OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
February 29, 2012

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, 2011

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	(I.R.S. Employer
incorporation or organization)	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 ¨

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 ¨ 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 ¨

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 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. ¨

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 ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second quarter, was $703,040,410, based on the closing price of $26.94 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 23, 2012, 30,446,257 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 2012 Annual Meeting of Shareholders are incorporated by reference in Part III.

TABLE OF CONTENTS

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, 2011, the Company owned or operated a modern fleet of 111 double-hulled vessels (aggregating 10.9 million deadweight tons and 864,800 cubic meters) of which 89 vessels operated in the international market and 22 operated in the U.S. Flag market. OSG's newbuilding program of owned and chartered-in vessels totaled five International Flag vessels, bringing the Company's total owned, operated and newbuild fleet to 116 double-hulled vessels. The Marshall Islands is the principal flag of registry of the Company's International Flag vessels. 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.

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 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 strategy designed to diversify its revenue sources across its chosen sectors and thereby maximize returns and reduce risk over shipping cycles. OSG's 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 that 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 comparatively strong balance sheet, proven access to the capital markets and a significant unencumbered asset base provide financial flexibility. This financial flexibility assists the Company in navigating through the current weak industry conditions.

Summary of 2011 Events

OSG's 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 2011, OSG took delivery of ten vessels.

§ In the Crude Oil segment, one 298,000 dwt owned VLCC, the Overseas McKinley, delivered in July.

§ In the Products segment, two LR1s, four MRs and one chemical tanker delivered. The LR1s included the Overseas Leyte and the Overseas Samar, both 74,000 dwt owned newbuilds that delivered in May and July, respectively. The MRs included the Overseas Milos, a 50,000 dwt owned newbuild, which delivered in August; the Atlantic Grace and the Atlantic Star, both 47,000 dwt that delivered in February and March, respectively, and the Freja Taurus, a 50,000 dwt newbuild that delivered in June. Three of the MRs were time chartered-in for three years. The Valorous Queen, a 19,900 dwt newbuild chemical tanker, time chartered-in for five years, delivered in September.

§ In the U.S. segment, the OSG Horizon/OSG 351, a 45,600 dwt owned lightering ATB, and the Overseas Tampa, a 46,815 dwt product carrier that is bareboat chartered-in for 10 years, delivered in April 2011.

Sale Transactions

During 2011, the Company sold its two remaining single-hulled U.S. Flag tankers, the Overseas Puget Sound and Overseas New Orleans, one chartered-in single-hull International Flag Aframax, the Brazos I, a chartered-in lightering vessel in which the Company had a residual value interest; an older owned lightering ATB, the OSG Constitution/OSG 400; and two tug boats. These transactions generated total proceeds of $19.6 million.

Managing Charter-in Portfolio

OSG continued to actively manage its Crude Oil segment charter-in portfolio this year by exercising restraint in extending or entering into new high cost long-term charter-in arrangements. Approximately twelve high cost charter-ins with redelivery dates heavily weighted to the first half of 2012 will either be returned or extended at lower rate levels. Five of these vessels were originally chartered in under sale leaseback arrangements that produced material capital gains. Being able to eliminate or

renegotiate favorable extensions on these loss making time charter-in arrangements is expected to yield better results for our chartered-in portfolio going forward.

During January 2011, the Crude Oil segment redelivered one bareboat chartered-in Aframax, the Overseas Jacamar, and one time chartered-in Aframax, the Aqua. The Company had less than 100% interest in the Aqua. Two VLCCs, the Overseas Meridian and the TI Watban, were also redelivered in June and August, respectively. In December 2011, OSG committed to a three-year time charter-in for a newbuild Suezmax that delivered in January 2012.

The Products segment redelivered one bareboat chartered-in LR2, the Overseas Takamar, and one time chartered-in MR, the Blue Emerald, in January and April, respectively.

Orderbook Amendments

In June 2011, OSG amended three newbuild order contracts, which resulted in, among other things:

- A delay of the delivery date of a newbuild MR to January 2012; and
- Contract price concessions on one newbuild MR that delivered in January 2012 and two Aframaxes scheduled for delivery in 2013.

Commercial Pools

To increase vessel utilization and thereby revenues, the Company participates in Commercial Pools with other like-minded shipowners of similar 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 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, 2011, 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.

The Company is committed to providing safe, reliable and environmentally sound transportation to its customers. Integral to meeting standards mandated by worldwide regulators and customers 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. 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 used to familiarize OSG engine and deck officers with correct procedures and to train for 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 2011, 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 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.

Employees

As of December 31, 2011, the Company had approximately 3,600 employees comprised of 3,170 seagoing personnel and 430 shore side staff. The Company has collective bargaining agreements with three different U.S. maritime unions covering 743 seagoing personnel employed on the Company's U.S. Flag vessels. These agreements are in effect for periods ending between March 2012 and June 2020. 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 2014. 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; constraints on capital availability adversely affecting the tanker industry generally and the Company’s ability to replace or refinance its existing credit facilities; changes in the market value of vessels, which could adversely affect the Company’s compliance with certain of its financial covenants; changes in U.S. income tax law relating to the deferral of taxes on shipping income of the Company’s foreign subsidiaries; limitation on the commercial acceptability of vessels older than a specified age, even if they have been recently rebuilt; 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, 2011 and excludes the Company's proportionate share of TCE revenues of affiliated companies.

	Percentage of TCE Revenues		
	2011	2010	2009
International			
Crude Tankers	33.7 %	49.6 %	51.2 %
Product Carriers	25.3 %	22.1 %	23.7 %
Other	1.7 %	1.4 %	0.8 %
Total International Segments	60.7 %	73.1 %	75.7 %
U.S.	39.3 %	26.9 %	24.3 %
Total	100.00 %	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		
	2011	2010	2009
International			
Crude Tankers	(116.3)%	130.6 %	81.2 %
Product Carriers	(56.1)%	(35.1)%	(3.2)%
Other	(1.4)%	(1.2)%	(1.4)%
Total International Segments	(173.8)%	94.3 %	76.6 %
U.S.	73.8 %	5.7 %	23.4 %
Total	(100.0)%	100.0 %	100.0 %

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2011, 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 4 to the Company's consolidated financial statements set forth in Item 8.

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 65% of the Company's TCE revenues in 2011, 64% in 2010 and 49% in 2009. 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 affect world oil consumption and consequently vessel demand. While trends in

consumption vary with seasons, peaks in demand quite often precede the 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; scrap prices; vetting standards established by charterers and terminals; and by international and U.S. governmental regulations that establish maintenance standards and mandate the retirement of vessels lacking double hulls.

Time and Bareboat Charter Market

The Company's U.S. Flag tanker 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 two 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 35% of the Company's TCE revenues in 2011, 36% in 2010 and 51% in 2009. Because of the depressed market conditions existing between 2009 and 2011, 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 entering into such business.

Fleet Summary

As of December 31, 2011, OSG's operating fleet consisted of 111 vessels, 59% 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 are responsible for all Vessel Expenses). The Company's fleet list excludes vessels chartered-in where the duration of the charter was one year or less at inception. A detailed fleet list and updates on vessels under construction can be found in the Fleet section on www.osg.com.

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2011		
Vessel Type	Number	Weighted by Ownership	Number	Weighted by Ownership	Total Vessels	Weighted by Ownership Vessels	Total Dwt
Operating Fleet							
FSO	2	1.0	-	-	2	1.0	864,046
VLCC and ULCC	10	10.0	4	3.5	14	13.5	4,424,459
Suezmax	-	-	2	2.0	2	2.0	317,000
Aframax	6	6.0	3	3.0	9	9.0	1,011,501
Panamax	9	9.0	-	-	9	9.0	626,834
Lightering	2	2.0	4	4.0	6	6.0	598,012
Total International Flag Crude Tankers	29	28.0	13	12.5	42	40.5	7,841,852
LR1	4	4.0	2	2.0	6	6.0	445,154
MR[1]	15	15.0	20	20.0	35	35.0	1,675,935
Total International Flag Product Carriers	19	19.0	22	22.0	41	41.0	2,121,089
Chemical Carrier	-	-	1	1.0	1	1.0	19,986
Car Carrier	1	1.0	-	-	1	1.0	16,101
Total Int'l Flag Operating Fleet	49	48.0	36	35.5	85	83.5	9,999,028
Handysize Product Carriers[2]	2	2.0	10	10.0	12	12.0	561,623
Clean ATBs	7	7.0	-	-	7	7.0	195,616
Lightering ATBs	3	3.0	-	-	3	3.0	121,560
Total U.S. Flag Operating Fleet	12	12.0	10	10.0	22	22.0	878,799
LNG Fleet	4	2.0	-	-	4	2.0	864,800 cbm
Total Operating Fleet	65	62.0	46	45.5	111	107.5	10,877,827 and 864,800 cbm
Newbuild Fleet							
International Flag							
VLCC	1	1.0	-	-	1	1	298,000
Aframax	2	2.0	-	-	2	2	226,000
Suezmax	-	-	1	0.9	1	0.9	158,484
MR	1	1.0	-	-	1	1	50,000
Total Newbuild Fleet	4	4.0	1	0.9	5	4.9	732,484
Total Operating & Newbuild Fleet	69	66.0	47	46.4	116	112.4	11,610,311 and

	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 two owned shuttle tankers, the Overseas Cascade and the Overseas Chinook.

Newbuild Delivery Schedule as of December 31, 2011

Year/Segment	Q1	Q2	Q3	Q4	Total
2012					
Crude	2	-	-	-	2
Products	1	-	-	-	1
Total	3	-	-	-	3
2013					
Crude	1	-	1	-	2
TOTAL					5

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, and 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, 2011, Tankers International had seven participants and managed a fleet of forty-three modern VLCCs and ULCCs that trade throughout the world, including all fourteen 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 2011 and 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. 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, 2011, the pool had five participants and provides the Commercial Management for a fleet of eleven vessels including the Company's six chartered-in vessels (including four chartered-in on a short-term basis), 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. Effective November 2011, PDV Marina S.A., withdrew its four vessels from the pool and resigned from its role as co-manager of the pool. The Company does not expect PDV Marina's withdrawal to have a negative impact on pool returns and expects to continue moving substantive volumes for CITGO Petroleum, which is also wholly owned by the Venezuelan state-owned oil company and a source of the pool's Venezuelan cargoes. As of December 31, 2011, there were eleven participants in Aframax International and the pool Commercially Managed forty vessels, including ten of the Company's owned and chartered-in vessels (including one chartered-in on a short-term basis). 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 through its associated chartering arm located in Fort Lauderdale, Florida. As of December 31, 2011, Panamax International managed a fleet of twenty-four Panamaxes, which includes five of the Company's owned crude Panamaxes and three of its owned or chartered-in Panamax Product Carriers (LR1s), as well as four crude Panamaxes and one LR1 that are time chartered to one of the pool partners. Panamax International's vessels trade primarily in the East and West coasts of the Americas.

