OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
August 26, 2013

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, 2012

OR

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

For the Transition Period from ._______. to ._______.

Commission File Number 1-6479-1

OVERSEAS SHIPHOLDING GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-2637623
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1301 Avenue of the Americas, New York, New York	10019
(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)	Not Applicable

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 o No x

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 ¨ No x

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 ¨ No x

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. S

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 ¨	Accelerated filer x	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 29, 2012, the last business day of the registrant's most recently completed second quarter was $272,764,000, based on the closing price of $11.11 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 August 19, 2013, 30,727,974 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Special Note

Along with this report, Overseas Shipholding Group, Inc. (“OSG” or the “Company”) is filing its delayed quarterly report for the third quarter of 2012. This Annual Report on Form 10-K and the quarterly report on Form 10-Q for the third quarter 2012 were delayed pending the completion of an inquiry conducted by the Company, at the request and under the direction of the audit committee of the board of directors of the Company (the “Audit Committee”), into the Company’s understatement of its United States (“U.S.”) federal income tax payments and its provision for income taxes. The Company completed its inquiry and an analysis of the consequences in June 2013. On October 19, 2012, the Audit Committee, on the recommendation of management, concluded that the Company’s previously issued financial statements for at least each of the three calendar years in the three year period ended December 31, 2011 (including the interim periods within those years), and for each of the calendar quarters ended March 31, 2012 and June 30, 2012, should no longer be relied upon. Upon completion of the aforementioned inquiry, it was determined that there were errors in the Company’s previously issued financial statements for each of the twelve calendar years in the twelve year period ended December 31, 2011 (including the interim periods within those years), and for each of the calendar quarters ended March 31, 2012 and June 30, 2012, and such financial statements should be restated. Accordingly, the Company has restated its previously issued financial statements for the two calendar years ended December 31, 2011 and 2010 and for each of the calendar quarters ended March 31, 2012 and June 30, 2012 in this Annual Report on Form 10-K. The Company has not amended its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement.

The Company is also restating the consolidated balance sheet as of December 31, 2011 and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 to reflect the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair market valuation of interest rate swap derivative contracts of certain of the Company’s equity method investees.

The adjustments made as a result of and the potential related cash impact of the restatements are discussed in Note 2, “Company Inquiry and Restatement,” to the accompanying consolidated financial statements included in Item 8, “Financial Statement and Supplementary Data,” and the cumulative impact of the restatement for taxes at the beginning of fiscal year 2008 is presented in Item 6, “Selected Financial Data.” For additional discussion of the inquiry and the restatement adjustments, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Company Inquiry and Restatement,” and Note 2, “Company Inquiry and Restatement,” to the accompanying consolidated financial statements. For a description of the material weaknesses identified by management in internal control over financial reporting with respect to income taxes and fair market valuation of interest rate swaps and management’s remediation actions to address the material weaknesses, see Item 9A, “Controls and Procedures.”

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward looking statements regarding the 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 the Company’s ability to emerge from the Chapter 11 Cases (as defined below); the Company’s ability to generate cash; the Company’s ability to raise cash through the sale of non-core assets; the success of the Company’s strategic investment decisions; the success of the Company’s plan to reduce its cost structure; the Company’s ability to attract, retain and motivate key employees; continued weakness or worsening of economic conditions; the Company’s ability to streamline its operations and reduce its general and administrative expenses; the amount of time and attention of the Company’s management spent on the prosecution of the Chapter 11 Cases; potential changes to the Company’s capital structure; the highly cyclical nature of OSG’s industry; fluctuations in the market value of vessels; an increase in the supply of vessels without a commensurate increase in demand; adequacy of OSG’s insurance to cover its losses; constraints on capital availability; acts of piracy on ocean-going vessels; terrorist attacks and international hostilities and instability; changing economic, political and governmental conditions abroad; compliance with environmental laws or regulations, including compliance with regulations concerning discharge of ballast water and effluents scheduled to become effective in the next few years; seasonal variations in OSG’s revenues; the effect of the Company’s indebtedness on its ability to finance operations, pursue, desirable business operations and successfully run its business in the future; the Company’s ability to generate cash to service its indebtedness; potential costs, penalties and adverse effects associated with litigation and regulatory inquiries, including the ongoing IRS audits, regarding the restatement of the Company’s prior financial statements; the Company’s compliance with the Jones Act provisions on coastwise trade and the continuing existence of these provisions and international trade agreements; the Company’s ability to renew its time charters when they expire or to enter into new time charters for newbuilds; delays or cost overruns in building new vessels (including delivery of new vessels), the scheduled shipyard maintenance of the Company’s vessels or rebuilding or conversion of the Company’s vessels; termination or change in the nature of OSG’s relationship with any of the pools in which it participates; OSG’s ability to compete effectively for charters with companies with greater resources; increased operating costs and capital expenses as the Company’s vessels age; refusal of certain customers to use vessels of a certain age; the failure of contract counterparties to meet their obligations; the shipping income of OSG’s foreign subsidiaries becoming subject to current taxation in the United States; the success of the Company’s programs to remediate the material weakness in internal control over financial reporting; trading risk associated with Forward Freight Agreements (“FFAs”); unexpected drydock costs; and the arrest of OSG’s vessels by maritime claimants. The Company assumes no obligation to update or revise any forward looking statements. Forward looking statements in this Annual Report on Form 10-K and written and oral forward looking statements attributable to the Company or its representatives after the date of this Annual Report on 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.

OVERVIEW AND RECENT DEVELOPMENTS

Overseas Shipholding Group, Inc. is engaged primarily in the ocean transportation of crude oil and petroleum products. At December 31, 2012, the Company owned or operated a fleet of 105 double-hulled vessels (totaling an aggregate of 9.7 million deadweight tons and 864,800 cubic meters) of which 81 vessels operated in the international market and 24 operated in the U.S. Flag market. At December 31, 2012, OSG's newbuilding program of owned vessels totaled two International Flag vessels, bringing the Company's total owned, operated and newbuild fleet to 107 double-hulled vessels. Subsequent to December 31, 2012, the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") approved the Company's rejection of leases on certain chartered-in International Flag vessels and 15 chartered-in vessels have been redelivered to their owners. 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 under "**—**Operations**—**Fleet Summary," as well as on the Company's website, www.osg.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference in this Annual Report on Form 10-K.

The Company's vessel operations are organized into strategic business units and focused on broad market segments: International Flag, including crude oil and refined petroleum products, and U.S. Flag. The International Flag unit manages International Flag ULCC, VLCC, Suezmax, Aframax, Panamax and Lightering tankers and LR1 and MR product carriers. The U.S. Flag 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 through Time Charters or Bareboat Charters. Spot market rates are highly volatile, while Time Charter and Bareboat Charter rates provide more predictable streams of Time Charter Equivalent revenues ("TCE" revenues) because they are fixed for specific periods of time. 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. Dollar amounts are expressed in thousands of dollars unless otherwise noted.

Income Tax and Other Matters

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

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

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

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

In addition to giving rise to a current tax liability, the potential deemed dividends from OIN in connection with the Credit Facilities (which effectively would treat OIN as having already repatriated significant earnings for U.S. tax purposes) have required the Company to reassess its intent and ability to permanently reinvest earnings from foreign shipping operations accumulated through December 31, 2012. As a result, the Company has concluded that, as of December 31, 2000 and at each subsequent year end through December 31, 2011, it could not assert its intent to permanently reinvest OIN’s earnings to the extent these earnings could be deemed repatriated as a result of OIN’s joint and several liability under the Credit Facilities, as discussed above. See Note 14, “Taxes” for information with respect to undistributed earnings that are still considered to be permanently reinvested in foreign operations on which U.S. income taxes have not been recognized.

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

The Company is also restating the accompanying consolidated balance sheet as of December 31, 2011 and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 to reflect the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees. The credit risk valuation adjustments were incorrectly estimated without giving consideration to the credit enhancements that were contractually linked to the obligations under such contracts for the year ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012. Such error overstated the investments in affiliated Companies by $19,015and retained earnings by $1,499 and understated net loss by $1,499 and accumulated other comprehensive loss by $17,516 as of and for the year ended December 31, 2011.The appropriate estimation of the credit risk valuation adjustments has been applied within the consolidated financial statements for the year ended December 31, 2012.

Accordingly, the Company has provided adjustments to data for each of the twelve calendar years ended December 31, 2011 and has restated its previously issued financial statements for the two calendar years ended December 31, 2011 and 2010 and for each of the calendar quarters ended March 31, 2012 and June 30, 2012 The Company has not amended its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement. The discussion of financial information relating to years prior to 2012 has been restated as set forth in this Form 10-K as more fully described in Note 2, "Company Inquiry and Restatement," to the accompanying consolidated financial statements. Restated amounts have been identified with the wording "as restated."

The Company's Ability to Refinance Debt in a Timely Manner

As more fully described in Note 11, "Debt," to the accompanying consolidated financial statements, the Company's $1,500,000 unsecured revolving credit agreement with a group of banks (the "Unsecured Revolving Credit Facility") was due to mature on February 8, 2013. The Unsecured Revolving Credit Facility was intended to be partially refinanced with a $900,000 unsecured forward start revolving credit agreement from which the Company would have been able to draw beginning on February 8, 2013. Furthermore, the Company's 8.75% debentures are due on December 1, 2013. During 2012, the Company was in active negotiations with its main bank lenders to obtain incremental bank financing needed to increase liquidity and bridge the expected gap between the amounts that it anticipated to be outstanding under the existing unsecured revolving credit facility as of February 8, 2013 and the maximum amount available under the forward start credit facility. The commitments under the unsecured forward start revolving credit agreement were terminated during the fourth quarter of 2012.

Reorganization under Chapter 11

On November 14, 2012 (the "Petition Date"), the Company and 180 of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of Title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). These cases are being jointly administered under the caption *In re Overseas Shipholding Group, Inc. et al.,* Case No. 12 – 20000 (PJW) (the "Chapter 11 Cases"). In the context of the Chapter 11 Cases, unless otherwise indicated or the context otherwise requires, "OSG," the "Company," "we," "us," and "our" refer to the Debtors.

The Debtors are continuing to operate their businesses as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, the Debtors are authorized to, and continue to, operate as an ongoing business but may not engage in transactions outside of the ordinary course of business without the approval of the Bankruptcy Court. The Bankruptcy Court has authorized the Debtors to pay certain pre-petition obligations, including, but not limited to, employee wages and payments to certain critical and foreign vendors, subject to certain limitations and reporting protocols. With the approval of the Bankruptcy Court, the Debtors have retained legal and financial professionals to advise them in the Chapter 11 Cases and certain other professionals to provide services and advice to them in the ordinary course of business. From time to time, the Debtors may seek Bankruptcy Court approval to retain additional professionals.

The withdrawal of reliance on the audited financial statements for the three years ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012 coupled with the Company's failure to file the quarterly report on Form 10-Q for the quarter ended September 30, 2012 and the filing of the Chapter 11 Cases resulted in an event of default or otherwise triggered repayment obligations under certain of the Debtors' outstanding debt instruments. Further, such defaults and repayment obligations have resulted in events of default and/or termination events under certain other agreements to which the Debtors are party. Under the Bankruptcy Code, however, the filing of a bankruptcy petition automatically stays most actions against the Debtors, including most actions to collect pre-petition indebtedness or to otherwise exercise control over the property of the Debtors' estate.

Under the Bankruptcy Code, the Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and other limitations. In this context, "assuming" an executory contract or unexpired lease means that the Debtors will cure certain existing defaults under such contract or lease and any obligations thereunder will be entitled to priority of payment and "rejecting" an executory contract means that the Debtors will be relieved of their obligations to perform further under the contract or lease, which may give rise to a pre-petition claim for damages for the breach thereof. Any damages resulting from the rejection of an executory contract shall be subject to compromise.

The Debtors anticipate that substantially all of our pre-petition liabilities will be resolved under, and treated in accordance with, a plan of reorganization to be voted on by the Debtors' creditors in accordance with the provisions of the Bankruptcy Code. There can be no assurance that any proposed plan of reorganization will be accepted by requisite numbers of creditors, confirmed by the Bankruptcy Court or consummated. Furthermore, there can be no assurance that the Debtors will be successful in achieving their reorganization goals or that any measures that are achievable will result in an improvement to our financial position. Any entitlement to post-petition interest will be determined in accordance with applicable bankruptcy law. Any descriptions of agreements, rights, obligations, claims or other arrangements contained in this Annual Report on Form 10-K must be read in conjunction with, and are qualified by, the parties' respective rights under applicable bankruptcy law.

The Debtors have incurred and expect to continue to incur significant costs associated with their reorganization and the Chapter 11 Cases. The amount of these expenses is expected to significantly affect our financial position and results of operations, but the Debtors cannot predict the effect the Chapter 11 Cases will have on their business and cash flow.

Reorganization Plan

The Debtors have not yet prepared or filed a plan of reorganization with the Bankruptcy Court. The Debtors have the exclusive right to file a plan of reorganization through and including August 2, 2013, subject to the ability of third parties to file motions to terminate the Debtors' exclusivity period, as well as the Debtors' rights to seek further extensions of such period. The Debtors have the right to seek further extensions of such exclusivity periods, subject to the statutory limit of 18 months from the Petition Date in the case of filing a plan of reorganization and 20 months from the Petition Date in the case of soliciting and obtaining acceptances. On August 2, 2013, the Debtors filed a motion with the Bankruptcy Court to further extend their exclusive period to file a plan of reorganization through and including November 30, 2013. Under the Bankruptcy Court's local rules, such motion automatically extends the Debtors' exclusivity period until the Bankruptcy Court conducts a hearing on the motion, which is currently scheduled for August 26, 2013. Any proposed reorganization plan will be subject to revision prior to submission to the Bankruptcy Court based upon discussions with the Debtors' creditors and other interested parties, and thereafter in response to creditor claims and objections and the requirements of the Bankruptcy Code or the Bankruptcy Court. There can be no assurance that the Debtors will be able to secure requisite accepting votes for any proposed reorganization plan or confirmation of such plan by the Bankruptcy Court.

Chief Reorganization Officer

In connection with the Chapter 11 Cases, the Debtors engaged Mr. John J. Ray III of Greylock Partners LLC as Chief Reorganization Officer to assist in the development, implementation and execution of the Company's reorganization plan.

Bankruptcy Reporting Requirements

As a result of the commencement of the Chapter 11 Cases, the Debtors are now required to file various documents with, and to provide certain information to, the Bankruptcy Court and other parties, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports. Such materials have been and will be prepared according to requirements of applicable bankruptcy law. While the Debtors believe these materials provide then current information required under the Bankruptcy Code or orders of the Bankruptcy Court, they are nonetheless unaudited and prepared in a format different from that used in the Debtors' consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States and filed under securities laws. Certain of this financial information may be prepared on an unconsolidated basis. Accordingly, the Debtors believe that the substance and format of these materials do not allow meaningful comparison with their regularly publicly-disclosed consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to the Debtors' securities, or claims against the Debtors, or for comparison with other financial information filed with the SEC.

Notifications and Recognition

Shortly after the Petition Date, the Debtors began notifying current or potential creditors of the commencement of the Chapter 11 Cases. Subject to certain exceptions under the Bankruptcy Code, the Chapter 11 Cases automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against us or our property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of our property, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a claim arising prior to the Petition Date are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business.

The Debtors have secured recognition of the automatic stay and bankruptcy proceedings in South Africa, which safeguards the Debtors' vessels in a jurisdiction known both for its importance to the international shipping industry and for its liberal requirements for claimants seeking vessel arrest or attachment. The Debtors have also obtained an order from the High Court of Justice of England & Wales, Chancery Division, Companies Court recognizing certain of the Chapter 11 Cases as a foreign main proceeding and entering a stay as a matter of English law. Despite the automatic stay and related recognition and order discussed above, the stay may not be recognized in certain jurisdictions. See Item 1A, "Risk Factors—Company Specific Risk Factors—Maritime claimants could arrest OSG's vessels, which could interrupt its cash flow."

Pre-petition Claims

On February 27, 2013, the Debtors filed schedules of their assets and liabilities existing as of the commencement of the Chapter 11 Cases with the Bankruptcy Court. In April 2013, the Bankruptcy Court set May 31, 2013 as the general bar date (the date by which most persons that wished to assert a pre-petition claim against the Debtors had to file a proof of claim in writing). The Debtors are evaluating the claims that were submitted and investigating unresolved proofs of claim. Liabilities Subject to Compromise, as provided in the accompanying consolidated financial statements and in this Annual Report on Form 10-K, represents the Debtors' current estimate of claims expected to be allowed by the Bankruptcy Court. Currently, the Debtors cannot provide a reasonable estimate of the value of the claims that the Bankruptcy Court will allow or the priorities in which such claims will be allowed because their evaluation, investigation and reconciliation of the filed claims is not complete.

Creditors' Committee

On November 29, 2012, the U.S. Trustee for the District of Delaware appointed a statutory committee of unsecured creditors (the "Creditors Committee"). Generally, the Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Chapter 11 Cases.

Going Concern and Financial Reporting in Reorganization

The commencement of the Chapter 11 Cases and weak industry conditions have negatively impacted our results of operations and cash flows and may continue to do so in the future. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business.

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

We are required to apply Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 852, *Reorganizations*, effective on November 14, 2012, which is applicable to companies under bankruptcy protection and requires amendments to the presentation of key financial statement line items. The FASB's provisions require that the financial statements for periods subsequent to the filing of the Chapter 11 Cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the consolidated statements of operations beginning in the year ended December 31, 2012. The balance sheet must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. As discussed in Note 11, "Debt," to the accompanying consolidated financial statements, the Secured Loan Facilities have priority over our unsecured creditors; however we continue to evaluate creditors' claims for other claims that may also have priority over unsecured creditors. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be approved by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization or negotiations with creditors. In addition, cash used by reorganization items must be disclosed separately.

Defaults under Outstanding Debt Instruments

The withdrawal of reliance on the audited financial statements for the three years ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012 coupled with the Company's failure to file the quarterly report on Form 10-Q for the quarter ended September 30, 2012 and the filing of the Chapter 11 Cases resulted in an event of default or otherwise triggered repayment obligations and/or resulted in a termination event under a number of instruments and agreements relating to the debt of the Company including (dollars in thousands):

- $1,489,000 of unsecured indebtedness under the Unsecured Revolving Credit Facility, governed by a credit agreement dated February 9, 2006 (as amended), among OSG, OSG Bulk Ships, Inc., OIN and DnB Nor Bank ASA, New York branch, as administrative agent, which matured in February 2013;
- $300,000 principal amount of 8.125% Senior Notes due 2018 issued under an indenture agreement dated March 2010 between OSG and The Bank of New York Mellon, as Trustee;
- $146,000 principal amount of 7.500% Senior Notes due 2024 issued under a First Supplemental Indenture dated February 2004 and supplemental to an indenture dated March 2003, each between OSG and Wilmington Trust Company, as Trustee;
- $63,603 principal amount of 8.750% Debentures due 2013 issued under the Indenture dated December 1993, between OSG and The Bank of New York Mellon, as successor Trustee;
- $310,492 outstanding principal balance of secured indebtedness under a term loan facility dated August 10, 2009 (as amended) among various Debtor operating subsidiaries as borrowers, OSG as guarantor and The Export-Import Bank of China, as agent, which matures in 2023;

- $266,490 outstanding principal balance of secured indebtedness under a term loan facility dated as of August 28, 2008 (as amended) among various Debtor operating subsidiaries as borrowers, OSG, OSG Bulk Ships Inc., OIN and Rosalyn Tanker Corporation as guarantors, and Danish Ship Finance A/S, as agent and security trustee, of which OSG has guaranteed up to fifty percent of the borrowers' liabilities, which matures in 2020; and

- $900,000 unsecured forward start revolving credit agreement dated as of May 26, 2011 among OSG, OSG Bulk Ships, Inc., OIN and DnB Nor Bank ASA, New York branch, as administrative agent, under which the Company would have been able to draw on beginning on February 8, 2013.

