OVERSEAS SHIPHOLDING GROUP INC
Form 10-Q
November 12, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from ________ to _____

Commission File Number 1-6479-1

OVERSEAS SHIPHOLDING GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	13-2637623
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1301 Avenue of the Americas, New York, New York	10019
(Address of principal executive offices)	(Zip Code)

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

No Change
Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “accelerated filer”, “large accelerated filer” and “smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Shares outstanding as of November 6, 2013 30,715,420

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEETS
DOLLARS IN THOUSANDS

	September 30, 2013 (Unaudited)		December 31, 2012	
ASSETS				
Current Assets:				
Cash and cash equivalents	$	570,632	$	507,342
Voyage receivables, including unbilled of $101,096 and $131,333		129,479		179,259
Other receivables		22,985		28,900
Inventories, prepaid expenses and other current assets		43,728		55,926
Total Current Assets		766,824		771,427
Vessels and other property, including construction in progress of $46,863 and $95,283, less accumulated depreciation of $1,080,837 and $994,306		2,753,758		2,837,288
Deferred drydock expenditures, net		60,636		74,418
Total Vessels, Deferred Drydock and Other Property		2,814,394		2,911,706
Investments in Affiliated Companies		307,994		252,398
Intangible Assets, less accumulated amortization of $35,244 and $31,356		68,088		71,975
Goodwill		9,589		9,589
Other Assets		27,835		26,440
Total Assets	$	3,994,724	$	4,043,535
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable, accrued expenses and other current liabilities	$	104,811	$	99,273
Deferred income taxes		12,823		25,900
Income taxes payable, including reserve for uncertain tax positions of $286,403 and $326,121		288,105		329,799
Total Current Liabilities		405,739		454,972
Reserve for Uncertain Tax Positions		21,520		17,067
Deferred Gain on Sale and Leaseback of Vessels		-		3,839
Deferred Income Taxes		332,031		343,162
Other Liabilities		38,848		37,712
Liabilities Subject to Compromise		2,823,332		2,652,537
Total Liabilities		3,621,470		3,509,289
Equity:				
Total Equity		373,254		534,246
Total Liabilities and Equity	$	3,994,724	$	4,043,535

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Shipping Revenues:				
Pool revenues, including $24,094, $16,950, $70,249 and $56,502 received from companies accounted for by the equity method	$ 34,985	$ 48,254	$ 139,492	$ 190,638
Time and bareboat charter revenues	95,355	79,304	270,772	217,146
Voyage charter revenues	137,002	156,647	332,630	460,153
Sunoco termination fee	-	13,300	-	13,300
	267,342	297,505	742,894	881,237
Operating Expenses:				
Voyage expenses	79,708	70,099	173,449	229,801
Vessel expenses	65,559	72,386	196,237	212,003
Charter hire expenses	46,682	95,302	162,106	288,137
Depreciation and amortization	44,168	50,819	130,311	150,432
General and administrative	23,117	22,015	69,172	66,239
Severance and relocation costs	277	480	3,341	2,693
Loss/(gain) on disposal of vessels	63	332	(1,143)	(59)
Total Operating Expenses	259,574	311,433	733,473	949,246
Income/(loss) from Vessel Operations	7,768	(13,928)	9,421	(68,009)
Equity in Income of Affiliated Companies	9,667	9,869	30,530	22,178
Operating Income/(loss)	17,435	(4,059)	39,951	(45,831)
Other Income/(expense)	180	1,692	464	(1,380)
Income/(Loss) before Interest Expense, Reorganization Items and Income Taxes	17,615	(2,367)	40,415	(47,211)
Interest Expense	(3)	(23,314)	(322)	(68,408)
Income/(Loss) before Reorganization Items and Income Taxes	17,612	(25,681)	40,093	(115,619)
Reorganization Items, net	(14,705)	-	(236,829)	-
Income/(Loss) before Income Taxes	2,907	(25,681)	(196,736)	(115,619)
Income Tax (Provision)/Benefit	(1,947)	(105)	5,787	278
Net Income/(Loss)	$ 960	$ (25,786)	$ (190,949)	$ (115,341)
Weighted Average Number of Common Shares Outstanding:				
Basic	30,493,981	30,375,661	30,479,054	30,324,588
Diluted	30,493,981	30,375,661	30,479,054	30,324,588
Per Share Amounts:				
Basic net income/(loss)	$ 0.03	$ (0.85)	$ (6.26)	$ (3.80)
Diluted net income/(loss)	$ 0.03	$ (0.85)	$ (6.26)	$ (3.80)

See notes to condensed consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
DOLLARS IN THOUSANDS
(UNAUDITED)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Net Income/(Loss)	$ 960	$ (25,786)	$ (190,949)	$ (115,341)
Other Comprehensive (Loss)/Income, net of tax:				
Net change in unrealized holding losses on available-for-sale securities	-	730	(49)	(34)
Net change in unrealized losses on cash flow hedges	2,378	345	30,651	(1,495)
Defined benefit pension and other postretirement benefit plans:				
Net change in unrecognized prior service costs	22	(16)	2	(28)
Net change in unrecognized actuarial losses	(468)	(220)	(34)	(385)
Other Comprehensive (Loss)/Income	1,932	839	30,570	(1,942)
Comprehensive Income/(Loss)	$ 2,892	$ (24,947)	$ (160,379)	$ (117,283)

