OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
March 01, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the Transition Period from U U to U U.

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)	(I.R.S. Employer Identification Number)
666 Third Avenue, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $1.00 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant's most recently completed second quarter, was $997,320,920, based on the closing price of $37.04 per share on the New York Stock Exchange on that date. (For this purpose, all outstanding shares of Common Stock have been considered held by non-affiliates, other than the shares beneficially owned by directors, officers and certain 5% shareholders of the registrant; certain of such persons disclaim that they are affiliates of the registrant.)

As of February 25, 2011, 30,469,469 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed by the registrant in connection with its 2011 Annual Meeting of Shareholders are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Overseas Shipholding Group, Inc. ("OSG" or the "Company") is one of the world's leading tanker companies engaged primarily in the ocean transportation of crude oil and petroleum products. At December 31, 2010, the Company owned or operated a modern fleet of 111 vessels (aggregating 11.3 million deadweight tons and 864,800 cubic meters) of which 88 vessels operated in the international market and 23 operated in the U.S. Flag market. OSG's newbuilding program of owned and chartered-in vessels totaled 11 International and U.S. Flag vessels, bringing the Company's total owned, operated and newbuild fleet to 122 vessels.

The Company's vessel operations are organized into strategic business units and focused on broad market segments: crude oil, refined petroleum products, and U.S. Flag. The International Flag Crude Tanker unit manages International Flag ULCC, VLCC, Suezmax, Aframax, Panamax and Lightering tankers; the International Flag Product Carrier unit principally manages LR1 and MR product carriers and the U.S. unit manages most of the Company's U.S. Flag vessels. Through joint venture partnerships, the Company operates four LNG carriers and two Floating Storage and Offloading ("FSO") service vessels. Dedicated chartering and commercial personnel manage specific fleets while the Company's technical ship management operations and corporate departments support the Company's global operations.

OSG generally charters its vessels to customers either for specific voyages at spot rates or for specific periods of time at fixed daily amounts. Spot market rates are highly volatile, while time and bareboat charter rates, because they are fixed for specific periods of time, provide a more predictable stream of Time Charter Equivalent revenues ("TCE" revenues). For a more detailed discussion on factors influencing spot and time charter markets, see Operations—Charter Types later in this section.

A glossary of shipping terms (the "Glossary") that should be used as a reference when reading this Annual Report on Form 10-K can be found later in Item 1. Capitalized terms that are used in this Annual Report are either defined when they are first used or in the Glossary.

BUSINESS STRATEGY

OSG is committed to providing safe, reliable transportation services to its customers while ensuring the safety of its crews, vessels and the environment. The Company is also committed to creating long-term shareholder value by executing on a growth strategy designed to diversify its revenue sources across its chosen sectors and thereby maximize returns and reduce risk over shipping cycles. OSG's growth strategy is focused on four elements:

§ Sector Leadership

OSG seeks to maintain or achieve market leading positions in each of the primary markets it operates: crude oil, products and U.S. Flag. The Company has expanded its fleet through organic growth and acquisitions of companies that have expanded its market presence, the scale of its fleet and service offerings.

§ Fleet Optimization

The Company believes that it can improve returns in any shipping cycle by taking a portfolio approach to managing its business. This approach includes operating a diverse set of vessels that trade in different markets; participating in commercial pools that maximize vessel utilization; managing a fleet of owned and chartered-in tonnage that provides for flexibility and optionality; and trading its fleet in both the spot and time charter markets to enhance returns.

§ Superior Technical Ship Management

OSG is committed to operational excellence across its fleet. The Company's high-quality, modern fleet is operated by experienced crews supported by skilled shore side personnel. OSG's Safety Management System ("SMS") is designed to ensure that operational practices and procedures are standardized fleet wide and those seafarers and vessel operations meet or exceed all applicable safety, regulatory and environmental standards established by International and U.S. maritime laws. For more information, see Technical Operations later in this section.

§ Financial Flexibility

The Company believes its strong balance sheet, ample liquidity, proven access to the capital markets and a significant unencumbered asset base provide significant financial flexibility. OSG has been able to access substantial amounts of debt capital on an unsecured basis in both the bank and public debt markets, thereby reducing its issuance of secured debt, which typically has collateral maintenance requirements. This financial flexibility permits the Company to pursue attractive business opportunities.

Summary of 2010 Events

OSG's growth strategy seeks to balance the expansion and renewal of its fleet across multiple market segments and manage the mix of owned and chartered-in assets. Chartering-in vessels gives the Company greater flexibility in both contracting and expanding markets through an ability to exercise redelivery, purchase or charter extension options. Sale and leaseback transactions not only raise cash that can be redeployed or reinvested, but shift risk, providing for greater flexibility in uncertain market conditions.

Fleet Expansion

In 2010, OSG took delivery of eleven vessels.

§ In the Crude Oil segment, one 297,000 dwt owned VLCC, the Overseas Everest, delivered.

§ In the Products segment, six MR vessels delivered. The MRs included the Overseas Mykonos and Overseas Santorini, both 52,000 dwt owned newbuilds, the Aegean Wave (50,000 dwt), the Adriatic Wave (51,000 dwt) and the Carina (47,000 dwt newbuild), which were all time chartered-in for eight years, and the 50,000 dwt newbuild Overseas Kythnos, which was initially chartered-in on a bareboat basis for five years, but subsequently purchased in October 2010.

§ In the U.S. segment, three product carriers and one articulated tug barge (ATB) delivered. The three U.S. Flag product carriers were the Overseas Anacortes, Overseas Martinez and Overseas Chinook, all 46,800 dwt vessels. The Overseas Anacortes and Overseas Martinez are bareboat chartered-in for five years with OSG having extension options for the life of the vessels. The Overseas Chinook is owned and is currently being converted to a shuttle tanker. The OSG Vision/OSG 350, a 45,600 dwt owned lightering ATB delivered in March 2010. In addition, the Overseas Cascade, which was originally delivered in December 2009, completed conversion to a shuttle tanker in March 2010 and commenced a five-year time charter in the ultra-deepwater U.S. Gulf, a Jones Act trade.

Active Asset Management

OSG's active asset management strategy seeks to enhance returns by timing the acquisition and disposition of vessels and by managing the mix of its owned and chartered-in fleet. In strong markets where asset values rise, the Company may emphasize chartering-in over ownership due to a lower implicit cost of capital. Similarly, sale and leaseback transactions provide an opportunity to capitalize on rising asset values while maintaining control of an asset. Leaseback terms can offer extension and purchase options, providing flexibility in volatile markets as well as transferring residual risk to third parties. In declining market conditions where asset values are falling, the Company may seek to increase its ownership of vessels.

USale Transactions

During 2010, the Company sold three owned U.S. Flag vessels, the Overseas Philadephia, Overseas Diligence and Overseas Galena Bay, and one chartered-in International Flag Aframax, the Sabine, a chartered-in lightering vessel in which the Company had a residual value interest. These transactions generated total proceeds of $14.9 million.

URedeliveries

The Crude Oil segment redelivered two time chartered-in Aframaxes during the year, the Mare Salernum and Action. The Company had less than 100% interests in the Mare Salernum and Action.

Changes to Charter-in Obligations and Orderbook Modifications

OSG actively managed its products orderbook over the past two years by negotiating price reductions, vessel swaps and modified delivery dates. In connection with these efforts:

§ During the first quarter of 2010, OSG reached an agreement with Cido Tanker Holding Co., a privately held shipping company, to cancel two newbuild MR product carriers that were time chartered-in for seven years and scheduled to deliver in the first quarter of 2011. In exchange, OSG agreed to time charter-in the Aegean Wave and the Adriatic Wave, both 2009-built MR product carriers at lower rates, for periods of eight years (see Fleet Expansion section above).

- In October 2010, the Company finalized amendments to certain construction contracts, the result of which was to replace contracts for two LR1s with scheduled delivery dates in 2011 with two crude Aframaxes slated to deliver in 2013. These amendments increased the Company's remaining construction commitments by approximately $4.5 million, but deferred $70 million of construction commitments from 2011 into 2012 and 2013.

Commercial Pool Activity

A new pool partner, the Dr. Peters Group, joined the Company's Aframax International pool during the third quarter of 2010 and has entered two vessels into the pool as of December 31, 2010.

In December 2010, the Suezmax International pool entered into one-year time charter-in agreements for two additional Suezmax tankers. The vessels were delivered to the pool in January 2011.

Two new pool partners joined the Company's Clean Products International pool during 2010. Koenig & Cie joined the pool by adding one vessel in the third quarter. Mitsui O.S.K. entered one vessel in the third quarter and an additional vessel in the fourth quarter of 2010.

Financial Strength and Stability

The Company strengthened its capital structure by raising approximately $450 million during the first quarter of 2010. In doing so, the Company diversified its lending sources, lengthened its average debt maturity and gained greater flexibility for future investment and expansion opportunities.

- In March 2010, the Company completed the sale of 3.5 million shares of common stock at $45.33 per share and received proceeds of $158.3 million, net of issuance costs.

- Also in March 2010, the Company issued $300 million of senior unsecured notes due 2018 with a coupon of 8.125%. The Company received proceeds of approximately $289.7 million after deducting underwriting discounts, commissions and other expenses.

Proceeds from these transactions were used to reduce the outstanding indebtedness under the Company's unsecured revolving credit facility and for working capital purposes.

Fleet Highlights

As of December 31, 2010, OSG's owned, operated and newbuild fleet aggregated 122 vessels. Of this total, 95 vessels are International Flag and 27 vessels are U.S. Flag. The Marshall Islands is the principal flag of registry of the Company's International Flag vessels. At a time when customers are demonstrating a clear preference for modern tonnage based on concerns about the environmental risks associated with older vessels, all but one of OSG's International Flag fleet is double hull. The one single hull vessel is on a charter-in that expires in August 2011. In addition, the U.S. Flag fleet is fully double-hulled with the exception of two tankers, both of which are currently under contract of sale and expected to be delivered to buyers in the first half of 2011.

Additional information about the Company's fleet, including its ownership profile, is set forth below under Operations—Fleet Summary, as well as on the Company's website, www.osg.com.

Commercial Pools

To increase vessel utilization and thereby revenues, the Company participates in Commercial Pools with other like-minded shipowners of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, Commercial Pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools consist of experienced commercial owners and operators, while technical management is performed by each shipowner. Pools negotiate charters with customers primarily in the spot

market. The size and scope of these pools enable them to enhance utilization for pool vessels by securing backhaul voyages and Contracts of Affreightment ("COAs") and reduce waiting time, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service to customers. As of December 31, 2010, OSG participates in five pools: Tankers International ("TI"), Aframax International ("AI"), Panamax International ("PI"), Clean Products International ("CPI") and Suezmax International ("SI"). For more information on the pools, see Operations—International Fleet Operations.

Technical Operations

OSG's global fleet operations are managed on an integrated basis by segment: crude, products and U.S. Flag. In addition to regular maintenance and repair, crews onboard each vessel and shore side personnel are responsible for ensuring that the Company's fleet meets or exceeds regulatory standards established by the International Maritime Organization ("IMO") and U.S. Coast Guard, including SOLAS (the International Convention for the Safety of Life at Sea) and MARPOL (the International Convention for the Prevention of Pollution from Ships).

The Company is committed to providing safe, reliable and environmentally sound transportation to its customers. Integral to meeting standards mandated by worldwide regulators, customers and OSG is the Company's SMS. The SMS is a framework of processes and procedures that addresses a spectrum of operational risks associated with quality, environment, health and safety. The SMS is certified by ISM (International Safety Management Code), ISO 9001 (Quality Management) and ISO 14001 (Environmental Management).

The Company recruits, hires and trains the crews on its vessels and believes that the quality of its senior officers, crew and shore side support personnel provide it with a competitive advantage. OSG's mandatory training and education requirements exceed the IMO Standards of Training, Certification and Watchkeeping (STCW). In early 2009, OSG completed the installation of an integrated engine room and bridge simulator, located in its Manila office. In 2010, a cargo handling simulator was added. These simulators are to familiarize OSG engine and deck officers with correct procedures and to respond effectively when faced with unusual or unexpected situations. OSG believes its ability to provide professional development and long-term employment opportunities for qualified crew are competitive advantages in a market where skilled labor shortages are expected to remain a challenge. In 2010, both International and U.S. Flag crew retention was greater than 95%.

The fleet is supported by shore side operations that include fleet managers, marine and technical superintendents, purchasing staff, security officers, crewing and training personnel and a safety, quality and environmental ("SQE") department. Further augmenting technical operations are assurance functions that conduct vessel audits and assure compliance with marine and environmental regulations and manage preparedness for emergency response. OSG has an Open Reporting system whereby seafarers can anonymously report possible violations of Company policies and procedures. All open reports are investigated and appropriate actions are taken as needed. Furthermore, the Company's Vice President, Marine Operations Assurance and Response has independent oversight of fleet-wide vessel operating practices and procedures and global training programs.

Commercial Teams

OSG's commercial teams based in offices in Houston, London, Montreal, New York, Singapore, Newark (Delaware) and Tampa enable customers to have access, at all times, to information about their cargo's position and status. The Company believes that the scale of its fleet, its commercial management skills and its extensive market knowledge allow it to achieve better rates than smaller, independent shipowners on a consistent basis. OSG's strong reputation in the marketplace is the result of longstanding relationships with its customers and business partners.

Customers

OSG's customers include major independent and state-owned oil companies, oil traders, refinery operators and U.S. and international government entities. The Company believes that it distinguishes itself in the shipping market through an emphasis on service, safety and reliability and its ability to maintain and grow long-term customer relationships.

Liquidity

The Company believes that the strength of its balance sheet, and the financial flexibility that it affords, distinguishes it from many of its competitors. In 2010, total equity decreased by $57.7 million to $1.8 billion. The change reflects the 2010 loss and an increase in the unrealized hedging expense of $17.2 million related to derivatives that are accounted for as cash flow hedges, offset by the net proceeds of $158.3 million raised in March 2010 through the issuance of 3.5 million shares of common stock. Liquidity, including undrawn bank facilities, was approximately $1.3 billion at December 31, 2010.

Liquidity adjusted debt to capital was 48.0% at December 31, 2010, compared with 40.1% as of December 31, 2009. For this purpose, liquidity adjusted debt is defined as long-term debt reduced by cash, short-term investments and the balance in the Capital Construction Fund.

Employees

As of December 31, 2010, the Company had approximately 3,500 employees comprised of 3,050 seagoing personnel and 450 shore side staff. The Company has collective bargaining agreements with three different U.S. maritime unions covering 667 seagoing personnel employed on the Company’s U.S. Flag vessels. These agreements are in effect for periods ending between March 2011 and June 2015. Under the collective bargaining agreements, the Company is obligated to make contributions to pension and other welfare programs. The Company also has collective bargaining agreements with seven other maritime unions covering 2,270 seagoing personnel employed on the Company’s International Flag vessels. These agreements are in effect through December 2011. OSG believes that it has a satisfactory relationship with its employees.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward looking statements regarding the outlook for tanker and articulated tug/barge markets, and the Company's prospects, including prospects for certain strategic alliances and investments. All statements other than statements of historical facts should be considered forward-looking statements. There are a number of factors, risks and uncertainties, many of which are beyond the control of the Company, that could cause actual results to differ materially from the expectations expressed or implied in these forward looking statements, including changes in production of or demand for oil and petroleum products, either globally or in particular regions; greater than anticipated levels of newbuilding orders or less than anticipated rates of scrapping of older vessels; changes in trading patterns for particular commodities significantly impacting overall tonnage requirements; changes in the global economy and various regional economies; risks incident to vessel operation, including accidents and discharge of pollutants; unanticipated changes in laws and regulations; increases in costs of operation; drydocking schedules differing from those previously anticipated; the ability of the Company to attract and retain experienced, qualified and skilled crewmembers; changes in credit risk of counterparties, including shipyards, suppliers and financial lenders, and of joint venturers, partners and charterers; delays (including failure to deliver) or cost overruns in the building of new vessels or the conversion of existing vessels for other uses; the cost and availability of insurance coverage; the availability to the Company of suitable vessels for acquisition or chartering-in on terms it deems favorable; changes in the pooling arrangements in which the Company participates, including withdrawal of participants or termination of such arrangements; estimates of future costs and other liabilities for certain environmental matters and compliance plans; and projections of the costs needed to develop and implement the Company's strategy of being a market leader in the segments in which the Company competes. The Company assumes no obligation to update or revise any forward looking statements. Forward looking statements in this Form 10-K and written and oral forward looking statements attributable to the Company or its representatives after the date of this Form 10-K are qualified in their entirety by the cautionary statement contained in this paragraph and in other reports hereafter filed by the Company with the Securities and Exchange Commission.

OPERATIONS

The bulk shipping of crude oil and refined petroleum products has many distinct market segments based, in large part, on the size and design configuration of vessels required and, in some cases, on the flag of registry. Freight rates in each market segment are determined by a variety of factors affecting the supply and demand for suitable vessels. Tankers, ATBs and Product Carriers are not bound to specific ports or schedules and therefore can respond to market opportunities by moving between trades and geographical areas. The Company has established three reportable business segments: International Crude Tankers, International Product Carriers, and U.S. vessels.

The following chart reflects the percentage of TCE revenues generated by the Company's three reportable segments for each year in the three-year period ended December 31, 2010 and excludes the Company's proportionate share of TCE revenues of affiliated companies.

	Percentage of TCE Revenues		
	2010	2009	2008
International			
Crude Tankers	49.6 %	51.2 %	64.9 %
Product Carriers	22.1 %	23.7 %	19.3 %
Other	1.4 %	0.8 %	1.4 %
Total International Segments	73.1 %	75.7 %	85.6 %
U.S.	26.9 %	24.3 %	14.4 %
Total	100.0 %	100.0 %	100.0 %

The following chart reflects the percentage of income/(loss) from vessel operations accounted for by each reportable segment. Results from vessel operations is before general and administrative expenses, severance and relocation costs, shipyard contract termination costs, gain/(loss) on disposal of vessels, impairment charges (vessel and goodwill) and the Company's share of income from affiliated companies:

	Percentage of Income/(loss) from Vessel Operations		
	2010	2009	2008
International			
Crude Tankers	130.6 %	81.2 %	83.1 %
Product Carriers	(35.1)%	(3.2)%	11.3 %
Other	(1.2)%	(1.4)%	0.8 %
Total International Segments	94.3 %	76.6 %	95.2 %
U.S.	5.7 %	23.4 %	4.8 %
Total	100.0 %	100.0 %	100.0 %

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2010, and reconciliations of (i) time charter equivalent revenues to shipping revenues and (ii) income/(loss) from vessel operations for the segments to income/(loss) before income taxes, as reported in the consolidated statements of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7, and Note D to the Company's consolidated financial statements set forth in Item 8.

Revenues from International Crude Tankers are derived principally from voyage charters and are, therefore, significantly affected by prevailing spot rates. In contrast to International Crude Tankers, revenues from International Product Carriers and the vessels included in the U.S. reportable segment are derived to a much larger extent from time charters, generating a more predictable level of TCE earnings. Accordingly, the relative contributions of the International Product Carriers and the U.S. segment's vessels to consolidated TCE revenues and to consolidated income/(loss) from vessel operations are influenced by the level of freight rates then existing in the international market for crude oil tankers, increasing when such rates decrease, as they did in 2009. The weak markets in 2010 and 2009 resulted in TCE earnings for the Company's International Product Carriers dropping below their total operating expense levels, and in the lay up of a number of U.S. Flag vessels for substantial portions of both years. In 2010, revenues from International Product Carriers shifted away from being significantly derived from time charters as spot days increased to 72% from 52% in 2009 as a percentage of total revenue days. This combined with the decrease in average spot rates, negatively impacted the International Product Carriers segment's share of TCE revenues and contribution to consolidated results from operations. Contribution to income/(loss) from vessel operations by the U.S.

reportable segment decreased to 5.7% from 23.4% in 2009, primarily due to the increase in charter hire expense. TCE revenues for the U.S. segment declined $2.1 million in 2010 compared with 2009 due to the increase in lay-up days and decline in spot rates, which negatively affected the ATBs, partially offset by the delivery in 2010 of three newbuild Poduct Carriers and the full year operation of two newbuild Product Carriers that delivered in 2009.

Charter Types

The Company believes that by balancing the mix of TCE revenues generated by voyage charters and time charters, the Company is able to maximize its financial performance throughout shipping cycles.

Spot Market

Voyage charters, including vessels operating in Commercial Pools that predominantly operate in the spot market, constituted 64% of the Company's TCE revenues in 2010, 49% in 2009 and 65% in 2008. The above information is based, in part, on information provided by the pools or commercial ventures in which OSG participates. Accordingly, the Company's shipping revenues are significantly affected by prevailing spot rates for voyage charters in the markets in which the Company's vessels operate. Spot market rates are highly volatile. Rates are determined by market forces such as local and worldwide demand for the commodities carried (such as crude oil or petroleum products), volumes of trade, distances that the commodities must be transported, and the amount of available tonnage both at the time such tonnage is required and over the period of projected use and the levels of seaborne and shore-based inventories of crude oil and refined products. Seasonal trends often greatly affect world oil consumption and consequently vessel demand. While trends in consumption vary with seasons, peaks in demand quite often precede seasonal consumption peaks as refiners and suppliers try to anticipate consumer demand. Seasonal peaks in oil demand have been principally driven by increased demand prior to Northern Hemisphere winters, as heating oil consumption increases, and increased demand for gasoline prior to the summer driving season in the U.S. Available tonnage is affected over time, by the volume of newbuilding deliveries, the number of tankers used to store clean products and crude oil, and the removal (principally through scrapping or conversion) of existing vessels from service. Scrapping is affected by the level of freight rates, by the level of scrap prices, by vessel vetting standards established by charterers and terminals and by international and U.S. governmental regulations that require the maintenance of vessels within certain standards and mandate the retirement of vessels lacking double hulls.

Time and Bareboat Charter Market

The Company's U.S. Flag fleet, its International Flag Product Carrier fleet, the LNG fleet and the two FSOs include a number of vessels that operate on time charters, providing a predictable level of revenues, which is not subject to fluctuations inherent in spot-market rates. During the three years ended December 31, 2010, the Company entered into Forward Freight Agreements ("FFAs") and related bunker swaps as hedges for reducing the volatility of earnings from operating the Company's VLCCs in the spot market. These derivative instruments seek to create synthetic time charters. The impact of these derivatives, which qualify for hedge accounting treatment, is reported together with time charters in the physical market. Time and bareboat charters constituted 36% of the Company's TCE revenues in 2010, 51% in 2009 and 35% in 2008. Because of the depressed markets in 2010 and 2009, the Company has been unable to replace expiring term business at comparable levels. Although medium-term time charters are available in the Product Carrier markets, management has not deemed the rates offered by charterers to be sufficiently attractive to warrant concluding such business.

Fleet Summary

As of December 31, 2010, OSG's International Flag and U.S. Flag operating fleet consisted of 111 vessels, 57% of which were owned, with the remaining vessels bareboat or time chartered-in. Vessels chartered-in may be Bareboat Charters (where OSG is responsible for all Vessel Expenses) or Time Charters (where the shipowners pay Vessel Expenses).