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 transports 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 thirty-six MR product carriers (including one newbuild which delivered in January 2012 and two U.S. Flag vessels trading internationally), six LR1s and one Chemical Carrier (which delivered in September 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 is positioned to grow 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. Most of the MRs are IMO III compliant, allowing for increased flexibility when switching between cargo grades.

- OSG trades nine of its MR Product Carriers, including one that is time chartered to another pool participant and another that is chartered-in on a short-term basis, in the Clean Products International Pool, a regional Commercial Pool formed in 2006 with the Ultragas Group. As of December 31, 2011, the pool had four participants and was comprised of thirteen vessels, with one additional vessel delivering in January 2012. The pool concentrates on triangulation trades in the Atlantic Basin.

- 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 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 vessels. For more information about the financing of the LNG Carriers, which is non recourse to the Company, see Note 6 to the consolidated financial statements set forth in Item 8.

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 twenty-two owned and chartered-in 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 contained 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.

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 2011 and 2010 and $4.3 million in 2009.

- *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 has entered two reflagged U.S. Flag Product Carriers into the Program. Under the Program, the Company received approximately $2.9 million for each vessel in 2011, 2010 and 2009, and will receive $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 two years ended December 31, 2010, the Company withdrew an aggregate of approximately $49 million from its Capital Construction Fund towards the construction costs for the Lightering ATBs.

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, quality and efficiency of operations associated with modern double hull vessels based on concerns about rising costs of fuel and 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 forty-one VLCCs and two ULCCs as of December 31, 2011, 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, A.P. Moller-Maersk A/S and Maran Tankers Management.

OSG formed the Suezmax International pool in 2008. There were eleven tankers in the pool as of December 31, 2011 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 forty 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, American Eagle Tankers and Sigma Tankers Inc.

OSG's main competitors in the highly fragmented Panamax trade include other owners, traders' relets and pool operators. Substantially all of OSG's fleet of Panamax tankers is commercial managed by Panamax International, which commercially manages twenty-four 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 thirty-six vessels (including one newbuild that delivered in January 2012) that competes in a highly fragmented market. Main competitors include Glencore International AG, Handytankers K/S, Vitol Group, Trafigura, A/S Dampskibsselskabet Torm, Navig8, Dorado Tankers Pool Inc. and OAO Sovcomflot.

In the U.S. market, 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 U.S. refineries to markets in the U.S. In addition, indirect competition comes from International Flag vessels transporting imported 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), coastal states, Classification Societies, flag state administration (country of registry) and customers, 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 awareness 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 operations or 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 most recent Health, Safety and Environmental Report (for 2010). 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 applicable compliance requirements 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 ("GHGs"), 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 December 2012. Working groups set up during the Cancun Conference are focusing on securing an extension of the Kyoto Protocol emissions limits. The Parties at the UNFCCC 2011 conference in Durban, South Africa agreed to formulate and adopt a universal legal agreement on climate change as soon as possible but no later than 2015 and further agreed to extend the Kyoto Protocols until either 2017 or 2020.

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”) had indicated its intention to propose an expansion of the existing EU emissions trading scheme to include emissions of greenhouse gases from vessels, particularly if no international maritime emissions reduction targets were agreed to through the IMO or UNFCCC by the end of 2011. In 2011, the European Commission established a working group on shipping to provide input to the European Commission in its work to develop and assess options for the inclusion of international maritime transport in the EU’s greenhouse gas reduction commitment. Due to the IMO’s and UNFCC’s failure to agree on global reduction measures, the European Commission is considering possible European action in 2012. 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. After the Durban conference and the agreement for a second Kyoto protocol, the probability that the EU may adopt specific measures on GHGs control has increased.

In the U.S., pursuant to an April 2007 U.S. Supreme Court decision, the U.S. Environmental Protection Agency (“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. EU regulations also provided a timetable for the phase out of single hull tankers from EU waters. In 2003, the EU adopted legislation that among other things (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) prohibited 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.

As of the end of 2011, all OSG operated vessels that are subject to the IMO and EU phase-out requirements meet the double hull requirements.

The IMO and EU may adopt additional regulations in the future that could further restrict the operation of single hull vessels. Some countries have adopted or may adopt such restrictions even before the IMO acts. Generally, it is becoming increasingly more difficult to obtain clearance for single hull tankers from many countries and oil terminals.

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, 2012 and are approximate.

Under the 1969 Convention, except where the owner is guilty of actual fault, its liability is limited to $206 per gross ton (a unit of measurement for the total enclosed spaces within a vessel) with a maximum liability of $21.6 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 $7.0 million plus $975 for each additional gross ton over 5,000 for vessels of 5,000 to 140,000 gross tons, and $138.7 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 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 (Newcastle, United Kingdom; Athens, Greece; and Tampa, Florida (USA)) 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 to 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 existing and anticipated ballast water treatment requirements, OSG is developing and intends to implement a fleetwide action plan to comply with IMO, EPA, U.S. Coast Guard and possibly more stringent U.S. state mandates, some of which are expected to come into effect in 2012 and may require the installation and use of costly control technologies.

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 believes that none 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 EU, 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 oxide ("SOx") and nitrogen oxide ("NOx") emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI was amended in 2008 to provide for a progressive and substantial reduction in SOx and NOx emissions from vessels and allow for the designation of Emission Control Areas in which more stringent controls would apply. The primary changes were that the global cap on the sulfur content of fuel oil was reduced to 3.50% from 4.50% 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 was progressively reduced from 1.5% to 1.0% effective July 2010 and further

reduced to 0.1% effective January 2015. 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.

In addition to MARPOL Annex VI, there are regional mandates in ports and certain territorial waters within the EU, Turkey and Norway regarding reduced SOx emissions. These requirements establish maximum allowable limits for sulfur content in fuel oils used by vessels when operating within certain areas and waters and while “at berth”.

Additional air emission requirements under MARPOL Annex VI became effective on July 1, 2010 mandating the development of Volatile Organic Compound (VOC) Management Plans for tankships and certain gas ships. OSG vessels subject to this requirement are in compliance.

In July 2011, the IMO further amended MARPOL Annex VI to include energy efficiency standards for “new ships” through the designation of an Energy Efficiency Design Index (EEDI). “New ships” for purposes of this standard are those for which the building contract is placed on or after January 1, 2013; or in the absence of a building contract, the keel of which is laid or which is at a similar stage of construction on or after July 1, 2013; or the delivery of which is on or after July 1, 2015. The EEDI standards phase in from 2013 to 2025 and are anticipated to result in significant reductions in fuel consumption, as well as air and marine pollution.

The Company believes that its International and U.S. Flag vessels are currently compliant with Annex VI and that those of its vessels that operate in the EU, Turkey and Norway are also compliant with the regional mandates applicable there. However, additional or new conventions, laws and regulations that have yet to become effective or that may be adopted in the future could adversely affect the Company's ability to comply with applicable air pollution regulations or could result in material cost increases to achieve 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. As of the end of 2011, all OSG operated U.S. Flag vessels subject to the OPA 90 phase out requirements meet the double hull requirements.

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 Congress 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, although Congress has not yet enacted any such legislation. 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 and Standards:

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 vessel emergencies and 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 and salvage and marine firefighters in order to ensure an immediate response to an oil spill/vessel emergency. OSG has developed and completed the necessary submittals of the plans to the U.S. Coast Guard. The U.S. Coast Guard has approved OSG’s vessel response plans. This approval is valid until January 7, 2017 for tank vessels (and May 16, 2014 for non-tank vessels).

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 current 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 in a proposed revision of the VGP. 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.

EPA is researching and developing the next VGP, to be prepared by November 30, 2012, a year before the expiration of the existing VGP. The new VGP will contain more stringent requirements subject to numeric concentration based effluent limits for discharges of ballast water expressed as organisms per unit of ballast water volume.

Legislation has also 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 cannot 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.

New York State has issued more stringent ballast water, grey water and bilge water discharge requirements for vessels in its waters than required by the VGP or IMO. The New York State standards are scheduled to come into effect on August 1, 2013 for existing vessels covered under the EPA VGP and January 1, 2013 for new vessels that are constructed on or after January 1, 2013. Extension periods for compliance with such New York standards may be applied for. OSG has secured extensions from New York State Department of Environmental Conservation to meet these requirements.

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 NOx standards which will be implemented in two phases. The standards implemented for 2011for newly built engines 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 previous 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. OSG expects to be in compliance with such requirements for the new ECAs. 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 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. OSG believes that, in accordance with its Title V permit, its Delaware lightering fleet is 100% vapor balance capable.

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 ocean going 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 (1.0% sulfur beginning on August 1, 2012) and marine diesel oil at or below 0.5% sulfur and, effective January 1, 2014, marine gas oil or marine diesel oil 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 Company monitors the waters in which its vessels operate for pirate activity. Company vessels that transit areas where there is a high risk of pirate activity 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 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, 2011, 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 U.S. 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.

On December 17, 2010, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. This law extended the controlled foreign corporation ("CFC") look-through rule (the "Look-Through Rule"). This temporary rule expired on December 31, 2011 for calendar year taxpayers. The Look-Through Rule generally provides that a CFC that receives or accrues dividends, interest, rents, and/or royalties from a related CFC is not required to report the income as foreign personal holding company income provided that the income is properly allocable or attributable to income of the payer that is not subpart F income and not treated as

effectively connected with the conduct of a trade or business in the United States. Previous rules extended expiring provisions retroactively to the beginning of a tax year but passage of an extension bill is uncertain at this time.

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").

Chemical Carrier—A ship having specially constructed tanks capable of containing and withstanding extremely volatile or poisonous or corrosive liquids.

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 34 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 and on the value of its vessels

OSG depends on spot charters for a significant portion of its revenues. In 2011, 2010 and 2009, OSG derived approximately 65%, 64% and 49%, respectively, of its TCE revenues in the spot market.

The marine transportation industry has been highly 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 18% of the existing world tanker fleet as of December 31, 2011, a significant percentage but a decrease from 29% and 31% as of December 31, 2010 and 2009, respectively.

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 has for the past three years, the charter rates for the Company's vessels could continue to 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 and the value of its vessels.

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 companies around 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, or to enter into new commitments, which, in turn, could have an adverse impact on OSG. The failure of entities to comply with, or enter into new, 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, or enter into new or additional 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;
- economic sanctions and boycotts; 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 three 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 selling vessels at attractive prices or by refinancing vessels at acceptable levels. Declining vessel values could also result in a breach of certain 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 include in its U.S tax return on a current basis the unrepatriated 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 effect on the Company's business and financial results.

The Company's substantial debt and charter in commitments could adversely affect its financial condition and ability to incur additional debt

OSG has substantial debt and debt service requirements and charter-in commitments. At December 31, 2011, the Company's consolidated total debt was approximately $2.1 billion and its unused borrowing capacity under its revolving credit facility was approximately $700 million (before a reduction of $150 million effective February 2012) and its charter in commitments were approximately $1.3 billion.

The amount of the Company's debt and charter-in obligations 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.