See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2013		2012	
Cash Flows from Operating Activities:				
Net loss	$	(190,949)	$	(115,341)
Items included in net loss not affecting cash flows:				
Depreciation and amortization		130,311		150,432
Amortization of deferred gain on sale and leasebacks		42		(5,249)
Amortization of debt discount and other deferred financing costs		-		2,787
Compensation relating to restricted stock and stock option grants		(571)		6,067
Deferred income tax benefit		(24,093)		(20,983)
Unrealized losses on forward freight agreements and bunker swaps		-		(242)
Undistributed earnings of affiliated companies		(26,960)		(13,010)
Deferred payment obligations on charters-in		4,177		4,192
Reorganization items, non-cash		198,521		-
(Gain)/loss on sublease contracts		(896)		4,585
Other net		1,688		5,986
Items included in net loss related to investing and financing activities:				
Loss on sale or write-down of securities and investments net		198		3,163
Gain on disposal of vessels net		(1,143)		(59)
Payments for drydocking		(17,110)		(32,984)
Changes in other operating assets and liabilities:				
Decrease in Sunoco deferred revenue		-		(27,104)
Other changes in other operating assets and liabilities		29,211		75,018
Net cash provided by operating activities		102,426		37,258
Cash Flows from Investing Activities:				
Proceeds from sale of marketable securities and investments		344		12,749
Expenditures for vessels		(27,769)		(43,391)
Proceeds from disposal of vessels		485		-
Expenditures for other property		(1,754)		(2,543)
Other net		1,786		133
Net cash used in investing activities		(26,908)		(33,052)
Cash Flows from Financing Activities:				
Purchases of treasury stock		(42)		(291)
Issuance of debt, net of issuance costs and deferred financing costs		-		572,000
Payments on debt, including adequate protection payments		(12,186)		(63,990)
Issuance of common stock upon exercise of stock options		-		78
Net cash (used in)/provided by financing activities		(12,228)		507,797
Net increase in cash and cash equivalents		63,290		512,003
Cash and cash equivalents at beginning of year		507,342		54,877
Cash and cash equivalents at end of period	$	570,632	$	566,880

See notes to condensed consolidated financial statements

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

	Common Stock*	Paid-in Additional Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss**	Total
Balance at January 1, 2013	$ 44,291	$ 414,411	$ 1,024,480	13,396,320	$ (835,155)	$ (113,781)	$ 534,246
Net Loss			(190,949)				(190,949)
Other Comprehensive Income						30,570	30,570
Forfeitures of Restricted Stock Awards				135,560	-		-
Compensation Related to Options Granted		(286)					(286)
Amortization of Restricted Stock Awards		(285)					(285)
Purchases of Treasury Stock				40,370	(42)		(42)
Balance at September 30, 2013	$ 44,291	$ 413,840	$ 833,531	13,572,250	$ (835,197)	$ (83,211)	$ 373,254
Balance at January 1, 2012 (As Reported)	$ 44,291	$ 413,016	$ 2,040,031	13,826,882	$ (840,302)	$ (101,791)	$ 1,555,245
Adjustments***			(535,437)			(17,516)	(552,953)
Balance at January 1, 2012 (As Restated)	44,291	413,016	1,504,594	13,826,882	(840,302)	(119,307)	1,002,292
Net Loss			(115,341)				(115,341)
Other Comprehensive Loss						(1,942)	(1,942)
Issuance of Restricted Stock Awards		(5,148)		(459,388)	5,364		216
Compensation Related to Options Granted		1,345					1,345
Amortization of Restricted Stock Awards		4,722					4,722
Options Exercised and Employee Stock Purchase Plan		(60)		(11,041)	138		78
Purchases of Treasury Stock				27,736	(291)		(291)
Balance at September 30, 2012	$ 44,291	$ 413,875	$ 1,389,253	13,384,189	$ (835,091)	$ (121,249)	$ 891,079

* Par value $1 per share; 120,000,000 shares authorized; 44,290,759 shares issued as of September 30, 2013.
** Amounts are net of tax.
*** See Note 2, "Company Inquiry and Restatement," to the accompanying condensed consolidated financial statements for details

See notes to condensed consolidated financial statements

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)

Note 1 Basis of Presentation and Significant Accounting Policies:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the results have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The consolidated balance sheet as of December 31, 2012 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K").

Dollar amounts, except per share amounts are in thousands.