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2010		
Vessel Type	Number	Weighted by Ownership	Number	Weighted by Ownership	Total Vessels	Vessels Weighted by Ownership	Total Dwt
Operating Fleet							
FSO	2	1.0	—	—	2	1.0	864,046
VLCC and ULCC	9	9.0	6	6.0	15	15.0	4,727,398
Suezmax	—	—	2	2.0	2	2.0	317,000
Aframax	6	6.0	6	5.5	12	11.5	1,344,470
Panamax	9	9.0	—	—	9	9.0	626,834
Lightering	2	2.0	4	3.5	6	5.5	563,663
International Flag Crude Tankers	28	27.0	18	17.0	46	44.0	8,443,411
LR2	—	—	1	1.0	1	1.0	104,024
LR1	2	2.0	2	2.0	4	4.0	297,374
MR (1)	14	14.0	18	18.0	32	32.0	1,531,960
International Flag Product Carriers	16	16.0	21	21.0	37	37.0	1,933,358
Car Carrier	1	1.0	—	—	1	1.0	16,101
Total Int'l Flag Operating Fleet	45	44.0	39	38.0	84	82.0	10,392,870
Handysize Product Carriers (2,3)	4	4.0	9	9.0	13	13.0	608,623
Clean ATBs (2)	6	6.0	—	—	6	6.0	173,702
Lightering ATBs	4	4.0	—	—	4	4.0	151,980
Total U.S. Flag Operating Fleet	14	14.0	9	9.0	23	23.0	934,305
LNG Fleet	4	2.0	—	—	4	2.0	864,800cbm
Total Operating Fleet	63	60.0	48	47.0	111	107.0	11,327,175 864,800cbm
Newbuild/Conversion Fleet							
International Flag							
VLCC	2	2.0	—	—	2	2.0	596,000
Aframax	2	2.0	—	—	2	2.0	226,000
LR1	2	2.0	—	—	2	2.0	147,000
MR	2	2.0	—	—	2	2.0	100,000
Chemical Tankers	—	—	1	1.0	1	1.0	19,900
U.S. Flag							
Product Carriers	—	—	1	1.0	1	1.0	46,815
Lightering ATBs	1	1.0	—	—	1	1.0	45,556
Total Newbuild Fleet	9	9.0	2	2.0	11	11.0	1,181,271
	72	69.0	50	49.0	122	118.0	12,508,446

Total Operating & Newbuild Fleet	864,800 cbm

(1) Includes two owned U.S. Flag Product Carriers that trade internationally, thus associated revenue is included in the Product Carrier segment.

(2) Includes the Overseas New Orleans, the Overseas Puget Sound and the OSG 214, which were in lay-up at December 31, 2010.

(3) Includes one shuttle tanker, the Overseas Cascade, and the Overseas Chinook, which is undergoing conversion to a shuttle tanker at December 31, 2010.

Newbuild Delivery Schedule as of December 31, 2010

Year/Segment	Q1	Q2	Q3	Q4	Total
2011					
Crude	—	1	—	1	2
Products	—	3	2	—	5
U.S. Flag	1	1	—	—	2
Total	1	5	2	1	9
2013					
Crude	1	—	1	—	2
Products	—	—	—	—	—
U.S. Flag	—	—	—	—	—
Total	1	—	1	—	2
TOTAL					11

International Fleet Operations

Crude Oil Tankers

OSG's crude oil fleet is comprised of all major crude oil vessel classes and includes a fleet of six International Flag lightering vessels that trade primarily in the U.S. Gulf of Mexico. In order to enhance vessel utilization and TCE revenues, the Company has placed its ULCC, VLCC, Suexmax, Aframax tankers as well as a number of Panamax tankers into Commercial Pools that are responsible for the Commercial Management of these vessels. The pools collect revenue from customers, pay voyage-related expenses, and distribute TCE revenues to the participants, after deducting administrative fees, according to formulas based upon the relative carrying capacity, speed, and fuel consumption of each vessel.

- Tankers International—Tankers International was formed in December 1999 by OSG and other leading tanker companies in order to pool the commercial operation of their modern VLCC fleets. As of December 31, 2010, Tankers International had seven participants and managed a fleet of 45 modern VLCCs and ULCCs that trade throughout the world, including all 15 of the Company's ULCC and VLCC owned and chartered-in vessels.

Tankers International performs the Commercial Management of its participants' vessels. The large number of vessels managed by Tankers International gives it the ability to enhance vessel utilization through backhaul cargoes and COAs, thereby generating greater TCE revenues. In recent years, crude oil shipments from West Africa to Asia have expanded, increasing opportunities for vessels otherwise returning in ballast (i.e., without cargo) from Europe and North America to load cargoes in West Africa for delivery in Asia. Although the number of shipments from the Middle East to Western destinations declined in 2010, such combination voyages are used to maximize vessel utilization by minimizing the distance vessels travel in ballast.

By consolidating the Commercial Management of its substantial fleet, Tankers International is able to offer its customers access to a large fleet of high-quality VLCCs and ULCCs. The size of its fleet enables Tankers International to become the logistics partner of major customers by helping them better manage their shipping programs, inventories and risk.

- Suezmax International— Suezmax International was formed in June 2008 and is currently managed by the Company. As of December 31, 2010, the pool had two participants and provides the Commercial Management for a fleet of four vessels, including the Company's two chartered-in vessels, which primarily trade in the Atlantic Basin.

- Aframax International—Since 1996, the Company and PDV Marina S.A., the marine transportation subsidiary of the Venezuelan state-owned oil company, have pooled the Commercial Management of their Aframax fleets. As of December 31, 2010, there were 13 participants in Aframax International and the pool Commercially Managed 46 vessels, including 11 (10.5 weighted by ownership) of the Company's owned and chartered-in vessels. Aframax International's vessels generally trade in the Atlantic Basin, North Sea and the Mediterranean. The Aframax International pool has been able to enhance vessel utilization with backhaul cargoes and COAs, thereby generating higher TCE revenues than would otherwise be attainable in the spot market.

- Panamax International—Panamax International was formed in April 2004 and provides the Commercial Management of the Panamax fleets of its three participants. As of December 31, 2010, Panamax International managed a fleet of 24 modern Panamaxes, which includes five of the Company's owned crude Panamaxes and three of its owned Panamax Product Carriers (LR1s), as well as three crude Panamaxes that are time chartered to one of the pool partners.

Product Carriers

International Product Carriers constitutes one of the Company's reportable business segments and is made up of a primarily International Flag fleet that transport refined petroleum products worldwide. In late 2010, the Company moved the commercial management of its LNG fleet, which had been managed as a separate business unit, to the Company's International Product Carrier and Gas strategic business unit. The products fleet, consisting of 32 MR product carriers (including two U.S. Flag vessels trading internationally), four LR1s and one LR2 (which redelivered in January 2011), gives OSG the ability to provide a broad range of services to global customers. Refined petroleum product cargoes are transported from refineries to consuming markets characterized by both long- and short-haul routes. The market is driven by global refinery capacity, changes in consumer demand and product specifications and cargo arbitrage opportunities. By expanding a core fleet of MR Product Carriers, OSG has grown revenues in a market sector with more predictable earnings characteristics.

In contrast to the crude oil tanker market, the refined petroleum trades are more complex due to the diverse nature of product cargoes, which include gasoline, diesel, jet fuel, home heating oil, vegetable oils and organic chemicals (e.g., methanol and ethylene glycols). The trades require crews to have specialized certifications. Customer vetting requirements can be more rigorous and, in general, vessel operations are more complex due to the fact that refineries can be in closer proximity to importing nations, resulting in more frequent port calls and discharging, cleaning and loading operations than crude oil tankers.

OSG has opportunistically expanded its commercial footprint in the Product Carrier segment through acquisitions, newbuildings, chartering-in vessels and commercial alliances.

- OSG trades eight of its MR Product Carriers, including two that are time chartered to other pool participants, in the Clean Products International Pool, a regional Commercial Pool formed in 2006 with the Ultragas Group. As of December 31, 2010, the pool had five participants. The pool is comprised of 15 vessels and concentrates on triangulation trades in the Atlantic Basin.

- Since 2005, OSG has ordered or chartered-in from third parties 21 MRs and six LR1s. Delivery of these vessels began in 2006 and will continue through 2011. These vessels are an important part of the business unit's strategy to modernize and expand its fleet, and offset redeliveries of older, chartered-in Handysize vessels in 2008 and 2009. Of the Product Carrier newbuild program, all except one of the MRs will be IMO III compliant, allowing for increased flexibility when switching between cargo grades.

- Two U.S. Flag vessels that participate in the U.S. government's Maritime Security Program, the Overseas Maremar and the Overseas Luxmar, are included in the International Product Carrier unit. For detailed information on the Maritime Security Program, see U.S. Flag Fleet Operations, Maritime Security Program later in this section. The Overseas Ambermar also participated in the U.S. government's Maritime Security Program, but ceased such participation in September 2008 and was reflagged under Marshall Islands Flag.

The expansion into the gas market enhanced the Company's fixed revenue and earnings base, since the LNG markets are characterized by long-term time charters. The joint venture between the Company and Qatar Gas Transport Company Limited (Nakilat) in which OSG has a 49.9% interest, owns four 216,000 cbm LNG Carriers. Qatar Liquefied Gas Company Limited (II) has time chartered the LNG Carriers for twenty-five years beginning from 2007 or 2008, with options to extend. The Company provides Technical Management for these state-of-the-art vessels. For more information about the financing of the LNG Carriers, which is non recourse to the Company, see Note F to the consolidated financial statements set forth in Item 8.

Shortly after committing to the LNG newbuildings, the Company entered into a joint venture with TransCanada CNG Technologies Ltd. to develop the transportation of compressed natural gas (CNG) from stranded fields. Since OSG started these efforts, natural gas prices have suffered intense pressure as incremental gas production has come on line, particularly from shale gas in the U.S. These events slowed the development of CNG projects. Consequently, OSG has decided to halt its investment in the CNG arena.

U.S. Flag Fleet Operations

OSG is one of the largest commercial owners and operators of Jones Act vessels. The Company's U.S. Flag Fleet has expanded significantly since 2004 and today consists of 25 owned, operated and newbuild Handysize Product Carriers and ATBs. As a U.S.-based company, OSG is uniquely positioned to participate in the U.S. Jones Act shipping market, a trade that is not available to its foreign-based competitors. Under the Jones Act, shipping between U.S. ports, including the movement of Alaskan crude oil to U.S. ports, is reserved for U.S. Flag vessels that are built in the U.S. and owned by U.S. companies more than 75% owned and controlled by U.S. citizens. The Jones Act regulations, coupled with tax law changes in the American Jobs Creation Act of 2004, have provided the opportunity for OSG to

significantly invest in and expand its U.S. Fleet business.

- ATBs—In November 2006, OSG acquired Maritrans Inc., a leading U.S. Flag crude oil and petroleum product shipping company that owned and operated one of the largest fleets of double hull Jones Act vessels serving the East and U.S. Gulf coastwise trades. This strategic acquisition gave OSG a presence in all major U.S. trading routes; intra U.S. Gulf, U.S. Gulf to the East Coast, U.S. Gulf to the West Coast, the Alaskan North Slope trades and the Delaware Bay. In addition, the acquisition provided for a qualifying use of OSG's Capital Construction Fund, the acquisition of construction contracts for ATBs for lightering services in Delaware Bay.

- Jones Act Product Carrier Newbuilds—In June 2005, OSG signed agreements to bareboat charter-in 10 Jones Act Product Carriers to be constructed by Aker Philadelphia Shipyard, Inc. and in October 2007, the order was further expanded by an additional two sister ships. The unique market dynamic of a declining Jones Act single hull fleet in the U.S. as a result of the U.S. Oil Pollution Act of 1990 ("OPA 90"), coupled with the expected growth in demand by U.S. consumers for crude oil and petroleum products transported by sea, served as the basis for OSG placing the series order for the Product Carriers prior to securing employment for the vessels. OSG chartered-in ten of the twelve vessels for initial terms of five to ten years commencing on delivery of each vessel and purchased the other two for conversion to shuttle tankers. The Company has extension options for the lives of the chartered-in vessels. As of December 31, 2010, OSG has time charters-out for 11 of these 12 vessels. Eleven of the vessels delivered prior to December 31, 2010. The remaining vessel under construction should deliver in the first half of 2011.

- Alaskan North Slope Trade—OSG has a significant presence in the Alaskan North Slope trade through its 37.5% equity interest in Alaska Tanker Company, LLC ("ATC"), a joint venture that was formed in 1999 among OSG, BP plc. ("BP") and Keystone Shipping Company ("Keystone") to support BP's Alaskan crude oil transportation requirements. The Company's participation in ATC provides it with the ability to earn additional income (incentive hire) based upon ATC's meeting certain predetermined performance standards. Such income, which is included in equity in income of affiliated companies, amounted to $4.4 million in 2010, $4.3 million in 2009 and $5.3 million in 2008.

- Maritime Security Program—Certain of the Company's vessels participate in the U.S. Maritime Security Program (the "Program"), which ensures that militarily useful U.S. Flag vessels are available to the U.S. Department of Defense in the event of war or national emergency. In 2005, the Company signed agreements with the Maritime Administrator of the Department of Transportation pursuant to which the Company entered three reflagged U.S. Flag Product Carriers into the Program. The terms of the agreements relating to the reflagged Product Carriers were for four years. In September 2008, one of the three U.S. Flag Product Carriers exited the program and was reflagged under the Marshall Islands Flag. In April 2009, the Maritime Administrator determined that all statutory requirements for the conversion of the agreements relating to the two Product Carriers remaining in the MSP program from temporary to permanent status had been satisfied and authorized amendments to the agreements incorporating this change in status. Under the Program, the Company received approximately $2.6 million for each vessel in 2008 and $2.9 million for each vessel in 2009 and 2010, and will receive $2.9 million for each vessel for 2011 and $3.1 million per year for each vessel from 2012 through 2016, subject in each case to annual Congressional appropriations.

- Capital Construction Fund—To encourage private investment in U.S. Flag vessels, the Merchant Marine Act of 1970 (the "Act") permits deferral of taxes on earnings from U.S. Flag vessels deposited into a Capital Construction Fund and amounts earned thereon, which can be used for the construction or acquisition of, or retirement of debt on, qualified U.S. Flag vessels (primarily those limited to foreign, Great Lakes, and noncontiguous domestic trades). The Company is a party to an agreement under such Act. Under the agreement, the general objective was for U.S. Flag vessels to be constructed or acquired through the use of assets accumulated in the fund. In July 2010, the Company withdrew the balance remaining in its Capital Construction Fund (approximately $41 million) in connection with the construction of two U.S. Flag Lightering ATBs. All funds withdrawn from the Capital Construction Fund were for qualified purposes. During the three years ended December 31, 2010, the Company withdrew an aggregate of approximately $155 million from its Capital Construction Fund towards the construction costs for the Lightering ATBs.

Investments in Affiliated Companies

The Company's share of results of the FSO, LNG and Alaska Tanker Company joint ventures is included in International—Crude, International—Other and U.S., respectively. The level of earnings of the LNG and Alaska Tanker Company joint ventures was relatively stable over the three year period ended December 31, 2010. The losses from the FSO joint venture were $2.1 million in 2008, $10.4 million in 2009 and $7.5 million in 2010 and were incurred as a result of the conversion of the two ULCCs to FSO service vessels and related delays until both ships commenced charters to MOQ in 2010. For additional information regarding these joint ventures see Management's Discussion and

Analysis of Financial Condition and Results of Operations set forth in Item 7, and Note F to the Company's financial statements set forth in Item 8.

COMPETITION

The shipping industry is highly competitive and fragmented with OSG competing with other owners of U.S. and International Flag tankers. Competitors include other independent shipowners and integrated oil companies and state owned entities with their own fleets, oil traders with logistical operations, and pipelines.

OSG’s vessels compete with all other vessels of a size and type required by the customer that can be available at the date specified. In the spot market, competition is based primarily on price, although charterers are becoming more selective with respect to the quality of the vessels they hire considering other key factors such as the reliability and quality of operations and a preference for modern double hull vessels based on concerns about environmental risks associated with older vessels. In the time charter market, factors such as the age and quality of the vessel and reputation of its owner and operator tend to be even more significant when competing for business.

OSG’s fleet of VLCCs and ULCCs is commercially managed through Tankers International. Tankers International, with a total of 43 VLCCs and 2 ULCCs as of December 31, 2010, is a leading player in this highly competitive and fragmented market. Its main competitors include Frontline Ltd., BW Shipping Managers, Mitsui OSK Lines, Ltd., Nippon Yusen Kabushiki Kaisha, Malaysian International Shipping Corporation Berhad and Maran Tankers Management.

OSG formed the Suezmax International pool in 2008. There were four tankers in the pool as of December 31, 2010 that trade primarily in the Atlantic Basin. The main competitors of the Suezmax International pool include the Gemini Tankers, Stena Sonagol and Blue Fin Tankers pools. Other competitors include non-pool owners such as Dynacom Tankers Management, Ltd., Thenamaris Ships Management, Inc. and OAO Sovcomflot.

OSG is a founding member of Aframax International, which consists of 46 Aframaxes trading primarily in the Atlantic Basin, North Sea, Baltic and the Mediterranean areas. Aframax International is one of the largest operators in this market sector. Aframax International’s main competitors include Teekay Corporation, General Maritime Corporation and Sigma Tankers Inc.

OSG’s main competitors in the highly fragmented Panamax trade include owners, traders relets and pool operators. Substantially all of OSG’s fleet of Panamax tankers is commercial managed by Panamax International, which commercially manages 24 double hull vessels. Main competitors include Star Tankers Heidmar Inc., A/S Dampskibsselskabet Torm and Jacob-Scorpio Pool Management S.A.M.

In the MR Product Carrier segment, OSG owns or charters-in a fleet of 32 vessels that competes in a highly fragmented market. Eight of the OSG vessels are operated in the Clean Products International Pool. Main competitors include Glencore International AG, Handytankers K/S, Vitol Group, Trafigura, A/S Dampskibsselskabet Torm, Navig8, Dorado Tankers Pool Inc. and OAO Sovcomflot.

The U.S. Jones Act restricts U.S. point-to-point seaborne shipments to vessels operating under U.S. Flag that were built in the U.S., manned by U.S. crews and at least 75% owned and operated by U.S. citizens. OSG’s primary competitors are operators of U.S. Flag oceangoing barges and tankers, such as Seacor Holdings Inc., Crowley Maritime Corporation and U.S. Shipping Corp. and operators of refined product pipelines such as Colonial and Plantation pipeline systems that transport refined petroleum products directly from refineries to markets. In addition, the demand for U.S. Flag Product Carriers and product barges is influenced by the cost of importing refined petroleum products.

ENVIRONMENTAL AND SECURITY MATTERS RELATING TO BULK SHIPPING

Government regulation significantly affects the operation of the Company's vessels. OSG's vessels operate in a heavily regulated environment and are subject to international conventions and international, national, state and local laws and regulations in force in the countries in which such vessels operate or are registered.

The Company's vessels undergo regular and rigorous in-house safety inspections and audits. In addition, a variety of governmental and private entities subject the Company's vessels to both scheduled and unscheduled inspections.

These entities include local port state control authorities (U.S. Coast Guard, harbor master or equivalent), Classification Societies, flag state administration (country of registry) and charterers, particularly major oil companies and petroleum terminal operators. Certain of these entities require OSG to obtain permits, licenses and certificates for the operation of the Company's vessels. Failure to maintain necessary permits or approvals could require OSG to incur substantial costs or temporarily suspend operation of one or more of the Company's vessels.

The Company believes that the heightened level of environmental, health, safety and quality concerns among various stakeholders, including insurance underwriters, regulators and charterers, is leading to greater safety and other regulatory requirements and a more stringent inspection regime on all vessels. Increasing environmental concerns have created a demand for vessels and operations that comply with stricter environmental standards. The Company is required to maintain operating standards for all of its vessels emphasizing operational safety and quality, environmental stewardship, preventive planned maintenance, continuous training of its officers and crews and compliance with international and U.S. regulations. OSG believes that the operation of its vessels is in compliance with applicable environmental laws and regulations; however, because such laws and regulations are changed frequently and new laws and regulations impose new or increasingly stringent requirements, OSG cannot predict the cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of its vessels.

OSG has made a commitment to reduce the environmental impact of its operations, as described in its first Health, Safety and Environmental Report (for 2009). OSG personnel work to stay abreast of new and changing regulations in this and other areas and in many cases strive towards standards before they are, and beyond what is, required. Examples of specific actions taken that exceed compliance include the installation of trash compactors on most of the vessels OSG technically manages, more restrictive policies on disposal of solid waste, and the installation of specialized environmental equipment such as enviro-logger and enviro-tags on all OSG technically managed vessels.

International and U.S. Greenhouse Gas Regulations

In February 2005, the Kyoto Protocols to the United Nations Framework Convention on Climate Change (“UNFCCC”) (commonly called the Kyoto Protocols) became effective. Pursuant to the Kyoto Protocols, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which contribute to global warming. Although there was some expectation that a new climate change treaty would be adopted at the December 2009 United Nations climate change conference in Copenhagen, the conference did not result in any legally binding commitments although the participating countries developed an accord on a framework for negotiations that were held in December 2010 in Cancun, Mexico. The UNFCCC 2010 Cancun Conference agreed upon emission reduction targets for developed countries and goals for limiting increases in atmospheric temperature but left unresolved the status of the Kyoto Protocols when they expire in 2012. Until then, working groups set up during the Cancun Conference are focusing on securing an extension of the Kyoto Protocol emissions limits.

The IMO’s second study of greenhouse gas emissions from the global shipping fleet concluded in 2009 predicts that, in the absence of appropriate policies, greenhouse emissions from ships may increase by 150% to 200% by 2050 due to expected growth in international seaborne trade. The IMO has announced its intention to develop limits on greenhouse gases from international shipping and is working on proposed mandatory technical and operational measures to achieve these limits.

The European Union (“EU”) has indicated that it intends to propose an expansion of the existing EU emissions trading scheme to include emissions of greenhouse gases from vessels. In addition, climate change-related legislation is pending before the U.S. Congress which, if enacted, would limit and reduce greenhouse gas emissions through a “cap-and-trade” system of allowances and credits and other provisions.

In the U.S., pursuant to an April 2007 U.S. Supreme Court decision, EPA was required to consider whether carbon dioxide should be considered a pollutant that endangers public health and welfare, and thus subject to regulation under the Clean Air Act. On December 1, 2009, the EPA issued an “endangerment finding” regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on industry or other entities, the EPA is in the process of promulgating regulations of greenhouse gas emissions. To date, the regulations proposed and

enacted by the EPA have not involved ocean-going vessels.

Future passage of climate control legislation or other regulatory initiatives by the IMO, EU, U.S. or other countries where OSG operates that restrict emissions of greenhouse gases could result in financial and operational impacts on OSG’s business, which impacts OSG cannot predict with certainty at this time.

International Environmental and Safety Regulations and Standards

Phase Out of Non Double Hull Tankers:

In April 2001, the IMO adopted regulations under the International Convention for the Prevention of Pollution from Ships, or MARPOL, requiring new tankers of 5,000 dwt and over, contracted for construction since July 6, 1993, to have double hull, mid-deck or equivalent design. At that time the regulations also required the phase out of non double hull tankers by 2015, with tankers having double sides or double bottoms permitted to operate until the earlier of 2017 or when the vessel reaches 25 years of age. Existing single hull tankers were required to be phased out unless retrofitted with double hull, mid-deck or equivalent design no later than 30 years after delivery. These regulations were adopted by over 150 nations, including many of the jurisdictions in which the Company's tankers operate. Subsequent amendments to the MARPOL regulations accelerated the phase out of single hull tankers to 2005 (at the latest) for Category I vessels and 2010 (at the latest) for Category II vessels. Category I vessels include crude oil tankers of 20,000 dwt and above and product carriers of 30,000 dwt and above that are pre-MARPOL Segregated Ballast Tanks ("SBT") carriers. Category II vessels include crude oil vessels of 20,000 dwt and above and product carriers of 30,000 dwt and above that are post-MARPOL SBT vessels.

In addition, a Condition Assessment Scheme ("CAS") will apply to all single hull tankers 15 years or older. Flag states, however, may permit the continued operation of Category II tankers beyond 2010, subject to satisfactory CAS results, but only to 2015 or 25 years of age, whichever comes earlier. Category II tankers fitted with double bottoms or double sides not used for the carriage of oil will be permitted to trade beyond 2010 to 25 years of age, subject to the approval of the flag state. Although flag states may grant life extensions to Category II tankers, port states are permitted to deny entry to their ports and offshore terminals to single hull tankers operating under such life extensions after 2010, and to double sided or double bottomed tankers after 2015.

MARPOL Regulation 13H banned the carriage of heavy grade oils ("HGO") in single hull tankers of more than 5,000 dwt after April 5, 2005, except that flag states may permit Category II tankers to continue to carry HGO beyond 2005 (until the vessel reaches 25 years of age), subject to satisfactory CAS results. This regulation predominantly affected heavy crude oil from Latin America, as well as heavy fuel oil, bitumen, tar and related products.

The IMO may adopt additional regulations in the future that could further restrict the operation of single hull vessels and some countries have or may adopt such restrictions even before the IMO acts.