Furthermore, the Company may begin borrowing in February 2013 under a $900 million unsecured forward start revolving credit facility (the "Forward Start Facility") entered into in May 2011, which is at the same time the Company's existing unsecured revolving credit facility expires (the "Existing Facility"). The amount currently outstanding under the Existing Facility approximately equals the capacity under the Forward Start Facility so that the Company could have no unused borrowing capacity under the Forward Start Facility. While the amount of the Forward Start Facility may be increased to up to $1.25 billion if the bank lending group agrees to such increase, no assurance can be given that the lending group will agree or that OSG will be able to borrow additional funds.

In January 2012, Standard & Poor's credit agency reduced the Company's long-term corporate credit rating from B to B-, with a negative outlook, citing, among other reasons, a steep deterioration in the Company's financial profile because of prolonged low tanker rates, rising operating losses and the Company's high debt burden. Standard & Poor's stated that in its assessment the Company has less than adequate liquidity.

The reduced credit rating together with the Company's debt burden and low tanker rates may adversely affect the availability and terms of debt and equity capital. While the Company monitors compliance with its financing agreements, continued low tanker rates and operating losses may result in the Company violating its financial covenants which could result in the adoption of loan terms less favorable to the Company than existing terms or an acceleration of the Company's indebtedness. If the maturity of the Company's indebtedness is accelerated, the Company may not be able to refinance the indebtedness on favorable terms or at all, which would materially adversely affect the Company.

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

There can be no assurance that any of the Company's existing time charters will be renewed at comparable rates or if renewed, that they will be at favorable rates. If, upon expiration of the existing time charters, 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 conversion of the Company's vessels could adversely affect OSG's results of operations

Building new vessels, scheduled shipyard maintenance 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, repairing or converting 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, 2011, nine of OSG's Aframaxes participate in the Aframax International pool. Nine of its crude Panamaxes and four 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, including streamlining company operations to maximize efficiencies while maintaining business quality and customer satisfaction;
- 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 and the OSG Horizon/OSG 351were 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. 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 from time to time 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 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.

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, damage OSG's reputation 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. Vessels chartered in by the Company may be arrested or attached for debts of, or claims or damages against, the vessel's owners, interrupting OSG's use of the vessel and exposing OSG to claims from OSG's customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vessels:

At December 31, 2011, the Company owned or operated (including newbuilds) an aggregate of 116 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	56	President and Chief Executive Officer	January 2004
Myles R. Itkin	64	Executive Vice President,	June 2006
		Chief Financial Officer and Treasurer	June 1995
Ian T. Blackley	57	Senior Vice President,	May 2009
		Head of International Shipping and	January 2009
		Managing Director and Chief Operating Officer, OSG Ship Management (UK) Ltd.	September 2005
James I. Edelson	55	Senior Vice President,	March 2010
		General Counsel and	January 2005

		Secretary	March 2005
Robert E. Johnston	64	Senior Vice President and	October 1998
		Head of U.S. Strategic Business Unit	January 2009
Lois K. Zabrocky	42	Senior Vice President and	June 2008
		Chief Commercial Officer, International Flag Strategic Business Units	May 2011
George Dienis	59	Managing Director and Chief Operating Officer, OSG Ship Management (GR) Ltd.	January 2005
Robert R. Mozdean	58	Head of Worldwide Human Resources	August 2005
Janice K. Smith	50	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 14, 2012, and until the election and qualification of his or her successor. There is no family relationship between the executive officers.

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. Zabrocky served as the Head of International Product Carrier and Gas Strategic Business Unit from September 2005 until her appointment as Chief Commercial Officer, International Flag Strategic Business Units. 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.

2011	High	Low
	(In dollars)	
First Quarter	37.03	30.13
Second Quarter	31.77	24.83
Third Quarter	27.36	13.74
Fourth Quarter	15.60	9.18

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

(b) On February 9, 2012, there were 461 stockholders of record of the Company's common stock.

(c) On February 9, 2012, to preserve liquidity and maintain financial flexibility, the Company's Board of Directors suspended the payment of regular quarterly dividends until further notice. In August 2011, OSG decreased its annual dividend by 50% to $0.875 per share from $1.75 per share of common stock; and in November 2011 paid a quarterly dividend of $0.21875 per share of common stock. Prior to the above change, the Company paid regular quarterly dividends of $0.4375 per share of common stock between June 2008 and August 2011; quarterly dividends of $0.3125 per share of common stock between June 2007 and June 2008; 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, 2011 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 (old) previously used by the Company and included herein for comparative purposes, and a peer group index consisting of Frontline Ltd., Teekay Corporation, Tsakos Energy Navigation Limited, Kirby Corporation, SEACOR Holdings Inc., Knightsbridge Tankers Limited, Ship Finance International Limited, Nordic American Tankers Limited, DHT Holdings Inc., Torm A/S, Horizon Lines, Inc. and the Company, referred to as the peer group index (new). The Companies added to the peer group index (new), which was last changed in 2007, consist of those corporations whose stock has been publicly traded in the U.S. for at least five years. The Company believes that this expanded peer group index is more relevant for comparative purposes. One company previously included in the peer group index (old), General Maritime Corporation, filed for bankruptcy in 2011 and was removed from the index.

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, 2006 and that all dividends were reinvested.

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited selected consolidated financial data for the years ended December 31, 2011, 2010 and 2009, and at December 31, 2011 and 2010, are derived from the audited consolidated financial statements of the Company set forth in Item 8, which have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm. The unaudited selected consolidated financial data for the years ended December 31, 2008 and 2007, and at December 31, 2009, 2008, and 2007, are derived from audited consolidated financial statements of the Company not appearing in this Annual Report, which have been audited by PricewaterhouseCoopers LLP (for December 31, 2009) and Ernst & Young LLP.

35 Overseas Shipholding Group, Inc.

In thousands, except per share amounts	2011	2010	2009	2008	2007
Shipping revenues	$1,049,531	$1,045,610	$1,093,618	$1,704,697	$1,129,305
(Loss)/income from vessel operations	(142,188)	(79,295)	77,130	345,186	207,572
(Loss)/income before income taxes	(197,878)	(141,699)	34,450	271,182	217,186
Net (loss)/income attributable to Overseas Shipholding Group, Inc.	(192,916)	(134,243)	70,170	317,665	211,310
Depreciation and amortization	179,721	170,670	172,404	189,163	185,499
Net cash (used by)/provided by operating activities	(61,061)	(27,714)	218,121	376,337	167,624
Total vessels, deferred drydock and other property at net book amount (a)	3,292,946	3,245,515	3,000,768	2,818,060	2,797,023
Total assets	4,034,349	4,241,103	4,208,441	3,890,061	4,158,917
Debt—long-term debt and capital lease obligations (exclusive of current portion) (b)	2,050,902	1,941,583	1,813,289	1,396,135	1,531,334
Reserve for deferred income taxes and unrecognized tax benefits—noncurrent	277,050	214,188	205,295	196,815	230,924
Total equity	1,555,245	1,810,143	1,867,855	1,824,633	1,950,495
Debt/total capitalization	56.9 %	51.8 %	49.3 %	43.3 %	44.0 %
Per share amounts:					
Basic net (loss)/income attributable to Overseas Shipholding Group, Inc.	(6.39)	(4.55)	2.61	10.71	6.19
Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc.	(6.39)	(4.55)	2.61	10.65	6.16
Overseas Shipholding Group, Inc.'s equity	51.05	59.53	69.55	64.07	58.47
Cash dividends paid	1.53	1.75	1.75	1.5	1.125
Average shares outstanding for basic earnings per share	30,228	29,498	26,864	29,648	34,136
Average shares outstanding for diluted earnings per share	30,228	29,498	26,869	29,814	34,327
Other data:					
Time charter equivalent revenues (c)	790,201	853,278	952,621	1,545,385	1,039,211
EBITDA (d)	61,741	96,015	251,002	530,273	476,332

(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:

For the year ended December 31,	2011	2010	2009	2008	2007
Time charter equivalent revenues	$790,201	$853,278	$952,621	$1,545,385	$1,039,211
Add: Voyage expenses	259,330	192,332	140,997	159,312	90,094
Shipping revenues	$1,049,531	$1,045,610	$1,093,618	$1,704,697	$1,129,305

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,	2011	2010	2009	2008	2007
Net (loss)/income attributable to Overseas Shipholding Group, Inc.	$(192,916)	$(134,243)	$70,170	$317,665	$211,310
Income tax (benefit)/provision	(4,962)	(7,456)	(36,697)	(34,004)	4,827
Interest expense	79,898	67,044	45,125	57,449	74,696
Depreciation and amortization	179,721	170,670	172,404	189,163	185,499
EBITDA	$61,741	$96,015	$251,002	$530,273	$476,332

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

GENERAL

The Company is one of the largest independent bulk shipping companies in the world. The Company's operating fleet as of December 31, 2011, consisted of 111 vessels aggregating 10.9 million dwt and 864,800 cbm, including 46 vessels that have been chartered-in under operating leases. In addition to its operating fleet of 111 vessels, a charter-in of one vessel is scheduled to commence upon delivery of the vessel in January 2012 and four newbuilds are scheduled for delivery between 2012 and 2013, bringing the total operating and newbuild fleet to 116 vessels.

All dollar amounts are in thousands, except daily dollar amounts and per share amounts.

OPERATIONS

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 revenues 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 exports. The

number of vessels is affected by newbuilding deliveries and by the removal of existing vessels from service, principally because of storage, 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.

Average spot market rates in 2011 were adversely impacted by a number of factors. Oil inventory drawdowns of approximately 525,000 barrels per day ("b/d") led to a reduction in seaborne crude oil and product movements while an increase in the Brent – Dubai crude price differential encouraged Asian refiners to increase imports from the Middle East and decrease their imports from longer-haul West Africa. Additionally, an increase in tanker tonnage of approximately 7% during 2011 exacerbated an existing oversupply situation. On the positive side, the U.S. became a net exporter of oil products during 2011 as clean product movements (especially diesel) from the U.S. Gulf Coast achieved record levels, increasing the demand for Product Carriers.

The reduction in inventory levels during 2011 was in part due to the coordinated release of both crude and product by the International Energy Agency ("IEA") in OECD countries during the third quarter of 2011. There was a drawdown of 30 million barrels of crude oil in the U.S. from its Strategic Petroleum Reserve ("SPR"), which has not yet been replenished. There was also a 20 million barrel inventory drawdown in Europe, consisting primarily of products (mainly middle distillates), and a 10 million barrel drawdown in Asia-Pacific countries, consisting primarily of crude oil. Additionally, backwardation in the oil market during 2011 allowed companies to replace inventories at lower than current prices, further encouraging the drawdown of commercial inventories.

