802,646	\$	1,252,689	\$ (15,988)	\$ 30,405	\$ 2,058,508
Balance at January 1, 2005	\$ 40,791	\$ 199,054	\$ 1,203,528	\$ (1,360)	1,391,280	\$ (17,579)	\$ 1,938	\$ 1,426,372
Reclassification upon adoption of FAS 123(R)		(1,360)		1,360				
Net Income			279,080					279,080
Net Unrealized Holding Gains on Available-For-Sale Securities							5,654	5,654
Effect of Derivative Instruments							(3,565)	(3,565)
Minimum Pension Liability							148	148
Comprehensive Income								281,317 ***
			(20,709)					(20,709)

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Cash Dividends Declared									
Deferred Compensation Related to Options Granted	378							378	
Issuance of Restricted Stock Awards	(436))		(41,746))	436			
Amortization of Restricted Stock Awards	466							466	
Options Exercised and Employee Stock Purchase Plan	102			(4,262))	54		156	
Tax Benefit Related to Options Exercised	112							112	
Balance at June 30, 2005	\$ 40,791	\$ 198,316	\$ 1,461,899	\$ 1,345,272	\$ (17,089)	\$ 4,175	\$ 1,688,092		

* Par value \$1 per share; 120,000,000 shares authorized; and 40,790,759 shares issued at June 30, 2006 and December 31, 2005.

** Amounts are net of tax.

*** Comprehensive income for the three month periods ended June 30, 2006 and 2005 was \$65,899 and \$109,473, 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 and Summary of Significant Accounting Policies:

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, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

The consolidated statements of operations for the three and six months ended June 30, 2005 and the consolidated statement of cash flows for the six months ended June 30, 2005 have been reclassified to conform to the 2006 presentation of certain items.

Subsequent to the issuance of the March 31, 2006 Form 10-Q, the Company determined that it had inappropriately classified payments for drydocking as an investing activity rather than as an operating activity. Management has concluded that such inappropriate classification was not material to cash flows from operating activities for any previously reported quarter or annual period or to trends for those periods affected or to a fair presentation of the Company's financial statements for those periods. Accordingly, the presentation of the consolidated statement of cash flows for the six months ended June 30, 2005 has been revised.

In the second quarter of 2006, the Company determined that it had inappropriately capitalized payments made in 2005 to cancel charterers purchase options. Management has concluded that this was not material to the Company's results of operations for any previously reported quarter or for the year ended December 31, 2005. Accordingly, results for prior periods have not been restated. Instead, the Company reduced vessels and other property in the consolidated balance sheet as of June 30, 2006 by approximately \$2,100,000 and recorded a corresponding charge in the accompanying consolidated statements of operations for the three and six months ended June 30, 2006, representing the remaining unamortized balance of the amounts previously capitalized.

The consolidated balance sheet as of December 31, 2005 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, 2005.

Revenue and expense recognition Revenues from time charters and bareboat charters are accounted for as operating leases and are thus recognized ratably over the rental periods of such charters, as service is performed. Voyage revenues and expenses are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. The impact of recognizing voyage expenses ratably over the length of each voyage is not materially different on a quarterly and annual basis from a method of recognizing such costs as incurred. OSG does not begin recognizing voyage revenue until a Charter has been agreed to by both the Company and the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Under voyage charters, expenses such as fuel, port charges, canal tolls, cargo handling operations and brokerage commissions are paid by the Company whereas, under time and bareboat charters, such voyage costs are paid by the Company's customers. Operating expenses include voyage expenses.

For the Company's vessels operating in the Tankers International LLC pool, the Aframax International pool and Panamax International Shipping Company Ltd., revenues and voyage expenses are pooled and allocated to each pool's participants on a time charter equivalent basis in accordance with an agreed-upon formula.

Newly issued accounting standards In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109 (FAS 109), Accounting for Income Taxes. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In addition, FIN 48 specifically excludes income taxes from the scope of Statement of Financial Accounting Standards Statement No. 5, Accounting for Contingencies. FIN 48 applies to all tax positions related to incometaxes that are subject to FAS 109, including tax positions considered to be routine. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company believes that the adoption of FIN 48 will not have a material effect on its earnings or financial position.

Note B Acquisition of Stelmar Shipping Ltd.:

On January 20, 2005, the Company acquired 100% of the common stock of Stelmar Shipping Ltd. (Stelmar), a leading provider of petroleum product and crude oil transportation services. The operating results of Stelmar have been included in the Company's financial statements commencing January 21, 2005. Holders of Stelmar's common stock received \$48.00 per share in cash for an aggregate consideration of approximately \$844 million. Taking into account the assumption of Stelmar's outstanding debt, the total purchase price was approximately \$1.35 billion. The Company funded the acquisition of Stelmar and the refinancing of its debt with \$675 million of borrowings under new credit facilities and \$675 million of cash and borrowings under long-term credit facilities in existence as of December 31, 2004.