Pool revenue and voyage expense presentation For the Company's vessels operating in pools, revenues and voyage expenses are pooled and allocated to each pool's participants on a time charter equivalent ("TCE") basis in accordance with an agreed-upon formula. Such TCE revenues are reported as pool revenues in the accompanying condensed consolidated statement of operations. For the pools in which the Company participates, management monitors, among other things, the relative proportion of the Company's vessels operating in each of the pools to the total number of vessels in each of the respective pools, and assesses whether or not OSG's participation interest in each of the pools is sufficiently significant so as to determine that OSG has effective control of the pool. Management determined that as of June 30, 2013, it had effective control of one of the pools in which the Company participates. Such pool is not a legal entity but operates under a contractual arrangement. Therefore, effective July 1, 2013, the Company's condensed consolidated statement of operations reports its allocated TCE revenues for such pool on a gross basis as voyage charter revenues and voyage expenses.

Recently Adopted Accounting Standards

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,* which clarified the scope limitations of the guidance issued in ASU No. 2011-11. The adoption of the new accounting guidance did not have any impact on the Company's consolidated financial statements.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
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In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements intended to improve the transparency of changes in other comprehensive income and items reclassified out of accumulated other comprehensive income. This guidance, which is to be applied prospectively, became effective for the Company's annual and interim periods beginning January 1, 2013. Adoption of this new accounting guidance did not have a significant impact on the Company's consolidated financial statements.

Note 2 Company Inquiry and Restatement

As discussed in the 2012 Form 10-K, in October 2012, at the request and under the direction of the audit committee of the board of directors of the Company (the "Audit Committee") the Company, with the assistance of counsel, conducted an inquiry into the Company's provision for United States ("U.S.") federal income taxes in light of certain provisions contained in the Company's unsecured revolving credit facility scheduled to mature on February 8, 2013 and certain predecessor credit facilities (the "Credit Facilities"). In connection with the inquiry process, on October 19, 2012, the Audit Committee, on the recommendation of management, concluded that the Company's previously issued financial statements for at least the three years ended December 31, 2011 and associated interim periods, and for each of the quarters ended March 31, 2012 and June 30, 2012, should no longer be relied upon. Upon completion of the inquiry in June 2013, it was determined that there were errors in the Company's previously issued financial statements for each of the years in the twelve year period ended December 31, 2011 (including the interim periods within those years), and for each of the calendar quarters ended March 31, 2012 and June 30, 2012, and such financial statements should be restated.

Specifically, because OSG International, Inc. ("OIN"), a wholly-owned subsidiary of the Company incorporated in the Marshall Islands, was a co-obligor with OSG and OSG Bulk Ships, Inc. ("OBS"), a wholly-owned subsidiary of the Company incorporated in the U.S., on a joint and several basis for amounts drawn under the Credit Facilities, the Company determined that OIN could be deemed under Section 956 of the U.S. Internal Revenue Code ("Section 956") to have made taxable distributions to OSG for each taxable year in which such joint and several liability existed. Under the relevant tax rules, the amount of any deemed distributions for any taxable year that would be considered taxable income as a result of this issue generally (and subject to certain complex variables) would be determined by reference to the excess of: (i) the average of the quarter-end outstanding balances under the Credit Facilities for that year, over (ii) the average of the quarter-end balances for prior years, plus any other amounts that might have given rise to deemed distributions for prior years. In the case of OIN and OSG, this calculation could produce an aggregate amount of up to $1,317,500 of earnings deemed repatriated from OIN through the end of 2012 as a result of drawdowns under the Credit Facilities, although the final determination of the amount will depend upon several interrelated issues that have yet to be settled with the Internal Revenue Service ("IRS"). Furthermore, the Company determined that it had not properly accounted for the tax consequences of intercompany balances that have existed between domestic and international entities within the Company. The Company determined that, due to insufficient processes to identify and evaluate adequately the income tax accounting impact of Section 956 to certain intercompany balances, these intercompany balances could be deemed under Section 956 to have been taxable distributions to OSG in the years in which such balances existed. This resulted in the Company recording deemed dividend income aggregating $77,000 for taxable years 2012 and earlier. The Company's financial statements for years prior to 2012 and for each of the quarters ended March 31, 2012 and June 30, 2012 did not properly take account of these issues and, therefore, these errors caused the financial statements to be misstated.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)

The IRS has asserted a number of other adjustments to the Company's taxable income. These adjustments represent an additional $234,853 of asserted taxable income across taxable years 2009 and earlier. The Company disagrees with several of the IRS's asserted adjustments and intends to dispute them vigorously. In some cases, the asserted adjustments, including certain adjustments resulting from intercompany balances described in the previous paragraph, interrelate with the calculation of any deemed dividends under Section 956 described above in a way that may reduce the amount of deemed dividends if the IRS's asserted adjustments are sustained.

The Company believes, based on its analysis and its interactions with the IRS to date, that the actual amount of tax that the Company ultimately will be required to pay to the IRS in respect of the potential deemed dividends and other adjustments discussed above will be significant and could be as high as $460,000, or potentially higher, for all periods ending on or before December 31, 2012, not taking into account any potential penalties but including interest. However, the Company has several defenses available to mitigate its liability and intends to assert those defenses vigorously. The IRS has filed proofs of claim against the Company in its Chapter 11 proceedings in the aggregate liquidated amount of $463,013 that the Company believes are in respect of these issues, but no agreement has been made in respect of these claims. See Note 11, "Taxes," of this Quarterly Report on Form 10-Q and Note 14, "Taxes," of the 2012 Form 10-K, for additional information with respect to amounts reflected in the financial statements as of December 31, 2012.

