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

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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.

Form 10-Q

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	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.

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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:

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
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.

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	50,000	50,000
Restricted cash	7,945	7,945
Capital Construction Fund	40,679	40,679
Debt	(1,625,753)	(1,529,773)

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 short-term charter rates, 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 (i) economic hedging instruments, some of which qualify as cash flow hedges for accounting purposes, that reduce its exposure to changes in the spot market rates earned by some of its vessels or protect the Company against future increases in bunker prices in the normal course of its shipping business; and prior to June 30, 2008, (ii) for trading purposes to take advantage of short term fluctuations in the 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 expire on various dates through December 2009. As of September 30, 2009, those FFAs and bunker swaps, with future settlement dates, that qualify as cash flow hedges cover approximately ten VLCCs, representing aggregate volumes of 3,300,000 metric tons ("mts") and 76,500 mts, respectively.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note F —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 $452,772,000 at September 30, 2009 pursuant to which it pays fixed rates ranging from 2.9% to 4.7% and receives floating rates based on the London interbank offered rate ("LIBOR") (approximately 0.30% at September 30, 2009). These agreements contain no leverage features and have various final maturity dates ranging from February 2010 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 which management considers favorable. The foreign currency forward contracts settle on a monthly basis through March 2010 and qualify as cash flow hedges. At September 30, 2009, the notional amounts of these contracts aggregated £6,007,000.

Tabular disclosure of derivatives location

At March 31, 2009, the Company changed its presentation of the derivative instruments on the balance sheet to correspond with additional disclosure requirements that became effective in 2009.

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.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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

Fair Values of Derivative Instruments:

In thousands at September 30, 2009	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Amount	Balance Sheet Location		Amount
Derivatives designated as hedging instruments:						
FFAs and bunker swaps:						
Current portion	Inventories, prepaid expenses and other current assets	$	27,298	Accounts payable, accrued expenses and other current liabilities	$	(8,841)
	Accounts payable, accrued expenses and other current liabilities		2,314	Inventories, prepaid expenses and other current assets		—
Interest rate swaps:						
Current portion	Other receivables, including federal income taxes recoverable.		—	Accounts payable, accrued expenses and other current liabilities		(11,006)
Long-term portion	Other assets		—	Deferred federal income taxes and other liabilities		(6,217)
Foreign currency contracts:						
Current portion	Inventories, prepaid expenses and other current assets		392	Inventories, prepaid expenses and other current assets		(128)
Total derivatives designated as hedging instruments		$	30,004		$	(26,192)
Derivatives not designated as hedging instruments:						
FFAs and bunker swaps:						
Current portion	Inventories, prepaid expenses and other current assets	$	1,953	Accounts payable, accrued expenses and other current liabilities	$	(3,110)
	Accounts payable, accrued expenses and other current liabilities		2,611	Inventories, prepaid expenses and other current assets		(971)
Long-term portion	Other assets		81	Deferred federal income taxes and other liabilities		(150)
	Deferred federal income taxes and other liabilities		49			—

Total derivatives not designated as hedging instruments	$	4,694	$	(4,231)
Total derivatives	$	34,698	$	(30,423)

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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

The effect of cash flow hedging relationships on the balance sheet as of September 30, 2009 and the statement of operations for the nine months ended September 30, 2009 are as follows:

	Balance Sheet	Statement of Operations				
	Effective Portion Gain/(Loss) In or Reclassified from Accumulated Other Comprehensive Loss (1)			Ineffective Portion (2)		
In thousands	Amount	Location	Amount	Location	Amount of Gain/(Loss)	
FFAs and bunker swaps	$ 14,414	Shipping revenues	$ 23,517	Shipping revenues	$ (440)	
Interest rate swaps	(75,167)	Interest expense	(7,169)	Interest expense	—	
Foreign currency contracts	256	General and administrative expenses	406	General and administrative expenses	28	
Total	$ (60,497)		$ 16,754		$ (412)	

1 The amounts reclassified from accumulated other comprehensive loss to earnings for the three months ended September 30, 2009 related to FFAs and bunker swaps, interest rate swaps and foreign currency contracts were $13,839, $(3,056) and $526, respectively.