There were a number of unpredictable events that occurred during 2011 that adversely impacted tanker markets. The earthquake / tsunami that struck Japan in March damaged refineries and curtailed their operations, reducing demand for long-haul crude oil movements. The civil war in Libya shut in almost 1.5 million b/d of crude oil, of which about one million b/d would have been exported to Europe and about 200,000 b/d to Asia. The reduction in light sweet Libyan crude oil supplies also resulted in an increased premium for light sweet crude oil grades (Brent, Libyan, West African) over sour crudes (Dubai, Mexican Maya). The Brent light sweet to Dubai sour crude price differential reached over $6 per barrel during the year making it more economical for Asian refiners to process Middle East sour crudes instead of West African crudes. Additionally, the reduction in crude oil shipments from Libya to Mediterranean refiners adversely impacted the Aframax tanker market. The closure of Sunoco and ConocoPhillips refineries on the U.S. East Coast that primarily processed light sweet crude oil from West Africa has further reduced tonne-mile demand and adversely affected the Suezmax tanker market.

OPEC crude oil production during 2011 averaged about 30.0 million b/d, an increase of 500,000 b/d over 2010 levels. Crude oil production in war-torn Libya was down by over 1.0 million b/d for the year as the crude oil that was shut-in at the start of the conflict gradually returned as the conflict ended. Increased production of about 1.5 million b/d from Middle East OPEC producers (primarily Saudi Arabia and Iraq) more than compensated for lower Libyan production. The incremental Middle East production went primarily to Asia on VLCCs, especially to refiners with upgrade refining capacity that can profitably process medium and heavy sour crudes to manufacture low sulfur clean products, and to Europe, partially offsetting the production lost from Libya.

Bunker fuel prices rose significantly during the year, averaging over $600 per ton in Houston, Rotterdam and Singapore compared with about $450 per ton during 2010. This increase in fuel prices of about 40% was not fully recoverable in the market and adversely impacted spot tanker earnings and profitability during 2011.

World oil demand, which increased by 2.7 million b/d in 2010, grew by only 740,000 b/d in 2011 to average 89.1 million b/d. Oil demand in OECD areas declined by 530,000 b/d primarily due to an increase in oil prices of over 20%, lower priced natural gas that displaced crude oil demand, economic weakness in North America and Europe and a warmer-than-normal winter that reduced demand in North America and Europe. Non-OECD demand increased by 1.3 million b/d, led by an increase in China, which consisted primarily of middle distillates. Demand growth also increased in Other Asian countries led by India, primarily in middle distillates and in the Former Soviet Union ("FSU"), Middle East and Latin America.

There was a significant difference between the actual number of tanker deliveries that occurred during 2011 and forecasts that were made at the beginning of the year. Crude and Product Carrier deliveries were about 30% and 50%, respectively, below initial forecasts largely due to delays and cancellations that took place during the year. Nevertheless, the size of the world tanker fleet increased by approximately 7% during 2011 as additions were only partially offset by scrappings. The VLCC fleet realized the largest net increase in tonnage of about 9% while the Product Carrier fleet recorded the smallest increase in tonnage of about 3%. While most single hull vessels have been scrapped, some single hull vessels (primarily Product Carriers) remain in service. These vessels will likely become marginalized and scrapped 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 2011 represented 18% of the total fleet, based on deadweight tons (“dwt”), down from 29% at the end of 2010, as new orders placed in 2011 were muted.

Shipyard contract prices for newbuilding VLCCs declined by 5% to 10% during 2011 and now stand at approximately $90 to $95 million compared with approximately $100 million at the end of 2010. There have been limited purchase and sales activities in the second hand market during 2011 which were primarily distress driven and pushed second hand vessel prices down. Tanker values for older, less fuel efficient (first generation double hull) tankers approaching costly drydockings are being valued at just over scrap values in these weak markets.

World oil demand in the fourth quarter of 2011 was approximately 89.8 million b/d, the same level as demand in the fourth quarter of 2010 as declining demand in OECD countries of about one million b/d was offset by an increase in demand in non-OECD areas of an equal amount. Oil demand declined in OECD North America and in Europe but increased in the Pacific area. The substitution of natural gas for oil for home heating, industrial and power generation purposes and mild early winter temperatures resulted in about a 20% decline in heating oil demand in the U.S. In Europe, continued fuel substitution, lower petrochemical demand and warmer-than-normal temperatures drove the decrease in oil demand. Oil demand rose in OECD Pacific led by an increase in fuel oil use and the direct burning of crude oil in Japan to generate electric power in place of the nuclear plants damaged in the March earthquake / tsunami. These nuclear plants have not yet returned to operation. Demand growth in non-OECD areas was led by Asia followed by increases in the FSU, the Middle East and Latin America.

OPEC crude oil production in the fourth quarter of 2011 averaged 30.5 million b/d, an increase of 940,000 b/d over the same timeframe in 2010. There were increases of 1.8 million b/d in the Middle East and 200,000 b/d in South America that were offset by a reduction of one million b/d in Libya. OPEC production in December reached 30.9 million b/d, the highest level in more than three years, as returning Libyan crude oil production reached 800,000 b/d, an increase of about 700,000 b/d from its lowest production level in the May / June period.

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, fuel prices 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*						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
Average	$14,200	$4,200	$5,400	$11,700	$8,900	$27,700	$19,500
High	$51,500	$20,500	$12,900	$35,400	$51,500	$93,900	$80,700
Low	$(6,300)	$(10,700)	$(3,000)	$(4,400)	$(10,700)	$(9,600)	$(5,800)

*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 $8,900 per day during 2011, a decrease of 68% from the 2010 average. Rates during 2011 were adversely impacted by a net increase in tonnage and a reduction in the number of tankers used for crude and product floating storage. The start-up of the East Siberian Oil Pipeline ("ESOP") in late 2010 resulted in an increase in land based crude oil movements of about 150,000 b/d from Russia to China that reduced seaborne movements. The increase in the Brent / Dubai crude oil price differential resulted in a decline of about 120,000 b/d of long-haul West African crudes to China that was offset by an increase in the movement of crude oil from the Middle East. Additionally, unplanned refinery downtime in China, Singapore and Taiwan, specifically during the third quarter of 2011 and the impacts from the earthquake / tsunami in Japan adversely impacted rates during the year.

Rates for VLCCs trading out of the Arabian Gulf in the first quarter of 2011 averaged $14,200 per day, 69% below those in the first quarter of 2010, primarily due to an increase in tonnage. VLCC tonnage rose by approximately 3% during 2010, with a further net increase of seven vessels during the first quarter of 2011. In addition, there was only one VLCC storing clean product at the end of the first quarter of 2011 compared with eight at the end of the first quarter of 2010.

The civil war in Libya that began during the first quarter of 2011 significantly reduced the amount of light sweet crude oil available in the marketplace and tightened overall oil demand and supply fundamentals. The most immediate impact was felt by Mediterranean refiners with minimal upgrade capacity that cannot economically process heavy sour crudes and must primarily use light sweet crude oil as throughput. The increased competition in the marketplace for light sweet crude oil resulted in a widening in the cost spread between light sweet crude oil and heavy sour crudes, which impacted supply patterns. Additionally, market uncertainty in other OPEC countries, such as Nigeria, Iraq and Iran resulted in a market risk premium on the price of Brent crude as it averaged over $100 per barrel during the first quarter of 2011. The increase in premiums for Atlantic Basin sweet crude oils relative to medium and heavy sour crudes from the Middle East led Asian refiners to switch to shorter-haul Middle East crudes. This resulted in a reduction of approximately 9% in seaborne movements from West Africa to China compared with the first quarter of 2010. The reduction in these long-haul movements were, however, offset by a 20% increase in Middle East-to-China exports and by a 30% increase in movements from South America to China.

Rates for VLCCs in the second quarter averaged $4,200 per day, about 90% below rates realized in the same period of 2010. Prices for bunker fuel oil in Singapore increased by 43% to an average of $660 per ton in the second quarter of 2011 from $460 per ton in the second quarter of 2010. The increase in the average cost of bunker fuel oil was not fully recoverable from charterers, negatively impacting 2011 spot market earnings. Second quarter 2011 rates were also adversely impacted by a reduction in Middle East exports to Japan due to damage to refineries caused by the March earthquake and tsunami.

While oil demand increased in China by 460,000 b/d in the second quarter of 2011 compared with 2010, seaborne crude oil imports increased by only 50% of this volume, due to an increase in local production of about 100,000 b/d, an increase in land-delivered crude oil from Russia of about 120,000 b/d via the new ESOP pipeline and a reduction in diesel exports. Additionally, the cost spread between light sweet crude (Brent) and sour crude (Dubai) favored Chinese (and Other Asian) refiners processing higher volumes of Middle East crude oils instead of longer haul West African crudes.

Rates for VLCCs in the third quarter of 2011 averaged $5,400 per day, about 49% lower than rates realized in the same period during 2010. Weaker VLCC rates for the third quarter of 2011 reflected an increase in available tonnage, a reduction in VLCCs being used for floating storage, higher bunker costs and a reduction in shipments of long-haul crudes from West Africa to Asia, specifically to China. Imports of West African crude oil into China averaged 840,000 b/d during the third quarter of 2011, a 16% reduction from the one million b/d import level during the third quarter of 2010. This contributed to a reduction in tonne-mile demand in the third quarter. There was also an unanticipated refinery shutdown in Taiwan as well as planned maintenance at the only refinery in Vietnam that reduced crude oil seaborne movements into Asia.

Fourth quarter 2011 rates increased by about 7% compared with the fourth quarter of 2010 and were more than double rates in the third quarter of 2011. The increase in Libyan production from approximately 80,000 b/d in September to about 800,000 b/d in December in addition to an increase in Angolan output from the recent startup of the Pazflor field significantly increased the volume of light sweet crude oil in the marketplace. This higher volume resulted in a sharp decrease in the Brent / Dubai crude price differential from over $6 per barrel in the third quarter of 2011 to approximately $2 per barrel in the fourth quarter, increasing long-haul West African crude oil movements to China by about 100,000 b/d. Middle East crude oil movements to China also increased as refinery runs in China reached record levels. Refinery runs in Other Asia and Japan also increased. Increased crude movements into Asia during the fourth quarter strengthened VLCC rates.

The world VLCC fleet stood at 571 tankers (174.0 million dwt) at December 31, 2011, an increase in tonnage of approximately 9% during the year. The VLCC fleet included nine single hull tankers. The year-end 2011 VLCC orderbook totaled 127 vessels (40.2 million dwt) representing 23% of the existing VLCC fleet, based on deadweight tons.

International Flag Suezmaxes

	Spot Market TCE Rates Suezmaxes in the Atlantic*						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
Average	$15,100	$10,200	$5,900	$14,800	$11,500	$22,000	$21,000
High	$31,100	$21,200	$13,000	$27,600	$31,100	$64,000	$49,200
Low	$2,000	$3,000	$1,300	$6,000	$1,300	$4,000	$2,000

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

Average rates for Suezmaxes trading out of West Africa in 2011 declined by 48% from 2010 due primarily to an increase in the size of the fleet and a reduction in West African crude oil movements to both the U.S. East and Gulf Coasts. The shutdown of Sunoco and ConocoPhillips refining capacity in the Philadelphia area during 2011 curtailed demand for Suezmaxes at a time when a sizable increase in tonnage occurred. Additionally, the release of light sweet crude oil from the U.S. Strategic Petroleum Reserve during the third quarter of 2011 reduced import requirements by over 300,000 b/d, resulting in the lowest quarterly rates of the year. Libyan exports of crude oil to China transported on Suezmaxes declined by about 100,000 b/d compared with 2010 as Libyan crude exports fell to virtually nil as its civil war severely curtailed production.