In addition to giving rise to a tax liability, the potential deemed dividends from OIN in connection with the Credit Facilities (which effectively would treat OIN as having already repatriated significant earnings for U.S. tax purposes) have required the Company to reassess its intent and ability to permanently reinvest earnings from foreign shipping operations accumulated through December 31, 2012. As a result, the Company has concluded that, as of December 31, 2000 and at each subsequent year end through December 31, 2012, it could not assert its intent to permanently reinvest OIN's earnings to the extent these earnings could be deemed repatriated as a result of OIN's joint and several liability under the Credit Facilities, as discussed above. See Note 11 for information with respect to undistributed earnings that are still considered to be permanently reinvested in foreign operations on which U.S. income taxes have not been recognized.

For purposes of its financial statements as of December 31, 2012, the Company has recorded reserves related to the tax effects of the cumulative potential deemed dividends (1) in connection with the Credit Facilities based on a deemed repatriation of $1,194,150 of foreign earnings and (2) related to intercompany balances resulting in the inclusion of $77,000 of foreign earnings in taxable income. The potential deemed repatriation amount of $1,194,150 is derived from the aggregate amount of $1,317,500, discussed above, reduced to take account of certain defenses available to the Company that the Company believes are more-likely-than-not to be successful. The Company also has recorded a deferred tax liability of $103,388 as of December 31, 2012 for the tax effects of unremitted earnings of foreign subsidiaries, which reflects amounts that may be included in taxable income as deemed dividends for taxable year 2013 and future years.

The Company also restated in the 2012 Form 10-K the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 and for the three months ended March 31, 2012 and the consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2012, and the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2012, to reflect the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company’s equity method investees. The credit risk valuation adjustments were incorrectly estimated without giving consideration to the credit enhancements that were contractually linked to the obligations under such contracts for the year ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012.

The appropriate estimation of the credit risk valuation adjustments has been applied within the consolidated financial statements as of September 30, 2013 and December 31, 2012.

The following table presents the effects of the correction of the errors described above that have been made to the Company’s previously reported retained earnings and accumulated other comprehensive loss as of January 1, 2012.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)

	Retained Earnings		Accumulated Other Comprehensive Loss	
December 31, 2011, as previously reported	$	2,040,031	$	(101,791)
Tax adjustments				
Year ended December 31, 2000		(122,500)		
Year ended December 31, 2001		(36,364)		
Year ended December 31, 2002		12,919		
Year ended December 31, 2003		(23,405)		
Year ended December 31, 2004		(7,317)		
Year ended December 31, 2005		(18,342)		
Year ended December 31, 2006		(337,404)		
Year ended December 31, 2007		(46,193)		
Year ended December 31, 2008		43,130		
Year ended December 31, 2009		(3,215)		
Year ended December 31, 2010		11,701		
Year ended December 31, 2011		(6,948)		
Credit valuation adjustments				
Year ended December 31, 2011		(1,499)		(17,516)
Cumulative adjustment as of December 31, 2011		(535,437)		(17,516)
December 31, 2011, as restated	$	1,504,594	$	(119,307)

Note 3 Chapter 11 Filing, Going Concern and Other Related Matters

Chapter 11 Filing

On November 14, 2012 (the “Petition Date”), the Company and 180 of its subsidiaries (collectively, the “Debtors”) filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). These cases are being jointly administered under the caption *In re Overseas Shipholding Group, Inc. et al.,* Case No. 12 20000 (PJW) (the “Chapter 11 Cases”). Certain subsidiaries and affiliates of the Company (collectively, the “Non-Filing Entities”) were not part of the Chapter 11 Cases. The Debtors will continue to operate their businesses as “debtors-in-possession” in the ordinary course under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Non-Filing Entities will continue to operate their businesses in the ordinary course of business.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
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Reorganization Plan

In order for the Debtors to emerge successfully from Chapter 11, the Debtors must obtain the required votes of creditors accepting a plan of reorganization as well as the Bankruptcy Court's confirmation of such plan, which will enable the Debtors to transition from Chapter 11 into ordinary course operations outside of bankruptcy. In connection with a reorganization plan, the Debtors also may require a new credit facility, or "exit financing." The Debtors' ability to obtain such approval and financing will depend on, among other things, the timing and outcome of various ongoing matters related to the Chapter 11 Cases. A reorganization plan determines the rights and satisfaction of claims of various creditors and security holders, and is subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which the reorganization plan is confirmed.