EU regulation (EC) No. 417/2002, which was introduced in the wake of the sinking of the Erika off the coast of France in December 1999, provided a timetable for the phase out of single hull tankers from EU waters. In 2003, in response to the Prestige oil spill in November 2002, the EU adopted legislation that (a) banned all Category I single hull tankers over the age of 23 years immediately, (b) phased out all other Category I single hull tankers in 2005 and (c) prohibits all single hull tankers used for the transport of oil from entering its ports or offshore terminals after 2010, with double sided or double bottomed tankers permitted to trade until 2015 or until reaching 25 years of age, whichever comes earlier. The EU, following the lead of certain EU nations such as Italy and Spain, also banned all single hull tankers carrying heavy grades of oil from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction.

It is becoming increasingly more difficult to obtain clearance for single hull tankers from many countries and oil terminals.

The direct impact to the Company of the revised and accelerated IMO phase out schedule is limited, as OSG's International Flag tanker fleet is comprised of modern double hull vessels except for one chartered-in double sided Aframax vessel, which does not qualify as double hull for MARPOL or EU purposes. The charter for this vessel expires in August 2011. The Company's two double bottom U.S. Flag Product Carriers have been participating in the U.S. Jones Act trades and are therefore not affected by the IMO phase-out schedule. Both of these vessels have been sold for delivery to buyers in the first half of 2011. The U.S. has not adopted the 2001 amendments to the MARPOL regulations, which were viewed as less restrictive than OPA 90 regulations that were already in place.

Liability Standards and Limits:

Many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969 (the "1969 Convention"). Some of these countries have also adopted the 1992 Protocol to the 1969 Convention (the "1992 Protocol"). Under both the 1969 Convention and the 1992 Protocol, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. These conventions also limit the liability of the shipowner under certain circumstances. As these conventions calculate liability in terms of a basket of currencies, the figures in this section are converted into U.S. dollars based on currency exchange rates on January 31, 2011 and are approximate.

Under the 1969 Convention, except where the owner is guilty of actual fault, its liability is limited to $208 per gross ton (a unit of measurement for the total enclosed spaces within a vessel) with a maximum liability of $21.9 million. Under the 1992 Protocol, the owner's liability is limited except where the pollution damage results from its personal act or omission, committed with the intent to cause such damage, or recklessly and with knowledge that such damage would probably result. Under the 2000 amendments to the 1992 Protocol, which became effective on November 1, 2003, liability is limited to $7.1 million plus $987 for each additional gross ton over 5,000 for vessels of 5,000 to 140,000 gross tons, and $140.4 million for vessels over 140,000 gross tons, subject to the exceptions discussed above for the 1992 Protocol.

Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. The Company believes that its P&I insurance will cover any liability under the plan adopted by the IMO. See the discussion of Insurance below.

The U.S. is not a party to the 1969 Convention or the 1992 Protocol. See the discussion of U.S. Environmental and Safety Restrictions and Regulations below. In other jurisdictions where the 1969 Convention has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention.

The International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001, which was adopted on March 23, 2001 and became effective on November 21, 2008, is a separate convention adopted to ensure that adequate, prompt and effective compensation is available to persons who suffer damage caused by spills of oil when used as fuel by vessels. The convention applies to damage caused to the territory, including the territorial sea, and in its exclusive economic zones, of states that are party to it. While the U.S. has not yet ratified this convention, vessels operating internationally would be subject to it, if sailing within the territories of those countries that have implemented its provisions. The Company believes that its vessels comply with these requirements.

Other International Environmental and Safety Regulations and Standards:

Under the International Safety Management Code, or ISM Code, promulgated by the IMO, vessel operators are required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating their vessels safely and describing procedures for responding to emergencies. OSG has developed such a safety management system. The ISM Code also requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its operator has been awarded a document of compliance issued by the administration of that vessel’s flag state or as otherwise permitted under the International Convention for the Safety of Life at Sea, 1974, as amended (“SOLAS”).

All of the Company's vessels are certified under the standards promulgated by the International Standards Organization in ISO 9001 in 2000 and ISO 14001 in 2004 and those promulgated by the IMO in its International Safety Management ("ISM") safety and pollution prevention protocols. The ISM Code requires a document of compliance to be obtained for the vessel manager and a safety management certificate to be obtained for each vessel that it operates. The Company has obtained documents of compliance for its shore side offices that have responsibility for vessel management and safety management certificates for each of the vessels that such offices manage. These documents of compliance and safety management certificates must be verified or renewed periodically (annually or less frequently, depending on the type of document) in accordance with the ISM Code.

IMO regulations also require owners and operators of vessels to adopt Shipboard Oil Pollution Emergency Plans, or SOPEPs. Periodic training and drills for response personnel and for vessels and their crews are required. In addition to SOPEPs, OSG has adopted Shipboard Marine Pollution Emergency Plans, or SMPEPs, which cover potential releases not only of oil but of any noxious liquid substances (known as NLSs).

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. For example, the U.S. Coast Guard and EU authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading with U.S. and EU ports.

OSG’s vessels are also subject to international and local ballast water management regulations including those contained in the IMO’s International Convention for the Control and Management of Ships Ballast Water and Sediments (2004). OSG complies with these regulations through ballast water management plans implemented on each of the vessels it technically manages. To meet proposed ballast water treatment regulations, OSG is developing a fleetwide action plan to comply with IMO, U.S. Coast Guard and possible more stringent regional mandates expected

to go into effect as early as 2012.

Other EU Legislation and Regulations:

The EU has adopted legislation that: (1) bans manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters, creates an obligation for port states to inspect at least 25% of vessels using their ports annually and provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment, and (2) provides the EU with greater authority and control over Classification Societies, including the ability to seek to suspend or revoke the authority of negligent societies. OSG does not believe that any of its vessels meet the "sub-standard" vessel definitions contained in the EU legislation. The EU is considering the adoption of criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. Certain member states of the European Union, by virtue of their national legislation, already impose criminal sanctions for pollution events under certain circumstances. It is impossible to predict what additional legislation or regulations, if any, may be promulgated by the EU or any other country or authority, or how these might impact OSG.

International Air Emission Standards:

Annex VI to MARPOL, which was designed to address air pollution from vessels and which became effective internationally on May 19, 2005, sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also imposes a global cap (currently 4.50%) on the sulfur content of fuel oil and allows for specialized areas to be established internationally with more stringent controls on sulfur emissions. For vessels over 400 gross tons, Annex VI imposes various survey and certification requirements. The U.S. Maritime Pollution Prevention Act of 2008, signed into law by President Bush in July 2008, amended the U.S. Act to Prevent Pollution from Ships to provide for the adoption of Annex VI of MARPOL. In October 2008, the U.S. ratified Annex VI, which came into force in the U.S. on January 8, 2009.

Annex VI was amended in 2008 to provide for a progressive and substantial reduction in sulfur oxide ("SOx") and nitrogen oxide ("NOx") emissions from vessels and allow for the designation of Emission Control Areas in which more stringent controls would apply. The primary changes are that the global cap on the sulfur content of fuel oil is reduced to 3.50% effective from January 1, 2012, and such cap is further reduced progressively to 0.50% effective from January 1, 2020, subject to a feasibility review to be completed no later than 2018. Further, the sulfur content of fuel oil for vessels operating in designated Emission Control Areas is progressively reduced from 1.5% to 1.0% effective July 2010 and further reduced to 0.1% effective January 2015.

All vessels in the Company's International and U.S. Flag fleets are currently Annex VI compliant. However, additional or new conventions, laws and regulations may be adopted in the future that could adversely affect the Company's ability to comply with applicable air pollution regulations or could result in material cost increases to assure such compliance.

U.S. Environmental and Safety Regulations and Standards

The U.S. regulates the shipping industry with an extensive regulatory and liability regime for environmental protection and cleanup of oil spills, consisting primarily of OPA 90, and the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA. OPA 90 affects all owners and operators whose vessels trade with the U.S. or its territories or possessions, or whose vessels operate in the waters of the U.S., which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances (other than oil) whether on land or at sea. Both OPA 90 and CERCLA impact the Company's operations.

Phase Out of Non Double Hull Tankers:

Under OPA 90, single hull vessels can operate in U.S. waters until 2015 if they discharge at deep water ports, or lighter more than 60 miles offshore. Single hull vessels cannot operate in U.S. waters under OPA 90 beginning in 2015.

The Company's two double bottom U.S. Flag Product Carriers would be affected by the OPA 90 phase-out schedule in 2012 and 2013, with both vessels being 30 years old when they are first affected by the phase-out schedule. However, both of these vessels have been sold for delivery to buyers in the first half of 2011. The OPA 90 phase-out date for the Company's one double sided International Flag vessel (the charter for which expires in August 2011) is subsequent to its IMO phase-out date.

Liability Standards and Limits:

Under OPA 90, vessel owners, operators and bareboat or demise charterers are "responsible parties" who are liable, without regard to fault, for all containment and clean-up costs and other damages, including property and natural resource damages and economic loss without physical damage to property, arising from oil spills and pollution from their vessels. Currently, the limits of OPA 90 liability with respect to (i) tanker vessels with a qualifying double hull are the greater of $2,000 per gross ton or $17.088 million per vessel that is over 3,000 gross tons; (ii) tanker vessels with a qualifying single hull, the greater of $3,200 per gross ton or $23.496 million per vessel that is over 3,000 gross tons; and (iii) non-tanker vessels, the greater of $1,000 per gross ton or $854,400 per vessel. The statute specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states that have enacted this type of legislation have not yet issued implementing regulations defining vessel owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages associated with discharges of hazardous substances (other than oil). Liability under CERCLA is limited to the greater of $300 per gross ton or $5 million.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. Similarly, these limits do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA 90 and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA 90 also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the statute. The U.S. Coast Guard enacted regulations requiring evidence of financial responsibility consistent with the previous limits of liability described above for OPA 90 and CERCLA. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternative method subject to approval by the Director of the U.S. Coast Guard National Pollution Funds Center. Under OPA 90 regulations, an owner or operator of more than one vessel is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the vessel having the greatest maximum strict liability under OPA 90 and CERCLA. OSG has provided the requisite guarantees and has received certificates of financial responsibility from the U.S. Coast Guard for each of its vessels required to have one.

OSG has insurance for each of its vessels with pollution liability insurance in the amount of $1 billion. However, a catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on the Company's business.

In response to the Deepwater Horizon oil spill in the Gulf of Mexico in 2010, the U.S. House of Representatives proposed legislation to create certain more stringent requirements related to the prevention and response to oil spills in U.S. waters and to increase both financial responsibility requirements and the limits in liability under OPA 90. No legislation was enacted during the term of the 2009-2010 Congress. Similar legislation was introduced in the U.S. House of Representatives in the 2011-2012 Congress. In addition to potential liability under OPA 90, vessel owners may in some instances incur liability on an even more stringent basis under state law in the particular state where the spillage occurred.

Other U.S. Environmental and Safety Regulations:

OPA 90 also amended the Federal Water Pollution Control Act to require owners and operators of vessels to adopt vessel response plans, including marine salvage and firefighting plans, for reporting and responding to oil spill scenarios up to a "worst case" scenario and to identify and ensure, through contracts or other approved means, the availability of necessary private response resources to respond to a “worst case discharge”. The plans must include contractual commitments with clean-up response contractors in order to ensure an immediate response to an oil spill. While OSG has developed and completed the necessary submittals of the plans to the U.S. Coast Guard, the U.S. Coast Guard recently came out with procedures (due to a review backlog on their part) in which they will now issue Interim Operating Authorization (IOA) letters to companies as evidence of compliance with the February 22, 2011 deadline. These IOAs are good for six months during which time the U.S. Coast Guard will complete their full review of the submittals and then issue final approval letters. OSG has received the IOAs for each of the vessels it manages.

The U.S. Coast Guard has announced its intention to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 requires training programs and periodic drills for shore side staff and response personnel and for vessels and their crews. OSG conducts such required training programs and periodic drills.

OPA 90 does not prevent individual U.S. states from imposing their own liability regimes with respect to oil pollution incidents occurring within their boundaries. In fact, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws are in some cases more stringent than U.S. federal law.

In addition, the U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under the more recent OPA 90 and CERCLA, discussed above.

The discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. ports is subject to U.S. Clean Water Act permitting requirements. In accordance with the EPA's National Pollutant Discharge Elimination System, the Company was issued a Vessel General Permit, or VGP, which addresses, among other matters, the discharge of ballast water and effluents. The VGP identifies twenty-six vessel discharge streams, establishes effluent limits for constituents of those streams and requires that best management practices be implemented to decrease the amounts of certain constituents of the discharges. The VGP does not impose numerical treatment standards for the discharge of living organisms in ballast water. Rather, the VGP mandates management practices that decrease the risk of introduction of aquatic nuisance species to bodies of water receiving ballast water discharges. The EPA has indicated, however, that, as ballast water treatment technologies become available in the future, the EPA will revisit its approach to the management of ballast water discharges. Compliance with the VGP could require the installation of equipment on OSG's vessels to treat ballast water before it is discharged or the implementation of other ballast water disposal arrangements, or it could otherwise restrict OSG's vessels from entering U.S. waters.

The VGP system also permits individual states and territories to impose more stringent requirements for discharges into the navigable waters of such state or territory. Certain individual states have enacted legislation or regulations addressing hull cleaning and ballast water management. For example, on October 10, 2007, California Governor Schwarzenegger signed into law AB 740, legislation expanding regulation of ballast water discharges and the management of hull-fouling organisms. California has extensive requirements for more stringent effluent limits and discharge monitoring and testing requirements with respect to discharges in its waters.

Legislation has been proposed in the U.S. Congress to amend the Nonindigenous Aquatic Nuisance Prevention and Control Act of 1990, which had been previously amended and reauthorized by the National Invasive Species Act of 1996, to further increase the regulation of ballast water discharges. However, it can not currently be determined whether such legislation will eventually be enacted, and if enacted, what requirements might be imposed on the Company's operations under such legislation.

U.S. Air Emissions Standards:

As discussed above, MARPOL Annex VI came into force in the U.S. in January 2009. In April 2010, EPA adopted regulations implementing the provisions of MARPOL Annex VI. Under these regulations, both U.S. and International Flag vessels subject to the engine and fuel standards of MARPOL Annex VI must comply with the applicable

Annex VI provisions when they enter U.S. ports or operate in most internal U.S. waters. The Company's vessels are currently Annex VI compliant. Accordingly, absent any new and onerous Annex VI implementing regulations, the Company does not expect to incur material additional costs in order to comply with this convention.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. OSG's vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Each of the Company's vessels operating in the transport of clean petroleum products in regulated port areas where vapor control standards are required has been outfitted with a vapor recovery system that satisfies these requirements. In addition, the EPA issued emissions standards for marine diesel engines. The EPA has implemented rules comparable to those of MARPOL Annex VI to increase the control of air pollutant emissions from certain large marine engines by requiring certain new marine-diesel engines installed on U.S. registered ships to meet lower nitrogen oxide (NOx) standards which will be implemented in two phases. The new near-term standards for newly built engines will apply beginning in 2011 and will require more efficient use of current engine technologies, including engine timing, engine cooling, and advanced computer controls to achieve a 15 to 25 percent NOx reduction below the current levels. The new long-term standards for newly built engines will apply beginning in 2016 and will require the use of high efficiency emission control technology such as selective catalytic reduction to achieve NOx reductions 80 percent below the current levels. Adoption of these and emerging standards may require substantial modifications to some of the Company’s existing marine diesel engines and may require the Company to incur substantial capital expenditures. Moreover, on March 26, 2010, the IMO amended MARPOL Annex VI, which amendments were incorporated into EPA regulations, to designate the area extending 200 miles from the coastlines of the Atlantic/Gulf and Pacific coasts and the eight main Hawaiian Islands as Emission Control Areas (ECAs) under the Annex VI amendments. The new ECAs become effective in August 2012, whereupon fuel used by all vessels operating in the ECAs cannot exceed 1.0% sulfur, dropping to 0.1% sulfur in 2015. From 2016, NOx after-treatment requirements will also apply. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where OSG operates, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of OSG’s operations.

The Delaware Department of Natural Resources and Environment Control, or DNREC, monitors OSG’s U.S. Flag lightering activities within the Delaware River. Lightering activities in Delaware are subject to Title V of the CAA, and OSG is the only marine operator with a Title V permit to engage in lightering operations. These lightering activities are monitored and regulated through DNREC’s Title V air permitting process. The regulations are designed to reduce the amount of VOCs entering into the atmosphere during a crude oil lightering operation. DNREC and OSG have worked in cooperation to reduce the amount of emitted VOCs by defining the vapor balancing process between lightering vessels and ships to be lightered. This defined process has reduced air emissions. In addition, OSG continues to evaluate other vapor reduction technologies and has incorporated vapor control technologies in the design of the Company's new ATBs. Under its Title V permit, OSG is required to have a 100 percent vapor balance capable Delaware lightering fleet and OSG will be compliant upon the delivery of the OSG Horizon/OSG 351, which is currently expected in March 2011. DNREC has been informed of OSG's vessel delivery schedule.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in major metropolitan and industrial areas. Where states fail to present approvable SIPs, or SIP revisions by certain statutory deadlines, the U.S. government is required to draft a Federal Implementation Plan. Several SIPs regulate emissions resulting from barge loading and degassing operations by requiring the installation of vapor control equipment. Where required, the Company's vessels are already equipped with vapor control systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase its costs, the Company believes, based upon the regulations that have been proposed to date, that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required as a result of the SIPs program.

Individual states have been considering their own restrictions on air emissions from engines on vessels operating within state waters. California requires certain vessels operating within 24 nautical miles of the Californian coast to

reduce air pollution by using only low-sulfur marine distillate fuel rather than bunker fuel. Vessels sailing within 24 miles of the California coastline whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters must use marine gas oil at or below 1.5% sulfur and marine diesel oil at or below 0.5% sulfur and, effective January 1, 2012, marine fuels with a sulfur content at or below 0.1% (1,000 parts per million) sulfur. The Company believes that its vessels that operate in California waters are in compliance with these regulations.

Security Regulations and Practices

Security at sea has been a concern to governments, shipping lines, port authorities and importers and exporters for years. Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. In 2002, the U.S. Maritime Transportation Security Act of 2002, or MTSA, came into effect and the U.S. Coast Guard issued regulations in 2003 implementing certain portions of the MTSA by requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the U.S. Similarly, in December 2002, a coalition of 150 IMO contracting states drafted amendments to SOLAS by creating a new subchapter dealing specifically with maritime security. This new subchapter, which became effective in July 2004, imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code, or the ISPS Code. The objective of the ISPS Code is to establish the framework that allows detection of security threats and implementation of preventive measures against security incidents that can affect ships or port facilities used in international trade. Among other things, the ISPS Code requires the development of vessel security plans and compliance with flag state security certification requirements. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures for non-U.S. vessels that have on board a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code.

All of OSG’s vessels have developed and implemented vessel security plans that have been approved by the appropriate regulatory authorities, have obtained ISSCs and comply with applicable security requirements.

The recent surge in piracy activity in the region of the Gulf of Aden and off of the Somali coast has again focused international attention on methods for preventing and mitigating risks of piracy incidents. The attack against a U.S. Flag container ship in 2009 and its dramatic conclusion led to significant interest on the part of the U.S. government leading to additional requirements applicable to U.S. flag vessels transiting in high risk areas. Company vessels that transit such high risk areas follow best management practices for reducing risk and preventing pirate attacks and are in compliance with protocols established by the naval coalition protective forces operating in such areas.

Insurance

Consistent with the currently prevailing practice in the industry, the Company presently carries protection and indemnity ("P&I") insurance coverage for pollution of $1.0 billion per occurrence on every vessel in its fleet. P&I insurance is provided by mutual protection and indemnity associations ("P&I Associations"). The P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to each of its members at approximately $5.45 billion. As a member of a P&I Association which is a member of the International Group, the Company is subject to calls payable to the Associations based on its claim record as well as the claim records of all other members of the individual Associations of which it is a member, and the members of the pool of P&I Associations comprising the International Group. As of December 31, 2010, the Company was a member of three P&I Associations with each of its vessels insured by one of these three Associations. While the Company has historically been able to obtain pollution coverage at commercially reasonable rates, no assurances can be given that such insurance will continue to be available in the future.

The Company carries marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of its vessels. The vessels are each covered up to at least their fair market value, with deductibles ranging from $100,000 to $500,000 per vessel per incident. The Company is self insured for hull and machinery claims in amounts in excess of the individual vessel deductibles up to a maximum aggregate loss of $3,500,000, per policy year.

The Company currently maintains loss of hire insurance to cover loss of charter income resulting from accidents or breakdowns of its vessels that are covered under the vessels' marine hull and machinery insurance. Loss of hire insurance covers up to 120 or 180 days lost charter income per vessel per incident in excess of the first 60 days lost for each covered incident, which is borne by the Company.

Taxation of the Company

The following summary of the principal United States tax laws applicable to the Company, as well as the conclusions regarding certain issues of tax law, are based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed U.S. Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future circumstances will in fact occur. The Company’s views should not be considered official, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.

All of the Company's International Flag vessels are owned or operated by foreign corporations that are subsidiaries of OSG International, Inc., a wholly owned subsidiary of the Company incorporated in the Marshall Islands ("OIN"). These corporations have made special U.S. tax elections under which they are treated as "branches" of OIN rather than separate corporations for U.S. federal income tax purposes.

As a result of changes made by the American Jobs Creation Act of 2004 ("2004 Act"), as discussed below, for taxable years beginning after December 31, 2004, the Company is no longer required to include the undistributed foreign shipping income earned by OIN in its taxable income on a current basis under the "Subpart F" provisions of the Code.

Legislation has been proposed that is aimed at deferring the claiming by a taxpayer of interest deductions attributable to foreign source income that is not subject to current U.S. taxation until the income is repatriated. The enactment of such proposed legislation is uncertain and the effect on the Company can not be determined until agreement has been reached on the exact wording of the provision.

Taxation to OIN of its Shipping Income: In General
OIN derives substantially all of its gross income from the use and operation of vessels in international commerce. This income principally consists of hire from time and voyage charters for the transportation of cargoes and the performance of services directly related thereto, which is referred to herein as "shipping income."

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. will be considered to be 50% derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. OIN does not engage in transportation that gives rise to 100% U.S. source income. Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the U.S. will not be subject to any U.S. federal income tax. OIN's vessels will operate in various parts of the world, including to or from U.S. ports. Unless exempt from U.S. taxation under Section 883 of the Code, OIN will be subject to U.S. federal income taxation of 4% of its U.S. source shipping income on a gross basis without the benefit of deductions.

Application of Code Section 883
Under Section 883 of the Code and Treasury regulations, OIN will be exempt from the foregoing U.S. taxation of its U.S source shipping income if, for more than half of the days in its taxable year, it is a "controlled foreign corporation" within the meaning of Section 957 of the Code and more than 50 percent of the total value of its stock is owned by certain U.S. persons including a domestic corporation. These requirements should be met and therefore OIN should continue to benefit from the application of Section 883 of the Code. To the extent OIN is unable to qualify for exemption from tax under Section 883, OIN's U.S. source shipping income will become subject to the 4% gross basis tax regime described above.

Taxation to OSG of OIN's Shipping Income
For taxable years beginning on or after January 1, 1987 and ending on or before December 31, 2004, the Company, as a 10% shareholder or more of controlled foreign corporations, was subject to current taxation on the shipping income of its foreign subsidiaries. To make U.S.-controlled shipping companies competitive with foreign-controlled shipping companies, through the passage of the 2004 Act, Congress repealed the current income inclusion by 10% shareholders of the shipping income of controlled foreign corporations. Accordingly, for years beginning on or after January 1, 2005, the Company is not required to include in income OIN's undistributed shipping income.

For taxable years beginning on or after January 1, 1976 and ending on or before December 31, 1986, the Company was not required to include in income the undistributed shipping income of its foreign subsidiaries that was reinvested in qualified shipping assets. For taxable years beginning on or after January 1, 1987, the Company is required to include in income the deferred shipping income from this period to the extent that at the end of any year the investment in qualified shipping assets is less than the corresponding amount at December 31, 1986. By virtue of the nature of OIN's business, the Company anticipates that the recognition of this deferred income will be postponed indefinitely. This is discussed in more detail in the notes to the Company's consolidated financial statements set forth in Item 8.