As a result of the filing of the Chapter 11 Cases, all indebtedness outstanding under each of the Unsecured Revolving Credit Facility, senior notes, debentures and term loan facilities, each as described above, was accelerated and became due and payable, subject to an automatic stay of any action to collect, assert or recover a claim against OSG and the application of the applicable provisions of the Bankruptcy Code.

Further, such defaults and repayment obligations have resulted in events of default and/or termination events under certain other contracts to which the Company is party.

New York Stock Exchange Delisting

On November 14, 2012, the Company received notice from the New York Stock Exchange ("NYSE") that the NYSE had determined that the Company's common stock should be immediately suspended from trading on the NYSE. The NYSE indicated that this decision was reached as a result of the filing of the Chapter 11 Cases under the Bankruptcy Code in the Bankruptcy Court. The last day that the common stock traded on the NYSE was November 14, 2012. The common stock commenced trading on the over-the counter ("OTC") market on November 15, 2012 under the trading symbol "OSGIQ."

Subsequently, in December 2012, the NYSE filed an application with the SEC to delist our common stock. The delisting became effective on December 31, 2012, in accordance with the terms of the application.

Risks and Uncertainties

OSG's ability, both during and after the Bankruptcy Court proceedings, to continue as a going concern is contingent upon, among other things, OSG's ability to (i) develop a plan of reorganization, including resolution with the IRS of matters described above under "—Income Tax Matters," and obtain required creditor acceptances and confirmation under the Bankruptcy Code, (ii) successfully implement such plan of reorganization, (iii) reduce debt and other liabilities through the bankruptcy process, (iv) return to profitability, (v) generate sufficient cash flow from operations, and (vi) obtain financing sufficient to meet the Company's future obligations. The Company believes the consummation of a successful restructuring under the Bankruptcy Code is critical to its continued viability and long-term liquidity. While OSG is working towards achieving these objectives through the Chapter 11 reorganization process, there can be no certainty that OSG will be successful in doing so.

The Company urges that appropriate caution be exercised with respect to existing and future investments in any of its liabilities and/or its securities. See Item 1A, "Risk Factors."

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 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 three elements:

- Sector Leadership

OSG seeks to maintain or achieve market leading positions in each of the primary markets in which it operates: crude oil, products and U.S. Flag. While acquisitions are no longer currently part of the Company's strategy, the Company has, over time, expanded its fleet through organic growth and acquisitions of companies. This expansion enhanced the Company's market presence, the scale of its fleet and its service offerings.

- Fleet Optimization

The Company believes that it can improve returns in any shipping cycle by taking a portfolio approach to the management of 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 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 "Business Strategy—Technical Operations."

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") reducing wait time, generating higher effective TCE revenues than otherwise might be obtainable in the spot market and providing a higher level of service to customers. As of December 31, 2012, OSG participated 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 according to whether they are used in international or domestic shipping: International Flag, consisting of crude and products shipping, and U.S. Flag. In addition to regular maintenance and repair, across segments, 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 and believes that the quality of its senior officers, crew and shore side support personnel provide it with a competitive advantage. OSG's mandatory training and education requirements exceed the IMO Standards of Training, Certification and Watchkeeping (STCW). OSG believes its ability to provide professional development for qualified crew are competitive advantages in a market where skilled labor shortages are expected to remain a challenge.

The fleet is supported by shore side operations that include fleet managers, marine and technical superintendents, purchasing and marine insurance 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 and Head of Health, Safety, Quality, Environment and Operations Assurance 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, 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, 2012, the Company had approximately 3,280 employees comprised of 2,880 seagoing personnel and 400 shore side staff, prior to the impact of a reduction in force in April 2013, which affected approximately 40 shore side employees and the redelivery of six bareboat chartered-in vessels, for which the Company employed the seagoing personnel. The Company has collective bargaining agreements with three different U.S. maritime unions covering 740 seagoing personnel employed on the Company's U.S. Flag vessels. These agreements are in effect for periods ending between March 2015 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 2,011 seagoing personnel employed on the Company's International Flag vessels. These agreements are in effect through December 2014.

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. Flag Fleet Operations, which we also refer to as "U.S. Flag."

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2012, 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 and reorganization items, as reported in the consolidated statements of operations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6, "Business and Segment Reporting," to the Company's consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data."

Charter Types

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

Spot Market

Voyage charters, including vessels operating in Commercial Pools that predominantly operate in the spot market, constituted 64% of the Company's TCE revenues in 2012, 65% in 2011 and 64% in 2010. 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 because they 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, 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.

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. Within a contract period, time charters provide a predictable level of revenues without the fluctuations inherent in spot-market rates. Once a time charter expires, however, the ability to secure a new time charter is uncertain and subject to market conditions at such time. During the year ended December 31, 2010, the Company entered into Forward Freight Agreements ("FFAs") and related bunker swaps as hedges for reducing the volatility of earnings from operating the Company's VLCCs in the spot market. These derivative instruments seek to create synthetic time charters. The impact of these derivatives, which qualify for hedge accounting treatment, is reported together with time charters in the physical market. Time and bareboat charters constituted 36% of the Company's TCE revenues in 2012, 35% in 2011 and 36% in 2010. Because of the depressed market conditions existing since 2008, 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, 2012, OSG's operating fleet consisted of 105 vessels, 63% of which were owned, with the remaining vessels chartered-in. Vessels chartered-in may be Bareboat Charters or Time Charters. The Company's fleet list excludes vessels chartered-in where the duration of the charter was one year or less at inception. Additional information about the Company's fleet, including its ownership profile, is set forth on the Company's website, www.osg.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this Annual Report on Form 10-K.

Subsequent to December 31, 2012, the Bankruptcy Court approved the Company's rejection of leases on 23 chartered-in International Flag vessels. One Suezmax, one Aframax, two Panamax Product Carriers and 11 Handysize Product Carriers have been redelivered to their owners. The Company entered into new lease agreements at lower rates on the remaining eight chartered-in vessels (seven Handysize Product Carriers and one Aframax), which lease agreements were assumed as amended pursuant to orders of the Bankruptcy Court. As of May 31, 2013, OSG's operating fleet consisted of 89 vessels, 74% of which were owned, with the remaining vessels chartered-in.

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2012		
Vessel Type	Number	Weighted by Ownership	Number	Weighted by Ownership	Total Vessels	Vessels Weighted by Ownership	Total Dwt
Operating Fleet							
FSO	2	1.0	-	-	2	1.0	864,046

VLCC and ULCC	11	11.0	-	-	11	11.0	3,488,132
Suezmax	-	-	2	1.9	2	1.9	322,484
Aframax	4	4.0	3	3.0	7	7.0	788,959
Panamax	9	9.0	-	-	9	9.0	626,834
Lightering	4	4.0	1	1.0	5	5.0	527,822
Total International Flag Crude Tankers	30	29.0	6	5.9	36	34.9	6,618,277
LR1	4	4.0	2	2.0	6	6.0	445,154
MR	14	14.0	20	20.0	34	34.0	1,626,244
Total International Flag Product Carriers	18	18.0	22	22.0	40	40.0	2,071,398
Chemical Carrier	-	-	1	1.0	1	1.0	19,986
Total Int’l Flag Operating Fleet	48	47.0	29	28.9	77	75.9	8,709,661
Handysize Product Carriers[(1)]	4	4.0	10	10.0	14	14.0	664,490
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	14	14.0	10	10.0	24	24.0	981,666
LNG Fleet	4	2.0	-	-	4	2.0	864,800 cbm
Total Operating Fleet	66	63.0	39	38.9	105	101.9	9,691,327 and 864,800 cbm
Newbuild Fleet							
International Flag Aframax[(2)]	2	2.0	-	-	2	2	226,000
Total Newbuild Fleet	2	2.0	-	-	2	2	226,000
Total Operating & Newbuild Fleet	68	65.0	39	38.9	107	103.9	9,917,327 and 864,800 cbm

(1) Includes two owned shuttle tankers, the Overseas Cascade and the Overseas Chinook and two owned U.S. Flag Product Carriers that trade internationally.

(2) The two newbuild Aframaxes, one of which is a coated LR2, are scheduled for delivery between the second quarter of 2013 and the first quarter of 2014.

International Fleet Operations

Crude Oil Tankers

International Crude Tankers is one of the Company's reportable business segments. OSG's crude oil fleet is comprised of all major crude oil vessel classes and includes a fleet of five International Flag lightering vessels that trade primarily in the U.S. Gulf of Mexico. As part of its strategy to enhance vessel utilization and TCE revenues, the Company has placed its ULCC, VLCC, Suezmax, 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. Because of concerns raised by other participants in TI about the tradability of the Company's vessels caused by the Bankruptcy filing, effective in the fourth quarter of 2012, the Company's VLCCs trading in such pool are considered to be commercially managed within such pool. That is, such VLCCs are credited with their actual voyage results rather than their respective share of pool TCE revenues based on the formula described above.

The Company has a 50% interest in a joint venture with Euronav NV, which owns two Floating Storage and Offloading Service ("FSO") Vessels. Maersk Oil Qatar AS ("MOQ") awarded service contracts for the joint venture to provide to MOQ two vessels to perform FSO services in the Al Shaheen Field off the shore of Qatar. The service contracts on both FSO Vessels expire in 2017 with MOQ having the option to extend the contract on one of them, the FSO Africa, for one or two additional years. The Company provides Technical Management for one of the FSO vessels which MOQ contracted for. For more information about the financing of the FSO Vessels, which is recourse to the Company on a several basis, see Note 8, "Equity Method Investments" to the consolidated financial statements set forth in Item 8, "Financial Statements and Supplemental Data."

Product Carriers

International Product Carriers constitutes another of the Company's reportable business segments and is made up of an International Flag fleet that transports refined petroleum products worldwide. The products fleet, consisting of thirty-four MR product carriers (11 of which have been redelivered to owners subsequent to year end), six LR1s (two of which have been redelivered to owners subsequent to year end) and one Chemical Carrier 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 for these product cargoes is driven by global refinery capacity, changes in consumer demand and product specifications and cargo arbitrage opportunities.

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 Company's MRs are IMO III compliant, allowing for increased flexibility when switching between cargo grades. OSG trades nine of its MR Product Carriers in the Clean Products International Pool, a regional Commercial Pool formed in 2006 with the Ultragas Group.

The Company has a 49.9% interest in a joint venture with Qatar Gas Transport Company Limited (Nakilat), which owns four 216,000 cbm LNG Carriers. During 2007 and 2008, Qatar Liquefied Gas Company Limited (II) time chartered these LNG Carriers for twenty-five year periods, 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 8, "Equity Method Investments" to the consolidated financial statements set forth in Item 8, "Financial Statements and Supplemental Data."

U.S. Flag Fleet Operations

U.S. Flag Fleet Operations is the Company's third reportable business segment. The Company's U.S. Flag Jones Act Fleet has expanded significantly since 2004 and today consists of twenty-two owned and chartered-in Handysize Product Carriers and ATBs. 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. In fact, as a U.S.-based company, OSG is uniquely positioned among companies with an International Flag business to participate in the U.S. Jones Act shipping market, a trade that is not available to its foreign-based competitors. OSG is one of the largest commercial owners and operators of Jones Act vessels and utilizes the fleet across a range of services, including the following:

- *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 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 $3.4 million in 2012 and $4.4 million in each of 2011 and 2010. Pursuant to a stipulation entered by the Bankruptcy Court, the Company's rights to continued participation in the management of ATC are preserved and BP is enjoined from interfering with those rights absent Bankruptcy Court approval.

- *Maritime Security Program*—Two reflagged U.S. Flag Product Carriers 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. Each of the vessel owning companies receives an annual subsidy, which was $3.1 million in 2012 and $2.9 million for each of 2011 and 2010 that is intended to offset the increased cost incurred by such vessels from operating under the U.S. Flag. The Company received authorization from the Bankruptcy Court to assume agreements relating to the Program, which extend the Company's participation in the Program through 2025.The Company will receive $3.1 million per year for each vessel from 2013 through 2018, $3.5 million from 2019 through 2021, and $3.7 million from 2022 through 2025. It is expected that ships in the Program will only get about 75% of their normal monthly stipend in August 2013 and none in September 2013 because of the effect of sequestration on the U.S. federal budget. We cannot predict when these payments will resume, if at all.

- *Maritime Administration of the U.S. Department of Transportation ("MarAd") trading restrictions*—Two of the modern U.S. Flag ATBs owned by the Company, which are currently used in the Delaware Bay Lightering business, had their construction financed with the Capital Construction Fund ("CCF"). As such, absent exercise of the Company's rights and defenses under the Bankruptcy Code, daily liquidated damages would be payable by the Company to MarAd if these vessels were to operate in contiguous coastwise trades, which is not permitted under trading restrictions currently imposed by the CCF agreement between MarAd and the Company.

COMPETITION

The shipping industry is highly competitive and fragmented. OSG competes with other owners of U.S. and International Flag tankers, including other independent shipowners, integrated oil companies and state owned entities with their own fleets, and 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 due to 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 is commercially managed through the Tankers International pool. Tankers International, with a total of thirty VLCCs, is a leading player in this market. Its main competitors include Nova Tankers pool, Frontline Ltd., BW Shipping Managers, Mitsui OSK Lines, Ltd., Nippon Yusen Kabushiki Kaisha, Malaysian International Shipping Corporation Berhad and Maran Tankers Management.

OSG formed the Suezmax International pool in 2008. All of the tankers remaining in the pool were redelivered to their owners by the end of June 2013. Suezmax International traded primarily in the Atlantic Basin. The main competitors of Suezmax International included Gemini Tankers, Orion, Stena Sonagol and Blue Fin Tankers. Other competitors included 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 twenty-two Aframaxes (including three for which notices of withdrawal have been received) trading primarily in the Atlantic Basin, North Sea, Baltic and the Mediterranean areas. Aframax International is one of the larger 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 commercially managed by Panamax International, which commercially manages twenty-three 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 market segment, OSG's owned and chartered-in fleet 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.

IRAN SANCTIONS RELATED DISCLOSURE

Under the Iran Threat Reduction and Syrian Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, OSG is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with entities or individuals designated pursuant to certain Executive Orders.

Non-U.S. subsidiaries of OSG contributed VLCC tankers they owned or chartered-in to Tankers International, a commercial pool that charters out vessels which in turn call on ports throughout the world in compliance with applicable law. Tankers International is a UK entity operated by the Tankers International pool manager, a non-U.S. person, which is responsible for chartering out each vessel once it has been contributed to Tankers International. Accordingly, Tankers International and its manager make the decisions with respect to ports of call and the practical arrangements necessary in connection with the chosen ports of call. OSG learns where a vessel contributed by one of its non-U.S. subsidiaries has or will be traded after the voyage has been fixed. Certain of the non-U.S. OSG subsidiaries continue to provide technical management, crew and certain operational support for the vessels contributed by those subsidiaries and, in that connection, may interact with port authorities or other government officials and representatives in the jurisdictions through and in which these vessels transit.

In early 2012, Tankers International vessels made five port calls in Iran, in compliance with applicable law, including one port call made by a vessel owned by a non-U.S. subsidiary of OSG in January 2012. The Tankers International manager and the customers that chartered out the vessels were not Iranian. However, when such vessels called on Iranian ports, interaction with Government of Iran officials, such as port authorities, may have been required. In any case, even when these vessels, including the one owned by a non-U.S. subsidiary of OSG, called on an Iranian ports, neither OSG itself nor any of its U.S. person, affiliates or employees had any role or involvement with Tankers International transactions involving Iran.

As a participant in the pool, OSG receives a share of Tankers International’s net revenues from a voyage based on its contribution of vessels to Tankers International, regardless of whether the voyage was performed by a vessel contributed by one of its non-U.S. subsidiaries or by another pool participant. OSG’s share of the Tankers International pool’s net revenue (after deducting OSG’s share of administrative costs) for 2012 derived from all voyages of all Tankers International vessels involving a port call in Iran totaled approximately $1,318.

Tankers International decided to terminate all new business involving Iranian ports in February 2012 after the European Union adopted sanctions on such activity. No vessel owned or chartered in by OSG or any of its domestic or foreign subsidiaries has called on an Iranian port since January 2012, and until the U.S. and European Union sanctions regimes permit such calls, OSG will not allow its vessels to make such calls, whether through a pooling arrangement or otherwise.

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. 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, although it expects that it and other shipowners likely will incur substantial additional costs in meeting new legal and regulatory requirements.

OSG has made a commitment to reduce the environmental impact of its operations. Increasing environmental concerns have created a demand for vessels and operations that comply with stricter environmental standards. 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, the installation of specialized environmental equipment such as enviro-logger and enviro-tags on all OSG technically managed vessels and the distribution and viewing of a yearly DVD from senior management reporting health, safety and environmental performance and objectives for the coming year.

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. Following adoption of the Kyoto Protocols, which were adopted by about 190 countries, there has been action toward a new climate change treaty. In December 2012, the United Nations Climate Change Conference in Doha continued negotiations with the goal to forge a new international framework by 2015 that would take effect by 2020 and would include emissions obligations for all emitting countries. The Doha conference also reached agreement to further extend the Kyoto Protocol’s greenhouse gas emissions reductions through 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. Current indications are that the European Commission is considering development of a monitoring, reporting and verification scheme during 2013.

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 require significant additional capital and/or operating expenditures and could have operational impacts on OSG’s business. Although OSG cannot predict such expenditures and impacts with certainty at this time, they may be material to OSG’s financial statements.

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, (“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 May 31, 2013, approximately ninety-five percent of the world tanker fleet was double hulled.

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, 2013 and are approximate. Actual dollar amounts are used in this section "Liability Standards and Limits."

Under the 1969 Convention, except where the owner is guilty of actual fault, its liability is limited to $205 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 $973 for each additional gross ton over 5,000 for vessels of 5,000 to 140,000 gross tons, and $138.4 million for vessels over 140,000 gross tons, subject to the exceptions discussed above for the 1992 Protocol.

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

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

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

Other International Environmental and Safety Regulations and Standards

Under the International Safety Management Code (“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 (U.S.)) 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 (“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 (“SMPEPs”), which cover potential releases not only of oil but of any noxious liquid substances (“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.