The Debtors have not yet prepared or filed a plan of reorganization with the Bankruptcy Court. The Debtors have the exclusive right to file a plan of reorganization through and including November 30, 2013, subject to the ability of third parties to file motions to terminate the Debtors' exclusivity period, as well as the Debtors rights to seek further extensions of such period. The Debtors have the right to seek further extensions of such exclusivity periods, subject to the statutory limit of 18 months from the Petition Date in the case of filing a plan of reorganization and 20 months from the Petition Date in the case of soliciting and obtaining acceptances. Any proposed reorganization plan will be subject to revision prior to submission to the Bankruptcy Court based upon discussions with the Debtors' creditors and other interested parties, and thereafter in response to creditor claims and objections and the requirements of the Bankruptcy Code or the Bankruptcy Court. There can be no assurance that the Debtors will be able to secure requisite accepting votes for any proposed reorganization or the confirmation of such plan by the Bankruptcy Court.

Going Concern and Financial Reporting

The commencement of the Chapter 11 Cases and weak industry conditions have negatively impacted the Company's results of operations and cash flows and may continue to do so in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

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The Company's ability to continue as a going concern is contingent upon, among other things, its ability to (i) develop a plan of reorganization and obtain required creditor acceptance and confirmation under the Bankruptcy Code, (ii) successfully implement such plan of reorganization, (iii) reduce debt and other liabilities through the bankruptcy process, (iv) return to profitability, (v) generate sufficient cash flow from operations, and (vi) obtain financing sources sufficient to meet the Company's future obligations. As a result of the Chapter 11 Cases, the realization of assets and the satisfaction of liabilities are subject to uncertainty. While operating as debtors-in-possession pursuant to the Bankruptcy Code, the Company may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the condensed consolidated financial statements. In particular, such financial statements do not purport to show (i) as to assets, the realization value on a liquidation basis or availability to satisfy liabilities, (ii) as to liabilities arising prior to the Petition Date, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (iii) as to shareholders' equity accounts, the effect of any changes that may be made in the Company's capitalization, or (iv) as to operations, the effects of any changes that may be made in the underlying business. A confirmed plan of reorganization (the "Plan") would likely cause material changes to the amounts currently disclosed in the condensed consolidated financial statements. Further, the Plan could materially change the amounts and classifications reported in the consolidated historical financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization. The accompanying condensed consolidated financial statements do not include any direct adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern or as a consequence of the Chapter 11 Cases.

Effective on November 14, 2012, the Company began to apply Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 852, *Reorganizations*, which is applicable to companies under bankruptcy protection, and requires amendments to the presentation of key financial statement line items. It requires that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the consolidated statements of operations beginning in the year ended December 31, 2012. The balance sheet must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. As discussed in Note 5, "Debt," the revolving loan facilities and the Senior Notes are unsecured and the Secured Loan Facilities have priority over the unsecured creditors of the Company. Based upon the uncertainty surrounding the ultimate treatment of the Unsecured Revolving Credit Facility, the Unsecured Senior Notes and the Secured Loan Facilities, which were under collateralized as of the Petition Date, the instruments are classified as Liabilities Subject to Compromise on the Company's accompanying condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012. The Company will evaluate creditors' claims relative to priority over other unsecured creditors. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be approved by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization or negotiations with creditors. In addition, cash used by reorganization items is disclosed separately in the consolidated statements of cash flow.

As stated in Note 2, "Company Inquiry and Restatement," the IRS has filed proofs of claim against the Company in its Chapter 11 proceedings in the aggregate liquidated amount of $463,013.

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Liabilities Subject to Compromise

As a result of the filing of the Chapter 11 Cases on November 14, 2012, the payment of pre-petition indebtedness is generally subject to compromise pursuant to a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-bankruptcy filing liabilities are stayed. Although payment of pre-petition claims generally is not permitted, the Bankruptcy Court granted the Debtors authority to pay certain pre-petition claims in designated categories and subject to certain terms and conditions. This relief generally was designed to preserve the value of the Debtors' businesses and assets. Among other things, the Bankruptcy Court authorized the Debtors to pay certain pre-petition claims relating to employee wages and benefits, taxes and critical and foreign vendors.

The Debtors have been paying and intend to pay undisputed post-petition liabilities in the ordinary course of business. In addition, the Debtors have rejected certain prepetition executory contracts and unexpired leases with respect to their operations with the approval of the Bankruptcy Court. Any damages resulting from the rejection of executory contracts and unexpired leases are treated as general unsecured claims and have been classified as Liabilities Subject to Compromise on the Company's condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012. The Debtors have notified all known claimants subject to the bar date of their need to file a proof of claim with the Bankruptcy Court. A bar date is the date by which certain claims against the Debtors must be filed if the claimants disagree with the amounts, treatment or classification reflected in the Debtors' schedule of assets and liabilities or that are not so scheduled and wish to receive any distribution in the bankruptcy filing. A bar date of May 31, 2013 was set by the Bankruptcy Court.

Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as Liabilities Subject to Compromise may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determinations of secured status of certain claims, the values of any collateral securing such claims, or other events. The Company cannot reasonably estimate the value of the claims that will ultimately be allowed by the Bankruptcy Court until its evaluation, investigation and reconciliation of the filed claims has been completed. Any resulting changes in classification will be reflected in subsequent financial statements.