U.S. Tonnage Tax Regime

The 2004 Act changed the U.S. tax treatment of the foreign operations of the Company's U.S. Flag vessels by allowing it to make an election to have such vessels taxed under a new "tonnage tax" regime rather than the usual U.S. corporate income tax regime. Because OSG made the tonnage tax election, its gross income for U.S. income tax purposes with respect to eligible U.S. flag vessels for 2005 and subsequent years does not include (1) income from qualifying shipping activities in U.S. foreign trade (i.e., transportation between the U.S. and foreign ports or between foreign ports), (2) income from cash, bank deposits and other temporary investments that are reasonably necessary to meet the working capital requirements of qualifying shipping activities, and (3) income from cash or other intangible assets accumulated pursuant to a plan to purchase qualifying shipping assets. The Company's taxable income with respect to the operations of its eligible U.S. Flag vessels, of which there are two, is based on a "daily notional taxable income," which is taxed at the highest U.S. corporate income tax rate. The daily notional taxable income from the operation of a qualifying vessel is 40 cents per 100 tons of the net tonnage of the vessel up to 25,000 net tons, and 20 cents per 100 tons of the net tonnage of the vessel in excess of 25,000 net tons. The taxable income of each qualifying vessel is the product of its daily notional taxable income and the number of days during the taxable year that the vessel operates in U.S. foreign trade.

Glossary

Aframax—A medium size crude oil tanker of approximately 80,000 to 120,000 deadweight tons. Modern Aframaxes can generally transport from 500,000 to 800,000 barrels of crude oil and are also used in Lightering. A coated Aframax operating in the refined petroleum products trades may be referred to as an LR2.

American Tanker Rate Schedule (ATRS)—The nominal freight rate scale published by the Association of Ship Brokers and Agents (U.S.A.), Inc. (ASBA) as a rate reference for shipping companies, brokers and their customers engaged in the bulk shipping of oil in the U.S. Flag markets. Refer also to Worldscale definition below.

Articulated Tug Barge or ATB—A tug-barge combination system capable of operating on the high seas, coastwise and further inland. It combines a normal barge, with a bow resembling that of a ship, but having a deep indent at the stern to accommodate the bow of a tug. The fit is such that the resulting combination behaves almost like a single vessel at sea as well as while maneuvering.

Bareboat Charter—A Charter under which a customer pays a fixed daily or monthly rate for a fixed period of time for use of the vessel. The customer pays all costs of operating the vessel, including voyage and vessel expenses. Bareboat charters are usually long term.

CAP—The Condition Assessment Program of ABS Consulting, a subsidiary of the American Bureau of Shipping, which evaluates a vessel's operation, machinery, maintenance and structure using the ABS Safe Hull Criteria. A CAP 1 rating indicates that a vessel meets the standards of a newly built vessel.

Capesize Bulk Carrier— A large Dry Bulk Carrier (any vessel used to carry non-liquid bulk commodities) with a capacity of more than 80,000 deadweight tons that mainly transports iron ore and coal.

Charter—Contract entered into with a customer for the use of the vessel for a specific voyage at a specific rate per unit of cargo ("Voyage Charter"), or for a specific period of time at a specific rate per unit (day or month) of time ("Time Charter").

Classification Societies—Organizations that establish and administer standards for the design, construction and operational maintenance of vessels. As a practical matter, vessels cannot trade unless they meet these standards.

Compressed Natural Gas or CNG—A gas that has been compressed for transportation in pressurized containers and can be transported on ships, barges or trucks. In many parts of the world, gas fields that cannot be readily connected by pipeline or are not large enough to support the cost of developing LNG facilities are excellent candidates for CNG development.

Commercial Management or Commercially Managed—The management of the employment, or chartering, of a vessel and associated functions, including seeking and negotiating employment for vessels, billing and collecting revenues, issuing voyage instructions, purchasing fuel, and appointing port agents.

Commercial Pool—A commercial pool is a group of similar size and quality vessels with different shipowners that are placed under one administrator or manager. Pools allow for scheduling and other operating efficiencies such as multi-legged charters and Contracts of Affreightment and other operating efficiencies.

Condition Assessment Scheme—An inspection program designed to check and report on the vessel's physical condition and on its past performance based on survey and IMO's International Safety Management audit reports and port state performance records.

Contract of Affreightment or COA—An agreement providing for the transportation between specified points for a specific quantity of cargo over a specific time period but without designating specific vessels or voyage schedules, thereby allowing flexibility in scheduling since no vessel designation is required. COAs can either have a fixed rate or a market-related rate. One example would be two shipments of 70,000 tons per month for two years at the prevailing spot rate at the time of each loading.

Consecutive Voyage Charters or CVC—A CVC is used when a customer contracts for a particular vessel for a certain period of time to transport cargo between specified points for a rate that is determined based on the volume of cargo delivered. The Company bears the risk of delays under CVC arrangements.

Crude Oil—Oil in its natural state that has not been refined or altered.

Cubic Meters or cbm—The industry standard for measuring the carrying capacity of an LNG Carrier.

Deadweight tons or dwt—The unit of measurement used to represent cargo carrying capacity of a vessel, but including the weight of consumables such as fuel, lube oil, drinking water and stores.

Demurrage—Additional revenue paid to the shipowner on its Voyage Charters for delays experienced in loading and/or unloading cargo that are not deemed to be the responsibility of the shipowner, calculated in accordance with specific Charter terms.

Double Hull—Hull construction design in which a vessel has an inner and an outer side and bottom separated by void space, usually two meters in width.

Drydocking—An out-of-service period during which planned repairs and maintenance are carried out, including all underwater maintenance such as external hull painting. During the drydocking, certain mandatory Classification Society inspections are carried out and relevant certifications issued. Normally, as the age of a vessel increases, the cost of drydocking increases.

Floating Storage Offloading Unit or FSO—A converted or new build barge or tanker, moored at a location to receive crude or other products for storage and transfer purposes. FSOs are not equipped with processing facilities.

Handysize Product Carrier—A small size Product Carrier of approximately 29,000 to 53,000 deadweight tons. This type of vessel generally operates on shorter routes (short haul). Also, may be referred to as an MR Product Carrier.

International Maritime Organization or IMO—An agency of the United Nations, which is the body that is responsible for the administration of internationally developed maritime safety and pollution treaties, including MARPOL.

International Flag vessel—A vessel that is registered under a flag other than that of the U.S.

Jones Act—U.S. law that applies to port-to-port shipments within the continental U.S. and between the continental U.S. and Hawaii, Alaska, Puerto Rico, and Guam, and restricts such shipments to U.S. Flag Vessels that are built in the U.S. and that are owned by a U.S. company that is more than 75% owned and controlled by U.S. citizens.

Lightering—The process of off-loading crude oil or petroleum products from large size tankers, typically VLCCs, into smaller tankers and/or barges for discharge in ports from which the larger tankers are restricted due to the depth of the water, narrow entrances or small berths.

LNG Carrier—A vessel designed to carry liquefied natural gas, that is, natural gas cooled to −163° centigrade, turning it into a liquid and reducing its volume to 1/600 of its volume in gaseous form. LNG is the abbreviation for liquefied natural gas.

LR1—A coated Panamax tanker. LR is an abbreviation of Long Range.

LR2—A coated Aframax tanker.

MARPOL—International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto. This convention includes regulations aimed at preventing and minimizing pollution from ships by accident and by routine operations.

MR—A Handysize Product Carrier. MR is an abbreviation of Medium Range.

OECD—Organization for Economic Cooperation and Development is a group of 30 developed countries in North America, Europe and Asia.

OPA 90—OPA 90 is the abbreviation for the U.S. Oil Pollution Act of 1990.

Panamax—A medium size vessel of approximately 53,000 to 80,000 deadweight tons. A coated Panamax operating in the refined petroleum products trades may be referred to as an LR1.

Product Carrier—General term that applies to any tanker that is used to transport refined oil products, such as gasoline, jet fuel or heating oil.

Pure Car Carrier—A single-purpose vessel with many decks, designed to carry automobiles, which are driven on and off using ramps.

Safety Management System or SMS—A framework of processes and procedures that addresses a spectrum of operational risks associated with quality, environment, health and safety. The SMS is certified by ISM (International Safety Management Code), ISO 9001 (Quality Management) and ISO 14001 (Environmental Management).

Scrapping—The disposal of vessels by demolition for scrap metal.

Shuttle Tanker—A tanker, usually with special fittings for mooring, which lifts oil from offshore fields and transports it to a shore storage or refinery terminal on repeated trips.

Special Survey—An extensive inspection of a vessel by classification society surveyors that must be completed once within every five year period. Special Surveys require a vessel to be drydocked.

Suezmax—A large crude oil tanker of approximately 120,000 to 200,000 deadweight tons. Modern Suezmaxes can generally transport about one million barrels of crude oil.

Technical Management—The management of the operation of a vessel, including physically maintaining the vessel, maintaining necessary certifications, and supplying necessary stores, spares, and lubricating oils. Responsibilities also generally include selecting, engaging and training crew, and arranging necessary insurance coverage.

Time Charter—A Charter under which a customer pays a fixed daily or monthly rate for a fixed period of time for use of the vessel. Subject to any restrictions in the Charter, the customer decides the type and quantity of cargo to be carried and the ports of loading and unloading. The customer pays all voyage expenses such as fuel, canal tolls, and port charges. The shipowner pays all vessel expenses such as the Technical Management expenses.

Time Charter Equivalent or TCE—TCE is the abbreviation for Time Charter Equivalent. TCE revenues, which is voyage revenues less voyage expenses, serves as an industry standard for measuring and managing fleet revenue and comparing results between geographical regions and among competitors.

Tonne-mile demand—A calculation that multiplies the average distance of each route a tanker travels by the volume of cargo moved. The greater the increase in long haul movement compared with shorter haul movements, the higher the increase in tonne-mile demand.

ULCC—ULCC is an abbreviation for Ultra Large Crude Carrier, a crude oil tanker of more than 350,000 deadweight tons. Modern ULCCs can transport three million barrels of crude oil and are mainly used on the same long haul routes as VLCCs.

U.S. Flag vessel—A U.S. Flag vessel must be crewed by U.S. sailors, and owned and operated by a U.S. company.

Vessel Expenses—Includes crew costs, vessel stores and supplies, lubricating oils, maintenance and repairs, insurance and communication costs associated with the operations of vessels.

VLCC—VLCC is the abbreviation for Very Large Crude Carrier, a large crude oil tanker of approximately 200,000 to 320,000 deadweight tons. Modern VLCCs can generally transport two million barrels or more of crude oil. These vessels are mainly used on the longest (long haul) routes from the Arabian Gulf to North America, Europe, and Asia, and from West Africa to the U.S. and Far Eastern destinations.

Voyage Charter—A Charter under which a customer pays a transportation charge for the movement of a specific cargo between two or more specified ports. The shipowner pays all voyage expenses, and all vessel expenses, unless the vessel to which the Charter relates has been time chartered in. The customer is liable for Demurrage, if incurred.

Voyage Expenses—Includes fuel, port charges, canal tolls, cargo handling operations and brokerage commissions paid by the Company under Voyage Charters. These expenses are subtracted from shipping revenues to calculate Time Charter Equivalent revenues for Voyage Charters.

Worldscale—Industry name for the Worldwide Tanker Nominal Freight Scale published annually by the Worldscale Association as a rate reference for shipping companies, brokers, and their customers engaged in the bulk shipping of oil in the international markets. Worldscale is a list of calculated rates for specific voyage itineraries for a standard vessel, as defined, using defined voyage cost assumptions such as vessel speed, fuel consumption and port costs. Actual market rates for voyage charters are usually quoted in terms of a percentage of Worldscale.

Available Information

The Company makes available free of charge through its internet website, www.osg.com, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

The Company also makes available on its website, its corporate governance guidelines, its code of business conduct, and charters of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee of the Board of Directors.

ITEM 1A. RISK FACTORS

The following important risk factors could cause actual results to differ materially from those contained in the forward-looking statements made in this report or presented elsewhere by management from time to time. If any of the circumstances or events described below actually arise or occur, the Company’s business, results of operations and financial condition could be materially adversely affected.

Industry specific risk factors:

The highly cyclical nature of the industry may lead to volatile changes in charter rates and vessel values, which may adversely affect the Company’s earnings

Factors affecting the supply and demand for vessels are outside of the Company’s control, and the nature, timing and degree of changes in industry conditions are unpredictable and may adversely affect the values of the Company’s vessels and result in significant fluctuations in the amount of charter hire the Company may earn, which could result in significant fluctuations in OSG’s quarterly results. The factors that influence the demand for tanker capacity include:

- demand for oil and oil products, which affect the need for vessel capacity;

- global and regional economic and political conditions which among other things, could impact the supply of oil as well as trading patterns and the demand for various types of vessels;

- changes in the production of crude oil, particularly by OPEC and other key producers, which impact the need for vessel capacity;

- developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances that cargoes are transported;
- environmental concerns and regulations;
- new pipeline construction and expansions;
- weather; and

- competition from alternative sources of energy.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- the number of vessels that are used for storage or as floating storage offloading service vessels;
- the conversion of vessels from transporting oil and oil products to carrying dry bulk cargo and the reverse conversion;
- the number of vessels that are out of service; and
- environmental and maritime regulations.

An increase in the supply of vessels without a commensurate increase in demand for such vessels could cause charter rates to remain at depressed levels or to further decline, which could have a material adverse effect on OSG's revenues and profitability

OSG depends on spot charters for a significant portion of its revenues. In 2010, 2009 and 2008, OSG derived approximately 64%, 49% and 65%, respectively, of its TCE revenues in the spot market.

Historically, the marine transportation industry has been cyclical. The profitability and asset values of companies in the industry have fluctuated based on changes in the supply and demand of vessels. The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels. The newbuilding order book equaled 28% of the existing world tanker fleet as of December 31, 2010, a significant percentage but a decrease from 31% as of December 31, 2009.

If the number of new ships delivered exceeds the number of vessels being scrapped, capacity will increase. In addition, vessel supply is affected by the number of vessels that are used for floating storage because vessels that are used for storage are not available to transport crude oil and petroleum products. Utilization of vessels for storage is affected by expectations of changes in the price of oil and products, such utilization generally increasing if prices are expected to increase more than storage costs and generally decreasing if they are not. A reduction in vessel utilization for storage, which occurred in 2010 when 81 vessels were released from storage use and reentered the trading fleet, will increase vessel supply. If supply exceeds demand as it did in 2009 and 2010, the charter rates for the Company's vessels could be depressed to levels well below historical averages, which rates would if maintained over a long period of time have a material adverse effect on OSG's revenues and profitability.

Although charter rates increased in 2010 they remained significantly below 2008 levels for all tanker classes operated by OSG.

OSG's revenues are subject to seasonal variations

OSG operates its tankers in markets that have historically exhibited seasonal variations in demand for tanker capacity, and therefore, charter rates. Charter rates for tankers are typically higher in the fall and winter months as a result of increased oil consumption in the Northern Hemisphere. Because a majority of the Company's vessels trade in the spot market, seasonality has affected OSG's operating results on a quarter-to-quarter basis and could continue to do so in the future. Such seasonality may be outweighed in any period by then current economic conditions or tanker industry

fundamentals.

Constraints on capital availability adversely affect the tanker industry and OSG's business

Constraints on capital that have occurred during recent years have adversely affected the financial condition of entities throughout the world, including certain of the Company's customers, joint venture partners, financial lenders and suppliers, including shipyards from whom the Company has contracted to purchase vessels. Those entities that suffer a material adverse impact on their financial condition may be unable or unwilling to comply with their contractual commitments to OSG which, in turn, could have an adverse impact on OSG. The failure of entities to comply with contractual commitments could include the refusal or inability of customers to pay charter hire to OSG, shipyards' failure to construct and deliver to OSG newbuilds or joint ventures' or financial lenders' inability or unwillingness to honor their commitments, such as to contribute funds to a joint venture with OSG or to lend funds to OSG. While OSG seeks to monitor the financial condition of such entities, the availability and accuracy of information about the financial condition of such entities may be limited and the actions that OSG may take to reduce possible losses resulting from the failure of such entities to comply with their contractual obligations may be restricted. See also under the heading "Company specific risk factors" below the risk factor concerning credit risks with counterparties.

Terrorist attacks, piracy and international hostilities and instability can affect the tanker industry, which could adversely affect OSG's business

Additional terrorist attacks like those in New York on September 11, 2001 and in London on July 7, 2005, piracy attacks against merchant ships, including oil tankers, particularly in the Gulf of Aden, off the East Coast of Africa, especially Somalia, and the South China sea, the outbreak of war, or the existence of international hostilities could all damage the world economy, adversely affect the availability of and demand for crude oil and petroleum products and adversely affect the Company's ability to re-charter its vessels on the expiration or termination of the charters and the charter rates payable under any renewal or replacement charters.

The Company conducts its operations internationally, and its business, financial condition and results of operations may be adversely affected by changing economic, political and government conditions in the countries and regions where its vessels are employed, including

- pandemics or epidemics which may result in a disruption of worldwide trade including quarantines of certain areas;
- currency fluctuations;
- the imposition of taxes by flag states, port states and jurisdictions in which OSG or its subsidiaries are incorporated or where its vessels operate; and
- expropriation of its vessels.

Moreover, OSG operates in a sector of the economy that is likely to be adversely impacted by the effects of political instability, terrorist or other attacks, war, international hostilities or piracy. These factors could also increase the costs to OSG of conducting its business, particularly crew, insurance and security costs, which could have a material adverse effect on the Company's profitability.

The market value of vessels fluctuates significantly, which could adversely affect OSG's liquidity, result in breaches of its financing agreements or otherwise adversely affect its financial condition

The market value of vessels has fluctuated over time. The fluctuation in market value of vessels over time is based upon various factors, including:

- age of the vessel;
- general economic and market conditions affecting the tanker industry, including the availability of vessel financing;
- number of vessels in the world fleet;
- types and sizes of vessels available;
- changes in trading patterns affecting demand for particular sizes and types of vessels;
- cost of newbuildings;
- prevailing level of charter rates;
- competition from other shipping companies;

- other modes of transportation; and
- technological advances in vessel design and propulsion.

Vessel values have declined in the past two years. Although OSG has a modern fleet, as vessels grow older, they generally decline in value. These factors will affect the value of the Company's vessels at the time of any vessel sale. If for any reason, OSG sells a vessel at a time when prices have fallen, the sale may be at less than the vessel's carrying amount on its financial statements, with the result that the Company would incur a loss on the sale and a reduction in earnings and surplus. In addition, declining values of the Company's vessels could adversely affect the Company's liquidity by limiting its ability to raise cash by refinancing vessels. Declining vessel values could also result in a breach of loan covenants or trigger events of default under relevant financing agreements that require the Company to maintain certain loan-to-value ratios. In such instances, if OSG is unable or unwilling to pledge additional collateral to offset the decline in vessel values, its lenders could accelerate its debt and foreclose on its vessels pledged as collateral for the loans.

Shipping is a business with inherent risks, and OSG's insurance may not be adequate to cover its losses

OSG's vessels and their cargoes are at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- mechanical failures;
- human error;
- war, terrorism and piracy; and
- other unforeseen circumstances or events.

In addition, transporting crude oil creates a risk of business interruptions due to political circumstances in foreign countries, hostilities, labor strikes, port closings and boycotts. Any of these events may result in loss of revenues and increased costs.

The Company carries insurance to protect against most of the accident-related risks involved in the conduct of its business. OSG currently maintains one billion dollars in coverage for each of its vessels for liability for spillage or leakage of oil or pollution. OSG also carries insurance covering lost revenue resulting from vessel off-hire due to vessel damage. Nonetheless, risks may arise against which the Company is not adequately insured. For example, a catastrophic spill could exceed OSG's insurance coverage and have a material adverse effect on its operations. In addition, OSG may not be able to procure adequate insurance coverage at commercially reasonable rates in the future, and OSG cannot guarantee that any particular claim will be paid. In the past, new and stricter environmental regulations have led to higher costs for insurance covering environmental damage or pollution, and new regulations could lead to similar increases or even make this type of insurance unavailable. Furthermore, even if insurance coverage is adequate to cover the Company's losses, OSG may not be able to timely obtain a replacement ship in the event of a loss. OSG may also be subject to calls, or premiums, in amounts based not only on its own claim records but also the claim records of all other members of the P & I Associations through which OSG obtains insurance coverage for tort liability. OSG's payment of these calls could result in significant expenses which would reduce its profits or cause losses.

Compliance with environmental laws or regulations, including those relating to the emission of greenhouse gases, may adversely affect OSG's business

The Company's operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties, conventions and standards in force in international waters, the jurisdictional waters of the countries in which OSG's vessels operate, as well as the countries of its vessels' registration. Many of these requirements are designed to reduce the risk of oil spills and other pollution and to decrease emission of greenhouse gases, and OSG's compliance with these requirements can be costly.

These requirements can affect the resale value or useful lives of the Company's vessels, require a reduction in carrying capacity, ship modifications or operational changes or restrictions, lead to decreased availability or higher cost of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions, OSG could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from its vessels or otherwise in connection with its operations. OSG could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with its current or historic operations. Violations of or liabilities under environmental requirements also can result in substantial penalties, fines and other sanctions, including in certain instances, seizure or detention of the Company's vessels.

OSG could incur significant costs, including cleanup costs, fines, penalties, third-party claims and natural resource damages, as the result of an oil spill or other liabilities under environmental laws. The Company is subject to the oversight of several government agencies, including the U.S. Coast Guard, the Environmental Protection Agency and the Maritime Administration of the U.S. Department of Transportation. OPA 90 affects all vessel owners shipping oil or hazardous material to, from or within the United States. OPA 90 allows for potentially unlimited liability without regard to fault for owners, operators and bareboat charterers of vessels for oil pollution in U.S. waters. Similarly, the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, which has been adopted by most countries outside of the United States, imposes liability for oil pollution in international waters. OPA 90 expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability.

In addition, in complying with OPA, IMO regulations, EU directives and other existing laws and regulations and those that may be adopted, shipowners may incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become more strict in the future and require the Company to incur significant capital expenditures on its vessels to keep them in compliance, or even to scrap or sell certain vessels altogether.

In recent years, the IMO and EU have both accelerated their existing non double hull phase out schedules in response to highly publicized oil spills and other shipping incidents involving companies unrelated to OSG. Future accidents can be expected in the industry, and such accidents or other events could be expected to result in the adoption of even stricter laws and regulations, which could limit the Company’s operations or its ability to do business and which could have a material adverse effect on OSG’s business and financial results.

Due to concern over the risk of climate change, a number of countries, including the U.S., and international organizations, including the EU, the IMO and the United Nations, have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Such actions could result in significant financial and operational impacts on the Company’s business, including requiring OSG to install new emission controls, acquire allowances or pay taxes related to its greenhouse gas emissions, or administer and manage a greenhouse gas emission program. See the discussion of “Environmental and Security Matters Relating to Bulk Shipping” above.

Company specific risk factors:

The Company’s business would be adversely affected if it failed to comply with the Jones Act provisions on coastwise trade, or if these provisions were repealed and if changes in international trade agreements were to occur.

The Company is subject to the Jones Act and other federal laws that restrict maritime transportation between points in the U.S. (known as marine cabotage services or coastwise trade) to vessels built and registered in the U.S. and owned and manned by U.S. citizens. The Company is responsible for monitoring the foreign ownership of its common stock and other interests to insure compliance with the Jones Act. If the Company does not comply with these restrictions, it would be prohibited from operating its vessels in U.S. coastwise trade, and under certain circumstances would be deemed to have undertaken an unapproved foreign transfer, resulting in severe penalties, including permanent loss of U.S. coastwise trading rights for the Company’s vessels, fines or forfeiture of the vessels.

In order to ensure compliance with Jones Act citizenship requirements, and in accordance with the certificate of incorporation and by-laws of the Company, the Board of Directors of the Company adopted a requirement in July

1976 that at least 77% (the “Minimum Percentage”) of the Company’s common stock must be held by U.S. citizens. While the percentage of U.S. citizenship ownership of the Company’s outstanding common stock fluctuates daily, at times in the past several years it has declined to the Minimum Percentage. Any purported transfer of common stock in violation of these ownership provisions will be ineffective to transfer the shares of common stock or any voting, dividend or other rights associated with them. The existence and enforcement of this U.S. citizen ownership requirement could have an adverse impact on the liquidity or market value of our common stock in the event that U.S. citizens were unable to transfer shares of our common stock to non-U.S. citizens. Furthermore, under certain circumstances this ownership requirement could discourage, delay or prevent a change in control of the Company.