The International Convention for the Control and Management of Ships' Ballast Water and Sediments ("BWM Convention") is designed to protect the marine environment from the introduction of non-native (alien) species as a result of the carrying of ships' ballast water from one place to another. The introduction of non-native species is one of the top five threats to biological diversity. Expanding seaborne trade and traffic have exacerbated the threat. Ships may take on ballast water in order to maintain their stability and draft and discharge the ballast water when they load heavy cargoes. When emptying the ballast water – which they carried from the previous port – they may release organisms and pathogens that are potentially harmful in the new environment.

The BWM Convention was adopted in 2004 and will enter into force 12 months after ratification by 30 states, representing at least 35% of world merchant shipping tonnage. At present, 36 flag administrations representing 29.07% of the world tonnage have ratified the convention. It is unknown when the BWM Convention will be finally ratified. The BWM Convention may have material impacts on OSG's financial statements.

The BWM Convention is applicable to new and existing vessels that are designed to carry ballast water. It defines a discharge standard consisting of maximum allowable levels of critical invasive species. This standard will likely be met by installing treatment systems that render the invasive species non-viable. In addition, each vessel will be required to have on board a valid International Ballast Water Management Certificate, a Ballast Water Management Plan and a Ballast Water Record Book.

OSG's vessels are subject to other international, national and local ballast water management regulations (including those described below under "U.S. Environmental and Safety Regulations and Standards"). 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, including those contained in the BWM Convention, 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 and may require the installation and use of costly control technologies.

Compliance with the ballast water requirements expected to go into effect under the BWM Convention and other regulations may have material impacts on OSG's financial statements, as discussed below under "U.S. Environmental and Safety Regulations and Standards/Other U.S. Environmental and Safety Regulations and Standards."

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. EU directives enacted in 2005 and 2009 require EU member states to introduce criminal sanctions for illicit ship-source discharges of polluting substances (e.g., from tank cleaning operations) which result in deterioration of the environment and have been committed with intent, recklessness or serious negligence. 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 ("ECAs") 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 ECAs was progressively reduced from 1.5% to 1.0% effective July 2010 and further reduced to 0.1%

effective January 2015. Currently designated ECAs are the Baltic Sea, the English Channel and the U.S. ECA (entered into force from August 1, 2012). Additionally, the U.S. Caribbean ECA becomes effective on January 1, 2014. For vessels over 400 gross tons, Annex VI imposes various survey and certification requirements. The U.S. Maritime Pollution Prevention Act of 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. In 2011, IMO’s Greenhouse Gas Work Group agreed on Ship Energy Efficiency Management Plan (“SEEMP”) development guidelines, which were provided by the Marine Environmental Protection Committee (“MEPC”), Resolution MEPC.213(63), which adopted the 2012 development guidelines on March 2, 2012, entered into force on January 1, 2013. The Company’s SEEMP, which was prepared in accordance with these development guidelines addresses technically viable options that create value added strategies to reduce the vessels’ energy footprint through the implementation of specific energy saving measures.

The Company believes that its International and U.S. Flag vessels are compliant with the current requirements of 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, the Company anticipates that, in the next several years, compliance with the increasingly stringent requirements of Annex VI and other conventions, laws and regulations imposing air emission standards that have already been adopted or that may be adopted in the future will require substantial additional capital and/or operating expenditures and could have operational impacts on OSG’s business. Although OSG cannot predict such expenditures and impacts with certainty at this time, they may be material to OSG’s financial statements.

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 the Oil Pollution Act of 1990 (“OPA 90”), and the Comprehensive Environmental Response, Compensation, and Liability Act (“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 U.S. 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. All OSG operated 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 in a Notice of Proposed Rulemaking dated February 17, 2011 to issue sweeping 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 ("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 ("VGP"), which addresses, among other matters, the discharge of ballast water and effluents. The VGP identifies twenty-six vessel discharge streams, establishes effluent limits for constituents of those streams and requires that best management practices be implemented to decrease the amounts of certain constituents of the discharges. The VGP currently in effect 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. On March 28, 2013, however, EPA issued a new VGP, which will become effective December 19, 2013. The new VGP contains more stringent requirements, including numeric ballast water discharge limits that generally align with the 2012 standards issued by the U.S. Coast Guard, requirements to ensure that the ballast water treatment systems are functioning correctly, and more stringent effluent limits for oil to sea interfaces and exhaust gas scrubber wastewater. Compliance with the new 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 enacted 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. All vessels making ballast water discharges in California waters after January 1, 2016 must meet the state's discharge standards.

New York State has issued more stringent grey water and bilge water discharge requirements for vessels in its waters than required by the VGP or IMO. The New York State standards came into effect on January 1, 2012 for existing vessels covered under the VGP and January 1, 2013 for new vessels 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. The exemption of the implementation of grey water and bilge water discharge prohibition is delayed until December 19, 2013.

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.

The U.S. Coast Guard has promulgated its final rule for the control of non-invasive species under the National Invasive Species Act of 1996. While generally in line with the requirements set out in the BWM Convention, the final rule requires that treatment systems must be approved using a Coast Guard approved process and the implementation schedule varies from that indicated in the international BWM Convention.

The Company anticipates that, in the next several years, compliance with the various conventions, laws and regulations relating to ballast water management that have already been adopted or that may be adopted in the future will require substantial additional capital and/or operating expenditures and could have operational impacts on OSG's business. Although OSG cannot predict such expenditures and impacts with certainty at this time, they may be material to OSG's financial statements.

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 (“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 newly built engine standards that became effective in 2011 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 ECAs under the Annex VI amendments. The new ECAs became effective in August 2012, whereupon fuel used by all vessels operating in the ECAs cannot exceed 1.0% sulfur, dropping to 0.1% in 2015. The Company believes that its vessels are in compliance with the current requirements of 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 could require or affect the timing of significant capital and/or operating expenditures that could have operational impacts on OSG’s business.

The CAA also requires states to draft State Implementation Plans (“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 in auxiliary diesel and diesel-electric engines, main propulsion diesel engines and auxiliary boilers. 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 1.0% sulfur 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.

The Delaware Department of Natural Resources and Environment Control (“DNREC”) monitors OSG’s U.S. Flag lightering activities within the Delaware River. Lightering activities in Delaware are subject to Title V of the Coastal Zone Act of 1972, 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 accordance with its Title V permit, OSG’s Delaware lightering fleet is 100% vapor balance capable.

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 (“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 (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 (“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 P&I Associations based on its claim record as well as the claim records of all other members of the individual Associations of which it is a member, and the members of the pool of P&I Associations comprising the International Group. As of December 31, 2012, 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 to $500 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, per policy year.

The Company currently maintains loss of hire insurance to cover loss of charter income resulting from accidents or breakdowns of its LNG, FSO, U.S. Flag Tankers and the bareboat chartered 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 on Form 10-K. 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.

Nearly 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.

For taxable years beginning after December 31, 2004, the Company generally is not 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.

Under current tax laws, however, if OIN repatriates (including through a deemed dividend) cash and equivalents held outside the U.S., OSG may be subject to additional U.S. income taxes. As a result of borrowings from 2000 to 2012 under certain credit agreements, as well as intercompany balances, OSG could be deemed to have recognized dividends that are subject to U.S. income taxes under Section 956 of the Code. Specifically, Section 951 of the Code requires a U.S. shareholder of a controlled foreign corporation ("CFC") to include an amount into income when the CFC holds "United States property" (within the meaning of section 956(c)) at the end of any quarter during a taxable year. For these purposes, OIN is a CFC, and OSG is a U.S. shareholder of OIN.

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."

OIN currently is exempt from taxation on its U.S. source shipping income under Section 883 of the Code and Treasury regulations. Under Section 883 of the Code and Treasury regulations, OIN will continue to qualify for this exemption so long as, for more than half of the days in its taxable year, it is a CFC and more than 50 percent of the total value of its stock is owned by OSG or certain other U.S. persons. To the extent OIN is unable to qualify for exemption from tax under Section 883, 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.

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 U.S. Shipping income attributable to transportation that both begins and ends in the U.S. will be considered to be 100% derived from sources within the U.S. 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 U.S. Shipping income derived from sources outside the U.S. will not be subject to any U.S. federal income tax. OIN's vessels operate in various parts of the world, including to or from U.S. ports.

Taxation to OSG of OIN's Shipping Income

The U.S. tax rules applicable to the income of the Company's subsidiaries have undergone several changes over the years, with the result that different pools of earnings are subject to slightly different regimes, which are discussed below.

Foreign shipping income earned before 1976 is not subject to tax unless actually distributed to the U.S. parent. For taxable years beginning on or after January 1, 1976 and ending on or before December 31, 1986, the Company did not include in income the undistributed shipping income of its foreign subsidiaries that was reinvested in so-called "qualified shipping assets." For taxable years beginning on or after January 1, 1987, the Company was required to include in income the deferred shipping income from this pre-1987 period to the extent that, at the end of any year, the investment in qualified shipping assets was less than the Company's amount of qualified shipping assets at December 31, 1986. By virtue of the nature of OIN's business, the Company anticipates that the imposition of U.S. income taxation on such deferred shipping income will be postponed indefinitely.

For taxable years beginning on or after January 1, 1987 and ending on or before December 31, 2004, the Company was subject to current taxation on the shipping income of its foreign subsidiaries. However, for years beginning on or after January 1, 2005, the Company is not required to include in income OIN's undistributed shipping income unless OIN repatriates (including through a deemed dividend resulting from borrowings under certain credit agreements or as a result of intercompany balances, as described above) cash and equivalents held outside the U.S.

Greek Tonnage Tax Regime

On January 21, 2013, the Greek Parliament approved a tax bill that, among other provisions, imposed a tonnage tax on vessels flying flags other than the Greek flag effective as of January 1, 2013. The Company was not previously subject to a tonnage tax in Greece. The Company does not anticipate that the tonnage tax, or any of the other provisions contained in the tax bill, will have a significant impact on its operations.

U.S. Tonnage Tax Regime

The Company made an election to have the foreign operations of the Company's U.S. Flag vessels taxed under a "tonnage tax" regime rather than the usual U.S. corporate income tax regime. As a result, the Company's 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. In October 2012, a third vessel, the Overseas Luxmar, which had been taxed under the tonnage tax regime, was sold from a U.S. subsidiary of the Company to a foreign subsidiary of the Company. This transaction resulted in a 2012 loss for U.S. income tax purposes.

GLOSSARY

Unless otherwise noted or indicated by the context, the following terms used in the Annual Report on Form 10-K have the following meanings:

Aframax—A medium size crude oil tanker of approximately 80,000 to 120,000 deadweight tons. 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.

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 and frequency of drydockings increase.

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 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. 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. 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. 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 public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 (information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330). The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

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. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this Annual Report on Form 10-K.

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.

Chapter 11 Cases specific risk factors:

On November 14, 2012, the Company and 180 of its direct and indirect subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code" or "Chapter 11") in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), which are being jointly administered under docket number 12-20000 (the "Chapter 11 Cases"). The Company and its filing subsidiaries will continue to operate as "debtors in possession" in the ordinary course under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. See Note 3, "Bankruptcy Filing and Going Concern," and Note 11, "Debt," to the Company's consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data" for a further discussion regarding the impact of the Chapter 11 filing on the Company's debt agreements.

The Chapter 11 Cases are intended to permit the Company to reorganize and improve liquidity in the U.S. and abroad, monetize non-strategic assets, fairly resolve legacy liabilities, and focus on the most valuable business units to enable sustainable profitability. The Company's goal is to develop and implement a reorganization plan that meets the standards for confirmation under the Bankruptcy Code. Confirmation of a reorganization plan could materially alter the classifications and amounts reported in the Company's consolidated financial statements, which do not give effect to any adjustments to the carrying values of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a reorganization plan or other arrangement or the effect of any operational changes that may be implemented.

The Company's filing of the Chapter 11 Cases and the Company's ability to successfully emerge as a stronger, leaner company may be affected by a number of risks and uncertainties.

The Company is subject to a number of risks and uncertainties associated with the filing of voluntary petitions for relief under Chapter 11 of the Bankruptcy Code, which may lead to potential adverse effects on the Company's liquidity, results of operations or business prospects. No assurance can be given as to the outcome of the Chapter 11 Cases. Risks associated with the Chapter 11 filing may impact all entities constituting the Company and include the following:

- the ability of OSG to continue as a going concern;
- the Company's ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 Cases and the outcomes of Bankruptcy Court rulings of the case in general;
- the length of time OSG will operate under the Chapter 11 Cases and its ability to successfully emerge;
- the ability of the Company and its subsidiaries to develop and consummate one or more plans of reorganization with respect to the Chapter 11 cases;
- OSG's ability to obtain Bankruptcy Court and creditor approval of its reorganization plan and the impact of alternative proposals, views and objections of creditor committees and representatives, which may make it difficult to develop and consummate a reorganization plan in a timely manner;
- risks associated with third party motions in the Chapter 11 Cases, which may interfere with the Company's operations and/or plans of reorganization;
- the ability to maintain sufficient liquidity throughout the Chapter 11 proceedings including operating the Company's cash management system;

- materially increased costs related to the bankruptcy filing and other litigation;
- the Company’s ability to manage contracts that are critical to its operation and to obtain and maintain appropriate terms with customers, suppliers and service providers;
- OSG’s success in obtaining “exit financing” as may be required to fund the implementation cost of the Company’s plan of reorganization;
- the Company’s ability to preserve the benefits of the automatic stay imposed by the Bankruptcy Code and defend against any efforts to lift the automatic stay;
- the Company’s ability to obtain further extensions of the time period within which it has exclusive rights to file and solicit approval of any plan of reorganization;
- the Company’s ability to fairly resolve legacy liabilities in alignment with the Company’s plan of reorganization;
- the outcome of all pre-petition claims against the Company; and
- the Company’s ability to maintain existing customers, vendors relationships, employees, joint venturers and pool participants and expand sales to new customers.

Although the Company’s goal is to file a plan of reorganization, the Company may determine that it is in the best interest of the Company’s estate to seek Bankruptcy Court approval of a sale of all or a portion of the Company’s assets pursuant to section 363 of the Bankruptcy Code or seek confirmation of a reorganization plan providing for such a sale or other arrangement. Similarly, the Company may determine that it is in the best interest of the Company’s estate to seek to convert certain of the cases of its jointly-administered subsidiaries to cases under Chapter 7 of the Bankruptcy Code.

Continued investment, capital needs, restructuring payments and servicing the Company’s debt require a significant amount of cash and the Company’s ability to generate cash may be affected by factors beyond the Company’s control.

While the Company is not currently paying principal or interest on the Company’s indebtedness, the Company’s business may not generate cash flow in an amount sufficient to enable OSG to fund the Company’s other liquidity needs, including working capital, capital expenditures, investments and alliances, professional fees in connection with the Chapter 11 Cases and other general corporate requirements.

The Company's ability to generate cash is subject to general economic, financial, competitive, litigation, regulatory and other factors that are beyond the Company's control. No assurance can be given that:

- the Company's business will generate sufficient cash flow from operations;
- OSG's plans to generate cash proceeds through the sale of non-core assets will be successful;
- the Company will be able to repatriate or move cash to locations where and when it is needed;
- OSG will realize cost savings, earnings growth and operating improvements resulting from the execution of the reorganization plan that OSG may adopt; or
- future sources of funding will be available to the Company in amounts sufficient to enable the Company to fund its liquidity needs.

If the Company cannot fund its liquidity needs, the Company will have to take actions such as reducing or delaying capital expenditures, and investments and alliances; selling additional assets; restructuring or refinancing the Company's debt; or seeking additional equity capital. These actions may be restricted as a result of the Company's Chapter 11 filing. Such actions could increase OSG's debt, negatively impact customer confidence in the Company's ability to provide products and services, reduce the Company's ability to raise additional capital, and delay emergence from Chapter 11 protection and sustained profitability.

The Company may seek to raise cash proceeds from the sale of non-core assets, however, such efforts may not be successful in raising sufficient cash, may be negatively impacted by factors beyond the Company's control and may harm the perception of the Company among customers, suppliers and service providers.

A number of factors could influence the Company's ability to successfully raise cash through asset sales, including the approval of the Bankruptcy Court , the process utilized to sell these assets, the number of potential buyers for these assets, the purchase price such buyers are willing to offer for these assets and their capacity to fund the purchase, or the ability of potential buyers to conclude transactions and potential issues in the closing of transactions due to regulatory or governmental review process. One or more of these factors could negatively affect the timing of planned asset sales and the level of cash proceeds derived from the sales, which could adversely impact the Company's cash generation and liquidity. The value of the Company's International Flag vessels has declined due to market conditions that began in 2008 and continue to date. As a result, the Company may be unable to receive adequate consideration for any vessel or other asset disposition in the International Flag business, which dispositions may result in significant losses. Further, there is no assurance that these plans will be successful in raising sufficient cash proceeds or that the sale of certain of the Company's assets will not harm the Company's customers', suppliers' and service providers' perception of the Company.

If the Company is unsuccessful with its strategic investment decisions, the Company's financial performance could be adversely affected.

The Company has focused its investments on International Flag Crude Tankers, International Flag Product Carrier and U.S. Flag vessels. While the Company believes that each of these businesses has significant growth potential, they all also require potentially significant additional investments. If the Company is unsuccessful in growing the Company's businesses as planned, the Company's financial performance and cash flows could be adversely affected.

The Company's failure to implement plans to reduce the Company's cost structure could negatively affect the Company's consolidated results of operations, financial position and liquidity.

The Company recognizes the need to continually rationalize the Company's workforce and streamline the Company's operations to remain competitive in the face of a difficult business and economic climate. If the Company fails to implement cost rationalization plans, the Company's operational results, financial position and liquidity could be negatively impacted. Additionally, if reorganization plans are not effectively managed the Company may experience a loss of customers, reduced business opportunities and other unanticipated effects, causing harm to the Company's business and customer relationships The business plan that may be adopted in connection with the Company's Chapter 11 reorganization will be subject to a number of assumptions, projections, and analyses. If any of these assumptions prove to be incorrect, the Company may be unsuccessful in executing the Company's plan, which could adversely impact its financial results and liquidity. Additionally, the Company's ability to execute restructuring with the entities filing for Chapter 11 is subject to the approval by the Bankruptcy Court. Finally, the timing and implementation of these plans require compliance with numerous laws and regulations, and the failure to comply with such requirements may result in damages, fines and penalties which could adversely affect the Company's cost structure and cash flows.

Any plan of reorganization that the Company may implement will be based in large part upon assumptions and analyses developed by the Company. If these assumptions and analyses prove to be incorrect, the Company's plan may be unsuccessful in its execution.

Any plan of reorganization that OSG may implement could affect both its capital structure and the ownership, structure and operation of its businesses and will reflect assumptions and analyses based on the Company's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are considered appropriate under the circumstances. Whether actual future results and developments will be consistent with the Company's expectations and assumptions depends on a number of factors, including but not limited to (i) OSG's ability to change substantially its capital structure; (ii) the Company's ability to obtain adequate liquidity and financing sources; (iii) the Company's ability to maintain customers' confidence in our viability as a continuing entity and to attract and retain sufficient business from them; (iv) the Company's ability to retain key employees, and (v) the overall strength and stability of general economic conditions of the financial and shipping industries, both in the U.S. and in global markets. The failure of any of these factors could materially adversely affect the successful reorganization of our businesses.