2 The ineffective portions of cash flow hedges recognized in earnings for the three months ended September 30, 2009 related to FFAs and bunker swaps, interest rate swaps and foreign currency contracts were $(1), $— and $6, respectively.

The effect of the gain/(loss) recognized on derivatives not designated as hedging instruments on the statements of operations for the three and nine months ended September 30, 2009 are as follows:

In thousands	Location	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
FFAs and bunker swaps	Other income	$ 316	$ 1,708

The following table presents the hedging income, which is net of taxes, that the Company expects to reclassify from accumulated other comprehensive loss as of September 30, 2009 related to the effective portions of FFAs and bunker swaps that will affect earnings for the remainder of 2009 and January 2010. The results from these effective cash flow hedges are expected to be offset by changes in the underlying hedged revenues in the periods shown in the table.

In thousands at September 30, 2009	
2009	$ 11,710
2010	2,704
	$ 14,414

Credit-Risk-Related Contingent Features

Certain of the Company's derivative instruments contain provisions that require the Company's long-term, senior, unsecured debt credit rating to remain above specified thresholds stated in each agreement. If the Company's debt credit rating were to fall below such thresholds, the counterparties to the

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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

derivative instruments could request immediate settlement of the derivative instruments that are in net liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a net liability position on September 30, 2009, is $1,774,000 against which the Company has not been required to post any collateral. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2009, the Company could have been required to settle the derivative liability in accordance with the provisions in the related agreements. The Company estimates that such settlement amounts would approximate the fair value of these derivatives.

Fair Value Hierarchy

The following table presents the fair values, which are pre tax, for assets and liabilities measured on a recurring basis as of September 30, 2009 (in thousands):

Description	Fair Value	Level 1: Quoted prices in active markets for identical liabilities	Level 2: Significant other observable inputs
Assets/(Liabilities):			
Available for sale marketable securities	$ 769	$ 769	$ —
Derivative Assets	$ 28,625	$ 28,361 (1)	$ 264 (2)
Derivative Liabilities	$ (24,350)	$ (7,127)(1)	$ (17,223)(2)

1 Forward Freight Agreements and bunker swaps

2 Standard interest rate swaps (liability of $17,223) and foreign currency contracts (asset of $264)

The following table summarizes the fair values of items measured at fair value on a nonrecurring basis as of September 30, 2009 (in thousands):

Description	Level 3: Significant unobservable inputs	Fair Value	Total Losses
Assets:			
U.S. Flag impairment - Vessels held for use	$ 7,672(3)	$ 7,672	$ (12,500)

3 A pre-tax impairment charge of $12,500 was recorded in the third quarter of 2009, related to the U.S. Flag segment. The fair value measurement used to determine the impairment was based upon the income approach which utilized cash flow projections consistent with the most recent projections of the Company, and a discount rate equivalent to a market participant's weighted average cost of capital.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

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

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 clearing houses and are required when agreed upon threshold limits are exceeded. The following table summarizes the amounts paid and received as collateral related to derivative fair value positions:

In thousands at September 30, 2009		
Right to reclaim cash collateral (1)	$	4,245
Obligation to return cash collateral (2)	$	(2,410)

1 The deposits related to the right to reclaim cash collateral are reflected in inventories, prepaid expenses and other current assets on the balance sheet.

2 The obligations to return cash collateral are reflected in accounts payable, accrued expenses and other current liabilities on the balance sheet.

Note G — Debt:

During the first nine months of 2008, the Company repurchased principal amounts of $7,540,000 of its 8.75% Debentures due in 2013 and its 7.5% Notes due in 2024 and recognized a net gain of approximately $331,000. In May 2008, the Company redeemed, at a premium, its outstanding 8.25% Senior Notes due March 2013 with a principal amount of $176,115,000 and recognized a loss of $7,265,000, equal to the premium paid, in other income/(expense). In addition, the Company wrote off as additional interest expense, the balance of the unamortized deferred debt expense of approximately $2,150,000.