Additionally, the Jones Act restrictions on the provision of maritime cabotage services are subject to exceptions under certain international trade agreements, including the General Agreement on Trade in Services and the North American Free Trade Agreement. If maritime cabotage services were included in the General Agreement on Trade in Services, the North American Free Trade Agreement or other international trade agreements, or if the restrictions contained in the Jones Act were otherwise repealed or altered, the transportation of maritime cargo between U.S. ports could be opened to international flag or international-manufactured vessels. During the past several years, interest groups have lobbied Congress to repeal the Jones Act to facilitate international flag competition for trades and cargoes currently reserved for U.S. Flag vessels under the Jones Act and cargo preference laws. The Company believes that continued efforts will be made to modify or repeal the Jones Act and cargo preference laws currently benefiting U.S. Flag vessels. Because international vessels may have lower construction costs, wage rates and operating costs, this could significantly increase competition in the coastwise trade, which could have a material adverse effect on the Company's business, results of operations and financial condition.

OSG's financial condition would be materially adversely affected if the shipping income of OSG's foreign subsidiaries becomes subject to current taxation in the U.S.

As a result of changes made by the 2004 Act, the Company does not report in taxable income on a current basis the undistributed shipping income earned by its international flag vessels, which in recent years represented substantially all of the Company's pre-tax income. These changes in the 2004 Act were made to make U.S. controlled shipping companies competitive with foreign-controlled shipping companies, which are generally incorporated in jurisdictions in which they either do not pay income taxes or pay minimal income taxes.

The President and several Congressmen and Senators have announced support for ending "tax breaks for companies that ship our jobs overseas and give those tax breaks for companies that create jobs in the United States of America". While the Company believes that the changes made in the 2004 Act with respect to foreign shipping income do not "ship jobs overseas," and, in fact, have enabled the Company to expand its U.S. Flag fleet and create jobs in the U.S., Congress may decide to repeal the changes made in the 2004 Act with respect to taxation of foreign shipping income for the aforementioned reason or as part of initiatives to reduce the U.S. budget deficit or to reform the U.S. corporate tax regime. Such repeal, either directly or indirectly by limiting or reducing benefits received under the 2004 Act, would have a materially adverse affect on the Company's business and financial results.

The Company's substantial debt and charter in commitments could adversely affect its financial condition and when OSG's credit facilities mature, OSG may not be able to refinance or replace them

OSG has substantial debt and debt service requirements. At December 31, 2010, the Company's consolidated total debt was $2.0 billion and its unused borrowing capacity under its revolving credit facility was $1.0 billion (before a reduction of $150 million effective February 2011) and its charter in commitments were $1.6 billion.

The amount of the Company's debt could have important consequences. For example, it could:

- increase OSG's vulnerability to general adverse economic and industry conditions;

- limit OSG's ability to fund future capital expenditures, working capital and other general corporate requirements;

- require the Company to dedicate a substantial portion of its cash flow from operations to make interest and principal payments on its debt;

- limit OSG's flexibility in planning for, or reacting to, changes in its business and the shipping industry;

- place OSG at a competitive disadvantage compared with competitors that have less debt or charter-in commitments including by causing OSG to have a lower credit rating; and

- limit OSG's ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In January 2011, Standard & Poor's credit agency reduced the Company's long-term corporate credit rating from BB- to B, citing, among other reasons, the Company's high debt burden and the significantly reduced earnings caused by prolonged low tanker rates. While Standard & Poor's stated that it expects OSG to continue to have sufficient liquidity to work through the weak operating environment and to eventually benefit from a recovery in tanker rates over the next several years, the reduced credit rating may result in the Company incurring increased borrowing costs if the Company enters new credit facilities.

The Company's debt burden and low tanker rates may adversely affect the availability and terms of debt and equity capital. When OSG's indebtedness matures, the Company may need to refinance it and may not be able to do so on favorable terms or at all. If OSG is able to refinance maturing indebtedness, the terms of any refinancing or alternate credit arrangements may contain terms and covenants that restrict OSG's financial and operating flexibility.

OSG may not be able to renew time charters when they expire or enter into new time charters for newbuilds

There can be no assurance that any of the Company's existing time charters will be renewed at comparable rates or that it will be successful in entering into new time charters on certain of the newbuilds that will be delivered to the Company or if renewed or entered into, that they will be at favorable rates. If, upon expiration of the existing time charters or delivery of newbuilds, OSG is unable to obtain time charters or voyage charters at desirable rates, the Company's profitability may be adversely affected.

Delays or cost overruns in building new vessels (including the failure to deliver new vessels), in the scheduled shipyard maintenance of the Company's vessels, or in rebuilding or conversion of the Company's vessels could adversely affect OSG's results of operations

Building new vessels, scheduled shipyard maintenance or rebuilding or conversion of vessels are subject to risks of delay (including the failure to deliver new vessels) or cost overruns caused by one or more of the following:

- financial difficulties of the shipyard building or repairing a vessel, including bankruptcy;
- unforeseen quality or engineering problems;
- work stoppages;
- weather interference;
- unanticipated cost increases;
- delays in receipt of necessary materials or equipment;
- changes to design specifications; and
- inability to obtain the requisite permits, approvals or certifications from the U.S. Coast Guard or international foreign flag state authorities and the applicable classification society upon completion of work.

Significant delays, cost overruns and failure to deliver new vessels could increase the Company's expected contract commitments, which would have an adverse effect on the Company's revenues, borrowing capacity and results of operations. Furthermore, delays would result in vessels being out-of-service for extended periods of time, and therefore not earning revenue, which could have a material adverse effect on OSG's financial condition and results of operations. The Company's remedies for losses resulting from shipyards' failure to comply with their contractual

commitments may be limited by the relevant contracts, including by liquidated damages provisions, such as those that limit the amount of monetary damages that may be claimed or that limit the Company's right to cancellation of the building contract. While purchase price payments for newbuild vessels made prior to vessel delivery to international shipyards historically have been supported by guarantees from financial institutions, such as banks or insurance companies, such payments to U.S. shipyards historically have been supported by liens on the work in progress, including steel and equipment used for constructing the vessel, and not by guarantees from financial institutions. If an international shipyard fails to deliver a contracted newbuild vessel for which there is a guarantee, the Company may claim against the guarantee, substantially reducing the risk that the Company will suffer a loss of its investment. If a U.S. shipyard fails to deliver a contracted vessel, the Company's investment may be supported only by the Company's liens on the work in progress, which may result in a loss of part or all of the Company's investment.

Termination or change in the nature of OSG's relationship with any of the pools in which it participates could adversely affect its business

All of the Company's VLCCs participate in the Tankers International pool. At December 31, 2010, eleven of OSG's Aframaxes participate in the Aframax International pool. Eight of its crude Panamaxes and three of its Panamax Product Carriers participate directly in Panamax International. Participation in these pools enhances the financial performance of the Company's vessels as a result of the higher vessel utilization. Any participant in any of these pools has the right to withdraw upon notice in accordance with the relevant pool agreement. The Company cannot predict whether the pools in which its vessels operate will continue to exist in the future. In addition, in recent years the EU has published guidelines on the application of the EU antitrust rules to traditional agreements for maritime services such as pools. While the Company believes that all the pools it participates in comply with EU rules, there has been limited administrative and judicial interpretation of the rules. Restrictive interpretations of the guidelines could adversely affect the ability to commercially market the respective types of vessels in pools.

OSG's strategy of growing its business in part through acquisitions is capital intensive, time consuming and subject to a number of inherent risks

Part of OSG's business strategy is to opportunistically acquire complementary businesses or vessels. The Company's ability to grow its fleets will depend upon a number of factors, many of which the Company cannot control. These factors include OSG's ability to:

- identify acquisition candidates and joint venture opportunities;
- replace expiring charters-in at comparable rates;
- identify suitable charter-in opportunities;
- consummate acquisitions or joint ventures;
- integrate any acquired vessels or businesses successfully with its existing operations;
- hire and train qualified personnel; and
- obtain required financing.

OSG's strategy includes the opportunistic acquisition of quality second hand vessels either directly or through corporate acquisitions. Second hand vessels typically do not carry warranties with respect to their condition, whereas warranties are generally available for newbuildings. While the Company generally inspects all second hand vessels prior to purchase, such inspections would normally not provide OSG with as much knowledge about vessel condition as the Company would possess if the vessels had been built for it.

Operating costs and capital expenses will increase as the Company's vessels age

In general, capital expenditures and other costs necessary for maintaining a vessel in good operating condition increase as the age of the vessel increases. Accordingly, it is likely that the operating costs of OSG's vessels will increase. In addition, changes in governmental regulations and compliance with Classification Society standards may require OSG to make additional expenditures for new equipment. In order to add such equipment, OSG may be required to take its vessels out of service. There can be no assurance that market conditions will justify such expenditures or enable OSG to operate its older vessels profitably during the remainder of their economic lives.

Certain potential customers will not use vessels older than a specified age, even if they have been recently rebuilt

All of the Company's existing ATBs with the exception of the OSG Vision/OSG 350 were originally constructed more than 25 years ago. While all of these tug-barge units were rebuilt and double-hulled since 1998 and are "in-class," meaning the vessel has been certified by a classification society as being built and maintained in accordance with the rules of that classification society and complies with the applicable rules and regulations of the vessel's country of registry and applicable international conventions, some potential customers have stated that they will not charter vessels that are more than 20 years old, even if they have been rebuilt. Although there has to date been no material difference in time charter rates earned by a vessel of a specified age and a rebuilt vessel of the same age measured from the date of rebuilding, no assurance can be given that customers will continue to view rebuilt vessels as comparable to newbuild vessels. If more customers differentiate between rebuilt and newbuild vessels, time charter rates for our rebuilt ATBs will likely be adversely affected or they may not be employable.

In the highly competitive international market, OSG may not be able to effectively compete for charters with companies with greater resources

The Company's vessels are employed in a highly competitive market. Competition arises from other vessel owners, including major oil companies, which may have substantially greater resources than OSG does. Competition for the transportation of crude oil and other petroleum products depends on price, location, size, age, condition, and the acceptability of the vessel operator to the charterer. The Company believes that because ownership of the world tanker fleet is highly fragmented, no single vessel owner is able to influence charter rates. To the extent OSG enters into new geographic regions or provides new services, it may not be able to compete profitably. New markets may involve competitive factors that differ from those of the Company's current markets, and the competitors in those markets may have greater financial strength and capital resources than OSG does.

Trading and complementary hedging activities in Forward Freight Agreements ("FFAs") subject the Company to trading risks and the Company may suffer trading losses that reduce earnings

Due to shipping market volatility, success in this industry requires constant adjustment of the balance between chartering out vessels for long periods of time and trading them on a spot basis. The Company seeks to manage and mitigate that risk through trading and complementary hedging activities in forward freight agreements, or FFAs. However, there is no assurance that the Company will be able at all times to successfully protect itself from volatility in the shipping market. The Company may not successfully mitigate its risks, leaving it exposed to unprofitable contracts and may suffer trading losses that reduce earnings and surplus.

The Company is subject to certain credit risks with respect to its counterparties on contracts and failure of such counterparties to meet their obligations could cause the Company to suffer losses on such contracts, decreasing revenues and earnings

The Company charters its vessels to other parties, who pay the Company a daily rate of hire. The Company also enters into COAs and Voyage Charters. As OSG increases the portion of its revenues from time charters, it increases its reliance on the ability of time charterers to pay charter hire, especially when spot market rates are less than previously agreed upon time charter rates. Historically, the Company has not experienced material problems collecting charter hire but the global economic downturn of recent years has affected charterers more severely than the prior recessions that have occurred since the Company's establishment more than 40 years ago. The Company also time charters or bareboat charters some of its vessels from other parties and its continued use and operation of such vessels depends on the vessel owners' compliance with the terms of the time charter or bareboat charter. Additionally, the Company enters into derivative contracts (FFAs, bunker swaps, interest rate swaps and foreign currency contracts). All of these contracts subject the Company to counterparty credit risk. As a result, the Company is subject to credit risks at various levels, including with charterers or cargo interests. If the counterparties fail to meet their obligations, the Company could suffer losses on such contracts which would decrease revenues and earnings.

As the Company expands its business, it will need to improve its operations and financial systems, and recruit additional staff and crew; if it cannot improve these systems or recruit suitable employees, it may not effectively control its operations

The Company's current operating and financial systems may not be adequate as it implements its plan to expand, and its attempts to improve these systems may be ineffective. If the Company is unable to operate its financial and operations systems effectively or to recruit suitable employees for its vessels and offices as it expands its operations, it may be unable to effectively control and manage substantially larger operations. Although it is impossible to predict what errors might occur as the result of inadequate controls, it is the case that it is harder to oversee a sizable operation and, accordingly, more likely that errors will occur as operations grow and that additional management infrastructure

and systems will be required to attempt to avoid such errors.

OSG's vessels call on ports located in countries that are subject to restrictions imposed by the U.S. government, which could negatively affect the trading price of the Company's common stock

From time to time, vessels in OSG's fleet call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism, such as Iran. Although these sanctions and embargoes do not prevent OSG's vessels from making calls to ports in these countries, potential investors could view such port calls negatively, which could adversely affect the Company's reputation and the market for its common stock.

OSG depends on its key personnel and may have difficulty attracting and retaining skilled employees

OSG's success depends to a significant extent upon the abilities and efforts of its key personnel. The loss of the services of any of the Company's key personnel or its inability to attract and retain qualified personnel in the future could have a material adverse effect on OSG's business, financial condition and operating results.

The Company may face unexpected drydock costs for its vessels

Vessels must be drydocked periodically. The cost of repairs and renewals required at each drydock are difficult to predict with certainty and can be substantial. The Company's insurance does not cover these costs. In addition, vessels may have to be drydocked in the event of accidents or other unforeseen damage. OSG's insurance may not cover all of these costs. Large drydocking expenses could adversely affect the Company's financial results.

Maritime claimants could arrest OSG's vessels, which could interrupt its cash flow

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of the Company's vessels could interrupt OSG's cash flow and require it to pay a significant amount of money to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in the Company's fleet for claims relating to another vessel in its fleet.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vessels:

At December 31, 2010, the Company owned or operated (including newbuilds) an aggregate of 122 vessels. See tables presented under Item 1. Additional information about the Company's fleet is set forth on the Company's website, www.osg.com.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party, as plaintiff or defendant, to various suits in the ordinary course of business for monetary relief arising principally from personal injuries, collision or other casualty and to claims arising under charter parties.

All such personal injury, collision or other casualty claims against the Company are fully covered by insurance (subject to deductibles not material in amount). Each of the claims involves an amount which, in the opinion of management, is not material to the Company's financial position, results of operations and cash flows.

Executive Officers of the Registrant

Name	Age	Position Held	Has Served as Such Since
Morten Arntzen	55	President and Chief Executive Officer	January 2004
Myles R. Itkin	63	Executive Vice President, Chief Financial Officer and Treasurer	June 2006 June 1995
Mats H. Berglund	48	Senior Vice President and Head of International Crude Transportation Strategic Business Unit	September 2005
Ian T. Blackley	56	Senior Vice President, Head of International Shipping and Managing Director and Chief Operating Officer, OSG Ship Management (UK) Ltd.	May 2009 January 2009 September 2005
James I. Edelson	54	Senior Vice President, General Counsel and Secretary	March 2010 January 2005 March 2005
Robert E. Johnston	63	Senior Vice President and Head of U.S. Strategic Business Unit	October 1998 January 2009
Lois K. Zabrocky	41	Senior Vice President and Head of International Product Carrier and Gas Strategic Business Unit	June 2008 September 2005
George Dienis	58	Managing Director and Chief Operating Officer, OSG Ship Management (GR) Ltd.	January 2005
Robert R. Mozdean	57	Head of Worldwide Human Resources	August 2005
Janice K. Smith	49	Chief Risk Officer	February 2010

The term of office of each executive officer continues until the first meeting of the Board of Directors of the Company immediately following the next annual meeting of its stockholders, to be held on June 7, 2011, and until the election and qualification of his or her successor. There is no family relationship between the executive officers.

Mr. Itkin served as Senior Vice President for at least five years prior to his appointment as Executive Vice President. Mr. Johnston served as Head of Shipping Operations from September 2005 until his appointment as Head of the U.S. Strategic Business Unit in January 2009. Ms. Smith served as Deputy General Counsel of the Company since July 2007. For at least three years prior to joining the Company, Ms. Smith was a corporate partner at Proskauer Rose LLP, where her practice focused on advising clients on a variety of corporate finance transactions.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The Company's common stock is listed for trading on the New York Stock Exchange under the trading symbol OSG. The range of high and low closing sales prices of the Company's common stock as reported on the New York Stock Exchange for each of the quarters during the last two years are set forth below.

2010	High	Low
	(In dollars)	
First Quarter	51.39	39.23
Second Quarter	53.13	35.49
Third Quarter	42.34	31.89
Fourth Quarter	37.80	32.73

2009	High	Low
First Quarter	46.18	21.02
Second Quarter	43.29	23.94
Third Quarter	41.10	29.70
Fourth Quarter	46.02	35.59

(b) On February 22, 2011, there were 510 stockholders of record of the Company's common stock.

(c) In June 2008, OSG increased its annual dividend by 40% to $1.75 per share from $1.25 per share of common stock. Subsequent thereto, the Company has paid ten regular quarterly dividends of $0.4375 per share of common stock. Prior to the above change, the Company paid regular quarterly dividends of $0.3125 per share of common stock subsequent to June 2007, regular quarterly dividends of $0.25 per share of common stock between April 2006 and June 2007 and $0.175 per share of common stock prior to April 2006. The payment of cash dividends in the future will depend upon the Company's operating results, cash flow, working capital requirements and other factors deemed pertinent by the Company's Board of Directors.

STOCKHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph for the five years ended December 31, 2010 comparing the yearly percentage change in the cumulative total stockholder return on the Company's common stock against the cumulative return of the published Standard and Poor's 500 index, a peer group index consisting of Frontline Ltd., Teekay Corporation, General Maritime Corporation, Kirby Corporation, Seacor Holdings Inc., Tsakos Energy Navigation Limited and the Company referred to as the peer group index. The companies in this peer group index consist of those corporations used for determining vesting of performance share units for the Company's senior management whose stock has been publicly traded in the U.S. for at least five years. The Company believes that this peer group index is relevant for comparative purposes.

STOCK PERFORMANCE GRAPH

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
THE COMPANY, S&P 500 INDEX, PEER GROUP INDEX

* Assumes that the value of the investment in the Company's common stock and each index was $100 on December 31, 2005 and that all dividends were reinvested.

During June 2006, the Board approved a repurchase program, authorizing $300,000,000 to be expended on the repurchase of common stock. On April 24, 2007, the OSG's Board of Directors authorized, and the Company agreed to purchase all of the outstanding shares of the Company's common stock held by Archer- Daniels-Midland Company ("ADM"), or 5,093,391 shares, at $65.42 per share. In addition, on April 24, 2007, the Board of Directors authorized a new share repurchase program of $200,000,000, which replaced the prior $300,000,000 share repurchase program. The Company completed the 2007 repurchase program in the second quarter of 2008. On June 9, 2008, a new share purchase program of $250,000,000 was authorized by the Board of Directors. Total shares repurchased to date under all of the above authorities, aggregates approximately $826,465,000, or 13,062,100 shares.

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited selected consolidated financial data for the years ended December 31, 2010, 2009 and 2008, and at December 31, 2010 and 2009, are derived from the audited consolidated financial statements of the Company set forth in Item 8, which have been audited by PricewaterhouseCoopers (2010 and 2009) and Ernst & Young LLP (2008), independent registered public accounting firms. The unaudited selected consolidated financial data for the years ended December 31, 2007 and 2006, and at December 31, 2008, 2007 and 2006, are derived from audited consolidated financial statements of the Company not appearing in this Annual Report, which have been audited by Ernst & Young LLP.

In thousands, except per share amounts	2010	2009	2008	2007	2006
Shipping revenues	$1,045,610	$1,093,618	$1,704,697	$1,129,305	$1,047,403
(Loss)/Income from vessel operations	(79,295)	77,130	345,186	207,572	378,544
(Loss)/Income before income taxes	(141,699)	34,450	271,182	217,186	384,473
Net (loss)/income attributable to Overseas Shipholding Group, Inc.	(134,243)	70,170	317,665	211,310	392,660
Depreciation and amortization	170,670	172,404	189,163	185,499	141,940
Net cash (used by)/provided by operating activities	(27,714)	218,121	376,337	167,624	445,975
Total vessels, deferred drydock and other property, at net book amount (a)	3,245,515	3,000,768	2,818,060	2,797,023	2,583,370
Total assets	4,241,103	4,208,441	3,890,061	4,158,917	4,230,669
Debt—long-term debt and capital lease obligations (exclusive of short-term debt and current portions) (b)	1,941,583	1,813,289	1,396,135	1,531,334	1,306,947
Reserve for deferred income taxes and unrecognized tax benefits—noncurrent	214,188	205,295	196,815	230,924	234,269
Total equity	1,810,143	1,867,855	1,824,633	1,950,495	2,207,311
Debt/total capitalization	51.8 %	49.3 %	43.3 %	44.0 %	37.2 %
Per share amounts:					
Basic net (loss)/income attributable to Overseas Shipholding Group, Inc.	(4.55)	2.61	10.71	6.19	9.94
Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc.	(4.55)	2.61	10.65	6.16	9.92
Overseas Shipholding Group, Inc.'s equity	59.53	69.55	64.07	58.47	56.27
Cash dividends paid	1.75	1.75	1.50	1.125	0.925
Average shares outstanding for basic earnings per share	29,498	26,864	29,648	34,136	39,515
Average shares outstanding for diluted earnings per share	29,498	26,869	29,814	34,327	39,586
Other data:					
Time charter equivalent revenues (c)	853,278	952,621	1,545,385	1,039,211	992,817
EBITDA (d)	96,015	251,002	530,273	476,332	595,065

(a) Includes vessels held for sale of $3,305 and $53,975 at December 31 2010 and 2008, respectively.

(b) Amounts do not include debt of affiliated companies in which the Company participates.

(c)

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

In thousands for the year ended December 31,	2010	2009	2008	2007	2006
Time charter equivalent revenues	$853,278	$952,621	$1,545,385	$1,039,211	$992,817
Add: Voyage expenses	192,332	140,997	159,312	90,094	54,586
Shipping revenues	$1,045,610	$1,093,618	$1,704,697	$1,129,305	$1,047,403

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.

(d) EBITDA represents operating earnings excluding net income/(loss) attributable to the noncontrolling interest, which is before interest expense and income taxes, plus other income/(expense) and depreciation and amortization expense. EBITDA is presented to provide investors with meaningful additional information that management uses to monitor ongoing operating results and evaluate trends over comparative periods. EBITDA should not be considered a substitute for net income/(loss) attributable to the Company or cash flow from operating activities prepared in accordance with accounting principles generally accepted in the United States or as a measure of profitability or liquidity. While EBITDA is frequently used as a measure of operating results and performance, it is not necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.

The following table reconciles net (loss)/income attributable to the Company, as reflected in the consolidated statements of operations, to EBITDA:

In thousands for the year ended December 31,	2010	2009	2008	2007	2006
Net (loss)/income attributable to Overseas Shipholding Group, Inc.	$ (134,243)	$ 70,170	$ 317,665	$ 211,310	$ 392,660
Income tax (benefit)/provision	(7,456)	(36,697)	(34,004)	4,827	(8,187)
Interest expense	67,044	45,125	57,449	74,696	68,652
Depreciation and amortization	170,670	172,404	189,163	185,499	141,940
EBITDA	$ 96,015	$ 251,002	$ 530,273	$ 476,332	$ 595,065

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

UGENERAL

The Company is one of the largest independent bulk shipping companies in the world. The Company's operating fleet as of December 31, 2010, consisted of 111 vessels aggregating 11.3 million dwt and 864,800 cbm, including 48 vessels that have been chartered-in under operating leases. In addition to its operating fleet of 111 vessels, charters-in for two vessels are scheduled to commence upon delivery of the vessels in 2011 and nine newbuilds are scheduled for delivery between 2011 and 2013, bringing the total operating and newbuild fleet to 122 vessels.