Rates for Suezmaxes during the first quarter of 2011 averaged $15,100 per day, approximately 50% less than the corresponding year ago quarter. Weaker rates relative to the year ago period mainly reflected an increase in the size of the trading Suezmax fleet (reflecting less-than usual weather delays in the Bosporus Straits and a decline in the number of Suezmaxes storing clean products that released tonnage back into the market), higher bunker costs, and a reduction in Angolan crude oil output resulting from maintenance and technical problems in deepwater production blocks.

Rates for Suezmaxes in the second quarter of 2011 averaged $10,200 per day, 66% lower than rates in the second quarter of 2010. Second quarter rates were negatively influenced by the elimination of China's imports of Libyan crude and by production and operational problems in both Angola and Nigeria. Angolan second quarter 2011 production averaged 1.55 million b/d, which was 220,000 b/d less than second quarter 2010 levels. Production in June fell to 1.5 million b/d, the lowest level since December 2006. Nigerian crude oil availability was curtailed in June as the sabotage of a major pipeline caused Shell Oil to declare force majeure on loadings of Bonny crude oil. Additionally, lower U.S. refinery utilization rates in the second quarter of 2011, primarily in the Gulf and East Coast regions, resulted in a reduction of approximately 400,000 b/d in imports of West African crudes into the U.S., adversely impacting Suezmax utilization rates.

Rates for Suezmaxes in the third quarter of 2011 averaged $5,900 per day, 44% lower than rates in the third quarter of 2010. This decline was primarily due to the release of 30 million barrels of light sweet crude oil from the SPR in the U.S. during July and August, which had an adverse impact on seaborne imports. U.S. imports from Nigeria and Angola were down 240,000 b/d compared with the third quarter of 2010. Third quarter crude oil exports from Black Sea and Baltic Sea ports also declined relative to the third quarter of 2010. Higher oil demand of 300,000 b/d in the FSU necessitated an increase in refining runs that reduced export availability. Exports from the Black Sea region were also reduced as a result of maintenance work on the Chirag platform and the Baku-Suspa pipeline while exports from the Baltic Sea region was adversely impacted by maintenance on the Primorsk pipeline as well as on the port itself.

Fourth quarter rates averaged $14,800 per day, approximately 14% below those in the fourth quarter of 2010 but more than double rates realized in the prior quarter of 2011. The increase in the fourth quarter of 2011compared with the third quarter reflected additional demand from Asia, specifically China, for one million barrel cargoes of both crude and fuel oil from Europe, Latin America and West Africa. The decline in fourth quarter 2011 rates compared with the same timeframe in 2010 reflected the impact of increased tonnage, a reduction in movements of West African crudes to the U.S. and a significant increase in bunker costs that could not be fully passed on to charterers.

The world Suezmax fleet totaled 444 tankers (68.5 million dwt) at December 31, 2011 of which only eight were single hull. The increase in Suezmax tonnage during 2011 approximated 9%. The year-end 2011 Suezmax orderbook totaled 127 vessels (19.7 million dwt) representing 29% of the existing Suezmax fleet, based on deadweight tons.

International Flag Aframaxes

	Spot Market TCE Rates Aframaxes in the Caribbean*						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
Average	$9,800	$4,800	$6,100	$8,400	$7,300	$17,200	$12,200
High	$37,500	$12,500	$15,000	$18,000	$37,500	$41,000	$73,000
Low	$500	$100	$(700)	$1,000	$(700)	$3,500	$1,000

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

Rates for Aframaxes operating in the Caribbean averaged $7,300 per day during 2011, a decline of 58% compared with 2010. The key events that impacted the Aframax sector were a significant decline in Libyan crude oil exports to Europe, especially to Mediterranean refiners, a reduction in North Sea crude production of approximately 200,000 b/d, reduced exports from Russia as more of its domestic production was required to meet growing internal oil demand. An increase in Aframax net tonnage and higher bunker costs also exerted pressure on Aframax rates during 2011.

Rates for Aframaxes during the first quarter of 2011 averaged $9,800 per day, down 55% from the first quarter of 2010. The key event impacting the Aframax sector during the first quarter of 2011 was a decline in Libyan oil production, from 1.6 million b/d in January to 450,000 b/d in March, due to the outbreak of a civil war. Prior to the conflict, Libya exported an average of approximately 1.2 million b/d of crude oil, of which 900,000 b/d was shipped in Aframaxes to short-haul European destinations (primarily Italy, France and Spain). A decrease of 230,000 b/d in North Sea production also reduced demand for Aframax tonnage.

Rates for Aframaxes during the second quarter of 2011 averaged $4,800 per day, about 75% below the second quarter of 2010. Second quarter 2011 crude oil production levels in Libya and the North Sea, two key Aframax ports, were significantly below levels in the second quarter of 2010. North Sea production was down about 300,000 b/d while Libya's production fell by a massive 1.44 million b/d, allowing for only a negligible quantity of crude exports compared with exports of approximately 1.2 million b/d in the second quarter of 2010. Additionally, lower refining margins in Europe and unanticipated refinery downtime in the U.S. Gulf Coast region, due to power outages in Texas and flooding of the Mississippi River, resulted in a reduction in Aframax movements.

Rates for Aframaxes during the third quarter of 2011 averaged $6,100 per day, 50% lower than the third quarter of 2010. The inventory drawdown of 30 million barrels of crude oil in the U.S. necessitated using tankers to move the crude oil from storage facilities at the U.S. Gulf Coast to U.S. refineries at other coastal locations. The U.S. government eased coastwise trading restrictions by allowing refiners to transport oil on international flag tankers. This resulted in approximately 37 additional liftings on Aframaxes, which benefitted rates.

Fourth quarter 2011 rates were 41% lower than the fourth quarter of 2010 but about 37% higher than third quarter 2011 rates. An oversupply of tonnage in the Caribbean was the main reason for weakness in fourth quarter 2011 rates relative to a year ago. In the fourth quarter of 2010, rates benefitted from significant delays caused by a port workers strike at Fos/Lavera that resulted in longer waiting times, reducing the availability of Aframax tonnage. Fourth quarter 2011 rates rebounded from third quarter levels as the completion of North Sea maintenance led to a rise in North Sea production of 400,000 b/d and Libyan oil production increased from 40,000 b/d in the third quarter to 550,000 b/d in the fourth quarter.

The world Aframax fleet totaled 910 vessels (96.7 million dwt) as of December 31, 2011, including 24 single hull tankers. The increase in Aframax tonnage during 2011 approximated 4%. The Aframax orderbook stood at 86 vessels (9.5 million dwt) at December 31, 2011, representing 10% of the existing Aframax fleet, based on deadweight tons.

International Flag Panamaxes

	Spot Market TCE Rates Panamaxes—Crude and Residual Oils*						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
Average	$14,800	$9,300	$6,100	$7,200	$9,400	$13,400	$13,100
High	$30,000	$17,100	$11,000	$11,000	$30,000	$24,900	$38,000
Low	$-	$1,100	$1,300	$3,600	$-	$900	$-

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

Rates for Panamaxes that move crude and residual fuel oil averaged $9,400 per day during 2011, a 30% decline compared with 2010. An increase in tonnage and higher bunker prices adversely impacted rates during 2011. 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 Panamaxes. Aframaxes that had operated in the Mediterranean, transporting Libyan crude moved to the Caribbean competing with Panamaxes and exerting additional pressure on rates.

Rates for Panamaxes averaged $14,800 per day during the first quarter of 2011, 9% lower than the first quarter of 2010 but 41% higher than rates in the fourth quarter of 2010. During the first quarter of 2011, Panamax rates were supported by the startup of Valero’s Aruba refinery and by the unanticipated downtime of a catalytic cracking unit at the Hovensa refinery in St. Croix. The Aruba refinery after being shut down in 2010 recommenced operations in February 2011, generating an increase in feedstock demand in the Caribbean as well as producing vacuum gas oil (VGO), which was exported to both the U.S. West and Gulf Coasts. The shutdown of the Hovensa catalytic cracking unit resulted in increased volumes of VGO feedstock that were transported to other areas in Latin America, as well as North America.

Panamaxes rates averaged $9,300 per day during the second quarter of 2011, 43% below the corresponding quarter in 2010. Rates in the second quarter of 2011, however, were boosted by additional shipments of VGO from the Aruba refinery to Valero’s refineries on the U.S. West Coast that utilize VGO as a feedstock. Additionally, sparse rainfall in Chile caused a reduction in hydroelectric power, resulting in additional fuel oil imports used to generate fuel-fired electric power.

Rates for Panamaxes averaged $6,100 per day during the third quarter of 2011, approximately 42% lower than rates in the corresponding quarter of 2010. Panamax rates in the third quarter reached their highest level at the end of August as Hurricane Irene moved through the Caribbean and up the Atlantic Coast of the U.S. causing delays that supported rates. These higher rates could not be sustained given the excess tonnage in the marketplace and increased competition from Aframaxes on the Ecuador-to-U.S. West Coast oil trade.

Panamaxes rates averaged $7,200 per day during the fourth quarter of 2011, 32% below the corresponding quarter in 2010 but 18% above third quarter of 2011 levels. An increase in fuel oil movements from Mexico's West Coast and a pick-up in shipments from Puerto Armuelles in Panama to the U.S. West Coast increased demand for tonnage. Additional waiting time for cargo deliveries on the U.S. West Coast, particularly at El Segundo, also supported rates in the fourth quarter of 2011.

The world Panamax fleet at December 31, 2011 stood at 446 vessels (31.5 million dwt), including 15 single hull vessels. The increase in Panamax tonnage during 2011 approximated 3%. The orderbook of 52 vessels (3.8 million dwt) at December 31, 2011 represented 12% of the existing fleet based on deadweight tons.

International Flag Handysize Product Carriers

	Spot Market TCE Rates Handysize Product Carriers*						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
Average	$9,900	$11,300	$4,900	$8,200	$8,600	$7,600	$5,900
High	$18,900	$22,000	$12,000	$20,700	$22,000	$18,500	$18,200
Low	$700	$1,100	$300	$3,400	$300	$1,700	$-

* 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 $8,600 per day in 2011, 14% above 2010 rates. Higher rates reflected an increase in clean product movements in both the Atlantic and Pacific Basins. Product exports from the U.S. Gulf Coast reached record levels in 2011, led by an increase in middle distillate exports to Europe and Latin American areas. There was also an increase in intra-Asian product flows, including incremental middle distillate (diesel) imports into China to meet its growing demand for energy and increased product imports into Japan to compensate for reduced output from domestic refineries that were damaged in the earthquake / tsunami in March. These additional product movements offset the increase in net tonnage and higher bunker costs.