In addition, any plan of reorganization will rely upon financial projections, including with respect to revenues, EBITDA, debt service and cash flow. Financial forecasts are inherently speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In the Company's case, the forecasts are even more speculative than normal because they involve fundamental changes in the nature of the Company's capital structure. Accordingly, the Company expects that its actual financial condition and results of operations will differ, perhaps materially, from what such forecasts anticipate. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization the Company may implement will occur or, even if they do occur, that they will have the anticipated effects on the Company and its subsidiaries or businesses or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful execution of any plan of reorganization.

If the Company cannot attract, retain and motivate key employees, the Company's revenue and earnings could be harmed.

In order for the Company to be successful, the Company must continue to attract, retain and motivate executives and other key employees, including technical, managerial, chartering and support positions. Hiring and retaining qualified executives, maritime professionals, and qualified chartering representatives is critical to the Company's future. If the Company cannot attract qualified individuals, retain key executives and employees or motivate the Company's employees, the Company's business could be harmed. The Company's filing for Chapter 11 may create uncertainty for employees and impact OSG's ability to retain key employees and effectively recruit new employees. The Company's ability to take measures to motivate and retain key employees is also subject to restrictions while operating under Chapter 11. The Company may experience increased levels of employee attrition.

The Company may be required to recognize additional impairments in the value of the Company's goodwill and/or other long-lived assets, which would increase expenses and reduce profitability.

Goodwill represents the excess of the amount the Company paid to acquire businesses over the fair value of their net assets at the date of the acquisition. The Company tests goodwill for impairment annually or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Additionally, the Company's other long-lived assets, such as vessels, are evaluated for impairments whenever events or changes in circumstances indicate the carrying value may not be recoverable. Either of these situations may occur for various reasons including changes in actual or expected income or cash. Impairment charges of $279,382 and $28,783 were recorded in 2012 and 2010, respectively. Impairments could occur in the future if market or interest rate environments deteriorate, expected future cash flows of the Company's vessels decline, or if reporting unit carrying values change materially compared with changes in respective fair values.

Even if a Chapter 11 plan of reorganization is consummated, continued weakness or worsening of economic conditions could continue to adversely affect the Company's financial performance and the Company's liquidity.

The global economic recession affecting the international tanker industry adversely affected the Company's operating results and financial condition and was a primary factor leading to the Company filing for voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. Further, global financial markets have been experiencing contraction and volatility, especially with respect to key lenders to shipping companies. Economic conditions could also accelerate the continuing decline in demand for vessels, placing pressure on the Company's results of operations and liquidity. If the global economic weakness and tightness in the credit markets continue for a greater period of time than anticipated or worsen, the Company's profitability and related cash generation capability could be adversely affected and, therefore, affect the Company's ability to meet the Company's anticipated cash needs, impair the Company's liquidity or increase the Company's costs of borrowing.

As the Company streamlines its operations and reduces its general and administrative expenses, it needs to upgrade its management infrastructure and systems to maintain the quality of its operations and satisfaction of its customers.

In connection with its Chapter 11 Cases, the Company has embarked on several initiatives to streamline its operations and reduce its general and administrative expenses, including reducing levels of management, increasing responsibilities of key personnel and centralizing its financial data operations. These initiatives have the inherent risk that implementation adversely impacts the Company's control of the quality of its operations. Although it is impossible to predict what errors might occur as the result of inadequate controls or reduced staff, it is harder to manage a sizable operation with fewer personnel and, accordingly, it is more likely that errors will occur unless management infrastructure and systems are upgraded and monitored.

The commencement and prosecution of the Chapter 11 Cases has consumed and will continue to consume a substantial portion of the time and attention of the Company's management and will impact how its business is conducted, which may have an adverse effect on the Company's business and results of operations.

The requirements of the Chapter 11 Cases have consumed and will continue to consume a substantial portion of the Company's management's time and attention and leave them with less time to devote to the operation of the Company's business. This diversion of attention may materially adversely affect the conduct of OSG's business, and, as a result, have an adverse impact on the Company's financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

As a result of the Chapter 11 Cases, OSG's historical financial information may not be indicative of OSG's future financial performance.

The Company's capital structure will likely be significantly altered under any plan of reorganization ultimately confirmed by the Bankruptcy Court. Under fresh-start reporting rules that may apply to the Company upon the effective date of any reorganization plan the Company may adopt, the Company's assets and liabilities would be adjusted to fair values and the Company's retained earnings would be restated to zero. Accordingly, if fresh-start reporting rules apply, the Company's financial condition and results of operations following its emergence from Chapter 11 would not be comparable to the financial condition and results of operations reflected in the Company's historical financial statements. In connection with the Chapter 11 Cases, it is also possible that additional restructuring and related charges may be identified and recorded in future periods. Such charges could be material to OSG's consolidated financial position and results of operations in any given period. Finally, the structure of any reorganization may cause the Company's financial conditions and results of operations following its emergence from Chapter 11 not to be comparable to the Company's historical financial information.

The Company's common stock is no longer listed on a national securities exchange and is quoted only in the over-the-counter market, which could negatively affect the stock price and liquidity.

Until the Company's voluntary Chapter 11 filing on November 14, 2012, the shares of the Company's common stock were listed on the NYSE under the symbol "OSG." Upon the announcement of the Chapter 11 filing, the NYSE suspended the trading of the Company's shares and the common stock commenced trading on the OTC market under the trading symbol "OSGIQ." However, the extent of the public market for the common stock and the continued availability of quotations depend upon such factors as the aggregate market value of the common stock, the interest in maintaining a market in OSG's common stock on the part of securities firms and other factors. The over-the-counter market is a significantly more limited market than the NYSE, and the quotation of OSG's common stock in the over-the-counter market may result in a less liquid market available for existing and potential shareholders to trade shares of OSG's common stock. This could further depress the trading price of the common stock and could also have a long-term adverse effect on the Company's ability to raise capital. There can be no assurance that any public market for the common stock will exist in the future.

Trading in the Company's securities during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. It is impossible to predict at this time whether or when the holders of the common stock of the Company or any of its other debt securities will receive any distribution with respect to, or be able to recover any portion of, their investments.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, post-petition liabilities and pre-petition liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a Chapter 11 plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation of such a plan. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 Cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. If certain requirements of the Bankruptcy Code are met, the plan can be confirmed notwithstanding its rejection by the class comprising the interests of Company equity security holders.

In the event of cancellation of the Company's equity or other debt securities, amounts invested by the holders of such securities will not be recoverable and such securities would have no value. Trading prices for the Company's equity or other debt securities may bear little or no relationship to the actual recovery, if any, by the holders thereof in the Chapter 11 Cases. Accordingly, the Company urges extreme caution with respect to existing and future investments in OSG's equity or other securities.

In addition, the Bankruptcy Court has entered two orders that place certain limitations on trading in certain of our securities to protect the Company's net operating loss ("NOL") carryforwards, a tax asset of the Company, both prior to and potentially in connection with a bankruptcy plan of reorganization. For this reason, under one such order, investors need the Company's consent or court approval before effecting any transactions in common stock of the Company if they hold, or would as a result of the transaction hold, at least 4.7% of the outstanding shares of such common stock. Under the other order, any person or entity that beneficially own claims against the Company totaling more than either (i) $25 million in aggregate of the 8.75% Debentures due 2013, the 8.125% Senior Notes due 2018, or the 7.5% Senior Notes due 2024, (ii) $67.5 million under that certain Credit Agreement dated as of February 9, 2006, or (iii) $90 million of any unsecured claims against the Company including those in the previous two categories, where each dollar amount is subject to revision by further notice from the Company (each, a "Substantial Claimholder"), may be required, pursuant to a subsequent motion of the Company and Bankruptcy Court order, either to seek the Company's consent before effecting any further acquisition of claims against the Company, or to "sell down" a portion of its claims against the Company prior to a bankruptcy reorganization.

Transfers or issuances of our equity, or a debt restructuring, may impair or reduce our ability to utilize our net operating loss carryforwards and certain other tax attributes in the future.

Pursuant to U.S. tax rules, a corporation is generally permitted to deduct from taxable income in any year NOLs carried forward from prior years. Our ability to utilize these NOL carryforwards could be subject to a significant limitation if we were to undergo an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, during or as a result of our Chapter 11 Cases. The Bankruptcy Court has entered orders that place certain restrictions on trading in OSG common shares, and other procedures relating to trading in claims against OSG, during the Chapter 11 Cases. However, we can provide no assurances that these limitations will prevent an "ownership change" or that our ability to utilize our NOL carryforwards may not be significantly limited as a result of our reorganization.

A restructuring of our debt pursuant to the Chapter 11 Cases may give rise to cancellation of debt, i.e. debt forgiveness ("COD"), which if it occurs would generally be non-taxable. If the COD is non-taxable, and we have remaining NOL carryforwards at the end of the tax year in which such COD arises, we will be required to reduce our NOL carryforwards and other attributes such as capital loss carryforwards and tax basis in assets, by an amount equal to the non-recognized COD. Therefore, it is possible that, as a result of the successful completion of plans for the conclusion of the Chapter 11 Cases, we will have a reduction of NOL carryforwards and/or other tax attributes in an amount that cannot be determined at this time and that could have a material adverse effect on our financial position.

The Company has not made any determination with respect to reorganizing its capital structure, and any changes to its capital structure may have a material adverse effect on existing debt and security holders.

Any reorganization of the Company's capital structure may include exchanges of new debt or equity securities for existing securities, and such new debt or equity securities may be issued at different interest rates, payment schedules, and maturities than our existing securities. The Company may also modify or amend its existing securities to the same effect. Such exchanges or modifications are inherently complex to implement. The success of a reorganization, through any such exchanges or modifications will depend on approval by the Bankruptcy Court and the willingness of existing security holders to agree to the exchange or modification, and there can be no guarantee of success. If such exchanges or modifications are successful, holders of debt may find their holdings no longer have any value or are materially reduced in value, or they may be converted to equity and be diluted or receive debt with a principal amount that is less than the outstanding principal amount, longer maturities, and reduced interest rates. There can be no assurance that any new debt or equity securities will maintain their value at the time of issuance. Also, if the existing debt or equity security holders are adversely affected by a reorganization, it may adversely affect the Company's ability to issue new debt or equity in the future.

The Company may not be able to obtain confirmation of a reorganization.

In order for the Company to emerge successfully from the Chapter 11 Cases as a viable entity, the Company, like any other Chapter 11 debtor, must obtain approval of a reorganization plan from its creditors and confirmation of a plan of reorganization through the Bankruptcy Court, and then successfully implement the plan of reorganization. The foregoing process requires the Company to (i) meet certain statutory requirements with respect to the adequacy of the disclosure statement relating to the plan of reorganization, (ii) solicit and obtain acceptances from creditors whose rights are impaired by the plan of reorganization and (iii) fulfill other statutory conditions with respect to the confirmation of the plan of reorganization. There can be no assurance that a reorganization plan proposed by the Company's management will be approved by the Company's creditors and confirmed by the Bankruptcy Court. In addition, the Bankruptcy Code imposes time limits on the period during which the Company's management has the exclusive right to propose and solicit acceptances of a plan of reorganization. Extensions of this time period are subject to approval by the Bankruptcy Court. In addition, there remains a risk that creditors could seek to terminate such exclusivity and propose competing plans of reorganization without the input or consent of the Company's management.

There can be no assurance as to the timing of the acceptance or confirmation of a reorganization plan or that any conditions to the plan's effectiveness will ever occur. The impact that prolonging completion of the Chapter 11 Cases may have on the Company's operations cannot be accurately predicted or quantified. The continuation of the Chapter 11 Cases, particularly if the plan is not approved, confirmed, or implemented within the time frame proposed by management, or in the event that competing creditor plans are filed or proposed, could adversely affect the Company's operations and relationships between the Company and its customers and charterers, suppliers, service providers and creditors as well as the viability of the Company's joint venture interests; result in increased professional fees and similar expenses; and threaten the Company's ability to obtain financing. Failure to confirm the plan or any delay of its effectiveness could further weaken the Company's liquidity position, which could jeopardize the Company's exit from Chapter 11, force the sale of the Company or certain of its material assets or result in the appointment of a trustee and/or conversion of the Company's Chapter 11 Cases to a liquidation under Chapter 7 of the Bankruptcy Code.

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 and cash flows. The factors that influence the demand for tanker capacity include:

- demand for and availability of 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, including production by OPEC, the United States 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.

The market value of vessels fluctuates significantly, which could adversely affect OSG's liquidity 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 during the past few years. 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 OSG sells a vessel at a sale price that is less than the vessel's carrying amount on its financial statements, the Company will incur a loss on the sale and a reduction in earnings and surplus. In addition, declining values of the Company's vessels could adversely affect the Company's liquidity by limiting its ability to raise cash by refinancing vessels.

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, profitability and cash flows and on the value of its vessels.

OSG depends on short term duration or "spot" charters, for a significant portion of its revenues, further exposing OSG to fluctuations in market conditions. In 2012, 2011 and 2010, OSG derived approximately 64%, 65% and 64%, respectively, of its TCE revenues in the spot market.

The marine transportation industry has been highly cyclical, as the profitability and asset values of companies in the industry have fluctuated based on changes in the supply and demand of vessels. If the number of new ships delivered exceeds the number of vessels being scrapped, capacity will increase. Historically, we have generally seen the supply of vessels increase with deliveries of new vessels and decreases with the scrapping of older vessels. The newbuilding order book equaled 12% of the existing world tanker fleet as of December 31, 2012, down from 18% and 29% as of December 31, 2011 and December 31, 2010, respectively.

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 petroleum products, with 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 will generally increase vessel supply. For example, in 2010, 81 vessels were released from storage and reentered the trading fleet. Since the 2010 release, storage on vessels at sea has been low, in part because then current prices of crude oil have generally exceeded the future prices, a condition which allows companies to replace inventories at lower prices, encouraging the drawdown of commercial inventories. Supply has exceeded demand during the past four years, resulting in lower charter rates across the industry. If this trend continues, the charter rates for the Company's vessels could continue at current depressed levels that are well below historical averages, which would have a material adverse effect on OSG's revenues, profitability and cash flows if sustained over a long period of time.

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 including, but not limited to:

- 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, decreased cash flows and increased costs.

While the Company carries insurance to protect against certain risks involved in the conduct of its business, risks may arise against which the Company is not adequately insured. For example, a catastrophic spill could exceed OSG’s $1 billion per vessel 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 by its insurers. 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 protection and indemnity 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 and cash flows or cause losses.

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 certain of the Company's customers, joint venture partners, financial lenders and suppliers, including shipyards from whom the Company has contracted to purchase vessels. Entities that suffer a material adverse impact on their financial condition may be unable or unwilling to comply with their contractual commitments to OSG including the refusal or inability of customers to pay charter hire to OSG, failure of shipyards to construct and deliver to OSG newbuilds or the inability or unwillingness of joint venture partners or financial lenders to honor their commitments to contribute funds to a joint venture or lend funds. While OSG seeks to monitor the financial condition of such entities, the availability and accuracy of information about the financial condition of such entities 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 limited. Such failure of customers, joint venture partners, financial lenders and suppliers to meet their contractual obligations may have a material adverse effect on OSG's revenues, profitability and cash flows. In addition, adverse financial conditions may inhibit customers, joint venture partners, financial lenders and suppliers from entering into new commitments with OSG, which could have a material adverse effect on revenues, profitability and cash flows.

See also "—Company specific risk factors—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" and "—Company specific risk factors—OSG has incurred significant indebtedness which could affect its ability to finance its operations, pursue desirable business opportunities and successfully run its business in the future, and therefore make it more difficult for OSG to fulfill its obligations under its indebtedness."

Acts of piracy on ocean-going vessels could adversely affect our business.

The frequency of pirate attacks on seagoing vessels remains high, particularly in the western part of the Indian Ocean and off the west coast of Africa. If piracy attacks result in regions in which the company's vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden has been, or Joint War Committee "war and strikes" listed areas, premiums payable for such insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs and costs of employing onboard security guards could also increase in such circumstances.

In addition, while OSG believes the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and it is therefore entitled to cancel the charter party, a claim that the Company would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on the Company. In addition, hijacking as a result of an act of piracy against the Company’s vessels, or an increase in cost, or unavailability of insurance for its vessels, could have a material adverse impact on OSG’s business, financial condition, results of operations and cash flows.

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

Terrorist attacks, the outbreak of war, or the existence of international hostilities could 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 charter its vessels and the charter rates payable under any charters. Additionally, 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 or international hostilities. 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 and cash flows.

OSG conducts its operations internationally, subjecting the Company to changing economic, political and governmental conditions abroad which may adversely affect our business.

The Company conducts its operations internationally, and its business, financial condition, results of operations and cash flows 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;
- adverse changes in other international laws impacting OSG's business; and
- expropriation of its vessels.

The occurrence of such events could have a material adverse effect on our business. Additionally, OSG's international operations subject it to certain risks regarding taxation of foreign subsidiary income, see "—Company specific risk factors—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."

Our vessels may be directed to call on ports located in countries that are subject to restrictions imposed by the U.S. government, which could negatively affect the trading price of our common shares.

From time to time, certain of our vessels, on the instructions of the charterers or pool manager responsible for the commercial management of such vessels, have called and may again call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government, the UN or the EU and countries identified by the U.S. government, the UN or the EU as state sponsors of terrorism. The U.S., UN and EU sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. Some sanctions may also apply to transportation of goods (including crude oil) originating in sanctioned countries (particularly Iran), even if the vessel does not travel to those countries, or otherwise acting on behalf of sanctioned persons. Sanctions may include the imposition of penalties and fines against companies violating national law or threaten that companies acting outside the jurisdiction of the sanctioning power may themselves become the target of sanctions.

Non-U.S. subsidiaries of OSG contributed VLCCs they owned or chartered-in to Tankers International (“TI”), a commercial pool that charters out vessels which in turn call on ports throughout the world in compliance with applicable law. The Company learns where a vessel contributed by one of its non-U.S. subsidiaries has or will be traded after the voyage has been fixed.

In early 2012, TI pool vessels made five port calls in Iran, in compliance with applicable law, including one port call made by a vessel owned by a non-U.S. subsidiary of OSG in January 2012. Even when these vessels, including the one owned by a non-U.S. subsidiary of OSG, called on an Iranian ports, neither the Company itself nor any of its U.S person affiliates or employees had any role or involvement with TI pool transactions involving Iran. As a participant in the pool, the Company receives a share of the TI pool’s net revenues from a voyage based on its contribution of vessels to the TI pool, regardless of whether the voyage was performed by a vessel contributed by one of its non-U.S. subsidiaries or by another pool participant. OSG’s share of the TI pool’s net revenue (after deducting OSG’s share of administrative costs) for 2012 derived from all voyages of all TI Pool vessels involving a port call in Iran totaled approximately $1,318. The TI pool decided to terminate all new business involving Iranian ports in February 2012 after the EU adopted sanctions on such activity. No vessel owned or chartered-in by OSG or any of its domestic or foreign subsidiaries has called on an Iranian port since January 2012, and until the U.S. and EU sanctions regimes permit such calls, the Company will not allow its vessels to make such calls, whether through a pooling arrangement or otherwise.

Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations and intend to maintain such compliance and that we do not and do not intend to engage in sanctionable activity, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation or sanctionable activity could result in fines or other penalties, or the imposition of sanctions against the Company, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in the Company and negatively affect our reputation and investor perception of the value of our common stock..

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. They also regulate other water pollution issues, including discharge of ballast water and effluents and air emissions, including emission of greenhouse gases. These requirements impose significant capital and operating costs on OSG.

Environmental laws and regulations also can affect the resale value or significantly reduce the 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, or detention in, certain jurisdictional waters or 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 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. The Oil Pollution Act of 1990 ("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. 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.

In addition, in complying with OPA 90, International Maritime Organization (“IMO”) regulations, EU directives and other existing laws and regulations and those that may be adopted, shipowners likely will incur substantial additional capital and/or operating expenditures in meeting new regulatory requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Key regulatory initiatives that are anticipated to require substantial additional capital and/or operating expenditures in the next several years include more stringent limits on the sulfur content of fuel oil for vessels operating in certain areas and more stringent requirements for management and treatment of ballast water. See the discussion of “Environmental and Security Matters Relating to Bulk Shipping” above. Other 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. Such expenditures could result in financial and operational impacts that may be material to OSG’s financial statements.

Accidents involving highly publicized oil spills and other mishaps involving vessels can be expected in the tanker 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, financial results and cash flows.

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 "Environmental and Security Matters Relating to Bulk Shipping ." In addition to the added costs, the concern over climate change and regulatory measures to reduce greenhouse gas emissions may reduce global demand for oil and oil products, which would have an adverse effect on OSG's business, financial results and cash flows.

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.

Company specific risk factors:

OSG has incurred significant indebtedness which could affect its ability to finance its operations, pursue desirable business opportunities and successfully run its business in the future, and therefore make it more difficult for OSG to fulfill its obligations under its indebtedness.

OSG has, and expects after emergence from Chapter 11 that it will continue to have, significant amounts of indebtedness. Although the Company is seeking to substantially reduce such debt in Chapter 11, it cannot predict if, or to what extent, these efforts will be successful. As of December 31, 2012, OSG had $2.6 billion of indebtedness that had been classified as liabilities subject to compromise. OSG's substantial indebtedness and interest expense could have important consequences, including:

- limiting OSG’s ability to use a substantial portion of its cash flow from operations in other areas of its business, including for working capital, capital expenditures and other general business activities, because OSG must dedicate a substantial portion of these funds to service its debt;
- to the extent OSG’s future cash flows are insufficient, requiring the Company to seek to incur additional indebtedness in order to make planned capital expenditures and other expenses or investments ;
- limiting OSG’s ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, and other expenses or investments planned by the Company;
- limiting the Company’s flexibility and ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in government regulation, and OSG’s business and industry;
- limiting OSG’s ability to satisfy its obligations under its indebtedness;
- increasing OSG’s vulnerability to a downturn in its business and to adverse economic and industry conditions generally;

- placing OSG at a competitive disadvantage as compared to its competitors that are less leveraged;
- limiting the Company's ability, or increasing the costs, to refinance indebtedness; and
- limiting the Company's ability to enter into hedging transactions by reducing the number of counterparties with whom OSG can enter into such transactions as well as the volume of those transactions.

OSG's ability to continue to fund its obligations and to reduce debt may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund the Company's debt requirements or reduce debt could have a material adverse effect on OSG's business, financial condition, results of operations and liquidity.

The Company may not be able to generate sufficient cash to service all of its indebtedness.

The Company's earnings and cash flow vary significantly over time due to the cyclical nature of the tanker industry. As a result, the amount of debt that OSG can manage in some periods may not be appropriate in other periods. Additionally, future cash flow may be insufficient to meet the Company's debt obligations and commitments. Any insufficiency could negatively impact OSG's business. A range of economic, competitive, financial, business, industry and other factors will affect future financial performance, and, as a result, the Company's ability to generate cash flow from operations and to pay debt. Many of these factors, such as charter rates, economic and financial conditions in the tanker industry and the global economy or competitive initiatives of competitors, are beyond the Company's control. If OSG does not generate sufficient cash flow from operations to satisfy its debt obligations, OSG may have to undertake alternative financing plans, such as:

- refinancing or restructuring its debt;
- selling tankers or other assets;
- reducing or delaying investments and capital expenditures; or
- seeking to raise additional capital.

No assurance can be given that undertaking alternative financing plans, if necessary, would be successful in allowing OSG to meet its debt obligations. The Company's ability to restructure or refinance its debt will depend on the condition of the capital markets, its access thereto and OSG's financial condition at such time. Any refinancing of debt could be at higher interest rates and may require the Company to comply with more onerous covenants, which could further restrict OSG's business operations. The terms of existing or future debt instruments may restrict OSG from adopting some of these alternatives. These alternative measures may not be successful and may not permit OSG to meet its scheduled debt service obligations. The Company's inability to generate sufficient cash flow to satisfy its debt obligations, or to obtain alternative financing, could materially and adversely affect OSG's business, financial condition, results of operations, cash flows and prospects.

The Company faces risks arising from potential material weaknesses in its internal control environment.

As a result of the matters addressed in the recently completed Company inquiry, as further described in Note 2, "Company Inquiry and Restatement," to the accompanying consolidated financial statements, as well as an internal review by Company management, management identified material weaknesses in internal control over financial reporting with respect to its accounting for income taxes and fair market valuation of interest rates. While management has taken remediation actions to address material weaknesses, its remediation actions may prove to be ineffective or inadequate and expose the Company to further risk of misstatements in its financial statements. In such circumstances, investors and other users of the Company's financial statements may lose confidence in the reliability of the Company's financial information and the Company could fail to comply with certain representations, warranties and covenants in its debt and other financing-related agreements or be obligated to incur additional costs to improve the internal controls. The Company's failure or inability to remediate the material weakness in a timely and effective manner could also adversely affect its reputation among customers and its operating prospects, if customers perceive the Company as experiencing financial control or other financial difficulties. See Item 9A, "Controls and Procedures," for further description of the material weaknesses identified by management and related remediation actions.

Litigation and regulatory inquiries associated with the restatement of the Company's prior period financial statements could result in substantial costs, penalties and other adverse effects.

Substantial costs may be incurred to defend and resolve regulatory proceedings and litigation arising out of or relating to matters addressed in the recently completed Company inquiry. These proceedings include the ongoing audits that are in process by the U.S. Internal Revenue Service ("IRS") in the U.S. as well as audits expected to commence of the Company's U.S. federal income tax returns for some of the periods affected by the restatement. In completing the restatement, the Company examined the appropriateness of the Company's accounting treatment of the U.S. federal income tax consequences of the credit agreements for which OIN was a co-obligor with the Company on a joint and several basis. In conducting this analysis, the Company also determined that additional financial statement reserves were required with respect to certain other lesser tax compliance matters, including intercompany balances between OIN and the Company that gave rise to deemed dividend income to the Company. The Company cannot predict when the ongoing IRS audits will be completed or the amount or timing of the final resolution with the IRS or other relevant taxing authorities of the matters that gave rise to the restatement. Further, the Company has not recorded penalties related to the ongoing IRS audits. Penalties, if imposed, may be material.

The Company is also subject to other regulatory and litigation proceedings relating to, or arising out of, the restatement, including a pending investigation by the SEC and purported securities class action lawsuits seeking relief against certain of the Company's officers and its directors. These proceedings could also result in civil or criminal fines and other non-monetary penalties. The Company has not reserved any amount in respect of these matters in its consolidated financial statements.

The Company cannot predict whether any monetary losses it experiences in the proceedings will be covered by insurance or whether insurance proceeds recovered will be sufficient to offset such losses. Pending civil, regulatory and criminal proceedings may also divert the efforts and attention of the Company's management from business operations, particularly if adverse developments are experienced in any of them, such as an expansion of the investigations being conducted by the SEC. See Item 3, "Legal Proceedings," for further discussion of these pending matters.

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 United States (known as marine cabotage services or coastwise trade) to vessels built and registered in the United States 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 ensure 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 (“GATS”) and the North American Free Trade Agreement (“NAFTA”). If maritime cabotage services were included in GATS, NAFTA 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, cash flows and financial condition.

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

There can be no assurance that any of the Company’s existing time charters will be renewed at comparable rates or if renewed or entered into, that they will be at favorable rates. If, upon expiration of the existing time charters or delivery of newbuilds, OSG is unable to obtain time charters or voyage charters at desirable rates, the Company’s profitability and cash flows may be adversely affected.

Delays or cost overruns in building new vessels, including delivery of any new vessels, the scheduled shipyard maintenance of the Company’s existing vessels, or conversion of the Company’s existing 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 of suppliers to deliver new vessels) or cost overruns caused by circumstances including but not limited to, 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 and cost overruns 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, including cash flows. The Company's remedies for losses resulting from shipyards' failure to comply with their contractual commitments may be limited by such contracts, certain of which contain liquidated damages provisions 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 are generally 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. Due to these conventions, 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. Even with a financial institution guarantee, the Company may not be able to recover in a timely matter, or at all, its loss resulting from a shipyard's failure to deliver.

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

As of May 31, 2013, all but two of the Company's Very Large Crude Carriers ("VLCCs") participate in the Tankers International pool. At December 31, 2012, ten of OSG's Aframaxes participate in the Aframax International pool. Five of the Company's crude Panamaxes and two of its Panamax Product Carriers participate directly in Panamax International. Participation in these pools is intended to enhance 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. After the Chapter 11 filing, some participants in the pools have withdrawn or announced their intention to withdraw from pools in which OSG participates, or subjected OSG to trading restrictions within the pools. 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.

In the highly competitive international market, OSG may not be able to compete effectively 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.

Changes in demand in specialized markets in which the Company currently trades may lead the Company to redeploy certain vessels to other markets.

The Company deploys its vessels in several specialized markets, including, without limitation, lightering in the Delaware Bay. The Company conducts those lightering operations with two ATBs, which were constructed using funds withdrawn from the Company's Capital Construction Fund ("CCF"). If lower demand in these markets adversely affects the Company's financial position, the Company may consider redeploying these two ATBs in other markets. There can be no assurance that the Company will be able to compete profitably in the new markets or that the ATBs can be fixed in new markets without substantial modification.

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 articulated tug barges ("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 suitable. If more customers differentiate rebuilt vessels, time charter rates for our rebuilt ATBs will likely be adversely affected or they may not be employable.

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 contracts of affreightment ("COAs") and Voyage Charters. 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, prior to the Chapter 11 filing and potentially after confirmation of a plan of reorganization, the Company entered 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, cash flows and earnings.

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 American Jobs Creations Act of 2004 ("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 taxation of OSG's foreign subsidiaries under U.S. laws is a complex area and is subject to ongoing analysis and recalculation, which can have a material impact on the Company, see Note 2, "Company Inquiry and Restatement," to the accompanying consolidated financial statements included in Item 8, “Financial Statement and Supplementary Data.”

The President and several Congressmen and Senators have announced support for repealing certain tax provisions that purportedly incentivize companies to move jobs from the U.S. to foreign countries.. While the Company believes that the changes made in the 2004 Act with respect to foreign shipping income do not “incentivize moving jobs offshore,” 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, could have a materially adverse effect on the Company’s business, financial results and cash flows.

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

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

The Company does not intend to enter into derivative financial instruments of any type during the pendency of the Chapter 11 proceedings.

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 and cash flows.

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. While the Company's Chapter 11 filing has provided the Company with an automatic stay against the arrest of a vessel because of an obligation arising before the Chapter 11 filing, and against exercising control over the Company's property on a post-petition basis, such stay may not be recognized in a specific jurisdiction, and the stay does not generally apply to obligations arising after the Chapter 11 filing. While the Company has obtained recognition of the Chapter 11 proceedings and the automatic stay in South Africa and in the Courts of England and Wales, the arrest or attachment of one or more of the Company's vessels could interrupt OSG's cash flow and require it to pay a significant amount of money to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in the Company's fleet for claims relating to another vessel in its fleet.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease seven properties which house offices used in the administration of our operations: a property of approximately 30,000 square feet in New York, New York (after giving effect to the Company's June 2013 move of its headquarters office and the rejection of the lease for space previously occupied at 666 Third Avenue), a property of approximately 2,500 square feet in Newark, Delaware, a property of approximately 3,600 square feet in Houston, Texas, a property of approximately 18,300 square feet in Tampa, Florida, a property of approximately 24,200 square feet in Newcastle, United Kingdom, a property of approximately 13,800 square feet in Athens, Greece and a property of approximately 1,500 square feet in Singapore.

We own approximately 3,500 square feet of land and building space in Manila, Philippines,

We do not own or lease any production facilities, plants, mines or similar real properties. The Company's principal office was relocated to 1301 Avenue of the Americas, New York, New York, from 666 Third Avenue, New York, New York in June 2013.

Vessels:

At December 31, 2012, the Company owned or operated (including newbuilds) an aggregate of 107 vessels. Subsequent to December 31, 2012, the Bankruptcy Court approved the Company's rejection of leases on certain chartered-in International Flag vessels and 15 chartered-in vessels have been redelivered to their owners. See tables presented under Item 1. Additional information about the Company's fleet is set forth on the Company's website, www.osg.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference in this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

On November 14, 2012, the Company and 180 of its subsidiaries commenced the Chapter 11 Cases in the Bankruptcy Court. Certain of the Company's subsidiaries and affiliates (collectively, the "Non-Filing Entities") did not file for relief under Chapter 11. The Debtors will continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. The Non-Filing Entities will continue to operate in the ordinary course of business. As a result of the filing for relief under Chapter 11, litigation against the Debtors to recover pre-petition claims or to exercise control over the property of the Debtors' bankruptcy estates is automatically stayed pursuant to the Bankruptcy Code. See Note 3, "Bankruptcy Filing and Going Concern," to the accompanying consolidated financial statements for additional information.

After the Company filed a Current Report on Form 8-K on October 22, 2012 disclosing that on October 19, 2012 the Audit Committee of the Board of Directors of the Company, on the recommendation of management, concluded that the Company's previously issued financial statements for at least the three years ended December 31, 2011 and associated interim periods, and for the fiscal quarters ended March 31, 2012 and June 30, 2012, should no longer be relied upon, several putative class action suits were filed in federal court in the Southern District of New York against the Company, its then President and Chief Executive Officer, its then Chief Financial Officer, its then current and certain former members of its Board of Directors, its current and former independent registered public accounting firm, and underwriters of the Company's public offering of notes in March 2010 (the "Offering"). The Company's former independent registered public accounting firm was later added as a defendant. Subsequent to the Company's filing for relief under Chapter 11, these suits were consolidated and the plaintiffs filed an amended complaint that does not name the Company as a defendant. The consolidated suits are on behalf of purchasers of Company securities between March 1, 2010 and October 19, 2012 and purchasers of notes in the Offering. The plaintiffs allege that documents that the Company filed with the SEC were defective, inaccurate and misleading, that the plaintiffs relied on such documents in purchasing the Company's securities, and that, as a result, the plaintiffs suffered losses. The plaintiffs seek recovery of such losses from the defendants. The Bankruptcy Court has stayed the suits against the individual defendants (the former President and former Chief Financial Officer of the Company and certain current and certain former directors of the Company), except with respect to currently pending motions to dismiss, until September 2013, subject to the Company's right to request further extensions.

On November 13, 2012, the Company received from the staff of the SEC a request for documents relating to the statements in the Company's October 22, 2012 Form 8-K, to which the Company has responded. On January 29, 2013, the SEC issued a formal order of private investigation of the Company. The Company intends to continue to cooperate fully with the SEC's investigation.

On July 16, 2013 the Company received notification through its compliance reporting system that possible pollution violations from one of its Marshall Islands-flagged vessels had occurred. The report alleged that there had been improper discharges of bilge holding tank contents directly overboard and not, as required by Company policies and law, through the installed Oily Water Separator or to shore side reception facilities.

On July 26, 2013, after conducting a preliminary investigation, the Company informed the Marshall Islands Maritime Administration (the “Flag State”) of potential violations of law and the Flag State commenced an investigation. The Company has cooperated with the Flag State preliminary investigation. On July 31, 2013, the Company informed the U.S. Coast Guard and the U.S. Department of Justice of the results of the Company’s and the Flag State’s preliminary investigations, including possible improper discharges from the vessel’s bilge holding tank and apparent false entries in, or apparent omission of required entries from, the vessel’s Oil Record Book Part I while the vessel was in U.S. waters. The Company offered to cooperate with the U.S. Coast Guard and Department of Justice in any investigation either of them wish to conduct and agreed to notify them of any new developments relating to the Company’s continuing investigation.

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 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The Company's common stock was listed for trading on the NYSE under the trading symbol "OSG" through November 14, 2012. On November 14, 2012 we received notice from the NYSE that the NYSE had determined that OSG's common stock should be immediately suspended from trading on the NYSE. The Company's common stock commenced trading on the OTC market on November 14, 2012 under the trading symbol "OSGIQ."

The following table summarizes the quarterly high and low bid quotations of the Company's common stock as reported on the OTC market since November 14, 2012 and the high and low closing sales prices of the Company's common stock as reported on the NYSE prior to the date trading was suspended by the NYSE. The OTC market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

2012	High	Low
	(In dollars)	
First Quarter	14.65	8.09
Second Quarter	12.32	8.96
Third Quarter	10.93	5.55
Fourth Quarter	7.08	0.59

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

On July 15, 2013, there were 362 stockholders of record of the Company’s common stock.

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. The Company’s ability to pay dividends is limited by its proceedings in Bankruptcy Court and liquidity concerns. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Sources of Capital.” 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.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the last five years. The unaudited selected consolidated financial data for the years ended December 31, 2012, 2011 and 2010, and at December 31, 2012 and 2011, are derived from the restated audited consolidated financial statements of the Company set forth in Item 8, “Financial Statements and Supplementary Data,” which have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm. The financial information presented below for the years prior to the fiscal year ended December 31, 2012 has been restated as set forth in this Annual Report on Form 10-K as more fully described in Note 2, “Company Inquiry and Restatement,” to the accompanying consolidated financial statements. The Company has not amended its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement.