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Liabilities Subject to Compromise consist of the following:

As of	September 30, 2013	December 31, 2012
Pre-petition accounts payable and other accrued liabilities	$ 3,428	$ 2,717
Secured long-term debt and accrued interest	565,770	577,957
Unsecured senior notes	500,780	500,780
Unsecured revolving credit facility	1,488,579	1,488,579
Accrued interest and fees on unsecured revolving credit facility and senior notes	10,878	10,878
Derivative liabilities	3,566	3,566
Accrued liabilities relating to rejected executory contracts	213,447	30,539
Pension and other postretirement benefit plan liabilities	36,884	37,521
	$ 2,823,332	$ 2,652,537

Reorganization Items, net

Reorganization items, net represent amounts incurred subsequent to the bankruptcy filing as a direct result of the filing of the Chapter 11 Cases and are comprised of the following for the three and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Trustee fees	$ 928	$ 2,480
Professional fees	14,605	46,981
Provision for estimated claims on rejected executory Contracts	(820)	179,685
Expenses incurred on rejected executory contracts	(8)	7,683
	$ 14,705	$ 236,829

The current quarter credit for estimated claims on rejected executory contracts is related to the revision of management's estimates of provisions needed for certain rejected executory contracts based on new information available prior to the filing of this Form 10-Q. The Company incurred fees totaling $3,537 and $11,301 during the three and nine months ended September 30, 2013, respectively, for financial and reorganization services rendered to the Company by Greylock Partners LLC, a company founded and managed by the Company's Chief Reorganization Officer. Such related party expenses are included in professional fees in the table above.

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Cash paid for reorganization items was $12,276 and $38,308 for the three and nine months ended September 30, 2013.

Other Related Matters

Refer to Note 18, "Contingencies," for a description of the SEC investigation against the Company and securities class action lawsuits against certain of the Company's current and former officers and directors.

Refer to Note 14 "Leases," for a discussion regarding rejected leases.

Note 4 Earnings per Common Share:

Basic earnings per share is computed by dividing earnings, after the deduction of dividends and undistributed earnings allocated to participating securities, by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the issuance of common stock for all potentially dilutive stock options and restricted stock units not classified as participating securities. Participating securities are defined as unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents and are included in the computation of earnings per share pursuant to the two-class method. At September 30, 2013 and 2012, there were 224,141 and 506,176 such participating securities outstanding. The components of the calculation of basic earnings per share and diluted earnings per share are as follows:

	Three Months Ended September 30, 2013	2012
Net income/(loss)	$ 960	$ (25,786)
Common shares outstanding, basic and diluted:		
Weighted average shares outstanding, basic and diluted	30,493,981	30,375,661

	Nine Months Ended September 30, 2013	2012
Net loss	$ (190,949)	$ (115,341)
Common shares outstanding, basic and diluted:		
Weighted average shares outstanding, basic and diluted	30,479,054	30,324,588

There were no dilutive equity awards outstanding for the three and nine months ended September 30, 2013 and 2012. Awards of 890,396 and 2,377,453 shares of common stock for the three months ended September 30, 2013 and 2012, respectively, and 1,109,469 and 2,387,682 shares of common stock for the nine months ended September 30, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share because inclusion of these awards would be anti-dilutive.

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Note 5 Debt:

The withdrawal of reliance on the audited financial statements for the three years ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012 coupled with the Company's failure to timely file the quarterly report on Form 10-Q for the quarter ended September 30, 2012 and the filing of the Chapter 11 Cases, resulted in an event of default or otherwise triggered repayment obligations under the Company's Unsecured Revolving Credit Facility, Unsecured Senior Notes due in 2013, 2018 and 2024, Unsecured Forward Start Revolving Credit Agreement and Secured Loan Facilities maturing in 2020 and 2023. Also, as a result of the commencement of the Chapter 11 Cases, the outstanding balances under the Unsecured Revolving Credit Facility, the Unsecured Senior Notes and the Secured Loan Facilities and related accrued interest and unamortized deferred financing costs have been classified as Liabilities Subject to Compromise in the consolidated balance sheets at September 30, 2013 and December 31, 2012, in accordance with ASC 852. Debt included in Liabilities Subject to Compromise will be paid in accordance with the ultimate claims resolution in the Bankruptcy Cases.

Additional information with respect to unsecured and secured long-term debt agreements to which the Company is a party follows below:

Unsecured Revolving Credit Facility and Unsecured Senior Notes

Pursuant to the applicable bankruptcy law, the Company does not expect to make any principal payments on the Unsecured Revolving Credit Facility and the Unsecured Senior Notes during the pendency of the Chapter 11 Cases. Also, as interest on the Company's unsecured debt subsequent to the Petition Date is not expected to be an allowed claim, the Company ceased accruing interest on the Unsecured Credit Facility and the Unsecured Senior Notes on November 14, 2012.