COMPLETION OF TENDER OFFER FOR OSG AMERICA L.P.

On November 5, 2009, OSG initiated a tender offer for the 6,999,565 outstanding publicly held common units of OSG America L.P., a Delaware limited partnership formed by the Company, for $10.25 in cash per unit. At the time of the tender offer, the Company effectively owned 77.1% of OSG America L.P. The number of common units ("Units") validly tendered in the initial offering period satisfied the non−waivable condition that more than 4,003,166 Units be validly tendered, such that OSG owned more than 80% of the outstanding Units. OSG exercised its right pursuant to Section 15.01 of the amended and restated limited partnership agreement of the partnership to purchase all of the remaining Units that were not tendered in the Offer and acquired the remaining outstanding Units on December 17, 2009. As a result, the Company became the owner of 100% of OSG America L.P. The Company financed the purchase price of $71,792,000 through funds drawn under its $1.8 billion credit facility.

U
UOPERATIONS

The Company's revenues are highly sensitive to patterns of supply and demand for vessels of the size and design configurations owned and operated by the Company and the trades in which those vessels operate. Rates for the transportation of crude oil and refined petroleum products from which the Company earns a substantial majority of its revenue are determined by market forces such as the supply and demand for oil, the distance that cargoes must be transported, and the number of vessels expected to be available at the time such cargoes need to be transported. The demand for oil shipments is significantly affected by the state of the global economy and level of OPEC's exports. The number of vessels is affected by newbuilding deliveries and by the removal of existing vessels from service, principally because of scrappings or conversions. The Company's revenues are also affected by the mix of charters between spot (Voyage Charter) and long-term (Time or Bareboat Charter). Because shipping revenues and voyage expenses are significantly affected by the mix between voyage charters and time charters, the Company manages its vessels based on TCE revenues. Management makes economic decisions based on anticipated TCE rates and evaluates financial performance based on TCE rates achieved.

Overview

Average freight rates based on fixtures executed in 2010 for VLCCs, Suezmaxes, Aframaxes, Panamaxes and Product Carriers were at depressed levels, although somewhat higher then they were in 2009. Rates in 2010 were still significantly below 2008 levels for all tanker classes operated by the Company. Rates during 2010 were adversely impacted by the excess tonnage that existed at the beginning of the year. The decline in oil demand in OECD areas in 2009 of over 2 million barrels per day ("b/d") resulted in a reduction in longer-haul crude movements from the Middle East to the U.S., Europe and Japan as well as a decline in movements from West Africa to the U.S., reducing tonne-mile demand. This occurred concurrently with an increase of about 6% in the tanker fleet size in 2009.

Following the 2009 global economic downturn, based on reports issued by the International Monetary Fund ("IMF"), the world's GDP grew by approximately 4.8% during 2010. Economic growth occurred in all the major regions in the world, but was particularly strong in developing countries in Asia and Latin America. This resulted in an increase in world oil demand of approximately 2.8 million b/d to 87.8 million b/d from 85.0 million b/d in 2009, the second largest demand increase in the last 30 years, exceeded only by the 3.1 million b/d increase that occurred in 2004. Oil demand increased by about 2.1 million b/d in non-OECD areas, led by an increase of approximately one million b/d in China.

Higher oil demand in the U.S., China and Other Asia spurred an increase in refinery utilization and throughput levels. Refinery utilization in the U.S. averaged 86% during 2010, 3% higher than in 2009. Refining runs in China averaged 8.5 million b/d, an increase of one million b/d over 2009. Refinery throughput volumes increased by approximately 550,000 b/d in Other Asia as new refining capacity was added to meet growing local demand for oil products. The increase in refining runs in Asia was a major driving force behind the increase in tonne-mile demand in 2010.

The increase in oil demand in 2010 was met by a combination of higher production and inventory drawdowns from both onshore and offshore sources, including a significant reduction in products and crude oil held in floating storage, which had a negative impact on tonne-mile demand. Approximately 40%, or 1.2 million b/d, of the demand increase, was met from higher non-OPEC production levels. An approximately one million b/d increase in OPEC production of crude oil and Natural Gas Liquids ("NGLs") and the drawdown in world inventory levels satisfied the remaining increase in oil demand growth.

Onshore inventory levels in OECD areas remained relatively constant as a decline in Europe was offset by increases in Japan and in the U.S. The main source of the inventory drawdown in 2010 was the release of products and crude oil being stored in tankers. At the end of 2009, there were approximately 118 tankers of various sizes that were used globally to store clean products and 18 VLCCs used to hold crude oil. As oil prices increased during 2010, the oil price contango narrowed to the point where it became uneconomical for tankers to store products or crude oil. Products held in floating storage were then discharged, resulting in lower refining utilization levels that reduced crude oil and product tanker demand and adversely impacted 2010 tonne-mile demand. By the third quarter, a significant number of tankers that were being used as floating storage had discharged their cargoes and reentered the trading fleet. At the end of 2010, there were only 30 non-VLCC tankers being utilized to store clean products and 25 VLCCs being used to hold crude oil and products. The reentry of these 81 vessels into the trading fleet had a significant adverse impact on freight rates.

There was a significant difference between the actual number of tanker deliveries that occurred during 2010 and Clarkson's forecast at the beginning of the year. Crude and Product Carrier deliveries were reduced by about 30% and 45%, respectively, from that original Clarkson's forecast, because of delays and cancellations that took place during the year. Nevertheless, the size of the world tanker fleet increased by approximately 4.0% during 2010 as additions were only partially offset by the scrapping of single-hull tonnage in accordance with the IMO phase-out mandate. The Aframax fleet realized the largest net increase in tonnage of 6.3% while the Product Carrier fleet remained basically

unchanged. There are still single hull vessels (primarily product tankers) being used in the marketplace but these tankers should be marginalized as oil companies and charterers increasingly demand that only double hull tankers be used to carry their cargoes and call at their facilities. The total world tanker orderbook at the end of 2010 represented 29% of the total fleet, based on deadweight tons ("dwt"), down from 31% at the end of 2009.

Crude tanker newbuilding prices, which reached record high levels during the third quarter of 2008, have declined steadily from that point. By the end of 2010, shipyard contract prices for newbuilding VLCCs were approximately $100 million, down approximately 40% from their highs.

World oil demand in the fourth quarter of 2010 was 89.3 million b/d, a 3.9% increase from 85.9 million b/d in the fourth quarter of 2009. Consumption rose in all areas of the world, buoyed by colder Northern Hemisphere weather. This demand increase was led by a 1.25 million b/d increase in China followed by an increase of approximately 530,000 b/d in North America (primarily the U.S.).

The tables below show the daily TCE rates that prevailed in markets in which the Company's vessels operated for the periods indicated. It is important to note that the spot market is quoted in Worldscale rates, except for U.S. Flag, which is based on the American Tanker Rate Schedule and quoted in American Rates ("AR"). The conversion of Worldscale and American rates to the following TCE rates required the Company to make certain assumptions as to brokerage commissions, port time, port costs, speed and fuel consumption, all of which will vary in actual usage. In each case, the rates may differ from the actual TCE rates achieved by the Company in the period indicated because of the timing and length of voyages, waiting time and the portion of revenue generated from long-term charters. For example, TCE rates for VLCCs are reflected in the earnings of the Company approximately one month after such rates are reflected in the tables below, calculated on the basis of the fixture dates.

International Flag VLCCs

	Spot Market TCE Rates VLCCs in the Arabian Gulf*						
	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
Average	$45,300	$44,300	$10,500	$10,900	$27,700	$19,500	$81,100
High	$93,900	$79,600	$32,000	$46,300	$93,900	$80,700	$250,000
Low	$13,500	$14,500	$(5,200)	$(9,600)	$(9,600)	$(5,800)	$7,200

* Based on 60% Arabian Gulf to eastern destinations and 40% Arabian Gulf to western destinations

Rates for VLCCs trading out of the Arabian Gulf averaged $27,700 per day during 2010, an increase of 42% from the 2009 average. Rates were supported by the contango trade that existed during the first half of 2010 when as many as 53 VLCC tankers (10% of the double hull fleet) were used to store crude oil and products. Rates also benefited from an increase in long-haul cargoes to Asia as 2010 refinery runs in China and Other Asia increased while local crude oil production remained relatively constant year-over-year. There was a 50% increase in South American crude oil exports to China mainly from Brazil. Seaborne imports into China from West Africa averaged approximately one million b/d, an increase of 20% over 2009 levels. The rest of Asia's incremental seaborne crude oil imports were primarily sourced from the Middle East. Rates during 2010 also reflected a net increase in the VLCC fleet of approximately 3% as well as the return to trading late in the year of approximately 28 vessels that were previously being used as floating storage. This left 25 VLCCs continuing to store crude oil or products at the end of 2010.

Rates for VLCCs in the first quarter of 2010 averaged $45,300 per day, 12% above those in the first quarter of 2009 due to increases in long haul seaborne movements to China, in particular from West Africa and Brazil, and crude oil imports into India as refinery runs there reached a record 3.9 million b/d. These increases were somewhat offset by reduced crude oil shipments to Western destinations and an increase in available tonnage.

Rates for VLCCs in the second quarter averaged $44,300 per day, which was significantly higher than those realized in the same period in 2009. The higher rates reflected a significant increase in long-haul crude shipments from both West Africa and South America to China. Chinese imports from West Africa averaged over one million b/d during the second quarter of 2010, the first time such imports exceeded this level and representing an increase of just over

400,000 b/d compared with the second quarter of 2009. Combined imports by China from Brazil, Venezuela and Colombia averaged approximately 350,000 b/d in the second quarter, an increase of approximately 220,000 b/d over the second quarter of 2009.

Rates for VLCCs in the third quarter of 2010 averaged $10,500 per day, about 46% higher than rates realized in the same period in 2009. The main factor behind the higher rates was a significant increase in refinery runs in China that necessitated incremental long-haul movements from West Africa, South America and the Middle East, increasing tonne-mile demand.

Fourth quarter rates declined approximately 36% compared with the fourth quarter of 2009, but were slightly above rates in the third quarter of 2010. The impact of the increase in world oil demand relative to the fourth quarter of 2009 was more than offset by the entry of additional tonnage into the marketplace and an inventory drawdown that reduced tanker requirements during the fourth quarter of 2010.

OPEC crude oil production in the fourth quarter of 2010 averaged approximately 29.5 million b/d, which was 600,000 b/d above levels in the fourth quarter of 2009. Additionally, Brazil increased exports to both Asia and the U.S. by approximately 100,000 b/d relative to the same timeframe in 2009

Refinery runs in China reached a record level of 9.1 million b/d in December and averaged 8.9 million b/d in the fourth quarter of 2010, spurred by strong demand for diesel oil. Diesel demand rose primarily due to the increased use of generators following power rationing by the Chinese Government as it tried to meet emission targets in its current five-year plan. Higher refinery runs in China were somewhat offset by lower refinery throughput levels in India due to maintenance activities.

The world VLCC fleet stood at 526 tankers (159.7 million dwt) at December 31, 2010. The VLCC fleet included 23 single hull tankers representing about 5% of the trading fleet. The year-end 2010 VLCC orderbook totaled 191 vessels (59.9 million dwt) representing 38% of the existing VLCC fleet, based on deadweight tons.

International Flag Suezmaxes

Spot Market TCE Rates
Suezmaxes in the Atlantic*

	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
Average	$30,500	$30,000	$10,500	$17,200	$22,000	$21,000	$59,800
High	$64,000	$50,000	$21,000	$31,000	$64,000	$49,200	$140,000
Low	$16,400	$16,000	$4,000	$4,900	$4,000	$2,000	$18,400

* Rates based on West Africa to the U.S. Gulf Coast

Average rates for Suezmax tankers in 2010 increased 5% from 2009, benefiting primarily from incremental crude oil movements from North Africa to both China and the U.S. and from Brazil to U.S. Gulf Coast refiners. However, these positive factors were offset by a more than 5% net increase in the Suezmax fleet and the return to trading in early 2010 of 20 Suezmax tankers that were previously used for floating storage.

Rates during the first quarter averaged $30,500 per day, approximately 19% less than the corresponding year ago quarter due primarily to an increase in the size of the Suezmax fleet and to a reduction in crude oil exports from Russian ports. Higher domestic demand in Russia combined with maintenance at Primorsk and stormy weather in the Black Sea were the main factors behind the decline. In addition, Russia began to redirect its crude exports away from its Western ports to its Pacific Coast port of Kozmino to meet the growing demand for oil in the Pacific Basin, which is primarily an Aframax trade.

Rates in the second quarter of 2010 averaged $30,000 per day, 70% higher than rates in the second quarter of 2009. An increase in Nigerian crude oil production of approximately 200,000 b/d resulted in increased shipments to the U.S. Suezmax demand out of the Black Sea declined due to the opening of Russia’s new Kozmino terminal.

Third quarter 2010 rates were approximately 10% higher than the comparable period in 2009 as Nigerian crude oil production reached 2.1 million b/d, about 400,000 b/d higher than the same period in 2009. Consequently, U.S. imports of Nigerian crude rose by approximately 17% compared with the third quarter of 2009. Most of this increase went to the U.S. East Coast and was carried primarily in Suezmaxes. This positive factor was offset by the simultaneous entry into the marketplace of both newbuildings and tankers previously used for storage that created more-than-ample tonnage availability and forced some owners to employ their tankers at below cash breakeven levels.

Fourth quarter rates averaged $17,200 per day, approximately 10% below those in the fourth quarter of 2009 despite tight tonnage balances caused by transit delays in the Bosporus Straits of approximately three weeks. Significant competition from VLCCs for West African OPEC cargoes weighed on rates in both of these sectors. Additionally,

there were no Suezmax tankers used for floating storage in the fourth quarter of 2010 compared with approximately 20 Suezmax newbuildings that were used as floating storage for clean products in the fourth quarter of 2009.

The world Suezmax fleet totaled 411 tankers (63.1 million dwt) at December 31, 2010 of which there were 15 single hull tankers that represented approximately 4% of the fleet, based on deadweight tons. The year-end 2010 Suezmax orderbook totaled 158 vessels (24.6 million dwt) representing 39% of the existing Suezmax fleet, based on deadweight tons.

International Flag Aframaxes

	Spot Market TCE Rates Aframaxes in the Caribbean*						
	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
Average	$22,000	$20,400	$12,200	$14,300	$17,200	$12,200	$42,900
High	$41,000	$35,700	$30,500	$29,100	$41,000	$73,000	$95,000
Low	$11,300	$6,100	$5,700	$3,500	$3,500	$1,000	$5,200

* Based on Caribbean to the U.S. Gulf and Atlantic Coasts

Rates for Aframaxes operating in the Caribbean averaged $17,200 per day during 2010, an increase of 42% compared with 2009. Higher 2010 rates were largely due to higher refining margins in both the U.S. and Europe that resulted in increased refinery runs with crude imports supplied primarily from shorter-haul sources. Rates also benefited from two new Aframax export terminals in 2010. The Kozmino terminal on Russia's Pacific Coast exported an average 300,000 b/d of crude oil to Asian destinations while the Kulevi export terminal in Georgia was enlarged in the middle of the year to take Aframax-size cargoes. Expansion of the Aframax fleet remained a dampening factor, however, as net tonnage increased by more than 6% in 2010.

Rates during the first quarter of 2010 averaged $22,200 per day, a decrease of 9% from the first quarter of 2009. Refining levels in both the U.S. and Europe decreased and production declined in the North Sea, a key Aframax loading area.

Rates during the second quarter of 2010 averaged $20,400 per day, more than double the second quarter of 2009 as refiners in both the U.S. and Europe increased refinery runs in response to higher margins and as maintenance ended, lifting demand for shorter-haul movements. Relatively strong demand for dirty products attracted coated Aframaxes, which ordinarily haul clean products, into the crude and fuel oil trades, adversely impacting Aframax rates. Faced with a sizable number of new Aframax tankers that entered the market in the second quarter, limited clean storage opportunities and limited availability of Asian gas oil cargoes to ship west, new tankers were forced to compete with existing tonnage for dirty cargoes on their maiden voyages.

Rates during the third quarter of 2010 averaged $12,200 per day, more than triple rates in the third quarter of 2009. The increase in refining margins in the U.S. and Europe late in the second quarter gave refiners an incentive to increase their throughput early in the third quarter of 2010. Refinery utilization levels in the U.S. averaged 89% during the third quarter compared with 84% during the same timeframe in 2009. Short haul crudes, specifically crude oil from Colombia and, to a lesser extent, from Venezuela and Mexico, were imported to take advantage of the favorable refining margins that existed at the time.

Fourth quarter 2010 rates were 22% above those in the fourth quarter of 2009, benefiting from weather-related delays in the Bosporus and Baltic areas as well as from delays caused by a strike by port workers that began in late September at Fos/Lavera, which is a major conduit for oil imports into France, Switzerland and Germany. The port strike resulted in longer waiting times for tankers discharging cargoes. When the strike ended in late October there were approximately 60 tankers (40 crude and 20 product) waiting to discharge their cargoes, reducing the availability of Suezmax, Aframax and Product Carrier tonnage and positively impacting freight rates. Demand for Aframax tonnage was also positively impacted as refinery utilization levels in the U.S. increased to 84% from 81% in the fourth quarter of 2009. Additionally, refining runs increased in Europe in November and December, as refineries that were closed or running at reduced capacity levels due to the strike at Lavera resumed normal operations.

The world Aframax fleet totaled 881 vessels (93.1million dwt) as of December 31, 2010, including 35 single hull tankers representing 4% of the fleet, based on deadweight tons. The Aframax orderbook stood at 142 vessels

(15.6 million dwt) at December 31, 2010, representing 17% of the existing Aframax fleet, based on deadweight tons.

International Flag Panamaxes

	Spot Market TCE Rates Panamaxes—Crude and Residual Oils*						
	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
Average	$16,300	$16,300	$10,600	$10,500	$13,400	$13,100	$32,400
High	$24,900	$22,600	$19,400	$22,300	$24,900	$38,000	$53,800
Low	$3,500	$6,700	$3,000	$900	$900	$0	$14,300

* Based on 50% Caribbean to the U.S. Gulf and Atlantic Coasts and 50% Ecuador to the U.S. West Coast

Rates for Panamaxes averaged $13,400 per day during 2010, an increase of 2% compared with 2009. A February earthquake in Chile caused damage to its refining infrastructure, resulting in Ecuadorian crude oil shipments that would have ordinarily gone to Chile being diverted to the U.S., a longer-haul destination, which was supportive of rates. Most other shipping pattern changes affecting Panamxes, however, were not as favorable. The trend toward increasing economies of scale continued as charterers combined stems and utilized larger size tankers (both Aframaxes and Suezmaxes) to move cargoes usually carried on Panamax vessels. The shutdown of Valero's Aruba refinery since mid-2009 resulted in lost employment opportunities for Panamax vessels during this time. Increased shipments of Russian crude oil from the port of Kozmino to the U.S. West Coast and an increase in the Panamax fleet of 2% during 2010 also adversely impacted rates.

Rates during the first quarter averaged $16,300 per day, 23% lower than the first quarter of 2009. Muted demand for crude and fuel oil on both sides of the Atlantic Basin led to an oversupply of Panamaxes in the Caribbean. Additionally, charterers were able to benefit from economies of scale by combining cargoes on Aframaxes.

Rates during the second quarter averaged $16,300 per day, 17% above the corresponding quarter in 2009. The earthquake in Chile that caused damage to its refineries curtailed crude oil import requirements but increased Chile's need to import more oil products. Ecuadorian crude oil normally sent to Chile was diverted to longer-haul U.S. West and Gulf Coast refineries, increasing tonne-mile demand.

Rates during the third quarter averaged $10,600 per day, approximately 24% higher than in the corresponding quarter of 2009. The Panamax trade was subdued in the third quarter due to heightened competition from the Aframax market, which kept pressure on rates. The lack of opportunities in other Panamax markets provided little incentive for owners to leave the Caribbean to seek cargoes elsewhere. More cargoes from Ecuador ultimately destined for the U.S. West Coast (a 21-day voyage) were instead delivered to storage facilities in Panama (a five-day voyage), where cargoes were combined and larger tankers used to transport cargoes to U.S. West Coast refineries.

Fourth quarter rates were 22% higher than those in the fourth quarter of 2009, bolstered by a strong December as refiners in both Europe and the U.S. responded quickly to higher refining margins by seeking crude oil from shorter-haul sources, boosting Panamax and Aframax demand. Panamax rates were also buoyed by delays resulting from the one-day closure of the Panama Canal in early December.

Increased shipments of Russian crude oil during 2010 from the port of Kozmino to the U.S. West Coast adversely impacted Panamax requirements. Increased Russian crude oil deliveries on Aframax tonnage precluded Panamax movements from Vancouver and reduced the number of VLCC voyages to the West Coast, which also limited lightering opportunities for Panamaxes.

The world Panamax fleet at December 31, 2010 stood at 433 vessels (30.4 million dwt), including 26 single hull vessels representing 6% of the current Panamax fleet, based on deadweight tons. The orderbook of 89 vessels (6.4 million dwt) at December 31, 2010 represented 21% of the existing fleet based on deadweight tons.

International Flag Handysize Product Carriers

	Spot Market TCE Rates Handysize Product Carriers*						
	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
Average	$9,600	$6,500	$7,700	$6,400	$7,600	$5,900	$20,800
High	$17,400	$11,900	$18,500	$16,500	$18,500	$18,200	$35,800
Low	$4,900	$1,700	$2,900	$2,600	$1,700	$0	$7,700

* Based on 60% trans-Atlantic and 40% Caribbean to the U.S. Atlantic Coast

Rates for Handysize Product Carriers operating in the Caribbean and trans-Atlantic trades averaged $7,600 per day in 2010, 28% above 2009 rates The higher rates in 2010 primarily reflected a worldwide increase in diesel movements, including a significant increase in diesel exported from U.S. Gulf Coast refineries to Latin America and Europe.

Rates during the first quarter of 2010 averaged $9,600 per day, 13% below rates in the first quarter of 2009. The decline in rates reflected a decrease in trans-Atlantic and Caribbean-to-U.S. East and Gulf Coast product movements. The shutdown of Valero's Aruba refinery since mid-2009 has resulted in the elimination of approximately 120,000 b/d of product exports to the U.S. The Aruba refinery is scheduled to commence operations in the first half of 2011 and should provide employment for Panamax tankers moving crude oil to Aruba and for Product Carriers moving products from Aruba to both U.S. and Latin American destinations. An increase in product imports to both Chile and Argentina in March from the U.S. Gulf Coast provided some support for freight rates. The February earthquake in Chile damaged its only two refineries. Additionally, strong gasoline demand in Argentina resulted in imports of about 300,000 b/d in March from the U.S. Gulf Coast, the first time that Argentina has imported gasoline in 30 years.

Rates during the second quarter of 2010 averaged $6,500 per day, about 4% below those in the second quarter of 2009. Lower rates reflected a reduction in refinery utilization in Europe due to both lower demand for oil products and an increase in refinery maintenance activities, especially in April and May. The reduction in refinery utilization levels in Europe resulted in less gasoline being produced and available for trans-Atlantic shipment. There was also a drawdown of middle distillates stored on tankers in close proximity to Europe, which reduced European diesel oil import requirements. Somewhat offsetting these negative events were an increase in imports of clean products into the Caribbean and Latin America regions, where refining activity declined due to both planned maintenance and unanticipated refinery outages.

Rates during the third quarter averaged $7,700 per day, more than twice the average of the third quarter of 2009. An increase in middle distillate demand in Latin America in conjunction with unexpected refinery downtime in the Caribbean and South America created an arbitrage opportunity for imports into this area. U.S. refiners produced incremental volumes of diesel that were exported from Gulf Coast refineries to both Latin America and Europe, benefiting product tanker rates. There were also additional movements from Asia into Latin America to meet rising distillate demand. However, trans-Atlantic movements of gasoline from Europe to the U.S. were subdued as U.S. refining runs in the third quarter were at a high enough level to meet gasoline demand without the need for additional imports.