Rates for Product Carriers averaged $9,900 per day during the first quarter of 2011, 3% above rates in the first quarter of 2010. Product Carrier rates were buoyed in the first quarter by a significant increase in products exported from the U.S. Exports of diesel, primarily from U.S. Gulf Coast refineries, averaged approximately 700,000 b/d, an increase of 66% compared with the first quarter of 2010. Products were exported primarily to South America (Brazil, Argentina and Chile) and Europe, increasing tonne-mile demand. There was also a significant increase in diesel imports into China and an increase in gasoline imports to Nigeria. A large portion of the Nigerian imports were held offshore in ships, effectively removing tonnage from the market.

Rates for Product Carriers averaged $11,300 per day during the second quarter of 2011, about 73% above those in the second quarter of 2010. Higher rates in the second quarter were primarily due to the increase in diesel trading opportunities. Product exports from the U.S. in the second quarter of 2011 increased by 13% over the same period in 2010. Diesel oil exports to both Europe and Latin America accounted for most of this surge as lower refining runs in Europe reduced the availability of products on the Continent and increased diesel demand in Latin America could not be met from local sources. The high diesel crack spread in Asia, primarily due to increased demand in China and Japan, resulted in an expanded intra-Asian trade and a reduction in exports from Asia to Europe.

Rates for Product Carriers averaged $4,900 per day during the third quarter of 2011, a reduction of 36% compared with the third quarter of 2010. A reduction in product import requirements during the third quarter of 2011 reflected a decline in U.S. and European oil demand levels of approximately 580,000 b/d and 240,000 b/d, respectively. The release of product inventories in Europe by the IEA during the third quarter curtailed product import requirements, and lower refining runs reduced the amount of gasoline available for export.

Rates in the fourth quarter of 2011 were 28% higher than those in the same timeframe in 2010. Diesel exports from the Gulf of Mexico reached a record level of over one million b/d in October. As a result, product exports from the U.S. Gulf Coast during the fourth quarter of 2011 increased by approximately 25% over the same year ago period.

The U.S. Gulf Coast refining industry recently expanded its role as a product export center. It possesses a number of key advantages, including the ability to use low cost natural gas as a refining fuel and large, efficient refineries with significant upgrade capacity, capable of processing lower cost high sulfur crude oil into low sulfur gasoline and diesel. Product exports from the U.S. increased from 1.8 million b/d in 2009 to 2.0 million b/d in 2010 and to approximately 2.5 million b/d in 2011. This large increase has turned these trades into front-haul routes while the formerly dominant Europe-to-U.S. and Caribbean-to-U.S. movements have become back-haul routes.

The world Handysize fleet reached 1,558 vessels (67.8 million dwt) at December 31, 2011, including 101 single hull tankers. The increase in Handysize tonnage during 2011 approximated 3%. The orderbook at year-end 2011 stood at 178 vessels (8.5 million dwt) representing 12% 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						
	Q1-2011	Q2-2011	Q3-2011	Q4-2011	2011	2010	2009
45,000 dwt Product Carriers	$35,500	$32,200	$40,800	$48,800	$39,300	$38,400	$36,650
30,000 dwt ATBs	$22,600	$20,300	$26,500	$32,000	$25,400	$25,400	$24,850

Jones Act Product Carriers averaged $39,300 per day in the spot market during 2011, an increase of 3% over 2010 levels. The average spot rate for ATBs was unchanged from 2010 at approximately $25,400 per day. The improvement in the average daily spot rate for Product Carriers primarily reflects an 8% decline in the U.S. Flag fleet of large ocean-going vessels engaged exclusively in the coastwise trades from 60 vessels at the beginning of 2011 to 55 vessels at the end of the year, due to the scrapping of older vessels. The reduction in available tonnage resulted in an increase in utilization. The only ATB that was in layup at the beginning of 2011 re-entered service in October 2011. The increase in revenues in both the Product Carrier and ATB trades was offset by an increase in fuel cost as the annual average price of intermediate fuel oil ("IFO" or bunkers), the fuel that is used by Product Carriers, increased by 39% to $626 per ton while the annual average price of marine diesel oil ("MDO"), the fuel that is used by ATBs, increased by approximately 45% to $970 per ton.

Average daily spot rates for Jones Act Product Carriers and ATBs averaged $35,500 per day and $22,600 per day, respectively, during the first quarter of 2011. Relative to the first quarter of 2010, spot rates for Product Carriers were up 3.5% while spot rates for ATBs were down approximately 3%. Utilization rates were higher in the first quarter of 2011 for both Jones Act Product Carriers and ATBs compared with the same year ago period when there were eight vessels in lay-up. U.S. Gulf Coast refinery utilization rates increased from 81.1% during the first quarter of 2010 to 84.7% in the first quarter of 2011, increasing the demand for vessels to move oil products. There was an increase in gasoline shipments from Gulf Coast refineries to Brownsville, Texas, which were then shipped via pipeline into Mexico. Two tankers were also chartered for shipments from the U.S. Gulf Coast to the U.S. West Coast during the first quarter, the first such Jones Act movements to have occurred in six months. Spot rates were also buoyed as the Jones Act fleet declined from 66 in the first quarter of 2010 to 57 in the first quarter of 2011. Fuel costs rose

significantly, however, especially for MDO. The higher fuel costs were not recoverable from charterers and resulted in a slight reduction in first quarter 2011 rates for ATBs compared with the same quarter of 2010.

Average daily spot rates for Jones Act Product Carriers and ATBs during the second quarter of 2011 averaged $32,200 per day and $20,300 per day, respectively, and were 21% and 25% below rates in the second quarter of 2010, respectively. The lower rates relative to the 2010 period reflected lower refinery utilization rates in the Gulf Coast region and a significant increase in the cost of fuels used by Jones Act Product Carriers and ATBs. U.S. oil demand declined by approximately 300,000 b/d to 18.8 million b/d compared with the second quarter of 2010. U.S. Gulf Coast refinery utilization rates declined from 92% in the second quarter of 2010 to 87% in the second quarter of 2011. Bunker prices during the second quarter of 2011 were 45% above the same timeframes in 2010 while MDO averaged over $1,000 per ton in the second quarter of 2011, approximately 50% more expensive than in the second quarter of last year.

Spot rates for Jones Act Product Carriers and ATBs averaged $40,800 per day and $26,500 per day, respectively, during the third quarter of 2011, slightly above their respective third quarter 2010 rates. There were 54 vessels operating in the Jones Act fleet at the end of the third quarter of 2011 compared with 62 vessels at the end of the third quarter of 2010. There were no vessels in lay-up at the end of the third quarter of 2011 compared with eight at the end of the third quarter of 2010. The positive impact of this reduction in available tonnage was offset by an increase in third quarter 2011 bunker and MDO costs of $210 per ton and $310 per ton, respectively.

Fourth quarter 2011 spot rates for both Jones Act Product Carriers and ATBs were both approximately 25% higher than their corresponding fourth quarter 2010 rates. The increase was primarily due to a decline in size of the fleet as well as an increase in demand for Jones Act vessels. There has been renewed interest in transporting products from Gulf Coast refineries to the U.S. East Coast as the closure of Sunoco's Marcus Hook refinery and ConocoPhillips' Trainer refinery in the third quarter of 2011 resulted in a product supply shortfall on the U.S. East Coast. Additionally, the number of crude oil movements made in the fourth quarter between ports within Texas rose.

The Delaware Bay lightering business transported an average of 288,000 b/d during 2011, an increase of 28% from the 224,000 b/d transported in 2010. The increase in lightering volumes relative to a year ago was mainly due to the lightering-to extinction of a larger number of VLCCs and the start-up of the Delaware City refinery in the second half of 2011, which had not been operational for over a year. Lightering volumes in 2012 will not attain 2011 levels if Sunoco follows through on their announced plans to sell or idle their remaining refinery in the Philadelphia area by July 2012.

As of December 31, 2011, the total Jones Act fleet of Product Carriers, and ATBs consisted of 55 vessels. Five vessels entered the fleet during 2011 while ten vessels were scrapped. The Jones Act orderbook for deliveries scheduled through 2015 consists of five Product Carriers and ATBs in the 160,000 to 420,000 barrel size range. These additions will be partially offset by the scrapping of two tankers that will reach their OPA-90 phase-out dates in 2012 and 2013

Outlook

Continued high oil prices, due in part to geopolitical events, and a slowdown in economic activities, especially in Europe, is forecast to have a dampening impact on oil demand in 2012. The International Monetary Fund ("IMF") has recently lowered its forecast of the world's GDP growth rate to 3.3% for 2012 from the 4.0% level in its prior (September 2011) forecast. Consequently, the IEA has lowered its forecast for oil demand growth for 2012 to 830,000 b/d, down 300,000 b/d from its prior forecast. This growth in oil demand is expected to occur in non-OECD areas where demand is forecast to increase by about 1.2 million b/d. OECD oil demand is expected to decline by about 400,000 b/d. OECD Europe oil demand is forecast to decline by 340,000 b/d as tight credit and sovereign debt problems continue into 2012. Despite expectations for stronger economic growth in North America oil demand is forecast to decline by approximately 100,000 b/d. Oil demand growth in developing countries is forecast to accelerate in 2012 with China, India, and Other Developing Asia leading the way followed by the Middle East and Latin America.

It is anticipated that non-OPEC production will increase by about 900,000 b/d in 2012. Production during 2011 was adversely impacted by unplanned downtime that reduced non-OPEC production by between 600,000 and 700,000 b/d over the last nine months of the year. Production in 2012 is forecast to increase in the U.S. by 300,000 b/d, in Canada by 230,000 b/d, in Brazil by 150,000 b/d, in Russia by 130,000 b/d and in Colombia by 100,000 b/d. No increase in production is forecast to occur in Asia. The incremental production in both Brazil and Colombia could generate

increased seaborne movements from these areas. The increase in crude oil production in Canada and the U.S. could reduce import requirements for crude oil carried on Suezmax and Aframax tankers.

World oil inventories were drawn down during 2010 and 2011 by 820,000 b/d and 520,000 b/d, respectively. Stock levels in OECD areas are now below their five-year averages and ended 2011 near their lowest levels on record. With oil stocks at these low levels, there is limited ability to further drawdown inventories in 2012. Additionally, some countries may find it prudent to increase their Strategic Petroleum Reserves in light of recent geopolitical events that could alter or restrict trade flows. China recently completed building storage facilities for its Phase II SPR program and could therefore begin to fill it during 2012. A worldwide movement toward rebuilding inventory levels would have a positive impact on tonne-mile demand for both crude and product seaborne trades.