For the three and nine months ended September 30, 2013, interest expense of $3,568 and $10,930, including $0 and $236 relating to the amortization of deferred financing costs, which would have been incurred had the Unsecured Revolving Credit Facility not been reclassified as a Liability Subject to Compromise, was not recorded.

For the three and nine months ended September 30, 2013, interest expense of $10,590 and $31,770, including $367 and $1,101 relating to the amortization of debt discount and deferred financing costs, which would have been incurred had the Unsecured Senior Notes not been reclassified as a Liability Subject to Compromise, was not recorded.

Secured Loan Facilities

As of September 30, 2013, 15 vessels representing approximately 29% of the net book value of the Company's vessels are pledged as collateral under certain term loans maturing between 2020 and 2023. As of December 31, 2012, the Company was not in compliance with the loan-to-value covenants under these facilities as the minimum required loan-to-value ratios are 110% for term loans maturing in 2020 and 125% for term loans maturing in 2023 and the loan-to-value ratios approximated 84% and 86%, respectively, for the loans maturing in 2020 and 2023.

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On February 5, 2013, the Bankruptcy Court issued orders [D.I. 0459 and 0460] granting adequate protection to the secured lenders in consideration for (i) the granting of pari passu liens in the secured lenders' collateral in connection with the Debtor in Possession loan facilities (the "OIN DIP loans") issued by OSG International, Inc. ("OIN"), a wholly owned subsidiary of the Company, (ii) the imposition of the automatic stay, (iii) the Company's use, sale or lease of vessels and other collateral encumbered by the security interest of the secured lenders, and (iv) with respect to the Export-Import Bank of China ("CEXIM"), the Company's continued use of cash collateral for the ongoing operation and maintenance of the vessels securing the CEXIM term loan agreement. Pursuant to these orders, the Company and certain of its subsidiaries are authorized to make use of the funds generated from the ongoing operation of the encumbered vessels in the following order of priority (i) to reimburse its ship management subsidiaries and other affiliates for voyage expenses, vessel operating expenses, capital expenditures and drydocking expenses incurred on behalf of the encumbered vessels, (ii) to fund a reserve for future drydocking expenses, (iii) to reimburse the secured lenders for certain legal costs, (iv) to pay the secured lenders amounts equal to current interest payments due on the outstanding pre-petition loan balances at the non-default contract rate of interest set forth in the term loan agreements (the "Adequate Protection Interest Payments" and together with amounts described in (iii) the "Adequate Protection Payments") and (v) to pay any interest outstanding under the OIN DIP Loans. The Debtors and certain other parties in interest preserve the right to challenge the amount, extent, type or characterization of any Adequate Protection Payments or any other costs, fees or expenses, including the right to seek recharacterization of any such payments as payments on the prepetition principal amounts outstanding under the term loan agreements. Adequate Protection Interest Payments disbursed during the three and nine months ended September 30, 2013 amounted to $5,412 and $12,186 respectively, and such amounts were classified as reductions in outstanding principal.

In accordance with ASC 852, no interest is accrued and/or paid on secured debt when the fair value of the underlying collateral is below the outstanding principal of the secured debt. For the three and nine months ended September 30, 2013, interest expense of $3,110 and $9,413, including $137 and $411 relating to the amortization of deferred financing costs, which would have been incurred had the indebtedness not been reclassified as a Liability Subject to Compromise, was not recorded.

OIN Debtor in Possession Loan Facilities

Pursuant to the order issued by the Bankruptcy Court on February 5, 2013, OIN was given approval to enter into Debtor in Possession Loan Agreements with the Company's subsidiaries that own and operate the vessels securing the term loans described above. Under the terms of the order, OIN is allowed to lend up to $10,000 to the Company's subsidiaries operating the vessels securing term loans maturing in 2020 and $15,000 to the Company's subsidiaries operating the vessels securing term loans maturing in 2023. The sole purpose of the OIN DIP Loans is to fund any shortfall in the funds available to cover ongoing operations, capital expenditures, drydock repairs and drydock reserves of the secured vessels and the Adequate Protection Payments due to the lenders as described above.

Outstanding Letters of Credit

The Company has a $9,146 letter of credit outstanding as of September 30, 2013. This letter of credit, which was issued in connection with certain arbitration proceedings the Company is involved in, is fully cash collateralized.

Interest paid, excluding interest capitalized, for the three and nine months ended September 30, 2012 amounted to $21,354 and $62,346.

Note 6 Business and Segment Reporting:

The Company has three reportable segments: International Crude Tankers, International Product Carriers and U.S. Flag vessels. Income/(loss) from vessel operations for segment reporting purposes is defined as income/(loss) from vessel operations before general and administrative expenses, severance and relocation costs and gain/(loss) on disposal of vessels. The accounting policies followed by the reportable segments are the same as those followed in the preparation of the Company's consolidated financial statements.