In August 2009, the Company entered into a $389,000,000, 12-year secured facility with the Export-Import Bank of China. Borrowings under the facility will be used toward financing three VLCCs and two Aframaxes constructed in China. Borrowings under the facility bear interest at a rate based on LIBOR. In September 2009, the Company borrowed $299,000,000 under this facility. As of September 30, 2009, the Company maintained $7,945,000 of cash contractually restricted to meet a loan-to-value covenant contained in the agreement.

In August 2008, the Company amended floating rate secured term loans covering seven vessels. The amendment provided additional borrowing capacity of approximately $100,000,000 (“New Loan”), adding two vessels currently under construction to the secured facility. The New Loan bears interest at a rate based on LIBOR and amortizes over ten years commencing upon delivery of each of the two vessels under construction.

As of September 30, 2009, the Company had unused long-term credit availability of approximately $1,236,000,000, which reflects $10,280,000 of letters of credit issued principally in connection with collateral requirements for freight derivative transactions.

Note G — Debt:

Agreements related to long-term debt provide for prepayment privileges (in certain instances with penalties), limitations on the amount of total borrowings and secured debt, and acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants.

As of September 30, 2009, approximately 43.3% of the net book value of the Company's vessels is pledged as collateral under certain debt agreements.

Interest paid, excluding capitalized interest, amounted to $35,094,000 and $57,855,000 for the nine month periods ended September 30, 2009 and 2008, respectively.

Note H — 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 the undistributed income of its foreign companies accumulated through December 31, 1986, in foreign operations. Accordingly, no provision for U.S. income taxes on the shipping income of its foreign subsidiaries was required in 2009 and 2008. Further, no provision for U.S. income taxes on the Company's share of the undistributed earnings of its less than 50% owned foreign shipping joint ventures was required as of September 30, 2009, because the Company intends to indefinitely reinvest such earnings ($90,000,000 at September 30, 2009). The unrecognized deferred U.S. income taxes attributable thereto approximated $31,000,000.

As of September 30, 2009, undistributed earnings on which U.S. income taxes have not been provided aggregated approximately $2,655,000,000, including $119,000,000 earned prior to 1976; the unrecognized deferred U.S. income tax attributable to such undistributed earnings approximated $930,000,000.

The components of the provision/(credit) for income taxes follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands	2009	2008	2009	2008
Current	$ 41	$ 2,175	$ 847	$ (33)
Deferred	(1,891)	(3,246)	(7,000)	(1,809)
	$ (1,850)	$ (1,071)	$ (6,153)	$ (1,842)

Note H — Taxes (continued):

At December 31, 2008, the Company had a reserve of approximately $7,546,000 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. The Company reduced such reserve by approximately $2,353,000 during the nine months ended September 30, 2009 attributable to tax positions that were settled in such period.

Note I — Capital Stock and Stock Compensation:

In June 2008, the Company's Board of Directors authorized the repurchase of up to $250,000,000 of the Company's common stock from time-to-time. Such purchases of the Company's common stock will be made at the Company's discretion and take into account such factors as price and prevailing market conditions. As of September 30, 2009, the Company had repurchased 3,798,200 shares of its common stock under the 2008 program (all prior to December 31, 2008).

The Company did not make any stock compensation awards to employees during the first nine months of 2009. In the first nine months of 2008, the Company awarded a total of 117,541 shares of restricted common stock at no cost to certain of its employees, including senior officers. Restrictions limit the sale or transfer of these shares 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 nine months ended September 30, 2008 was $64.92 per share. In addition, in the first nine months of 2008, options covering 254,991 shares 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 nine months ended September 30, 2008 was $64.92 per share (the market price at dates of grant). The grant date fair value of options granted during the nine months ended September 30, 2008 was $18.32 per share.

Compensation expense is recognized over the vesting period, contingent or otherwise, applicable to each grant, using the straight-line method.