Refining runs in Asia are forecast to increase in 2012 as both PetroChina and SINOPEC have announced plans to increase runs as additional refining capacity comes on line. Refining runs are also forecast to increase in India from the recently commissioned Bina refinery and other projects scheduled to come on line during 2012. With no increase in local crude production levels anticipated within Asia, both India and China would need to meet their incremental crude requirements through increased seaborne shipments, benefitting tonne-mile demand.

The startup of the Motiva refining expansion project in Port Arthur, Texas is scheduled to commence during the second quarter of 2012. This project entails a 325,000 b/d expansion in crude distillation capacity as well as the addition of significant upgrade capacity (coker) that will enable it to process heavy sour crudes. Since Motiva is 50% owned by Saudi Aramco, it is likely that this refinery would process incremental volumes of Arabian heavy crudes that would have a positive impact on tonne-mile demand.

The civil war in Libya resulted in a significant reduction in crude oil exports from that country in 2011. While impacting trade flows to Europe and, to a lesser extent, China, the loss of over one million b/d of light sweet crude oil caused the light sweet to sour crude price differential to rise dramatically during 2011. Libyan light sweet crude oil has begun returning to the market with production reaching approximately 800,000 b/d in December 2011. This resulted in the lowering of the light sweet to heavy / medium sour crude price differential that resulted in an increase in Atlantic Basin crudes to Asia movements in the first two months of 2012. This development if maintained should benefit 2012 tonne-mile demand.

Tensions continue to escalate with Iran as stricter sanctions were put in place by both the U.S. and the European Union (EU) in January 2012. These sanctions restrict oil trade flows and prohibit central banks from doing business with Iran's central bank. Leaders from Japan, China, South Korea and Other Asian countries have sought to secure assurances from other Middle East producers that output would be increased to replace Iranian barrels. In response to the stricter sanctions Iran announced that it would close the Straits of Hormuz if an embargo is placed on its oil exports. Either an embargo against Iranian oil or the closure of the Strait of Hormuz would have a negative or positive impact on trade flows and increase volatility in tanker rates during 2012.

Recent announcements of refinery closures will also impact trade flows during 2012. The shutdown of Sunoco and ConocoPhillips refineries on the U.S. East Coast, Hovensa's announcement of the closing of its 350,000 b/d refinery in St. Croix in February 2012 and Petroplus (Europe's largest independent refiner) filing for bankruptcy protection and closing three of its five refineries should positively affect product trade flows to the U.S. East Coast. Imports into the U.S. East Coast of both gasoline and middle distillates will need to increase, which would boost Product Carrier tonne-mile demand from Europe and from longer haul supply sources such as India and provide opportunities for coastwise product movements from the U.S. Gulf Coast on U.S Flag vessels. U.S. imports of crude oil, however, will decline which will have an adverse impact on tonne-mile demand for crude oil tankers, particularly Suezmaxes that carry light sweet crude oil from West Africa to U.S. East Coast refineries, although competition among tanker classes could be heightened as well.

Product exports from the U.S. Gulf Coast refineries are forecast to rise further in 2012 with increasing gasoline and diesel exports to Latin America where there is a growing clean product deficit and additional diesel movements into Europe. Growing naphtha demand in China stemming from the startup of two new petrochemical plants and an increase in the Intra-Asian product trade including additional product movements to Australia to compensate for the closure of a refinery will also increase tonne-mile demand. Additionally, the jet/kerosene deficit is forecast to increase in both Latin America and Europe, which should increase imports of aviation gasoline from the U.S. Gulf Coast into Latin America and from sources outside the Atlantic Basin into Europe. Product Carrier fundamentals for 2012 are forecast to improve as a result of changes in product supply patterns (including the closure of refineries in the Atlantic Basin), which should result in an increase in product tonne-mile demand that exceeds the increase in tonnage.

U.S. Flag market fundamentals are expected to improve during 2012. Tanker utilization rates should remain high and an increase in product availability from refinery expansions along the Gulf of Mexico could provide incremental seaborne movements. Additionally, there could be an increase in product movements from the Gulf Coast area to the

U.S. Mid-Atlantic and Northeast states given the reduction in product availability in these areas caused by the closure of Sunoco and ConocoPhillips refineries during 2011.

While the outlook for crude tonne-mile demand in 2012 is positive, it will not be sufficient to offset the current supply surplus and an anticipated increase in crude tanker supply of 4% to 6%, depending on the number of order cancellations and deliveries that are deferred into later years and on the number of single hull and first generation double hull tankers that are scrapped. Tanker rates will therefore remain under pressure in 2012.

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. Geopolitical events, such as violence in Nigeria’s oil producing Niger delta, escalating tensions with Iran, including recent sanctions enacted by the EU and Iran’s threat to close the Straits of Hormuz, and other regional conflicts in the Middle East and North Africa, including the Sudan, could also cause changes in supply patterns that could significantly impact rates. The rate of economic recovery and pace of restructuring activities in Japan and decisions concerning their nuclear power plants could also influence trade flows.

CRITICAL 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 1 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 collectability 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 and Salvage Values

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.

The Company's owned International Flag tanker fleet is 100% double hull at December 31, 2011. 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 Company estimates the scrap value of all of its International Flag vessels to be $300 per lightweight ton. The Company's assumptions used in the determination of estimated salvage value takes into account current scrap prices, which are currently well in excess of $400 per lightweight ton, the historic pattern of scrap rates over the four years ended December 31, 2011, which ranged from $250 to over $700 per lightweight ton, estimated changes in future market demand for scrap steel and estimated future demand for vessels.

Scrap prices during 2011 ranged from $400 per lightweight ton to $550 per lightweight ton. The Company expects scrapping levels to remain high during 2012 as owners, faced with the challenges of a market where scheduled newbuild deliveries are expected to further exacerbate the current oversupply of tonnage and low charter rate expectations, will likely be inclined to accelerate the disposal of older vessels, especially those with upcoming special surveys, including first generation double hull vessels. 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 U.S. has not adopted the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (the “Convention”). While the Convention is not in effect in the U.S., the U.S. Environmental Protection Agency and the Maritime Administration of the U.S. Department of Transportation (“MarAd”) have, from time to time, required the owners of U.S. Flag vessels to make certifications regarding the presence of certain toxic substances onboard vessels that they are seeking to sell to parties who: (a) are not citizens of the U.S.; and (b) intend to recycle the vessels after they have been purchased (the "Recycling Purchasers"). In the event that more stringent requirements are imposed upon the owners of U.S. Flag vessels seeking to sell their vessels to the Recycling Purchasers, such requirements could: (a) negatively impact the sales prices obtainable from the Recycling Purchasers; or (b) require companies, including OSG, to incur additional costs in order to sell their U.S. Flag vessels to the Recycling Purchasers or to other foreign buyers intending to use such vessels for further trading. Management currently believes that $300 per lightweight ton is a reasonable estimate of recycling prices for OSG's U.S. Flag vessels.

Vessel Impairment

The carrying values of the Company’s vessels may not represent their fair market value or the amount that could be obtained by selling the vessel 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 evaluates vessels for impairment only when it determines that it will sell a vessel or 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 performance, with significant assumptions being related to charter rates, ship operating expenses, utilization, drydocking requirements, residual value and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Specifically, in estimating future charter rates, management takes into consideration rates currently in effect for existing time charters and estimated daily time charter equivalent rates for each vessel class for the unfixed days over the estimated remaining lives of each of the vessels. The estimated daily time charter equivalent rates used for unfixed days are based on a combination of (i) internally forecasted rates that are consistent with forecasts provided to the Company’s senior management and Board of Directors, and (ii) the trailing 10-year historical average rates, based on quarterly average rates published by a third party maritime research service. The internally forecasted rates are based on management’s evaluation of current economic data and trends in the shipping and oil and gas industries. Recognizing that the transportation of crude oil and petroleum products is cyclical and subject to significant volatility based on factors beyond the Company’s control, management believes the use of estimates based on the combination of internally forecasted rates and 10-year historical average rates calculated as of the reporting date to be reasonable.

Estimated outflows for operating expenses and drydocking requirements are based on historical and budgeted costs and are adjusted for assumed inflation. Finally, utilization is based on historical levels achieved and estimates of a residual value are consistent with the pattern of scrap rates used in management's evaluation of salvage value.

The more significant factors that could impact management's assumptions regarding time charter equivalent rates include (i) loss or reduction in business from significant customers, (ii) unanticipated changes in demand for transportation of crude oil and petroleum products, (iii) changes in production of or demand for oil and petroleum products, generally or in particular regions, (iv) greater than anticipated levels of tanker newbuilding orders or lower than anticipated levels of tanker scrappings, and (v) changes in rules and regulations applicable to the tanker industry, including legislation adopted by international organizations such as IMO and the EU or by individual countries. 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 and likely to change, possibly materially, in the future. There can be no assurance as to how long charter rates and vessel values will remain at their current low levels or whether they will improve by a significant degree. If charter rates were to remain at depressed levels future assessments of vessel impairment would be adversely affected.

During the third quarter of 2009, events and circumstances indicated that the four single-hulled U.S. Flag Product Carriers that had limited remaining lives due to OPA regulations that mandated 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 2009, 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 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 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 (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 was 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 2010, 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

(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 had a 50% interest in the residual value of these two Aframaxes, which were chartered-in. These single-hulled Aframaxes were 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 would 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 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 and the two chartered-in single-hulled International Flag Aframaxes engaged in lightering in the U.S. Gulf during the third and fourth quarters of 2010. However, no additional information was identified during the six-month period ended December 31, 2010 that suggested that the assumptions used in the Company's June 30, 2010 evaluation of the future cash flows for the two unsold vessels discussed above had changed. Accordingly, no impairment tests were performed as of December 31, 2010. All of the vessels discussed in this paragraph were delivered to buyers between November 2010 and October 2011.

The Company gave consideration to events or changes in circumstances that could indicate that the carrying amounts of the vessels in the Company's International Flag fleet may not be recoverable, including the fact that average spot rates achieved in the Company's International Flag segments in the third and fourth quarters of 2011 were the lowest they have been during the industry's cyclical downturn that began in the fourth quarter of 2008. Such rates have resulted in eleven consecutive quarters of losses through the fourth quarter of 2011 and the likelihood is that the depressed markets may continue in the near term and put continued pressure on second hand tanker values, which have already experienced significant declines in the past twelve months.

The Company believes that given the relatively long remaining useful lives that its International Flag vessels have to generate sufficient cash flows to offset their carrying values, it is unlikely that its fleet is impaired as of December 31, 2011. However, a combination of the indicators noted above and the level of distress in the tanker markets suggest that an impairment testing trigger existed as of December 31, 2011. Accordingly, the Company performed an impairment test on all of its owned operating and newbuild International Crude and Products vessels as of December 31, 2011. Based on tests performed it was determined that the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the International Crude and Products vessels exceed each of the vessels' carrying values as of December 31, 2011.