The management of the Handysize Product Carriers that were reflagged under the U.S. Flag and entered into the U.S. Maritime Security Program was transferred to the U.S. Flag segment during the fourth quarter of 2012. As such the results of these vessels have been removed from the International Product Carrier segment and presented in the U.S. Flag segment for all periods presented. The U.S. Flag segment also includes an International Flag Product Carrier that exited the U.S. Maritime Security Program in the fourth quarter of 2012 but is still owned by a U.S. domiciled corporation. The joint venture with four LNG Carriers is included in Other along with one chartered-in Chemical Carrier and one owned Pure Car Carrier which was disposed in October 2012.

Information about the Company's reportable segments as of and for the three and nine months ended September 30, 2013 and 2012 follows:

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Three months ended	International Crude Tankers	Product Carriers	Other	U.S.	Totals
September 30, 2013:					
Shipping revenues	$ 108,053	$ 50,115	$ 1,102	$ 108,072	$ 267,342
Time charter equivalent revenues	51,937	33,387	1,088	101,222	187,634
Depreciation and amortization	19,405	6,857	548	17,358	44,168
Gain/(loss) on disposal of vessels	-	(92)	-	29	(63)
Income/(loss) from vessel operations	(2,302)	5,958	(618)	28,187	31,225
Equity in income of affiliated companies	7,264	-	2,023	380	9,667
Investments in affiliated companies at September 30, 2013	265,402	5,405	36,019	1,168	307,994
Total assets at September 30, 2013	1,690,525	584,029	25,867	1,077,540	3,377,961
September 30, 2012:					
Shipping revenues	76,626	73,040	3,203	144,636	297,505
Time charter equivalent revenues	54,552	36,160	3,172	133,522	227,406
Depreciation and amortization	21,426	10,874	1,381	17,138	50,819
Gain/(loss) on disposal of vessels	(45)	-	-	(287)	(332)
Income/(loss) from vessel operations	(26,063)	(24,424)	(2,695)	62,081	8,899
Equity in income of affiliated companies	3,446	-	6,063	360	9,869
Investments in affiliated companies at September 30, 2012	234,355	5,655	(3,314)	995	237,691
Total assets at September 30, 2012	1,873,821	822,381	1,123	1,070,367	3,767,692

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Nine months ended	International Crude Tankers	Product Carriers	Other	U.S.	Totals
September 30, 2013:					
Shipping revenues	$ 240,991	$ 172,724	$ 3,145	$ 326,034	$ 742,894
Time charter equivalent revenues	152,535	112,975	3,095	300,840	569,445
Depreciation and amortization	55,870	21,169	2,202	51,070	130,311
Gain/(loss) on disposal of vessels	1	(95)	116	1,121	1,143
Income/(loss) from vessel operations	(18,653)	18,308	(2,388)	83,524	80,791
Equity in income of affiliated companies	23,143	-	6,149	1,238	30,530
Expenditures for vessels	25,287	446	(3)	2,039	27,769
Payments for drydocking	4,721	2,073	-	10,316	17,110
September 30, 2012:					
Shipping revenues	275,334	248,184	9,444	348,275	881,237
Time charter equivalent revenues	209,057	123,772	9,371	309,236	651,436
Depreciation and amortization	62,197	32,434	4,462	51,339	150,432
Gain/(loss) on disposal of vessels	(638)	-	6	691	59
Income/(loss) from vessel operations	(40,619)	(51,858)	(3,924)	97,265	864
Equity in income of affiliated companies	10,849	-	10,384	945	22,178
Expenditures for vessels	29,729	13,112	3	547	43,391
Payments for drydocking	17,577	3,848	-	11,559	32,984

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

	Three Months Ended September 30, 2013	2012
Time charter equivalent revenues	$ 187,634	$ 227,406
Add: Voyage expenses	79,708	70,099
Shipping revenues	$ 267,342	$ 297,505

	Nine Months Ended September 30, 2013	2012
Time charter equivalent revenues	$ 569,445	$ 651,436
Add: Voyage expenses	173,449	229,801
Shipping revenues	$ 742,894	$ 881,237

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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.

Reconciliations of income/(loss) from vessel operations of the segments to income/(loss) before reorganization items and income taxes, as reported in the consolidated statements of operations follow:

	Three Months Ended September 30,			
	2013		2012	
Total income/(loss) from vessel operations of all segments	$	31,225	$	8,899
General and administrative expenses		(23,117)		(22,015)
Severance and relocation costs		(277)		(480)
Loss on disposal of vessels		(63)		(332)
Consolidated loss from vessel operations		7,768		(13,928)
Equity in income of affiliated companies		9,667		9,869
Other income/(expense)		180		1,692
Interest expense		(3)		(23,314)
Income/(loss) before reorganization items and income taxes	$	17,612	$	(25,681)

	Nine Months Ended September 30,			
	2013		2012	
Total income/(loss) from vessel operations of all segments	$	80,791	$	864
General and administrative expenses		(69,172)		(66,239)
Severance and relocation costs		(3,341)		(2,693)
Gain on disposal of vessels		1,143		59
Consolidated income/(loss) from vessel operations		9,421		(68,009)
Equity in income of affiliated companies		30,530		22,178
Other income/(expense)		464		(1,380)
Interest expense		(322)		(68,408)