Rates in the fourth quarter of 2010 were more than double those in the same timeframe in 2009. Rates benefited from strong middle distillate demand in China that resulted in a significant increase in intra-Asian diesel imports into China. Higher refinery runs at U.S. Gulf Coast refineries enabled diesel exports to increase to over 800,000 b/d in the fourth quarter from approximately 515,000 b/d in the fourth quarter of 2009. In Europe, an increase in refining runs in November and December following the conclusion of the port strike at Lavera resulted in an increase in gasoline exports to West Africa and the U.S. East Coast.

The world Handysize fleet reached 1,524 vessels (65.9 million dwt) at December 31, 2010, including 123 single hull tankers that comprised 7% of the total Handysize fleet, based on deadweight tons. The orderbook at year-end 2010 stood at 251 vessels (11.9 million dwt) representing 18% of the existing Handysize fleet, based on deadweight tons.

U.S. Flag Jones Act Product Carriers and Articulated Tug Barges ("ATBs")

	Average Spot Market TCE Rates						
	Q1-2010	Q2-2010	Q3-2010	Q4-2010	2010	2009	2008
45,000 dwt Tankers	$34,300	$40,900	$39,600	$38,700	$38,400	$36,650	$45,025
30,000 dwt ATBs	$23,300	$27,300	$26,200	$25,500	$25,400	$24,850	$27,100

Jones Act Product Carrier and ATB rates in 2010 were 5% and 2%, respectively, higher than in 2009. The improvement in spot rates primarily reflected higher U.S. refinery utilization levels, which rose from 83% in 2009 to 86% in 2010, and a reduction in tonnage.

Rates for Jones Act Product Carriers and ATBs averaged $34,300 per day and $23,300 per day, respectively, during the first quarter, down approximately 25% from the first quarter of 2009. U.S. Gulf Coast refinery utilization rates were 82% in the first quarter compared with 83% in the first quarter of 2009, limiting the availability of oil product cargoes. The decreased supply of cargoes in the spot market resulted in eight vessels (about 12% of the fleet) being in lay-up at the end of the first quarter.

Rates for Jones Act Product Carriers and ATBs during the second quarter averaged $40,900 per day and $27,300 per day, respectively, and were 28% and 23%, respectively, higher than those in the second quarter of 2009. The higher rates reflected an increase in demand for oil products in the U.S., higher refinery utilization rates in the Gulf Coast region and a reduction in the number of tankers operating in the marketplace. Second quarter U.S. oil demand increased by 500,000 b/d compared with the second quarter of 2009 while U.S. Gulf Coast refinery utilization rates averaged over 90%, the first time this level was attained since the third quarter of 2007. The Jones Act Product Carrier fleet of tankers, ATBs and ITBs ("Integrated Tug Barges") declined to 62 vessels at the end of the second quarter from 66 vessels operating at the end of 2009.

Rates for Jones Act Product Carriers and ATBs averaged $39,600 per day and $26,200 per day, respectively, during the third quarter, approximately 20% and 14% above their respective third quarter 2009 rates. U.S. Gulf Coast refinery utilization rates in the third quarter averaged 91% compared with 86% in the third quarter of 2009. This resulted in an increase in inventory levels as well as an increase in middle distillate exports. An accident at Mexico's Cadereyta refinery in early September damaged production units, reducing throughput volumes. To compensate for this reduction in throughput volumes, additional quantities of gasoline were moved on ATBs from Gulf Coast refineries into Brownsville, Texas for uploading into a product pipeline that runs into Mexico.

Rates for Jones Act Product Carriers and ATBs during the fourth quarter averaged $38,700 per day and $25,000 per day, respectively, approximately 11% and 5%, respectively, higher than fourth quarter 2009 rates. The increase in rates reflected higher U.S. Gulf Coast refinery utilization rates, increased movements to the Northeast and a reduction in fleet size. In response to higher refining margins, U.S. Gulf Coast refinery utilization reached 90% in December and averaged 88% in the fourth quarter compared with an average of 83% in the corresponding quarter in 2009. Maintenance at a refinery in Canada, which typically ships products to the Northeast, created demand for Jones Act Carriers to carry additional cargoes from the U.S. Gulf to the U.S. Northeast. Additional gasoline shipments were also made to Brownsville for uploading into a product pipeline that runs into Mexico. These factors, and a decrease in the size of the fleet from 66 vessels in the fourth quarter of 2009 to 60 vessels in the fourth quarter of 2010, contributed towards the improvement in rates.

The Delaware Bay lightering business transported an average of 224,000 b/d during 2010, an increase of 7% from the 210,000 b/d transported in 2009. Increased refinery margins late in the second quarter and again late in the fourth quarter led to increased refinery utilization rates and lightering volumes from June through August and again in

December. Currently, the Delaware City and Eagle Point refineries on the U.S. East Coast remain shut. The increase in lightering volumes reflected higher demand from other refineries operating on the U.S. East Coast. The Delaware City refinery, sold by Valero to PBF Holding Company LLC, is now undergoing significant maintenance, but is expected to restart operations during the first half of 2011 and could benefit Delaware Bay lightering activities in 2011.

As of December 31, 2010, the total Jones Act Product Carrier fleet of tankers, ATBs and ITBs consisted of 60 vessels. Seven vessels entered the fleet during 2010 while thirteen vessels were scrapped. The Jones Act Product Carrier orderbook for deliveries scheduled through 2014 consists of eight tankers and barges in the 160,000 to 420,000 barrel size range. These additions will be offset by the scrapping of seven tankers that will reach their OPA-90 phase-out dates and one double-hull vessel that will reach 35 years of age during this period.

Outlook

The global economy during 2010 grew at a much higher-than-expected rate, pushing oil demand growth to 2.8 million b/d. Economic growth is forecast to continue through 2011, albeit at a less robust pace, prompting the International Energy Agency (“IEA”) to forecast a more moderate oil demand growth rate for 2011 of 1.5 million b/d. This forecast would result in two consecutive years of oil demand increases totaling 4.2 million b/d following consecutive annual declines in 2008 and 2009 totaling 1.7 million b/d.

Except for OECD Europe and OECD Pacific, oil demand is expected to increase in all areas of the world in 2011. The IEA forecasts that oil demand in China will increase by a still strong 570,000 b/d in 2011, after growing by one million b/d in 2010, and by 300,000 b/d in Other Asia, after growing by 290,000 b/d in 2010. Refining capacity in Asia is forecast to grow in line with oil demand growth and will require increased volumes of imported oil from West Africa, South America and the Middle East as Asian oil production is forecast to remain at 2010 levels. Approximately 90% of total crude oil imports into China result from seaborne movements, primarily on VLCCs. The IEA also predicts that oil demand will rise by 240,000 b/d in the Middle East, 200,000 b/d in Latin America and 120,000 b/d in the Former Soviet Union (“FSU”) that will boost crude and product movements and increase tonne-mile demand in 2011.

Non-OPEC production is expected to increase by approximately 660,000 b/d in 2011 as production declines in the U.S., Mexico and the North Sea are more than offset by increased production in Brazil, Colombia, the FSU and Ghana, where the new Jubilee field will go into production

The call on OPEC production is forecast to increase by approximately one million b/d during 2011 as the forecast 1.5 million b/d increase in world oil demand exceeds the projected 660,000 b/d increase in non-OPEC production. Most of the OPEC surplus production is located in the Middle East, which should result in additional long-haul movements to both Asia and the Western Hemisphere and a commensurate increase in tonne-mile demand.

Crude inventory levels in 2011 are forecast to slightly increase from end of year 2010 levels and will provide the necessary throughput for incremental refining capacity that is expected to come on line. China's ongoing program to increase its strategic crude oil reserves will also contribute toward the buildup in inventories. It is anticipated that these additions to inventories will have a positive impact on tonne-mile demand during 2011.

There are also some notable events that will benefit both crude oil and product tanker demand during 2011. The startup of the Aruba refinery during 2011 will generate incremental shipments of short-haul crudes from Venezuela and Mexico that will benefit Aframax and Panamax demand in the Caribbean. Feedstocks produced in Aruba will move to the U.S. Gulf and East Coasts while refined products will go to Latin America. The startup of the Delaware City refinery during 2011 will increase crude oil imports into the U.S. East Coast that will stimulate demand for crude oil tankers as well as lightering operations in the Delaware Bay area.

Fundamentals in the U.S. Flag tanker markets are also forecast to improve in the next few years. The increase in refinery expansion projects on the U.S. Gulf Coast, including the 180,000 b/d Marathon refinery expansion in 2010 and the 325,000 b/d Motiva refinery expansion project that is scheduled to commence operations during 2012, will increase clean product volumes available for transport on Jones Act vessels to Florida and the South Atlantic region. In addition, incremental mid-continent refinery capacity expansion will reduce product movements from Gulf Coast refineries to the Midwest resulting in increased seaborne product movements. Higher demand combined with a stable fleet through 2014 should benefit rates in this time period.

Improved fundamentals are also foreseen for the Product Carrier market. Growth in tonne-mile demand is expected to exceed the 3% per year average growth in tonnage supply in the 2011 through 2014 timeframe, ameliorating the

current oversupply situation. Long-haul product shipments from India to Europe and the U.S., as India's export capacity increases, will contribute to growth in tonne-mile demand. Increasing world demand for diesel should provide arbitrage opportunities for exports from the U.S. Gulf Coast refineries to Europe and South America where there is a growing diesel deficit. Diesel exports on Handysize Product Carriers are longer haul trades resulting in increased tonne-miles. Growth in naphtha demand in Asia will require additional shipments from the Middle East while product demand growth in Asia will generate additional intra-Asian movements.

While the outlook for crude tonne-mile demand in 2011 is positive, it may not be sufficient to offset the anticipated increase in crude tanker supply of 7% to 9%, depending on the number of order cancellations and deliveries that are deferred into later years. Crude oil tonne-mile demand is forecast to increase by between 4% and 6% in 2011, somewhat less than the growth in tanker supply. Today's high bunker prices of over $500 per ton provide an incentive for slow steaming, an action that would reduce bunker consumption, reduce emissions and increase tanker utilization rates. While current crude futures prices do not support holding oil in storage, the new sanctions against Iran make it more difficult for Iran to market its crudes. Should Japan and Europe decide to cut back crude oil imports from Iran, more tankers may need to be utilized for storage purposes, which would absorb some of the existing surplus tonnage and be somewhat supportive of 2011 rates.

The explosion that occurred on the Deepwater Horizon drilling platform on April 20, 2010 resulted in the destruction of that platform, the loss of 11 lives and a significant oil spill in the Gulf of Mexico. The ramifications from this catastrophe are still being felt, impacting deepwater drilling programs and Gulf of Mexico production levels. Development projects are being delayed as companies review new proposed regulations that would raise costs to find and produce oil from their deepwater blocks. Delays in drilling have resulted in reduced production levels relative to pre-oil spill forecasts, necessitating an increase in imports to meet demand.

Freight rates remain highly sensitive to severe weather and geopolitical events. Hurricanes in the Gulf of Mexico could have a pronounced effect on freight rates for both crude oil and product movements depending on the extent to which upstream and downstream facilities are affected. Winter-related delays in the Bosporus straits could increase tanker utilization rates. Geopolitical events, such as the presidential election in Nigeria could adversely impact oil production in the Niger delta. Escalating tensions with Iran and other regional conflicts in the Middle East, such as unrest in Egypt and Libya, could also cause changes in supply patterns that could significantly impact rates. Additionally, any changes in OPEC production quotas will have an impact on tanker utilization and rates.

UCRITICAL ACCOUNTING POLICIES

The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments, and opinions of management. Following is a discussion of the accounting policies that involve a higher degree of judgment and the methods of their application. For a description of all of the Company’s material accounting policies, see Note A to the Company’s consolidated financial statements set forth in Item 8.

Revenue Recognition
The Company generates a majority of its revenue from voyage charters, including vessels in pools that predominantly perform voyage charters. Within the shipping industry, there are two methods used to account for voyage charter revenue: (1) ratably over the estimated length of each voyage and (2) completed voyage. The recognition of voyage revenues ratably over the estimated length of each voyage is the most prevalent method of accounting for voyage revenues in the shipping industry and the method used by OSG. Under each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In applying its revenue recognition method, management believes that the discharge-to-discharge basis of calculating voyages more accurately estimates voyage results than the load-to-load basis. Since, at the time of discharge, management generally knows the next load port and expected discharge port, the discharge-to-discharge calculation of voyage revenues can be estimated with a greater degree of accuracy. 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, because it is at this time the charter rate is determinable for the specified load and discharge ports and collectibility is reasonably assured.

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. The Company does not recognize time charter revenues during periods that vessels are off hire.

For the Company’s vessels operating in commercial pools, 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. The formulas in the pool agreements for allocating gross shipping revenues net of voyage expenses are based on points allocated to participants’ vessels based on cargo carrying capacity and other technical characteristics, such as speed and fuel consumption. The selection of charterers, negotiation of rates and collection of related receivables and the payment of voyage expenses are the responsibility of the pools. The pools may enter into contracts that earn either voyage charter

revenue or time charter revenue. Each of the pools follows the same revenue recognition principles, as applied by the Company, in determining shipping revenues and voyage expenses, including recognizing revenue only after a Charter has been agreed to by both the pool and the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Vessel Lives

The carrying value of each of the Company's vessels represents its original cost at the time it was delivered or purchased less depreciation calculated using an estimated useful life of 25 years (except for FSO service vessels and new ATBs for which estimated useful lives of 30 years are used and LNG Carriers for which estimated useful lives of 35 years are used) from the date such vessel was originally delivered from the shipyard or 20 years from the date the Company's ATBs were rebuilt. Effective January 1, 2008, the Company effected a change in estimate related to the estimated scrap rate for substantially all of its vessels from $150 per lightweight ton to $300 per lightweight ton. The Company's assumptions used in the determination of estimated salvage value took into account then current scrap prices, which were in excess of $700 per lightweight ton, the historic pattern of scrap rates over the four years ended December 31, 2007, which ranged from $250 to over $500 per lightweight ton, estimated changes in future market demand for scrap steel and estimated future demand for vessels.

As of December 31, 2007, the average age for OSG's owned International Flag Fleet sectors ranged from 4.3 years to 9.2 years. The industry standard for determining the economic life-span for tankers is 25 years. The steel scrap price forecast to determine vessel salvage value was therefore based on economic assumptions and conditions that were expected to exist over a forward looking 15 to 20 year timeframe from December 31, 2007 given the current age of the Company's fleet. The strength of the world's economic growth will vary during this timeframe from periods of global recession and low commodity price levels to periods of varied economic growth where steel prices will be determined by industrial production, financing and credit availability for projects and government sponsored infrastructure investments throughout the world. Management reviewed steel plate prices in Asia and in North America from January 2000 through December of 2007 that showed a more than doubling of steel plate prices in both areas within this timeframe. Actual scrap prices were consistently priced at over $300 per lightweight ton from January 2004 through June 2008. Scrap values declined below $300 per lightweight ton towards the end of 2008, due to turmoil in the financial markets, which caused a general decline in vessel values. The scrap market also experienced a period with very little activity in 2008 as scrappers were unable to obtain letters of credit, which caused further downward pressure on prices. The weak freight markets during 2009 resulted in owners scrapping more vessels, and scrapping them earlier in their lives. During 2010, scrapping levels remained high, due to a combination of factors including the January 1, 2011 IMO phase out deadline for operating single hull tankers, low utilization rates for single hull tankers and high scrap prices. Scrap prices during 2010 ranged from $350 per lightweight ton to $500 per lightweight ton. The Company expects scrapping levels to remain high during 2011 as owners, faced with the challenges of a market where scheduled newbuild deliveries are expected to further aggravate the current oversupply of tonnage and low charter rate expectations, will likely be inclined to accelerate the disposal of older vessels within their fleets. Scrap prices are expected to remain strong during 2011 due to a backlog of demand for steel at the end of 2010 caused by the temporary closing of the Bangladesh scrapping market. Management believes that $300 per lightweight ton is a reasonable estimate of future scrap prices, taking into consideration the cyclicality of the nature of future demand for scrap steel. Although management believes that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective, in part, because of the cyclicality of the nature of future demand for scrap steel.

The Company's owned International Flag tanker fleet is 100% double hull at December 31, 2010. If the economic lives assigned to the tankers prove to be too long because of new regulations or other future events, higher depreciation expense and impairment losses could result in future periods related to a reduction in the useful lives of any affected vessels.

The U.S. has not yet adopted the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (the "Convention"). While the U.S. Environmental Protection Agency ("EPA") and the U.S. Maritime Administration ("MarAd") discuss the implications and potential adoption of this Convention, scrapping U.S. Flag vessels could become subject to additional requirements, which could negatively impact sales prices obtainable in the markets or require companies, such as OSG, to incur additional costs in order to sell U.S. Flag vessels to foreign

buyers for recycling or further trading. Currently, management believes that $300 per lightweight ton is a reasonable estimate of scrap prices for its U.S. Flag vessels.

Vessel Impairment

The carrying values of the Company's vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Historically, both charter rates and vessel values tend to be cyclical. The Company records impairment losses only when events occur that cause the Company to believe that future cash flows for any individual vessel will be less than its carrying value. The carrying amounts of vessels held and used by the Company are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount. This assessment is made at the individual vessel level as separately identifiable cash flow information for each vessel is available.

In developing estimates of future cash flows, the Company must make assumptions about future charter rates, ship operating expenses, and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate at the time they were made, such assumptions are highly subjective.

During 2008, the Company decided not to have two older U.S. Flag vessels (one Product Carrier and one ATB) undergo scheduled drydockings, which were required to continue operating such vessels. These vessels therefore ceased operating during the fourth quarter of 2008 and were placed in lay-up pending the sale of such vessels. Accordingly the Company recorded a charge of $32,597,000 to write down the carrying amount of these vessels to their estimated net fair value as of December 31, 2008.

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 reviewed the six ATBs and two tugboats for impairment based on the information known to it as of December 31, 2008. Accordingly, OSG recorded impairment charges of $105,111,000 in the fourth quarter of 2008 related to four of such ATBs.

During the third quarter of 2009, events and circumstances indicated that the four single-hulled U.S. Flag Product Carriers that have limited remaining lives due to OPA regulations that mandate their retirement between 2012 and 2013 and one 1977-built double-hulled U.S. Flag Product Carrier that had a less-efficient gas turbine engine, might be impaired. In September 2009, the charterer of one of the four single-hulled U.S. Flag Product Carriers informed OSG that they would not be renewing the time charter upon its expiry in January 2010, which caused the Company to evaluate the vessel’s future employment possibilities in light of its approaching May 2010 drydocking. Also in September, two customers that were utilizing the Overseas Diligence, a 1977-built double-hulled U.S. Flag Product Carrier, according to Contracts of Affreightment to perform lightering services in Delaware Bay, announced restructurings of their refinery operations, which would reduce lightering volumes, causing the Company to evaluate the possibility of removing the vessel from lightering service prior to its required June 2010 drydocking. These facts, combined with continued weak market conditions, caused the Company to review all five vessels, which had an aggregate net book value of $45,602,000 as of September 30, 2009, for impairment. The estimates of the undiscounted future cash flows for the Overseas Diligence and one of the single-hulled vessels (Overseas Philadelphia) did not support recovery of such vessels’ carrying value. Accordingly, the Company recorded an impairment charge of $12,500,000 to write down their carrying values to their estimated net fair values as of September 30, 2009, using estimates of discounted future cash flows for each of the vessels. The estimates of undiscounted cash flows for each of the remaining three single-hulled vessels indicated that their carrying amounts were recoverable at that time.

During the first quarter of 2010, the Company determined that the continued weak conditions in the U.S. Flag markets represented an impairment indicator. The Company again reviewed future cash flows for the five U.S. Flag vessels discussed in the preceding paragraph. The Company considered the then-current market values and the scheduled 2010 drydockings on two of the single-hulled tankers in evaluating prospects for continued operation of such vessels. The estimates of the undiscounted cash flows for one single-hulled vessel (Overseas Galena Bay) scheduled to drydock in 2010 and the Overseas Diligence did not support recovery of such vessels’ carrying value. Accordingly, the Company recorded an impairment charge of $3,607,000 (principally attributable to the Overseas Galena Bay) to write-down their carrying values to their estimated net fair values as of March 31, 2010, using estimates of discounted future cash flows for each of the vessels. The estimates of undiscounted cash flows as of March 31, 2010 for each of the remaining three single-hulled vessels indicated that their carrying amounts were recoverable at that time.

During the second quarter of 2010, the Company continued to experience difficulty employing its four single-hulled U.S. Flag vessels. The April 2010 explosion and sinking of the drilling rig, Deepwater Horizon, and the subsequent oil spill in the Gulf of Mexico resulted in proposed legislation that is expected to impact drilling and transportation services in the Gulf of Mexico. In addition, discussions were held with regulators and the Delaware Bay lightering customers concerning the future composition of the U.S. Flag lightering fleet and the requirement for vessels to have vapor-balancing capabilities. As a result of these two developments, the Company concluded that impairment indicators were present and again performed an impairment analysis for its four single-hulled U.S. Flag vessels and, for the first time the OSG Constitution/OSG 400, a 1981-built U.S. Flag ATB engaged in lightering in Delaware Bay. One of the four single-hulled vessels (Overseas Philadelphia) was delivered to buyers on July 1, 2010. The Company's estimate of undiscounted future cash flows for the other four U.S. Flag vessels included its expectation for future market rates, a reduced likelihood of future employment opportunities, the timing and cost of upcoming drydockings in 2010 and 2011, the potential cost of modifications to the ATB engaged in lightering and the potential impact of legislation described above. The Company's estimates of undiscounted future cash flows for three of its four single-hulled vessels, including the one sold in July, and the lightering ATB did not support recovery of such vessels' carrying values at June 30, 2010. Accordingly, the Company recorded an impairment charge of $12,446,000 (principally attributable to the lightering ATB and two single-hulled vessels for which a write-down had not been previously taken) to write-down their carrying values to their estimated fair values at June 30, 2010.

During March 2010, OSG was informed by one of the major refineries along the U.S. Gulf that it would no longer accept the Company's two single-hulled Aframaxes employed in the International Crude Tankers segment's lightering business, commencing April 1, 2010. OSG has a 50% interest in the residual value of these two Aframaxes, which are chartered-in. These single-hulled Aframaxes are not subject to the IMO phase out until 2013. The Company considered the impact of the resulting likely reduction in utilization on estimated future charter rates and was in the process of considering alternate employment or use for these vessels, which have additional features compared with standard Aframaxes. The estimates of the undiscounted future cash flows as of March 31, 2010 for these two vessels indicated that their carrying amounts at March 31, 2010 were recoverable. During the second quarter, both of these vessels had substantial idle time awaiting employment. In addition, the Company reconsidered its ability to employ these two single-hulled Aframaxes in lightering in the Gulf of Mexico after the explosion and sinking of the Deepwater Horizon, also taking into consideration proposed legislation that would have banned single hull tankers from serving lightering zones in the Gulf of Mexico effective January 1, 2011. These events also exerted downward pressure on prospective rates for alternative employment for these vessels. Given the revised employment outlook for these two vessels, the Company reevaluated the prospects for drydocking these vessels in 2011 and renewing the charters upon their expiry in 2011 and no longer considered it likely that these charters will be extended. Based on its evaluation of undiscounted future cash flows, the Company concluded that both single-hulled Aframaxes were impaired at June 30, 2010. Accordingly, the Company recorded an impairment charge of $12,730,000 to write-down the carrying values of the intangible assets and costs related to the charters to their estimated fair values at June 30, 2010.

The Company continued to experience difficulty in employing its three remaining single-hulled U.S. Flag vessels (one of which was delivered to buyers in November 2010 and another that is scheduled for delivery to buyers during the first half of 2011) and the two chartered-in single-hulled International Flag Aframaxes engaged in lightering in the U.S. Gulf (one of which was delivered to buyers in December 2010) during the third and fourth quarters of 2010. However, no additional information was identified during the six-month period ended December 31, 2010 that would suggest that the assumptions used in the Company's June 30, 2010 evaluation of the future cash flows for the two unsold vessels discussed above have changed. Accordingly, no impairment tests were performed as of December 31, 2010. It is possible that the Company's estimates of undiscounted cash flows may change in the future, resulting in the need for additional write-downs of one or more of the vessels discussed above.