This selected financial data is not necessarily indicative of results of future operations and should be read in conjunction with Item 7**,** “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In millions, except per share amounts and as otherwise stated	2012	2011		2010		2009		2008
	As Reported		As Restated	As Reported	As Restated	As Reported	As Restated	As Report
Shipping revenues	$1,137	$1,050	$1,050	$1,046	$1,046	$1,094	$1,094	$1,705
(Loss)/income from vessel operations	(379)	(142)	(142)	(79)	(79)	77	77	345
(Loss)/income before reorganization items and income taxes (g)	(440)	(198)	(199)	(142)	(142)	34	34	271
Reorganization items, net	(41)	-	-	-	-	-	-	-
(Loss)/income before income taxes (g)	(482)	(198)	(199)	(142)	(142)	34	34	271
Net (loss)/income attributable to Overseas Shipholding Group, Inc. (f) (g)	(480)	(193)	(201)	(134)	(123)	70	67	318
Depreciation and amortization	201	180	180	171	171	172	172	189
Net cash (used by)/provided by operating activities	(33)	(61)	(61)	(28)	(28)	218	218	376
Total vessels, deferred drydock and other property at net book amount (a)	2,912	3,293	3,293	3,246	3,246	3,001	3,001	2,818
Total assets (f) (g)	4,044	4,034	3,994	4,241	4,178	4,208	4,145	3,890
Debt and capital lease obligations (b)	2,573	2,066	2,066	1,986	1,986	1,846	1,846	1,423
Reserve for deferred income taxes and unrecognized tax benefits (f)	712	277	720	214	678	205	681	197
Total equity (e) (g)	534	1,555	1,002	1,810	1,283	1,868	1,329	1,825
Per share amounts:								
Basic net (loss)/income attributable to Overseas Shipholding Group, Inc. (f)	(15.82)	(6.39)	(6.67)	(4.55)	(4.15)	2.61	2.49	10.71
Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc. (f)	(15.82)	(6.39)	(6.67)	(4.55)	(4.15)	2.61	2.49	10.65

Overseas Shipholding Group, Inc.’s equity per share	17.28	51.05	32.90	59.53	42.20	69.55	49.48	64.07
Cash dividends paid	-	1.53	1.53	1.75	1.75	1.75	1.75	1.50
Average shares outstanding for basic earnings per share (in thousands)	30,339	30,228	30,228	29,498	29,498	26,864	26,864	29,64
Average shares outstanding for diluted earnings per share (in thousands)	30,339	30,228	30,228	29,498	29,498	26,869	26,869	29,81
Other data:								
Time charter equivalent revenues (c)	841	790	790	853	853	953	953	1,545
EBITDA (d)	(187)	62	60	96	96	251	251	530

(a) Includes vessels held for sale of $3 and $54 at December 31, 2010 and 2008, respectively.

(b) Amounts do not include debt of affiliated companies in which the Company participates. 2012 balance included in liabilities subject to compromise in the accompanying consolidated balance sheet.

(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,	2012	2011	2010	2009	2008
Time charter equivalent revenues	$841	$790	$853	$953	$1,545
Add: Voyage expenses	296	259	192	141	159
Shipping revenues	$1,137	$1,050	$1,046	$1,094	$1,705

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 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, income taxes 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 U.S. 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:

		As Restated			
In thousands for the year ended December 31,	2012	2011	2010	2009	2008
Net (loss)/income attributable to Overseas Ship holding Group, Inc.	$(480,114)	$(201,363)	$(122,542)	$66,955	$360,795
Income tax (benefit)/provision	(1,481)	1,986	(19,157)	(33,482)	(77,134)
Interest expense	93,421	79,898	67,044	45,125	57,449
Depreciation and amortization	201,284	179,721	170,670	172,404	189,163
EBITDA	$(186,890)	$60,242	$96,015	$251,002	$530,273

(e) As a result of the restatement, the Company recorded an opening retained earnings adjustment of $579 as of January 1, 2008. The decreases/(increases) to annual operating results for the years ended December 31, 2000 through December 31, 2007 are as follows (in thousands):

Year ended December 31, 2000	$122,500
Year ended December 31, 2001	36,364
Year ended December 31, 2002	(12,919)
Year ended December 31, 2003	23,405
Year ended December 31, 2004	7,317
Year ended December 31, 2005	18,342
Year ended December 31, 2006	337,404
Year ended December 31, 2007	46,193
Cumulative reduction in retained earnings as of January 1, 2008	$578,606

(f) The following tables set forth the effects of the restatement on the income tax (provision)/benefit, current income tax (provision)/benefit, deferred income tax (provision)/benefit, net (loss)/income, net (loss)/income attributable to Overseas Shipholding Group, Inc., basic and diluted net (loss)/income per share attributable to Overseas Shipholding Group, Inc. , noncurrent deferred federal income tax liabilities, reserve for uncertain tax positions and income tax recoverable. The adjustments with respect to the years ended December 31, 2000 through December 31, 2004 only relate to pre-1987 earnings. The adjustments for the years ended December 31, 2005 through December 31, 2011 relate both to income realized during those years and to income realized in prior years and not previously subject to U.S. income taxation (see Note 14, "Taxes," to the accompanying consolidated financial statements). The adjustments for 2011 include the effects of the restatement relating to the credit risk adjustment. See also footnote (g) below (in thousands except per share amounts):

	Income tax (provision)/ benefit, as previously reported	Adjustment to Income tax (provision)/ benefit	Income tax (provision)/ benefit, as restated
Year ended December 31, 2000	$ (46,520)	$ (122,500)	$ (169,020)
Year ended December 31, 2001	(53,004)	(36,364)	(89,368)
Year ended December 31, 2002	3,244	12,919	16,163
Year ended December 31, 2003	(46,844)	(23,405)	(70,249)
Year ended December 31, 2004	(79,778)	(7,317)	(87,095)
Year ended December 31, 2005	1,110	(18,342)	(17,232)
Year ended December 31, 2006	8,187	(337,404)	(329,217)
Year ended December 31, 2007	(4,827)	(46,193)	(51,020)
Year ended December 31, 2008	34,004	43,130	77,134
Year ended December 31, 2009	36,697	(3,215)	33,482
Year ended December 31, 2010	7,456	11,701	19,157
Year ended December 31, 2011	4,962	(6,948)	(1,986)

	Current income tax (provision)/ benefit, as previously reported	Adjustment to Current income tax (provision)/ benefit	Current income tax (provision)/ benefit, as restated
Year ended December 31, 2000	$ (14,299)	$ -	$ (14,299)
Year ended December 31, 2001	(27,142)	-	(27,142)
Year ended December 31, 2002	6,003	-	6,003
Year ended December 31, 2003	(35,493)	-	(35,493)
Year ended December 31, 2004	(133,397)	(3,359)	(136,756)
Year ended December 31, 2005	1,785	(4,229)	(2,444)
Year ended December 31, 2006	17,889	(4,852)	13,037
Year ended December 31, 2007	(5,908)	(83,871)	(89,779)
Year ended December 31, 2008	7,868	(195,300)	(187,432)
Year ended December 31, 2009	40,395	(21,622)	18,773
Year ended December 31, 2010	(2,720)	4,763	2,043
Year ended December 31, 2011	295	(31,917)	(31,622)

	Deferred income tax (provision)/ benefit, as previously reported	Adjustment to Deferred income tax (provision)/ benefit	Deferred income tax (provision)/ benefit, as restated
Year ended December 31, 2000	$ (32,221)	$ (122,500)	$ (154,721)
Year ended December 31, 2001	(25,862)	(36,364)	(62,226)
Year ended December 31, 2002	(2,759)	12,919	10,160
Year ended December 31, 2003	(11,351)	(23,405)	(34,756)
Year ended December 31, 2004	53,619	(3,958)	49,661
Year ended December 31, 2005	(675)	(14,113)	(14,788)
Year ended December 31, 2006	(9,702)	(332,552)	(342,254)
Year ended December 31, 2007	1,081	37,678	38,759
Year ended December 31, 2008	26,136	238,430	264,566
Year ended December 31, 2009	(3,698)	18,407	14,709
Year ended December 31, 2010	10,176	(6,938)	17,114
Year ended December 31, 2011	4,667	24,969	29,636

	Net (loss) income, as previously reported	Adjustment to Net (loss) income	Net (loss) income, as restated
Year ended December 31, 2000	$ 90,391	$ (122,500)	$ (32,109)
Year ended December 31, 2001	101,441	(36,364)	65,077
Year ended December 31, 2002	(17,620)	12,919	(4,701)
Year ended December 31, 2003	121,309	(23,405)	97,904
Year ended December 31, 2004	401,236	(7,317)	393,919
Year ended December 31, 2005	464,829	(18,342)	446,487
Year ended December 31, 2006	392,660	(337,404)	55,256
Year ended December 31, 2007	211,310	(46,193)	165,117
Year ended December 31, 2008	305,186	43,130	348,316
Year ended December 31, 2009	71,147	(3,215)	67,932
Year ended December 31, 2010	(134,243)	11,701	(122,542)
Year ended December 31, 2011	(192,916)	(8,447)	(201,363)

	Net (loss)/income attributable to Overseas Shipholding Group, Inc., as previously reported	Adjustment to Net (loss)/income attributable to Overseas Shipholding Group, Inc.	Net (loss)/income attributable to Overseas Shipholding Group, Inc., as restated
Year ended December 31, 2000	$ 90,391	$ (122,500)	$ (32,109)
Year ended December 31, 2001	101,441	(36,363)	65,078
Year ended December 31, 2002	(17,620)	12,919	(4,701)
Year ended December 31, 2003	121,309	(23,405)	97,904
Year ended December 31, 2004	401,236	(7,317)	393,919
Year ended December 31, 2005	464,829	(18,342)	446,487
Year ended December 31, 2006	392,660	(337,404)	55,256
Year ended December 31, 2007	211,310	(46,193)	165,117
Year ended December 31, 2008 [1]	317,665	43,130	360,795
Year ended December 31, 2009 [1]	70,170	(3,215)	66,955
Year ended December 31, 2010	(134,243)	11,701	(122,542)
Year ended December 31, 2011	(192,916)	(8,447)	(201,363)

	Basic net (loss)/income attributable to Overseas Shipholding Group, Inc., as previously reported	Adjustment to Basic net (loss)/income attributable to Overseas Shipholding Group, Inc.	Basic net (loss)/income attributable to Overseas Shipholding Group, Inc., as restated
Year ended December 31, 2000	$ 2.67	$ (3.62)	$ (0.95)
Year ended December 31, 2001	2.97	(1.07)	1.90
Year ended December 31, 2002	(0.51)	0.37	(0.14)
Year ended December 31, 2003	3.49	(0.67)	2.82
Year ended December 31, 2004	10.26	(0.19)	10.07
Year ended December 31, 2005	11.78	(0.46)	11.32
Year ended December 31, 2006	9.94	(8.54)	1.40

Year ended December 31, 2007	6.19	(1.35)	4.84
Year ended December 31, 2008	10.71	1.46	12.17
Year ended December 31, 2009	2.61	(0.12)	2.49
Year ended December 31, 2010	(4.55)	0.40	(4.15)
Year ended December 31, 2011	(6.39)	(0.28)	(6.67)

	Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc., as previously reported	Adjustment to Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc.	Diluted net (loss)/income attributable to Overseas Shipholding Group, Inc., as restated
Year ended December 31, 2000	$ 2.63	$ (3.58)	$ (0.95)
Year ended December 31, 2001	2.92	(1.04)	1.88
Year ended December 31, 2002	(0.51)	0.37	(0.14)
Year ended December 31, 2003	3.47	(0.67)	2.80
Year ended December 31, 2004	10.24	(0.18)	10.06
Year ended December 31, 2005	11.77	(0.47)	11.30
Year ended December 31, 2006	9.92	(8.52)	1.40
Year ended December 31, 2007	6.16	(1.35)	4.81
Year ended December 31, 2008	10.65	1.45	12.10
Year ended December 31, 2009	2.61	(0.12)	2.49
Year ended December 31, 2010	(4.55)	0.40	(4.15)
Year ended December 31, 2011	(6.39)	(0.28)	(6.67)

	Noncurrent deferred federal income tax liabilities, as previously reported	Adjustment to Noncurrent deferred federal income tax liabilities	Noncurrent deferred federal income tax liabilities, as restated
As of December 31, 2000	$ 117,749	$ 122,500	$ 240,249
As of December 31, 2001	132,170	158,864	291,034
As of December 31, 2002	134,204	145,945	280,149
As of December 31, 2003	151,304	169,350	320,654
As of December 31, 2004	105,424	173,308	278,732
As of December 31, 2005	113,255	187,421	300,676
As of December 31, 2006	234,269	519,973	754,242
As of December 31, 2007	225,500	482,295	707,795
As of December 31, 2008	189,269	243,865	433,134
As of December 31, 2009	200,003	225,457	425,460
As of December 31, 2010	209,245	218,520	427,765
As of December 31, 2011	203,129	193,550	396,679

	Reserve for uncertain tax positions, as previously reported	Adjustment to Reserve for uncertain tax positions	Reserve for uncertain tax positions, as restated
As of December 31, 2007	$ 5,424	$ 75,698	81,122
As of December 31, 2008	7,546	269,822	277,368
As of December 31, 2009	5,292	250,168	255,460
As of December 31, 2010	4,943	245,405	250,348
As of December 31, 2011	4,804	318,599	323,403

	Income taxes recoverable as previously reported	Adjustment to Income taxes recoverable	Income taxes recoverable, as restated
As of December 31, 2008	$ 30,366	$ (21,789)	$ 8,577
As of December 31, 2009	72,415	(63,065)	9,350
As of December 31, 2010	67,980	(63,065)	4,915
As of December 31, 2011	27,365	(21,924)	5,441

(1) Net income attributable to Overseas Shipholding Group, Inc. and the related per share data for 2009 and 2008 reflect the allocation of net income of $977 and net loss of $12,479, respectively, to the noncontrolling interest.

(2) FIN 48 was adopted effective January 1, 2007.

(3) Noncurrent deferred income tax liabilities and reserve for uncertain tax positions were previously reported as components of the balance sheet line entitled "Deferred income taxes and other liabilities" and in the tax note to the consolidated financial statements, for each year, as applicable. Disaggregated amounts are presented here to conform to the 2012 balance sheet presentation.

(g) In addition the following tables set forth the effects of the restatement, relating to the credit risk adjustment, associated with the fair valuation of interest rate swap derivative contracts on certain of the Company's equity method investees on equity in income of affiliated companies reported in the statement of operations, investments in affiliated companies (a component of total assets) and accumulated other comprehensive loss (a component of total equity)(in thousands):

In thousands	Equity in income of affiliated companies, as previously reported	Adjustment to equity in income of affiliated companies	Equity in income of affiliated companies, as restated
Year ended December 31, 2011	$ 22,054	$ (1,499)	$ 20,555

	Investments in affiliated companies, as previously reported	Adjustment to investments in affiliated companies	Investments in affiliated companies, as restated
As of December 31, 2011	$ 251,385	$ (19,015)	$ 232,370

	Accumulated other comprehensive loss, as previously reported	Adjustment to accumulated other comprehensive loss	Accumulated other comprehensive loss, as restated
As of December 31, 2011	$ (101,791)	$ (17,516)	$ (119,307)

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

COMPANY INQUIRY AND RESTATEMENT

At the request and under the direction of the Audit Committee an inquiry was conducted by the Company relating to a tax issue arising from the fact that the Company is organized in the U.S. and earned substantial cumulative income through foreign subsidiaries, and relating to the interpretation of certain provisions contained in the Company's credit agreements. In connection with the inquiry process, on October 19, 2012, the Audit Committee, on the recommendation of management, concluded that the Company's previously issued financial statements for at least the three years ended December 31, 2011 and associated interim periods, and for the quarters ended March 31 and June 30, 2012, should no longer be relied upon. Upon completion of the inquiry, it was determined that there were errors in the Company's previously issued financial statements for each of the years in the twelve year period ended December 31, 2011 (including the interim periods within those years), and for each of the calendar quarters ended March 31, 2012 and June 30, 2012, and such financial statements should be restated.

Specifically, because OSG International, Inc. ("OIN"), a wholly-owned subsidiary of the Company incorporated in the Marshall Islands, was a co-obligor with OSG and OSG Bulk Ships, Inc. ("OBS"), a wholly-owned subsidiary of the Company incorporated in the U.S., on a joint and several basis for amounts drawn under the Company's Unsecured Revolving Credit Facility scheduled to mature on February 8, 2013 and certain predecessor credit facilities (the "Credit Facilities"), the Company determined that OIN could be deemed under Section 956 of the U.S. Internal Revenue Code ("Section 956") to have made taxable distributions to OSG for each taxable year in which such joint and several liability existed. Under the relevant tax rules, the amount of any deemed distributions for any taxable year that would be considered taxable income as a result of this issue generally (and subject to certain complex variables) would be determined by reference to the excess of: (i) the average of the quarter-end outstanding balances under the Credit Facilities for that year, over (ii) the average of the quarter-end balances for prior years, plus any other amounts that might have given rise to deemed distributions for prior years. In the case of OIN and OSG, this calculation could produce an aggregate amount of up to $1,317,500 of earnings deemed repatriated from OIN though the end of 2012 as a result of drawdowns under the Credit Facilities, although the final determination of the amount will depend upon several interrelated issues that have yet to be settled with the Internal Revenue Service ("IRS"). Furthermore, the Company determined that it had not properly accounted for the tax consequences of intercompany balances that have existed between domestic and international entities within the Company. The Company determined that, due to insufficient processes to identify and evaluate adequately the income tax accounting impact of Section 956 to intercompany balances, these intercompany balances could be deemed under Section 956 to have been taxable distributions to OSG in the years in which such balances existed. This resulted in the Company recording deemed dividend income aggregating $77,000 for taxable years 2012 and earlier. The Company's financial statements for years prior to 2012 and for each of the quarters ended March 31, 2012 and June 30, 2012 did not properly take account of these issues and, therefore, these errors caused the financial statements to be misstated.

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

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

In addition to giving rise to a current tax liability, the potential deemed dividends from OIN in connection with the Credit Facilities (which effectively would treat OIN as having already repatriated significant earnings for U.S. tax purposes) have required the Company to reassess its intent and ability to permanently reinvest earnings from foreign shipping operations accumulated through December 31, 2012. As a result, the Company has concluded that, as of December 31, 2000 and at each subsequent year end through December 31, 2011, it could not assert its intent to permanently reinvest OIN's earnings to the extent these earnings could be deemed repatriated as a result of OIN's joint and several liability under the Credit Agreements, as discussed above. See Note 14 for information with respect to undistributed earnings that are still considered to be permanently reinvested in foreign operations on which U.S. income taxes have not been recognized.

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

The Company is also restating the accompanying consolidated balance sheet as of December 31, 2011 and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 to reflect the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees. The credit risk valuation adjustments were incorrectly estimated without giving consideration to the credit enhancements that were contractually linked to the obligations under such contracts for the year ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012. Such error overstated the investments in affiliated Companies by $19,015 and retained earnings by $1,499 and understated net loss by $1,499 and accumulated other comprehensive loss by $17,516 as of and for the year ended December 31, 2011.The appropriate estimation of the credit risk valuation adjustments has been applied within the consolidated financial statements for the year ended December 31, 2012.