The following pro forma financial information reflects the results for the six months ended June 30, 2005, of the Stelmar acquisition as if it had occurred on January 1, 2004, after giving effect to purchase accounting adjustments (in thousands, except per share amounts):

Pro forma shipping revenues	\$	533,047
Pro forma net income	\$	286,330
Pro forma per share amounts:		
Basic	\$	7.26
Diluted	\$	7.25

The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place on January 1, 2004. These results do not reflect any synergies that might be achieved from the combined operations.

Note C Business and Segment Reporting:

In the first quarter of 2006, the Company revised its reportable segments in order to align them with the business units used in management reporting commencing in 2006. The Company now has three reportable segments: International Crude Tankers, International Product Carriers, and U.S. vessels. Segment information as of June 30, 2005 and for the three and six months ended June 30, 2005 has been reclassified to conform to the current presentation. Segment results are evaluated based on income from vessel operations before general and administrative expenses 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.

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Information about the Company's reportable segments as of and for the three and six months ended June 30, 2006 and 2005 follows:

In thousands	International Crude Tankers	Product Carriers	Other	U.S.	Totals
Three months ended June 30, 2006:					
Shipping revenues	\$ 147,358	\$ 58,386	\$ 5,095	\$ 19,914	\$ 230,753
Time charter equivalent revenues	145,552	49,340	6,295	15,117	216,304
Depreciation and amortization	20,036	9,779	1,123	4,922	35,860
Loss on disposal of vessels	(1,310))	(88))	(1,398)
Income from vessel operations	74,277	10,881	1,840	1,514	88,512
Equity in income of affiliated companies	3,042		175	1,299	4,516
Investments in affiliated companies at June 30, 2006	162,586		119,534	3,029	285,149
Total assets at June 30, 2006	1,826,056	710,677	120,911	87,999	2,745,643
Six months ended June 30, 2006:					
Shipping revenues	355,379	121,022	10,100	35,278	521,779
Time charter equivalent revenues	352,643	103,202	12,496	28,072	496,413
Depreciation and amortization	39,830	19,215	2,153	9,016	70,214
Loss on disposal of vessels	(1,431))	(88))	(1,519)
Income from vessel operations	204,052	31,415	3,651	3,063	242,181
Equity in income of affiliated companies	8,030		307	2,991	11,328
Expenditures for vessels	2,153	47		3,194	5,394
Payments for drydocking	3,477	10,315		7,487	21,279
Three months ended June 30, 2005:					
Shipping revenues	149,560	58,924	5,220	24,680	238,384
Time charter equivalent revenues	147,164	53,169	6,845	21,420	228,598
Depreciation and amortization	25,158	8,910	803	5,219	40,090
Gain on disposal of vessels	11,500			1,674	13,174
Income from vessel operations	82,950	24,415	2,713	8,136	118,214
Equity in income of affiliated companies	10,941		(50)	1,773	12,664
Investments in affiliated companies at June 30, 2005	11,664		83,383	2,963	98,010
Total assets at June 30, 2005	2,153,775	728,589	84,427	99,316	3,066,107
Six months ended June 30, 2005:					
Shipping revenues	354,170	102,566	10,626	46,429	513,791
Time charter equivalent revenues	348,811	92,675	13,129	41,170	495,785
Depreciation and amortization	47,845	16,607	1,667	10,330	76,449
Gain on disposal of vessels	11,506	12,896		1,674	26,076
Income from vessel operations	223,440	40,883	297	14,821	279,441
Equity in income of affiliated companies	27,310		(133)	3,160	30,337
Expenditures for vessels	797	183		235	1,215
Payments for drydocking	3,559	2,993		1,040	7,592

* Segment totals for income from vessel operations are before general and administrative expenses and gain/(loss) on disposal of vessels.

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For vessels operating in pools or on time or bareboat charters, shipping revenues are substantially the same as time charter equivalent revenues.

The three Handysize Product Carriers that were reflagged under the U.S. Flag in late 2005 have been included in the International Product Carrier segment since these vessels continue to trade primarily in the international market.

The joint venture that is constructing four LNG Carriers is included in Other International along with two Capesize Dry Bulk Carriers.

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,		June 30,	
	2006	2005	2006	2005
Time charter equivalent revenues				