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

In the first nine months of 2009 and 2008, the Company granted a total of 33,840 and 15,228 restricted stock units to its non-employee directors, respectively. Each restricted stock unit represents a contingent right to receive one share of common stock upon the non-executive director's termination of service as a board member. Such restricted stock units vest ratably over a four-year period, which period may be accelerated provided that the director has served until the earlier of (a) the first anniversary of the grant date or (b) the next annual meeting of the Company's stockholders. The restricted stock units have no voting rights and may not be transferred or otherwise disposed of while the non-employee director is a director. The non-employee director is entitled to dividends in the form of additional restricted stock units at the same time dividends are paid on the Company's common stock in an amount equal to the result obtained by dividing (i) the product of (x) the amount of units owned by the non-employee director on the record date for the dividend times (y) the dividend per share by (ii) the closing price of a share of the Company's common stock on the payment date, which restricted units vest immediately on the payment date for the dividend. At the date of the awards in the first nine months of 2009 and 2008, the fair market value of the Company's stock was $35.46 and $78.80 per share, respectively.

Note J — Accumulated Other Comprehensive Loss:

The components of accumulated other comprehensive loss, net of related taxes, in the consolidated balance sheets follow:

In thousands as of	September 30, 2009	December 31, 2008
Unrealized losses on available-for-sale securities	$ (268)	$ (3,969)
Unrealized losses on derivative instruments	(60,497)	(130,451)
Items not yet recognized as a component of net periodic benefit cost (pension and other postretirement plans)	(12,941)	(11,939)
	$ (73,706)	$ (146,359)

Included in accumulated other comprehensive loss at September 30, 2009 are the following amounts that have not yet been recognized in net periodic cost: unrecognized transition obligation of $1,174,000 ($841,000 net of tax), unrecognized prior service costs of $462,000 ($384,000 net of tax) and unrecognized actuarial losses of $17,296,000 ($11,716,000 net of tax). The transition obligation, prior service credit and actuarial loss previously included in accumulated other comprehensive loss recognized in net periodic cost during the nine months ended September 30, 2009 were $(10,000), $186,000 and $827,000, respectively.

Note K — Leases:

1. Charters-in:

As of September 30, 2009, the Company had commitments to charter-in 56 vessels all of which are, or will be, accounted for as operating leases. Twenty six are bareboat charters and 30 are time charters. The future minimum commitments and related number of operating days under these operating leases are as follows:

Bareboat Charters-in:

Dollars in thousands at September 30, 2009		Amount	Operating Days
2009	$	37,004	1,910
2010		161,075	8,360
2011		174,499	8,710
2012		176,618	8,784
2013		176,163	8,760
Thereafter		559,862	25,859
Net minimum lease payments	$	1,285,221	62,383

Time Charters-in:

Dollars in thousands at September 30, 2009		Amount	Operating Days
2009	$	57,328	2,632
2010		207,479	9,367
2011		186,179	8,375
2012		134,985	6,458
2013		86,562	4,907
Thereafter		280,046	16,507
Net minimum lease payments	$	952,579	48,246

The future minimum commitments for time charters-in have been reduced to reflect estimated days that the vessels will not be available for employment due to drydock.

During the nine months ended September 30, 2009, the Company sold and chartered back one International Flag Panamax Product Carrier, which bareboat charter is classified as an operating lease. The aggregate gain on the transaction of approximately $1,018,000 was deferred and is being amortized over the approximately twelve year term of the lease as a reduction of charter hire expenses. The lease provides the Company with certain purchase options.

During the third quarter of 2009, the Company terminated the time charter-in of a VLCC as a result of the vessel owner's breach of the underlying charter party agreement. Accordingly, the Company recognized the remaining unamortized balance of the gain, $16,617,000, which was deferred on the sale and charter back of such vessel in 2006. This gain was reduced by a reserve of $2,744,000 established against certain receivables due from the vessel owner. The time charter-in was originally scheduled to end in September 2013.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Note K — Leases (continued):

2. Charters-out:

The future minimum revenues, before reduction for brokerage commissions, expected to be received on noncancelable time charters and the related revenue days (revenue days represent calendar days, less days that vessels are not available for employment due to repairs, drydock or lay-up) are as follows:

Dollars in thousands at September 30, 2009