Accordingly, the Company has provided adjustments to data for each of the twelve calendar years ended December 31, 2011 and has restated its previously issued financial statements for the two calendar years ended December 31, 2011 and 2010 and for each of the calendar quarters ended March 31, 2012 and June 30, 2012. The Company has not amended its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement. The discussion of financial information relating to years prior to 2012 has been restated as set forth in this Form 10-K as more fully described in Note 2, "Company Inquiry and Restatement," to the accompanying consolidated financial statements. In addition, see Note 21, "2012 and 2011 Quarterly results of Operations (Unaudited)," for restated amounts for the 2011 quarters and the quarters ended March 31, 2012 and June 30, 2012. Restated amounts have been identified with the wording "as restated."

BANKRUPTCY

On November 14, 2012, we filed the Chapter 11 Cases. The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by the Chapter 11 Cases. The Chapter 11 Cases involve various restrictions on our activities, limitations on our financing, the need to obtain Bankruptcy Court approval for various matters and uncertainty as to relationships with others with whom we may conduct or seek to conduct business. As a result of the risks and uncertainties associated with Chapter 11 Cases, the value of our securities and how our liabilities will ultimately be treated is highly speculative. See "Item 1, Business – Reorganization Under Chapter 11" for a further description of the Chapter 11 Cases, the impact of the Chapter 11 Cases, the proceedings in Bankruptcy Court and our status as a going concern. In addition, see "Item 1A, Risk Factors."

GENERAL

The Company's operating fleet as of December 31, 2012, consisted of 105 vessels aggregating 9.7 million dwt and 864,800 cbm, including 39 vessels that have been chartered-in under operating leases. In addition to its operating fleet of 105 vessels, two newbuilds are scheduled for delivery between 2013 and 2014, bringing the total operating and newbuild fleet to 107 vessels. Subsequent to December 31, 2012, the Bankruptcy Court approved the Company's rejection of leases on certain chartered-in International Flag vessels and 15 chartered-in vessels have been redelivered to their owners.

The following is a discussion and analysis of (i) industry operations that have an impact on the Company's financial position and results of operations, (ii) critical accounting policies used in the preparation of the Company's consolidated financial statements and (iii) the Company's financial condition at December 31, 2012 and 2011 and its results of operations comparing the years ended December 31, 2012 and 2011 and the years ended December 31, 2011 and 2010. This section should be read together with the accompanying consolidated financial statements including the notes thereto.

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

OPERATIONS AND OIL TANKER MARKETS

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 annual spot market rates in 2012 exceeded those in 2011 for all international crude tanker sectors, but were lower for Product Carriers. Crude tanker rates during 2012 benefited from a worldwide increase in oil inventories of approximately one million barrels per day ("b/d") compared with an inventory drawdown of 420,000 b/d in 2011. OPEC crude oil production increased by about 1.5 million b/d, primarily in Libya, where production in 2012 returned to pre-civil war levels, and in the Middle East, where increased production in Iraq, Saudi Arabia and Kuwait more than offset lower production in Iran. Incremental oil shipments from the Middle East during 2012 boosted demand for larger size tankers, especially VLCCs, and an increase in exports from Libya benefited the Aframax tanker market. These positive factors were, however, largely offset by an increase of approximately 5% in tanker tonnage that exacerbated an existing oversupply situation and lower seaborne imports into the U.S., where a significant increase in production displaced light sweet crude oil imports from both West and North Africa.

Continued sanctions against Iran during 2012 resulted in its oil production declining to approximately 3.0 million b/d, the lowest level since 1990. Iranian exports to the European Union ("EU") were essentially eliminated during the middle of 2012. Iranian exports to Asia, specifically Japan, India, China and South Korea, were also reduced from 2011 levels as Asian countries complied with tightened U.S. sanctions against Iran. As sanctions went into full effect during 2012, other Middle East OPEC countries increased their oil output to compensate for lower Iranian exports and to meet the increase in world inventory requirements. A worldwide buildup of commercial and strategic petroleum reserves to compensate for any unanticipated supply disruptions that might occur given Iran's threat to disrupt oil shipments through the Straits of Hormuz temporarily increased tanker demand in the first half of 2012.

Oil demand in 2012 amounted to 89.8 million b/d, an increase of approximately 970,000 b/d, or 1.1%, over 2011 levels. Oil demand declined in OECD areas by about 400,000 b/d largely due to the substitution of natural gas for fuel oil and from continued economic weakness (especially in Europe). Reduced demand in both North America and Europe completely offset oil demand growth in Japan as Japan used more fuel oil and direct burn crude to generate power following the closure of most of its nuclear facilities caused by the 2011 tsunami / earthquake. Non-OECD demand rose by 1.4 million b/d, led by an increase of 360,000 b/d in China, where a 4.3% increase in new vehicle sales stimulated higher gasoline consumption. Demand in India rose by 320,000 b/d, led by strong demand for middle distillates.

Non-OPEC oil production increased by 560,000 b/d in 2012, which met almost 60% of the world's oil demand growth. Production in the U.S. and Canada increased by approximately one million b/d and 250,000 b/d, respectively, as oil shale production in the U.S. and oil sands production in Canada continued to increase. The increase in U.S. oil shale production accounted for a reduction in light sweet crude oil imports into the U.S. of approximately 500,000 b/d while the increase in Canadian oil sands production accounted for a reduction of heavy sour crude imports from Latin America of about 120,000 b/d. The increase in North American production was somewhat offset by lower North Sea production and reduced production stemming from civil unrest in Syria and Yemen and disputes between Sudan and South Sudan.

OPEC crude oil production in 2012 averaged about 31.4 million b/d, an increase of about 1.5 million b/d over 2011 levels. Larger output in Libya accounted for about 63% of the total increase in OPEC production with the rest coming from the Middle East. Higher OPEC production, especially from the Middle East, resulted in an increase in long-haul crude oil movements in 2012 that increased tonne-mile demand and enhanced tanker utilization levels.

There was a significant difference between the actual number of tanker deliveries that occurred during 2012 and forecasts that were made at the beginning of the year. Crude Tankers and Product Carrier deliveries were about 35% 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 5% during 2012, as additions were only partially offset by scrappings. Over the course of 2012, the VLCC and Suezmax fleets realized the largest net increase in tonnage of about 6% each while the Product Carrier fleet recorded the smallest increase in tonnage of about 2%. The total world tanker orderbook at the end of 2012 represented 12% of the total fleet, based on deadweight tons (“dwt”), down from 18% at the end of 2011, as new orders placed in 2012 were muted.

Spot rates in the U.S. markets for Jones Act Product Carriers and Product Articulated Tug Barges (“ATBs”) averaged $57,800 per day and $35,600 per day, respectively during 2012, an increase of over 40% in each sector over 2011 levels. The increase in spot rates realized during 2012 can largely be attributed to the transfer of tonnage out of the clean product trade into the coastwise domestic crude oil trade, primarily Eagle Ford crude, between ports in the U.S. Gulf Coast area and between the U.S. Gulf Coast and refineries in the Philadelphia area. Eagle Ford production increased by approximately 350,000 b/d in 2012 and was transported through new pipeline infrastructure to Corpus Christi where it was then shipped to refineries along the U.S. Gulf Coast in Texas, Louisiana and Mississippi and to the East Coast. This new crude trade significantly grew in 2012 and favorably impacted rates during the year. Additionally, clean product movements from the Gulf Coast to the U.S. East Coast rose approximately 4% as imports from the Caribbean declined primarily due to the closure of the Hovensa refinery during the first quarter of 2012.

As of December 31, 2012, the total industry Jones Act fleet of Product Carriers and ATBs consisted of 58 vessels. Four vessels entered the fleet during 2012 while one vessel was scrapped. The industry’s total Jones Act orderbook for deliveries scheduled through 2015 consists of one Product Carrier and one ATB in the 160,000 to 420,000 barrel size range. These additions will be partially offset by the scrapping of one tanker that will reach its OPA 90 phase out date by year-end 2015.

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 4, “Summary of Significant Accounting Policies” to the

Company's consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data."

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, 2012. If the estimated economic lives assigned to the Company's vessels prove to be too long because of new regulations, the continuation of weak markets, the broad imposition of age restrictions by the Company's customers, or other future events, could result in higher depreciation expense and impairment losses 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 take into account current scrap prices, which are currently well in excess of $400 per lightweight ton, the historic pattern of scrap rates over the five years ended December 31, 2012, 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 in the Indian subcontinent ranged from $380 per lightweight ton to $480 per lightweight ton during 2012. The Company believes that scrapping levels are likely to remain high during 2013 as owners, faced with the challenges of a market where the combination of age restrictions imposed by oil majors and scheduled newbuild deliveries are expected to further exacerbate the current oversupply of tonnage and low charter rate expectations, 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 first quarter of 2010, the Company determined that the continued weak conditions in the U.S. Flag markets represented an impairment indicator. The Company reviewed future cash flows for five of its U.S. Flag vessels. 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 1977-built double-hulled 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 had 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 were not recoverable as of December 31, 2011, including the fact that average spot rates achieved in the Company's International Flag segments in the third and fourth quarters of 2011 were at that time the lowest they had been during the industry’s cyclical downturn that began in the fourth quarter of 2008. Such rates had resulted in eleven consecutive quarters of losses through the fourth quarter of 2011 and management believed that the likelihood of the continuation of the depressed markets in the near term would result in continued pressure on second hand tanker values, which had already experienced significant declines during 2011, and thus represented an impairment trigger event 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, a core customer of the Company's Delaware Bay lightering business, announced that it would make its Marcus Hook and Philadelphia refineries available for sale. Subsequently, in December 2011, Sunoco announced that it expected to begin idling the Marcus Hook facility immediately while it continued to seek a buyer and also pursue options with third parties for alternate uses of the facility. Sunoco also announced that it intended to continue to operate the Philadelphia refinery as long as market conditions warrant. However, if a suitable transaction could not be implemented, Sunoco would permanently idle the main processing units at the Philadelphia refinery no later than August 2012. If such closures had occurred, the Company may have considered the redeployment of the two new ATBs, the OSG 350 and the OSG 351, that were being used in the Delaware Bay Lightering business to other locations with possible reductions in revenues earned. These two ATBs were 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 as of December 31, 2011. In estimating the future cash flows, management considered the following two scenarios. One case assumed that the Sunoco refineries would 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 would not be sold, but rather closed. This second case assumed that the two ATBs would 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 the Company's Capital Construction Fund ("CCF"), this second case factored in the daily liquidated damages that the Company believed would be payable to MarAd if these vessels were to operate in the contiguous coastwise trades, which are not trades permitted under trading restrictions imposed under the CCF agreement. Under both scenarios it was determined that the estimated undiscounted future cash flows were expected to exceed the carrying values of each of the vessels at December 31, 2011.

On July 2, 2012, Sunoco announced it had entered into a joint venture agreement with a third party to take over the operations of its Philadelphia refinery. On September 1, 2012, the Company entered into a termination, settlement and replacement agreement with Sunoco, which, among other things, provided for a 50% reduction of the required minimum barrel volumes under the long-term lightering contract (see Note 17, “Leases,” to the Company’s consolidated financial statements set forth in Item 8, “Financial Statements and Supplementary Data”). The new lightering contract with Sunoco resulted in the continued employment of both the OSG 350 and the OSG 351 in the Delaware Bay lightering trade at rates that should provide for the full recovery of the cost bases of these units. Giving consideration to the resolution of the uncertainties surrounding the future employment of the OSG 350 and OSG 351 and the overall turnaround in the Company’s U.S. Flag business over the past two years resulting from increasing demand for Jones Act tankers and barges to service the emerging U.S. Shale Oil trade, management concluded that no negative events or changes in circumstances, that warranted impairment testing of the U.S. Flag fleet existed at December 31, 2012. However, in December 2012, the Company recognized an impairment charge of $1,037 to write down a spare tug boat that had been idle since the fourth quarter of 2011 to its estimated sales price, less costs to sell. This tug boat was subsequently delivered to buyers in April 2013.

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 as of December 31, 2012, including factors such as the impact of the Chapter 11 Cases discussed in Note 3, “Bankruptcy Filing and Going Concern,” to the Company’s consolidated financial statements set forth in Item 8, as well as the fact that average spot rates achieved in the Company's International Flag segments continued to face downward pressure since the industry’s cyclical downturn that began in the fourth quarter of 2008 entered its fifth year. The Company also noted that certain analysts have recently reduced their rate forecasts. These factors, combined with indications that current market trends may continue in the near term and put additional continued pressure on second hand tanker values, which experienced significant declines in the past twenty-four months, warranted impairment tests of the Company’s International Flag fleet as of December 31, 2012. Accordingly, the Company performed impairment tests on all of its owned operating and newbuild International Crude and Products vessels as of December 31, 2012. The forecasted rates used in the impairment test performed at December 31, 2012 were lower than those used during the prior quarters in 2012 as there is increasing evidence that the recovery in Crude and Products markets to historical averages will be both delayed and not as pronounced as previously expected. The Company also took into consideration its intentions relative to certain older or non-core vessels, including management’s assessment of whether the Company would drydock and continue to trade them given the current and expected weak rate environment. Based on the tests performed using the assumptions described above, impairment charges totaling $278,345 were recorded on one ULCC, two VLCCs, two International Flag Aframaxes engaged in lightering in the U.S. Gulf and ten Handysize Product Carriers to write-down their carrying values to their estimated fair values as of December 31, 2012.

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, 2012 relates to the lightering business in the International Crude Tankers reportable segment. The Company performed its annual goodwill impairment testing as of April 1, 2012. This evaluation did not result in an impairment charge being recognized in 2012. Furthermore, the fair value of the lightering business was substantially in excess of its carrying value as of the impairment testing date. The Company determined that the significant adverse change in the Company's business climate, as evidenced by the Company's Chapter 11 filing in November 2012 as well as a significant decline in the market value of the Company's debt and equity securities constituted triggering events that required an interim test for goodwill impairment as of December 31, 2012. The interim evaluation, which took into consideration the vessel write-downs on two vessels described above, did not result in an impairment charge being recognized as of December 31, 2012. Furthermore, the fair value of the lightering business was still well in excess of its carrying value as of such date.

Drydocking

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

Income Taxes, Deferred Tax Assets and Valuation Allowance

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes primarily in the U.S. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the financial reporting and the tax basis of assets and liabilities and from events that have been recognized in the financial statements and will result in taxable or deductible amounts based on provisions of the tax law in different periods. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we also assess the need for a valuation allowance. A valuation allowance is recorded for deferred tax assets that are not supported by a reversal of existing temporary differences. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows, or financial position.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations across our global operations. ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits of the position. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We recognize tax liabilities in accordance with ASC 740 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company believes that it cannot assert its intent to permanently reinvest OIN's earnings to the extent they could be deemed to be repatriated as a result of OIN's joint and several liability under the Credit Agreements. The Company believes the cumulative potential deemed dividends to be limited to the maximum aggregate terminal borrowing capacity of the various loan agreements under which OIN was a co-obligor. For the quarter ended September 30, 2012 and prior periods, we considered the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. The Company has determined that because it is in bankruptcy as of December 31, 2012, and its actions are subject to Bankruptcy Court approval, it can no longer make the assertion that it has both the ability and intent to permanently reinvest the remaining undistributed, previously untaxed, earnings of its foreign subsidiaries indefinitely outside the U.S. The Company has analyzed the book and tax basis differences for its foreign assets and analyzed how foreign earnings would likely be repatriated. Such repatriation would be dependent on the sale of foreign assets, which based on current fair values would significantly erode accumulated earnings by an amount that would exceed previously untaxed earnings. As a result, it is likely that there is no incremental tax expense to be recorded as of December 31, 2012.

Pension Benefits

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

In connection with the acquisition of Maritrans in November 2006, the Company assumed the obligations under the noncontributory defined benefit pension plan that covered eligible employees of Maritrans ("the Maritrans Plan"). The Company froze the benefits payable under the Maritrans Plan as of December 31, 2006. The selection of a discount rate for the Maritrans Plan for all reporting periods between 2006 and December 31, 2008 was based on the assumption that the plan would be terminated and all eligible participants would receive insurance company annuities when all necessary approvals were obtained. The Company, however, 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. Accordingly, at December 31, 2012 and 2011, the Company used discount rates of 3.75% and 4.5%, respectively, which it believed as of such dates, to be appropriate for ongoing plans with a long duration, such as the Maritrans Plan. The Company also assumed a long term rate of return on the Maritrans Plan assets of 6.75% and 6.5% at December 31, 2012 and 2011, respectively, based on the asset mix as of such dates and management's estimate of the long term rate of return that could be achieved over the remaining duration of the Maritrans Plan. The actual return achieved over 2012 was well above the estimate of 6.75% used for the 2012 pension expense. Based on the current asset mix, management believes the probability of achieving a long term return of 6.75% over the remaining duration of the Maritrans Plan is more likely than not. Because the benefits under the Maritrans Plan were frozen in 2006, 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 4, "Summary of Significant Accounting Policies," to the Company's consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data."

RESULTS FROM VESSEL OPERATIONS

During 2012, results from vessel operations decreased by $237,045 to an operating loss of $379,233 from a loss of $142,188 in 2011. This decrease reflected $271,359 in vessel impairment charges net of gains on disposal of vessels in 2012, as well as an increase in depreciation expense relating to eight newbuild vessel deliveries during 2011 and early 2012. Partially offsetting the unfavorable variances were year-over-year increased TCE revenues, as well as lower charter hire expense in 2012 that resulted primarily from a significant decline in the VLCC fleet's chartered-in days.

TCE revenues increased by $50,645, or 6%, to $840,846 in 2012 from $790,201 in 2011 primarily due to the recognition of $40,400 in shipping revenues from the termination, settlement and replacement lightering agreement that the Company entered into with Sunoco during 2012. The impact of this contract combined with the continued growth of the U.S. Flag market resulted in a total TCE revenue increase of $70,330 in the U.S. Flag segment. The

Suezmax fleet also provided higher TCE revenues with increased average spot rates and higher revenue days. These increases were partially offset by a decrease in the average blended rates earned by the Company’s International Flag Handysize Product Carriers, as well as substantial idle time for the Company’s ULCC and a decline in average daily TCE rates for the smaller Crude vessel classes (Aframaxes and Panamaxes).

During 2011, results from vessel operations decreased by $62,893 to an operating loss of $142,188 from an operating loss of $79,295 in 2010 primarily as a result of the period-over-period decline in overall 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 together with higher average costs of bunker fuel oil in 2011 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. Flag segment partially offset this decline, as its revenue days increased primarily due to 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 since late-March 2010 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. Results from vessel operations for 2010 included vessel impairment charges.

See Note 6, "Business and Segment Reporting," to the consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data" 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 and reorganization items, 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."

Change in Segment Measure of Profit and Loss

In 2005, the Company reflagged two Handysize Product Carriers (the Overseas Maremar and the Overseas Luxmar) under the U.S. Flag and entered them in the U.S. Maritime Security Program (the "Program"). Each of the vessel owning companies receives an annual subsidy, which was $2,900 for 2010 and 2011 and increased to $3,100 in 2012 that is intended to offset the increased cost incurred by such vessels from operating under the U.S. Flag. During 2012, a COA that generates a significant amount of business for the Company's vessels that participate in the Program was extended for four years beginning in January 2013. In connection with obtaining this contract extension, the Company replaced the vessels named above with the Overseas Santorini and the Overseas Mykonos, which were reflagged to the U.S. Flag during the fourth quarter of 2012. During the fourth quarter of 2012, overall management of and profit and loss responsibility for the vessels in the Program was transferred from the International Product Carriers segment to the U.S. segment consolidating all U.S. Flag vessels in a single reportable segment. As a result of this change, presentation of the operating results of the vessels in the Program, have been moved from the International Product Carriers segment to the U.S. segment. Prior period segment results have been revised to reflect this change.