In September 2011, Sunoco announced that it will make its Marcus Hook and Philadelphia refineries available for sale. Subsequently, in December 2011, Sunoco announced that it expects to begin idling the Marcus Hook facility immediately while it continues to seek a buyer and also pursues options with third parties for alternate uses of the facility. Sunoco also announced that it intends to continue to operate the Philadelphia refinery as long as market conditions warrant. However, if a suitable transaction cannot be implemented, Sunoco intends to permanently idle the main processing units at the Philadelphia refinery no later than July 2012. Sunoco is the core customer of the Company's Delaware Bay lightering business. The closures if they were to occur could result in the Company's redeployment of the two new ATBs currently used in the Delaware Bay Lightering business to other locations with possible reductions in revenues earned. These two ATBs are recent newbuilds with relatively high cost bases and redeploying one or both of these vessels into the clean products trade would require modifications to be made to the vessels. The third ATB, the OSG 243, would not require any modifications as it was employed in the clean trades until late-2010. Accordingly, impairment tests were performed on the two modern ATBs. In estimating the future cash flows, management considered the following two scenarios. One case assumed that the Sunoco refineries will be purchased and continue to operate as refineries that require lightering services, employing the two units for the remainder of their lives. Alternatively, OSG considered the possibility that the refineries may not be sold, but rather closed. This second case assumed that the two ATBs will enter the U.S. Gulf of Mexico clean market after necessary modifications are made and earn spot rates. As the construction of these ATBs was financed with Capital Construction

Fund (“CCF”) funds, this second case factored in the daily liquidated damages that would be payable to MarAd if these vessels were to operate in the contiguous coastwise trades, which are not trades permitted under CCF imposed trading restrictions. Under both scenarios it was determined that the estimated undiscounted future cash flows are expected to exceed the carrying values of each of the vessels at December 31, 2011.

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.

The goodwill remaining on the consolidated balance sheet at December 31, 2011 relates to the lightering business in the International Crude Tankers reportable segment. The Company performed its annual goodwill impairment testing as of April 1, 2011. This evaluation did not result in an impairment charge being recognized in 2011. 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, 2011.

Drydocking

Within the shipping industry, there are two methods that are used to account for drydockings: (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 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 consolidated statement of operations for 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 was accordingly reversed since realization was probable. The Company also established valuation allowances of $6,413 against deferred tax assets originating in 2009 and another $27,518 against a net operating loss carryforward and other deferred tax assets arising in 2010. Valuation allowances of $12,547 were established against a net operating loss carryforward and other deferred tax assets arising in 2011.

Pension Benefits

The Company has recorded pension benefit costs based on complex valuations performed 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, did not secure such insurance annuities due largely to the impact of the historically low long-term interest rates on the cost of obtaining such annuities combined with a significant loss in the market value of plan assets. Accordingly, at December 31, 2011 and 2010, the Company used discount rates of 4.5% and 5.25%, 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 on the Maritrans Plan assets of 6.5% at December 31, 2011. The actual return achieved over 2011 was below the estimate of 6.75% used for the 2011 pension expense. Based on the current asset mix, however, management believes the probability of achieving a long-term return of 6.5% over the remaining duration of the Maritrans Plan is more likely than not. Changes in discount rate and asset return assumptions do not have a material impact on the Company's operating results.

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 1 to the Company's consolidated financial statements set forth in Item 8.

RESULTS FROM VESSEL OPERATIONS

During 2011, results from vessel operations decreased by $62,893 to a loss of $142,188 from a loss of $79,295 in 2010 primarily as a result of the period-over-period decline in TCE revenues. In 2011, TCE revenues decreased by $63,077, or 7%, to $790,201 from $853,278 in 2010, primarily due to (i) lower average daily TCE rates earned by vessels operating in the International Crude Tankers segment as a result of the depressed spot markets, which were further negatively impacted by higher average costs of bunker fuel oil in the current year that could not be fully recovered in the marketplace and (ii) higher exposure to earnings from depressed spot markets (principally in the International Product Carriers segment) as approximately 80% of the Company's revenue days were spot revenue days during 2011 compared with 74% in 2010. The U.S. segment contributed increased TCE revenues in 2011 resulting from the 2010 and 2011 deliveries of newbuild Jones Act Shuttle Tankers and Product Carriers, which are employed on time charters negotiated prior to the economic recession, and increased volumes carried in the Delaware Bay lightering business.

Increases in vessel, charter hire and depreciation expenses in 2011 compared with 2010 were principally the result of changes in the U.S. Flag operating fleet, deliveries of eleven International Flag Product Carriers since the first quarter of 2010 and the return to service of two Panamax Product Carriers in 2011, which were undergoing repairs in 2010, partially offset by the redelivery of chartered-in vessels in the VLCC and Aframax fleets. The changes in the U.S. Flag fleet included the delivery (after completion of the conversions) of two owned newbuild shuttle tankers, three bareboat chartered-in Jones Act Product Carriers and two owned newbuild ATBs employed in the Delaware Bay lightering business since late-March 2010. Results from vessel operations for 2010 included vessel impairment charges.

During 2010, results from vessel operations decreased by $156,425, or 203%, to a loss of $79,295 from income of $77,130 in 2009. This decrease 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 related to impairment charges, vessel sales and contract termination costs compared with net gains of $100,526 in 2009.

During 2010, TCE revenues decreased by $99,343, or 10%, to $853,278 from $952,621 in 2009, primarily reflecting lower average daily TCE rates earned by the Company's VLCCs, 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% in 2009. 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% of the Company's TCE revenues in 2009.

See Note 4 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

	2011	2010	2009
TCE revenues	$266,429	$422,970	$488,021
Vessel expenses	(97,136)	(99,795)	(104,052)
Charter hire expenses	(165,934)	(187,493)	(230,123)
Depreciation and amortization	(74,392)	(73,399)	(72,654)
Income/(loss) from vessel operations[a]	$(71,033)	$62,283	$81,192
Average daily TCE rate	$15,516	$23,506	$26,307
Average number of owned vessels[b]	26.5	25.9	24.8
Average number of vessels chartered-in under operating leases	21.3	24.1	27.0
Number of revenue days[c]	17,171	17,994	18,550
Number of ship-operating days:[d]			
Owned vessels	9,667	9,450	9,039
Vessels bareboat chartered-in under operating leases	1,488	1,825	2,246
Vessels time chartered-in under operating leases	5,696	6,232	6,679
Vessels spot chartered-in under operating leases	594	730	921

(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, 2011, 2010 and 2009 between spot and fixed earnings and the related revenue days. The Company entered into FFAs and related bunker swaps, the last of which expired in September 2010, 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 qualified for hedge accounting treatment in 2010 and 2009, 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.

	2011		2010		2009	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
VLCCs:						
Average rate	$16,137	$-	$34,109	$43,415	$33,511	$41,959

Revenue days	4,851	-	4,653	552	1,866	3,342
Suezmaxes:						
Average rate	$14,207	$-	$25,504	$-	$26,174	$-
Revenue days	1,844	-	1,057	-	864	-
Aframaxes:						
Average rate	$14,434	$19,741	$17,349	$21,581	$20,037	$32,868
Revenue days	6,278	587	7,215	879	7,244	1,009
Panamaxes:						
Average rate	$15,877	$16,960	$18,714	$17,755	$18,983	$25,424
Revenue days	1,787	1,459	1,819	1,456	2,257	1,604

During 2011, TCE revenues for the International Crude Tankers segment decreased by $156,541, or 37%, to $266,429 from $422,970 in 2010. This decrease in TCE revenues reflects lower average blended rates across all crude sectors. The largest decreases were centered in the VLCC fleet, which also reflected the impact of a reduction in fixed coverage from FFAs and related bunker fuel swaps, and Aframaxes. In addition, the OSG Lightering business experienced a more than 20% reduction in the number of lighterings performed in 2011 compared with 2010. Revenue days also decreased by 823 days during the current year. The decrease in revenue days reflects the sale in December 2010 and June 2011 of two double-sided Aframaxes, which had been chartered-in by the OSG Lightering business and had generated poor returns since the second quarter of 2010. In addition, the change in revenue days reflects 1,013 fewer chartered-in days in the VLCC and Aframax fleets, partially offset by an increase in Suezmaxes that were chartered-in on a short-term basis and operated in the Suezmax International pool, as well as the delivery of one newbuild VLCC in the third quarter of 2011.

Vessel expenses decreased by $2,659 to $97,136 in 2011 from $99,795 in 2010, reflecting a decrease in average daily vessel expenses of $146 per day. The decrease in average daily vessel expenses for 2011 was primarily due to lower insurance costs. Also contributing to the decrease in vessel expenses was a 120 day decline in owned and bareboat chartered-in days. Charter hire expenses decreased by $21,559 to $165,934 in 2011 from $187,493 in 2010, primarily resulting from a decrease of 1,009 chartered-in days in the current period. The OSG Lightering business accounted for 736 days of the decrease, including 532 days attributable to the sale of the two double-sided Aframaxes referred to above. An increase in chartered-in days for Suezmaxes was offset by reductions for VLCCs and Aframaxes. This change in mix, however, reduced charter-in expense since the charters for the VLCCs and Aframaxes were entered before rates came under pressure whereas the short-term charters on the Suezmaxes commenced in 2011. In addition to the redelivery of the VLCCs and Aframaxes referred to above, the decrease in charter hire expense reflects a $5,000 per day reduction in daily time charter-in rates for two VLCCs and one Aframax. Depreciation expense increased by $993 to $74,392 in 2011 from $73,399 in 2010, reflecting the delivery of the newbuild VLCC referred to above.

Effective November 2011, PDV Marina S.A., a founding member of the Aframax International pool, withdrew its four vessels from the pool and resigned from its role as co-manager of the pool. The Aframax International pool will continue in its role as preferred transportation provider for CITGO Petroleum, which is also wholly owned by the Venezuelan state-owned oil company and the primary source of the pool’s Venezuelan cargoes.

During 2010, TCE revenues for the International Crude Tankers segment decreased by $65,051, or 13%, to $422,970 from $488,021 in 2009. This decrease in TCE revenues reflected 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 was primarily due to decreases in chartered-in days in the Panamax and Aframax fleets. The spot Aframax rate for 2010 reflected substantial idle and repositioning time as well as poor returns on the two double-sided Aframaxes chartered-in by the OSG Lightering business.

Vessel expenses decreased by $4,257 to $99,795 in 2010 from $104,052 in 2009. This decrease primarily resulted from a reserve of $3,357 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 to $187,493 in 2010 from $230,123 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.

International Product Carriers

	2011	2010	2009
TCE revenues	$200,195	$188,520	$225,059
Vessel expenses	(73,406)	(66,746)	(80,899)
Charter hire expenses	(120,223)	(102,321)	(105,813)
Depreciation and amortization	(40,836)	(36,193)	(41,508)
Income/(loss) from vessel operations	$(34,270)	$(16,740)	$(3,161)
Average daily TCE rate	$14,143	$15,250	$17,976
Average number of owned vessels	17.5	14.5	13.4
Average number of vessels chartered-in under operating leases	22.2	20.8	21.9