TCE revenues across the International Flag Tanker fleet were lower on average in 2010 compared with 2009. This was less to do with lower spot rates, but more a factor of vessels coming off of charters that had been fixed in periods of higher TCE rates. The Company does not view the lower TCE rates as an event that would be an indicator of potential impairment of its tankers. The tankers remain fully utilized and have relatively long average remaining useful lives (ranging from 16 to19 years) in which to recover sufficient cash flows to offset their carrying values as of December 31, 2010. The lower TCE rates in 2010 are viewed by management as part of a longer term economic cycle. Despite management's view that a triggering event did not take place in 2010, the Company did review a representative sample of newbuildings and older tankers operating in the International Crude Tankers and International Product Carriers segments for potential impairment. The Company concluded that the future revenue streams expected to be earned by such vessels over their remaining operating lives would be sufficient to recover their carrying values. Management will continue to monitor developments in charter rates in the markets in which it participates with respect to the expectation of future rates over an extended period of time that are utilized in the analyses.

Goodwill and Intangible Assets

The Company allocates the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as customer relationships, are being amortized. The allocation of purchase price to intangible assets and goodwill may significantly affect our future operating results due to the amortization of such intangible assets and potential impairment charges related to goodwill.

Goodwill and indefinite lived assets are not amortized, but reviewed for impairment. The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows.

The Company tests the goodwill in its reporting units for impairment at least annually, or more frequently if impairment indicators arise, by comparing the estimated fair value of each operating segment with its net book value. OSG derives the fair value of each of its reporting units primarily based on discounted cash flow models. The process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment with respect to estimates of future cash flows expected to be generated and the appropriate discount rate to value these cash flows. The discounted cash flow models incorporate revenue assumptions based on actual existing contracts and historical utilization rates for vessels not under contract. The related costs and expenses are consistent with the Company's historical levels to support revenue growth. The weighted average cost of capital reflects the risks associated with the underlying cash flows taking into consideration both the industry and general economic conditions at the time of testing.

In the fourth quarter of 2008, the economic downturn resulted in a number of market-related events that were expected to negatively impact the Company's U. S. Flag operations in the near and medium-term. Lower demand for refined petroleum products in North America resulted in a number of major refining companies reducing capacity throughout the Gulf of Mexico. The reduction in planned refining expansion projects reduced future volumes of clean products that had been forecast to move on Jones Act tankers. Recessionary forces also resulted in unfavorable changes in trading patterns, as refiners shifted to higher margin low sulfur diesel for export, resulting in an adverse impact on tonne-mile demand in the Jones Act market and associated rates. As a result of this deterioration in the forward supply/demand balance of the Jones Act market and the reduction in the Company's U.S. Flag newbuilding program, the Company reduced its estimates of future cash flows to measure fair value and, accordingly, recorded an impairment charge of $62,874,000, representing the full value of the goodwill related to the U.S. Flag reportable segment in the fourth quarter ended December 31, 2008.

The goodwill remaining on the consolidated balance sheet at December 31, 2010 relates to the lightering business in the International Crude Tankers reportable segment. The Company performed its annual goodwill impairment testing as of April 1, 2010. This evaluation did not result in an impairment charge being recognized in 2010. Furthermore, the fair value of the lightering business was substantially in excess of its carrying value as of the impairment testing date. The Company has concluded that there have been no triggering events since the second quarter impairment test date that would require an interim test for goodwill impairment as of December 31, 2010.

Market Value of Marketable Securities

The Company's holdings in marketable securities are classified as available-for-sale and, therefore, carried on the balance sheet at fair value (determined using period-end sales prices on U.S. or foreign stock exchanges) with changes in carrying value recorded in accumulated other comprehensive income/(loss) until the investments are sold. Accordingly, these changes in value are not reflected in the Company's statements of operations. If, however, the Company determines that a material decline in fair value below the Company's cost basis is other than temporary, the Company would record a noncash impairment loss in the statement of operations in the period in which that determination is made. As a matter of policy, the Company evaluates all material declines in fair value for impairment whenever the fair value of a stock has been below its cost basis for six consecutive months. In the period in which a material decline in fair value is determined to be other than temporary, the carrying value of that security would be written down to its fair value at the end of such period, thereby establishing a new cost basis.

During 2009, the decrease in the market value of its marketable securities was considered other-than-temporary and resulted in an impairment charge to earnings of $5,151,000, which charge previously had been included in

accumulated other comprehensive income/(loss). At December 31, 2009, the fair value of the Company's marketable securities had declined below its newly established cost basis of $1,037,000. This decline has been recorded in accumulated other comprehensive income/(loss) because the decline in value was not considered to be other-than-temporary since the market value of the securities had not been below its cost basis for six consecutive months.

During 2010, the decrease in the market value of its marketable securities was considered other-than-temporary and resulted in additional impairment charges of $656,000. At December 31, 2010, the fair value of the Company's marketable securities was above its newly established cost basis of $381,000.

Drydocking

Within the shipping industry, there are two methods that are used to account for dry dockings: (1) capitalize drydocking costs as incurred (deferral method) and amortize such costs over the period to the next scheduled drydocking, and (2) expense drydocking costs as incurred. Since drydocking cycles typically extend over two and a half years or longer, management believes that the deferral method provides a better matching of revenues and expenses than the expense-as-incurred method.

Deferred Tax Assets and Valuation Allowance

The carrying value of the Company's deferred tax assets is based on the assumption that the Company will generate sufficient taxable income in the future to permit the Company to take deductions. Each quarter, management evaluates the realizability of the deferred tax assets and assesses the need for a valuation allowance. Any increase in the valuation allowance against deferred tax assets will result in additional income tax expense in the Company's statement of operations. During 2008, the Company established a valuation allowance of $48,031,000 against the deferred tax assets resulting from the write-down of vessels in the fourth quarter of 2008 and from net operating loss carryforwards arising in 2008. The valuation allowance was established because the Company could not determine that it was more likely than not that the full amount of the deferred tax asset would be realized through the generation of taxable income in the future. The valuation allowance was recorded as a reduction in the income tax benefit in the accompanying consolidated statement of operations for the year ended December 31, 2008. On November 6, 2009, the President of the U.S. signed the Worker, Homeownership, and Business Assistance Act of 2009. This law included a provision allowing taxpayers to elect an increased carryback for net operating losses incurred in either 2008 or 2009. As a result of this change in the law, the write-down of certain vessels taken in 2008, which losses were 2009 events for tax purposes, was included in a net operating loss carryback from 2009 against earnings generated in 2004. The valuation allowance associated with these deferred tax assets aggregating $21,624,000 was accordingly reversed since realization was probable. The Company has also established valuation allowances of $6,413,000 against deferred tax assets originating in 2009 and another $27,518,000 against a net operating loss carryforward and other deferred tax assets arising in 2010.

Pension Benefits

The Company has recorded pension benefit costs based on complex valuations developed by its actuarial consultants. These valuations are based on key estimates and assumptions, including those related to the discount rates used and the rates expected to be earned on investments of plan assets. OSG is required to consider market conditions in selecting a discount rate that is representative of the rates of return currently available on high-quality fixed income investments. A higher discount rate would result in a lower benefit obligation and a lower rate would result in a higher benefit obligation. The expected rate of return on plan assets is management's best estimate of expected returns. A decrease in the expected rate of return will increase net periodic benefit costs and an increase in the expected rate of return will decrease benefit costs.

In connection with the acquisition of Maritrans in November 2006, the Company assumed the obligations under the noncontributory defined benefit pension plan that covered eligible employees of Maritrans ("the Maritrans Plan"). The Company froze the benefits payable under the Maritrans Plan as of December 31, 2006. The selection of a discount rate for the Maritrans Plan for all reporting periods between 2006 and December 31, 2008, was based on the assumption that the plan would be terminated and all eligible participants would receive insurance company annuities when all necessary approvals were obtained. The Company, however, has not secured such insurance annuities due largely to the impact of the historically low long-term interest rates on the cost of obtaining such annuities. Accordingly, at December 31, 2010 and 2009, the Company used discount rates of 5.25% and 5.5%, respectively, which it believed as of such dates, to be appropriate for ongoing plans with a long duration, such as the Maritrans Plan. The Company also assumed a long term rate of return of on the Maritrans Plan assets of 6.75%. The actual return achieved over the past year was well in excess of 7%. Based on the current asset mix, Management believes the probability of achieving a long-term return of 6.75% over the remaining duration of the Maritrans Plan is more likely

than not.

Certain of the Company's foreign subsidiaries have pension plans that, in the aggregate, are not significant to the Company's financial position.

Newly Issued Accounting Standards

See Note A to the Company's consolidated financial statements set forth in Item 8.

INCOME FROM VESSEL OPERATIONS

Reliance on the spot market contributes to fluctuations in the Company's revenue, cash flow, and net income, but affords the Company greater opportunity to increase income from vessel operations when rates rise. On the other hand, time and bareboat charters provide the Company with a predictable level of revenues. During 2010, results from vessel operations decreased by $156,425,000, or 203%, to a loss of $79,295,000 from income of $77,130,000 in 2009. During 2009, income from vessel operations decreased by $268,056,000, or 78%, to $77,130,000 from $345,186,000 in 2008. These decreases resulted primarily from the year-over-year declines in TCE revenues. In addition, results from vessel operations for 2010 included net charges of $26,561,000 related to impairment charges, vessel sales and contract termination costs compared with net gains of $100,526,000 in 2009 and net charges of $112,612,000 (including $62,874,000 attributable to goodwill impairment) in 2008.

During 2010, TCE revenues decreased by $99,343,000, or 10%, to $853,278,000 from $952,621,000 in 2009, primarily reflecting lower average daily TCE rates earned by the Company's VLCC's, Aframaxes, Panamaxes and Handysize Product Carriers, as well as a 861 day decrease in revenue days. During 2010, approximately 64% of the Company's TCE revenues were derived from spot earnings, compared with 49% and 65% in 2009 and 2008, respectively. Fixed earnings from time or bareboat charters ("term") and synthetic time charters (which represent earnings for certain vessels operating in pools that have been converted to synthetic time charters through hedging with FFAs and bunker swaps that qualify as cash flow hedges) accounted for approximately 36% of TCE revenues generated during 2010 compared with 51% and 35% of the Company's TCE revenues in 2009 and 2008, respectively.

During 2009, TCE revenues decreased by $592,764,000, or 38%, to $952,621,000 from $1,545,385,000 in 2008, mainly due to a significant decrease in the daily TCE rates earned by all of the Company's International Flag vessel classes, as well as a 1,809 day decrease in revenue days.

OSG operates most of its crude oil tankers in commercial pooling arrangements ("Pools"). The Pools' cargo commitments make them attractive, but such cargo commitments limit the Pools' ability to support any significant portfolio of time charters. Accordingly, OSG enters into FFAs and bunker swaps seeking to create synthetic time charters. The results of derivative positions that qualify for hedge accounting treatment and that are effective are reflected in TCE revenues in the periods to which such hedges relate. The Company achieved average TCE rates of $43,415 per day for 552 days in 2010, $41,959 per day for 3,342 days in 2009 and $73,632 per day for 1,795 days during 2010, 2009 and 2008, respectively, on VLCCs covered by such effective hedges. The results of derivative positions that do not qualify for hedge accounting treatment are reflected in other income/(expense) and resulted in income of $276,000 and $1,672,000 in 2010 and 2009 and expense of $33,774,000 in 2008.

See Note D to the consolidated financial statements set forth in Item 8 for additional information on the Company's segments, including equity in income of affiliated companies and reconciliations of (i) time charter equivalent revenues to shipping revenues and (ii) income/(loss) from vessel operations for the segments to income/(loss) before income taxes, including net income attributable to noncontrolling interest, as reported in the consolidated statements of operations. Information with respect to the Company's proportionate share of revenue days for vessels operating in companies accounted for using the equity method is shown below in the discussion of "Equity in Income of Affiliated Companies."

International Crude Tankers

Dollars in thousands	2010	2009	2008
TCE revenues	$422,970	$488,021	$1,003,331
Vessel expenses	(99,795)	(104,052)	(117,815)
Charter hire expenses	(187,493)	(230,123)	(303,215)
Depreciation and amortization	(73,399)	(72,654)	(73,934)
Income from vessel operations (a)	$62,283	$81,192	$508,367
Average daily TCE rate	$23,506	$26,307	$52,344
Average number of owned vessels (b)	25.9	24.8	25.4
Average number of vessels chartered-in under operating leases	24.1	27.0	27.8
Number of revenue days (c)	17,994	18,550	19,167
Number of ship-operating days: (d)			
Owned vessels	9,450	9,039	9,286
Vessels bareboat chartered-in under operating leases	1,825	2,246	2,265
Vessels time chartered-in under operating leases	6,232	6,679	7,090
Vessels spot chartered-in under operating leases	730	921	819

(a) Income(loss) from vessel operations by segment is before general and administrative expenses, severance and relocation costs, shipyard contract termination costs, gain/(loss) on disposal of vessels and impairment charges (vessel and goodwill).

(b) The average is calculated to reflect the addition and disposal of vessels during the year.

(c) Revenue days represent ship-operating days less days that vessels were not available for employment due to repairs, drydock or lay-up. Revenue days are weighted to reflect the Company's interest in chartered-in vessels.

(d) Ship-operating days represent calendar days.

The following table provides a breakdown of TCE rates achieved for the years ended December 31, 2010, 2009 and 2008 between spot and fixed earnings and the related revenue days. The Company entered into FFAs and related bunker swaps as hedges against the volatility of earnings from operating the Company's VLCCs and Aframaxes in the spot market. These derivative instruments seek to create synthetic time charters because their intended impact is to create a level of fixed TCE earnings, which because of basis risk may vary (possibly substantially) from the targeted rate. From the perspective of a vessel owner, such as the Company, the results of these synthetic time charters are intended to be substantially equivalent to results from time chartering vessels in the physical market. The impact of these derivatives, which qualify for hedge accounting treatment, are reported together with time charters entered in the physical market, under "Fixed Earnings." The information in these tables is based, in part, on information provided by the pools or commercial joint ventures in which the segment's vessels participate.

	2010		2009		2008	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
VLCCs:						
Average rate	$34,109	$43,415	$33,511	$41,959	$92,351	$73,632
Revenue days	4,653	552	1,866	3,342	4,044	1,795
Suezmaxes:						
Average rate	$25,504	$—	$26,174	$—	$49,550	$—
Revenue days	1,057	—	864	—	772	—
Aframaxes:						
Average rate	$17,349	$21,581	$20,037	$32,868	$38,432	$31,765
Revenue days	7,215	879	7,244	1,009	6,237	1,451
Panamaxes:						

Average rate	$18,714	$17,755	$18,983	$25,424	$36,311	$26,687
Revenue days	1,819	1,456	2,257	1,604	2,386	1,778

During 2010, TCE revenues for the International Crude Tankers segment decreased by $65,051,000, or 13%, to $422,970,000 from $488,021,000 in 2009. This decrease in TCE revenues reflects decreases in average blended rates for VLCCs and average time charter rates for Panamaxes and Aframaxes, as well as a 556 day decrease in revenue days. The decline in average rates earned by the VLCCs reflected a reduction in fixed coverage from FFAs and related bunker swaps. The decrease in revenue days is primarily due to decreases in chartered-in days in the Panamax and Aframax fleets. The spot Aframax rate for 2010 reflects substantial idle and repositioning time as well as poor returns on the two double-sided Aframaxes chartered-in by the OSG Lightering business. One of the two vessels was repositioned to the Far East during the third quarter and subsequently delivered to buyers in December 2010.

Vessel expenses decreased by $4,257,000 to $99,795,000 in 2010 from $104,052,000 in 2009. This decrease primarily results from a reserve of $3,357,000 recorded in the fourth quarter of 2009 for an expected assessment in 2010 (based on the 2009 pension plan valuation) by the MNOPF. The MNOPF is a multi-employer pension plan covering British crew members that served as officers onboard OSG's vessels (as well as vessels of other owners) in prior years. Although the Company has not been an active member of the plan for a number of years, because the plan is underfunded, additional assessments are possible in future years. The Company paid this assessment in 2010. Charter hire expenses decreased by $42,630,000 to $187,493,000 in 2010 from $230,123,000 in 2009, reflecting a decrease of 1,059 chartered-in days, including 345 days attributable to VLCCs, and substantially lower profit share due to the owners of chartered-in VLCCs, Aframaxes and OSG Lightering vessels.

During 2009, TCE revenues for the International Crude Tankers segment decreased by $515,310,000, or 51%, to $488,021,000 from $1,003,331,000 in 2008. The decrease in TCE revenues resulted primarily from a significant decrease in daily TCE rates earned on all classes of tankers across the crude fleet and, to a lesser extent, a decrease of 617 revenue days. The decrease in revenue days reflects the sale in January 2009 of one VLCC and the commencement of conversion of a ULCC to an FSO, as well as a reduction in chartered-in VLCCs and Panamaxes. These decreases were partially offset by increased days attributable to the OSG Lightering business during 2009.

Vessel expenses decreased by $13,763,000 to $104,052,000 in 2009 from $117,815,000 in 2008. In the fourth quarter of 2009, the Company recorded a reserve of $3,357,000 for a probable assessment by the MNOPF, as discussed above. The remaining change in vessel expenses was principally attributable to a decrease in average daily vessel expenses of $1,303 per day. The decrease was primarily due to a reduction in contracted prices of stores and spares, lower insurance premiums and reductions in repairs and the renegotiation of fixed rate technical management agreements between the Company and DHT Maritime, Inc., formerly Double Hull Tankers, Inc. ("DHT"), on seven tankers, effective January 17, 2009. Under the renegotiated agreements, DHT is responsible for all vessel expenses. Charter hire expenses decreased by $73,092,000 to $230,123,000 in 2009 from $303,215,000 in 2008. This decrease was principally as a result of lower profit share due to owners reflecting lower TCE rates achieved on the VLCC and Aframax fleets, and a 431 day reduction in bareboat and time chartered-in days. Additionally, OSG Lightering was able to fill its spot charter-in requirements at lower rates in 2009 compared with 2008 due to the significant reduction in Aframax rates.

International Product Carriers

Dollars in thousands	2010	2009	2008
TCE revenues	$188,520	$225,059	$298,132
Vessel expenses	(66,746)	(80,899)	(93,111)
Charter hire expenses	(102,321)	(105,813)	(79,648)
Depreciation and amortization	(36,193)	(41,508)	(55,796)
Income/(loss) from vessel operations	$(16,740)	$(3,161)	$69,577
Average daily TCE rate	$15,250	$17,976	$22,803
Average number of owned vessels	14.5	13.4	15.3
Average number of vessels chartered-in under operating leases	20.8	21.9	21.4
Number of revenue days	12,361	12,521	13,074
Number of ship-operating days:			
Owned vessels	5,294	4,903	5,598
Vessels bareboat chartered-in under operating leases	3,421	4,819	5,900
Vessels time chartered-in under operating leases	4,160	3,161	1,917

The following table provides a breakdown of TCE rates achieved for the years ended December 31, 2010, 2009 and 2008 between spot and fixed earnings and the related revenue days. The information is based, in part, on information provided by the commercial joint ventures in which certain of the segment's vessels participate.

	2010		2009		2008	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
Panamax Product Carriers:						
Average rate	$17,837	$7,741	$17,227	$19,094	$39,189	$18,653
Revenue days	987	18	1,378	282	785	730
Handysize Product Carriers:						
Average rate	$12,723	$20,759	$15,867	$20,148	$26,718	$19,851
Revenue days	7,637	3,360	4,879	5,542	4,025	7,534

During 2010, TCE revenues for the International Product Carrier segment decreased by $36,539,000, or 16%, to $188,520,000 from $225,059,000 in 2009. This decrease in TCE revenues principally resulted from a decrease in the average rates earned on the Handysize Product Carriers operating in the spot market and a 160 day decrease in revenue days. This decrease in revenue days was principally related to the redelivery of older, single-hulled Handysize Product Carriers (all 13 of which had redelivered to the owners at the expiry of their respective charters by August 2009), the sale of two Panamax Product Carriers in the second quarter of 2009 and two other Panamax Product Carriers, which were out-of-service for a significant portion of 2010. Partially offsetting these decreases was an increase in revenue days of 2,157 days, reflecting an increase in owned and chartered-in modern Handysize Product Carriers. Spot days for the Handysize Product Carrier fleet as a percentage of total revenue days increased to 69% from 47% in 2010. This shift combined with a reduction in average spot rates negatively impacted segment results. As a result of a bankruptcy filing by one of the Company's charterers in January 2011, it is expected that the International Product Carriers segment will experience further exposure to the spot market given that it is unlikely that the Company will be able to replace the fixed rates currently being earned under the time charter-out commitments to this charterer ($22,000 per day on two vessels) at comparable levels.

Vessel expenses decreased by $14,153,000 to $66,746,000 in 2010 from $80,899,000 in the prior year reflecting a 1,007 day decrease in owned and bareboat chartered-in days. This decrease primarily results from the redeliveries to the owners of the older Handysize Product Carriers, which had been bareboat chartered-in by OSG. Also contributing

was a $662 per day decrease in average daily vessel expenses, which was primarily due to lower crew costs. Charter hire expenses decreased by $3,492,000 to $102,321,000 in 2010 from $105,813,000 in 2009 due to the recognition of certain third party recoveries of approximately $6,100,000 on the two Panamax Product Carriers undergoing repairs in 2010 as a reduction of charter hire expense, as well as a net 399 day reduction for chartered-in vessels in the current year. Repairs on the two Panamax Product Carriers were completed late in the fourth quarter of 2010. The impact of the decrease in days was partially offset by modern Handysize Product Carriers being time chartered-in at higher average rates than the older Handysize Product Carriers that were redelivered in 2009, all of which were bareboat chartered-in. Depreciation and amortization decreased by $5,315,000 to $36,193,000 from $41,508,000 in 2009 principally due to the expiration of the bareboat charters on the older Handysize Product Carriers.

During 2009, TCE revenues for the International Product Carrier segment decreased by $73,073,000, or 25%, to $225,059,000 from $298,132,000 in 2008. This decrease in TCE revenues principally resulted from a decrease in the average rates earned on the Handysize Product Carriers and Panamax Product Carriers operating in the spot market. In addition, revenue days also decreased by 554 days. By the end of August 2009, all 13 of the segment's older, single-hulled Handysize Product Carriers had redelivered to their owners. These redeliveries were partially offset by an increase in chartered-in modern Handysize Product Carriers, one Aframax Product Carrier (LR2), which operated in the International Product Carrier segment for 2009, and a net increase in chartered-in Panamax Product Carriers.

Vessel expenses decreased by $12,212,000 to $80,899,000 in 2009 from $93,111,000 in the prior year reflecting a 1,776 day decrease in owned and bareboat chartered-in days. This decrease results from the changes in the operating fleet discussed above. Charter hire expenses increased by $26,165,000 to $105,813,000 in 2009 from $79,648,000 in 2008 due to the increase in time chartered-in modern Handysize Product Carriers, the sale and charter back of two newbuild Panamax Product Carriers since the third quarter of 2008, and the inclusion of the LR2. These increases were partially offset by the expiration of bareboat charters on the older Handysize Product Carriers discussed above. Depreciation and amortization decreased by $14,288,000 to $41,508,000 from $55,796,000 in 2008 principally due to the expiration of the bareboat charters on the older Handysize Product Carriers.

In 2005, the Company reflagged three Handysize Product Carriers (the Overseas Ambermar, the Overseas Maremar and the Overseas Luxmar) under the U.S. Flag and entered them in the U.S. Maritime Security Program (the "Program"). In September 2008, the Overseas Ambermar exited the program and was reflagged under the Marshall Islands Flag. Through 2008, each of the vessel owning companies received approximately $2,600,000 per year. Such subsidy, which was increased to $2,900,000 in 2009, is intended to offset the increased cost incurred by such vessels from operating under the U.S. Flag. Since these vessels trade primarily in the international market, they continue to be reflected in the International Product Carrier segment.

Other International

Dollars in thousands	2010	2009	2008
TCE revenues	$12,215	$7,848	$22,102
Vessel expenses	(2,142)	(2,643)	(3,204)
Charter hire expenses	(4,483)	—	(7,627)
Depreciation and amortization	(6,152)	(6,628)	(6,557)
Income/(loss) from vessel operations	$(562)	$(1,423)	$4,714
Average daily TCE rate	$22,089	$21,500	$