International Crude Tankers

	2012	2011	2010
TCE revenues	$256,843	$266,429	$422,970
Vessel expenses	(99,667)	(97,136)	(99,795)

Charter hire expenses	(144,527)	(165,934)	(187,493)
Depreciation and amortization	(83,558)	(74,392)	(73,399)
Income/(loss) from vessel operations[a]	$(70,909)	$(71,033)	$62,283
Average daily TCE rate	$15,076	$15,516	$23,506
Average number of owned vessels[b]	28.0	26.5	25.9
Average number of vessels chartered-in under operating leases	19.8	21.3	24.1
Number of revenue days[c]	17,036	17,171	17,994
Number of ship-operating days:[d]			
Owned vessels	10,240	9,667	9,450
Vessels bareboat chartered-in under operating leases	1,456	1,488	1,825
Vessels time chartered-in under operating leases	4,798	5,696	6,232
Vessels spot chartered-in under operating leases	980	594	730

(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 vessel impairment charges.

(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, 2012, 2011 and 2010 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, 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 Commercial Pools or commercial joint ventures in which the segment's vessels participate.

	2012		2011		2010	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
VLCCs: *						
Average rate	$18,880	$-	$16,137	$-	$34,109	$43,415
Revenue days	4,421	-	4,851	-	4,653	552
Suezmaxes:						
Average rate	$17,459	$20,107	$14,207	$-	$25,504	$-
Revenue days	2,057	216	1,844	-	1,057	-
Aframaxes:						
Average rate	$13,937	$14,928	$14,434	$19,741	$17,349	$21,581
Revenue days	6,536	309	6,278	587	7,215	879
Panamaxes:						
Average rate	$15,117	$12,585	$15,877	$16,960	$18,714	$17,755
Revenue days	1,734	1,397	1,787	1,459	1,819	1,456

* Effective as of the end of the second quarter of 2012, the Tankers International Pool commenced reporting the earnings of its VLCC fleet in two groups: VLCCs under 15 years and VLCCs aged 15 years and older. The average rates reported in the above tables for VLCCs commencing with the second quarter of 2012 represent VLCCs under 15 years of age. Average rates for periods prior to the second quarter of 2012 have not been adjusted. The average TCE rates earned by Company's VLCCs on an overall basis during 2012 were $18,344.

During 2012, TCE revenues for the International Crude Tankers segment decreased by $9,586, or 4%, to $256,843 from $266,429 in 2011. This decrease in TCE revenues reflects lower average blended rates for the Panamax and Aframax sectors in 2012 along with substantial idle time for the Company's ULCC during the first two quarters of 2012. Offsetting these decreases to some extent was an increase in chartered-in Suezmaxes which earned higher average rates in the spot market in the current period. The decrease in revenue days of 135 reflects 1,027 fewer chartered-in days in the VLCC fleet and 123 more drydock days in the Panamax fleet, partially offset by an increase in Suezmax vessels that were chartered-in at current market levels on a short-term basis and the delivery of two newbuild VLCCs, one early in the third quarter of 2011 and a second in early-January 2012. The return of the VLCC charters-in had a positive impact on results from vessel operations since such charters-in were fixed at levels above those currently achievable in the market. Several Aframaxes with high charter rates were also returned and replaced with charters-in that are more in-line with current market conditions.

Vessel expenses increased by $2,531 to $99,667 in 2012 from $97,136 in 2011. In the fourth quarter of 2012, the Company recorded a reserve of $1,544 for an expected assessment in 2013 (based on the 2012 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. The MNRPF is a multi-employer pension plan covering British crew members that served as ratings (seamen) onboard OSG's vessels (as well as vessels of other owners) more than 20 years ago. Although the Company has not been an active member of the plans for a number of years, because the plans are underfunded, additional assessments are possible in future years. The remaining change in vessel expense is primarily due to a 573 day increase in owned vessel days during the year, which reflects the newbuild VLCC deliveries noted above, partially offset by a decrease in average daily expenses of $156 per day, which resulted from lower crew and repair costs. Charter hire expenses decreased by $21,407 to $144,527 in 2012 from $165,934 in 2011, primarily resulting from a decrease of 544 chartered-in days in the current period. Chartered-in VLCCs declined by 1,027 days. This decrease offset an increase for chartered-in days for Suezmaxes. This change in mix, however, reduced charter-in expense since the charters for the VLCCs were entered into before rates came under pressure whereas the short-term charters on the Suezmaxes were concluded at current market rates. Depreciation expense increased by $9,166 to $83,558 in 2012 from $74,392 in 2011, reflecting the delivery of the two newbuild VLCCs referred to above.

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. 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 one newbuild VLCC referred to above.

International Product Carriers

	2012	2011	2010
TCE revenues	$171,881	$178,823	$167,543
Vessel expenses	(62,219)	(65,236)	(59,534)
Charter hire expenses	(125,534)	(120,223)	(102,321)
Depreciation and amortization	(43,239)	(35,385)	(30,386)
Income/(loss) from vessel operations	$(59,111)	$(42,021)	$(24,698)
Average daily TCE rate	$11,614	$13,316	$14,402
Average number of owned vessels	17.9	15.5	12.5
Average number of vessels chartered-in under operating leases	22.9	22.2	20.8
Number of revenue days	14,800	13,429	11,633
Number of ship-operating days:			
Owned vessels	6,547	5,646	4,564
Vessels bareboat chartered-in under operating leases	2,926	2,948	3,421
Vessels time chartered-in under operating leases	5,455	5,161	4,160

The following table provides a breakdown of TCE rates achieved for the years ended December 31, 2012, 2011 and 2010 between spot and fixed earnings and the related revenue days. The information is based, in part, on information provided by the commercial joint ventures in which certain of the segment's vessels participate.

	2012		2011		2010	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
Panamax Product Carriers:						
Average rate	$13,278	$12,772	$14,352	$13,854	$17,837	$7,741
Revenue days	1,565	631	1,505	283	987	18
Handysize Product Carriers:						
Average rate	$11,107	$14,619	$13,082	$14,985	$11,029	$20,759
Revenue days	11,522	1,082	10,581	1,033	6,909	3,360

During 2012, TCE revenues for the International Product Carrier segment decreased by $6,942, or 4%, to $171,881 from $178,823 in 2011. This decrease in TCE revenues resulted primarily from a period-over-period reduction in average daily blended rates earned by both the Handysize and Panamax Product Carriers. Partially offsetting the decrease was a 1,371 day increase in revenue days driven by additions to the fleet through the delivery of two owned Handysize Product Carriers since late August 2011 (one in late August 2011 and a second in January 2012), as well as three additional time chartered-in Handysize Product Carriers, which delivered between February 2011 and June 2011 and the delivery of two owned Panamax Product Carriers between May 2011 and early July 2011. There were also 158 fewer drydock days in the segment during the current year as compared with 2011.

Vessel expenses for the International Product Carrier segment decreased by $3,017 to $62,219 in 2012 from $65,236 in the prior year. The decrease in vessel expenses was a result of a decrease in average daily vessel expenses of $1,023 per day, partially offset by an 879 day increase in owned and bareboat chartered-in days, which resulted from the fleet expansion discussed above. This decrease in average daily vessel expenses resulted principally from lower crew, repair and drydock deviation costs, as well as the timing of the delivery of stores and spares. Charter hire expenses increased by $5,311 to $125,534 in 2012 from $120,223 in 2011due to a 297 day increase in chartered-in days for the Handysize Product Carriers in the current year. Depreciation and amortization increased by $7,854 to $43,239 in 2012 from $35,385 in 2011, principally due to the four newbuild vessel deliveries between May 2011 and January 2012 discussed above.

During 2011, TCE revenues for the International Product Carrier segment increased by $11,280, or 7%, to $178,823 from $167,543 in 2010. This increase in TCE revenues reflects an increase in revenue days of 1,796 in 2011 as compared with 2010, resulting from the expansion of the Handysize and Panamax Product Carrier sectors through the delivery of three owned and six time chartered-in Handysize Product Carriers since the first quarter of 2010 and two owned Panamax Product Carriers since May 2011, as well as a year-over-year reduction in repair days for the Panamax Product Carriers fleet. The impact of the increase in revenue days was partially offset by a period-over-period reduction in average blended rates for the Company’s Handysize and Panamax Product Carriers, which resulted from increased exposure to a weakened spot market. Spot days as a percentage of total revenue days for the Product Carriers increased from 70% in 2010 to 90% in 2011. Contributing to the increased spot exposure and negatively impacting segment results, was a bankruptcy filing by one of the Company’s charterers in January 2011. As a result, two vessels that Company had time-chartered to this charterer entered the spot market in February and earned lower rates in the spot market in the current period than the rates that had been in place under the time charters. Settlement proceeds related to this bankruptcy received in December 2011 of approximately $2,100 are reflected in segments results above.

Vessel expenses for the International Product Carrier segment increased by $5,702 to $65,236 in 2011 from $59,534 in the prior year reflecting an increase of 609 owned and bareboat chartered-in days, which resulted from the vessel deliveries discussed above, and an increase in average daily vessel expenses for International Flag Handysize Product Carriers of $368 per day. This increase in average daily vessel expenses resulted principally from the timing of delivery of stores and spares and an increase in repairs. Charter hire expenses increased by $17,902 to $120,223 in 2011 from $102,321 in 2010 due to the recognition during 2010 of certain third party recoveries of approximately $6,100 on the two Panamax Product Carriers undergoing repairs as a reduction of charter hire expense, as well as a 1,002 day increase in time chartered-in days for the Handysize Product Carriers in the current year. Depreciation and amortization increased by $4,999 to $35,385 in 2011 from $30,386 in 2010, principally due to the five newbuild vessel deliveries discussed above.

Other International

	2012	2011	2010
TCE revenues	$10,071	$13,228	$12,215
Vessel expenses	(1,811)	(2,591)	(2,142)
Charter hire expenses	(7,111)	(5,656)	(4,483)
Depreciation and amortization	(5,392)	(5,809)	(6,152)
Loss from vessel operations	$(4,243)	$(828)	$(562)
Average daily TCE rate	$15,699	$20,320	$22,089
Average number of owned vessels	0.8	1.0	1.0
Average number of vessels chartered-in under operating leases	1.0	0.8	0.6
Number of revenue days	642	651	553
Number of ship-operating days:			
Owned vessels	278	365	365
Vessels time chartered-in under operating leases	364	286	203

During 2012, the Company operated two Other International Flag vessels, a Pure Car Carrier and a Chemical Carrier. On June 28, 2012, the Company entered into an agreement for the sale of its Car Carrier, the Overseas Joyce, the vessel delivered to its buyers in early October 2012. The Chemical Carrier has been time chartered-in by the Company for five years, commencing upon the vessel's delivery from the shipyard, which occurred at the end of September 2011. The Chemical Carrier commenced a one year time charter-out at a rate lower than the time charter-in rate in August 2012. Accordingly, the Company recognized a loss of $2,131 in accordance with generally accepted accounting principles on accounting for loss

making contracts with regards to this charter. In the fourth quarter of 2012, the terms of the charter-in were renegotiated, reducing the charter-in rate effective January 1, 2013 and bringing forward the charter expiry to September 2013. Accordingly, $1,649 of the provision for loss was reversed.

U.S. Flag

	2012	2011	2010
TCE revenues	$402,051	$331,721	$250,550
Vessel expenses	(121,326)	(122,647)	(103,780)
Charter hire expenses	(93,233)	(92,127)	(75,370)
Depreciation and amortization	(69,095)	(64,135)	(60,733)
Income from vessel operations	$118,397	$52,812	$10,667
Average daily TCE rate	$46,950	$40,375	$36,534
Average number of owned vessels	14.1	15.0	16.8
Average number of vessels chartered-in under operating leases	10.0	9.7	8.0
Number of revenue days	8,563	8,216	6,858
Number of ship-operating days:			
Owned vessels	5,161	5,468	6,125
Vessels bareboat chartered-in under operating leases	3,660	3,533	2,909

The following table provides a breakdown of TCE rates achieved for the years ended December 31, 2012, 2011 and 2010 between spot and fixed earnings and the related revenue days.

	2012		2011		2010	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
Jones Act Handysize Product Carriers:						
Average rate	$45,234	$52,628	$21,993	$50,734	$13,479	$48,693
Revenue days	34	4,264	141	4,072	91	3,123
Non-Jones Act Handysize Product Carriers:						
Average rate	$26,052	$-	$29,463	$-	$28,825	$-
Revenue days	748	-	725	-	728	-
ATBs:						

Average rate	$29,286	$25,778	$23,713	$-	$22,955	$33,500
Revenue days	1,730	743	2,077	-	1,537	229
Lightering:						
Average rate	$44,536	$-	$42,824	$-	$28,989	$-
Revenue days	1,043	-	1,201	-	1,149	-

On July 30, 2012, the Company entered into agreements with American Shipping Company ASA and its affiliates to extend or reduce, as applicable, the fixed term of the bareboat chartered-in agreements on ten U.S. Flag Product Carriers to December 11, 2019.

Effective September 1, 2012, the Company entered into a termination, settlement and replacement agreement with Sunoco, a core customer of the Company's Delaware Bay lightering business. The agreement, among other things, provided for (i) a 50% reduction of the required minimum barrel volumes under the long-term lightering contract, (ii) Sunoco's relinquishment of any right to approximately $27,100 previously paid to the Company and accounted for as deferred revenues, which otherwise would have been carried forward and applied toward the cost of lightering barrels for Sunoco in excess of the minimum barrel volumes stated in the original lightering contract, and (iii) the payment by Sunoco of $13,300 as additional compensation for the reduction in the minimum barrels under the replacement agreement. A total of $40,400 was recognized in shipping revenues during the quarter ended September 30, 2012 related to this termination, settlement and replacement agreement. The new agreement runs through April 2020.

During 2012, TCE revenues for the U.S. segment increased by $70,330, or 21%, to $402,051 from $331,721 in 2011. This increase reflects the September 1, 2012 termination, settlement and replacement agreement with Sunoco discussed above as well as improved fundamentals, including rates earned by the ATBs, in the U.S. Flag segment. In addition, time charters on the Handysize Product Carriers that have expired since the second quarter of 2011 have been replaced at or above expiring rates. Other contributing factors were the commencement of a multi-year time charter at favorable rates for the Overseas Chinook upon completion of its conversion to a shuttle tanker in March 2011 and the delivery of a bareboat chartered-in Product Carrier in late-April 2011 (the Overseas Tampa). The Company also broke out one ATB (OSG Enterprise/OSG 214) from lay-up in the third quarter of 2011 as supply/demand fundamentals in the U.S. market improved. In 2011, four vessels, including two single hull tankers that were sold in the first quarter of 2011 and one 1981-built ATB (OSG Constitution/OSG 400) that was sold in October 2011 were in lay-up for a total of 319 days, whereas there were no vessels in lay-up during 2012. The increase in TCE revenues was partially mitigated by a decrease in Delaware Bay lightering volumes, which transported an average of 220,000 barrels per day during 2012, representing a 24% decrease from the prior year. This decrease reflects a decline in lightering volumes servicing Sunoco's refineries.

U.S. Flag segment vessel expenses decreased by $1,321 to $121,326 in 2012 from $122,647 in 2011, due to a decrease of 180 owned and bareboat chartered-in days in the current year which reflects the sale of the OSG Constitution/OSG 400 discussed above. This decrease was offset to a large degree by an increase in average daily vessel expenses of $128 per day, reflecting higher crew costs associated with the reduction in lay-up days in the current year. Charter hire expenses increased by $1,106 to $93,233 in 2012 from $92,127 in 2011, principally due to the delivery of the chartered-in Jones Act Product Carrier referred to above. This increase was partially offset by lower current year amortization of capitalized start-up costs on the Company's bareboat chartered-in Jones Act Product Carriers as a result of the extensions of the charter-in periods discussed above. Depreciation and amortization increased by $4,960 to $69,095 in 2012 from $64,135 in 2011, reflecting the deliveries subsequent to mid-March 2011 of the Overseas Chinook, OSG Horizon/OSG 351 and two tug boats (OSG Courageous and OSG Endurance), partially offset by the impact of the vessel disposals discussed above.

In 2011, TCE revenues for the U.S. Segment increased by $81,171, or 32%, to $331,721 from $250,550 in 2010. Between March 2010 and October 2011, the Company sold all four of its remaining single-hull Product Carriers, an older double hull tanker with an inefficient gas turbine engine and a 1981-built ATB (OSG Constitution/OSG 400) that was engaged in lightering. The Company broke out two ATBs (OSG Honour/OSG 209 and OSG Enterprise/OSG 214) from lay-up in the fourth quarter of 2010 and third quarter of 2011, respectively, as supply/demand fundamentals in the U.S. market improved and took delivery of three bareboat chartered-in and two owned newbuild Product Carriers subsequent to February 2010 (including the Overseas Chinook in March 2011 and the Overseas Cascade, which completed its shuttle tanker conversion in March 2010). Upon delivery from shipyards, four of these newbuild Product Carriers began operating under multi-year time charters with fixed rates that were agreed to before the start of the economic recession. The fifth newbuild delivery, the Overseas Tampa, commenced a one year time charter shortly after its delivery in late-April 2011. The increase in TCE revenues also reflects an increase in Delaware Bay lightering volumes, to an average of 288,000 barrels per day during the year, representing a 28% increase over the prior year. In 2011, four vessels were in lay-up for a total of 319 days, while in the prior year, six vessels were laid-up for a total of 1,727 days. With the OSG 214's return to the Jones Act spot market, all of OSG's U.S. Flag vessels are actively trading.

In 2011, U.S. segment vessel expenses increased by $18,867 to $122,647 from $103,780 in 2010. This increase was principally due to the additions to the operating fleet discussed above. Charter hire expenses increased by $16,757 to $92,127 in 2011 from $75,370 in 2010, principally due to the delivery of the chartered-in Jones Act Product Carriers referred to above. Depreciation and amortization increased by $3,402 to $64,135 from $60,733, reflecting the deliveries subsequent to mid-March 2010 of the OSG Vision/OSG 350, Overseas Cascade, Overseas Chinook and OSG Horizon/OSG 351, partially offset by the impact of the vessel disposals discussed above.

General and Administrative Expenses

During 2012, general and administrative expenses increased by $5,667 to $88,845 from $83,178 in 2011 principally because of a $10,774 increase in financial advisory services related to the Company's efforts to restructure its debt during 2012. These increases were partially offset by the following:

- lower general legal and consulting expenses of $2,096;
- a reduction in travel and entertainment costs of $1,367; and
- favorable changes in foreign exchange rates and reduction in the expense recognized for director fees of $1,070.

In connection with the Chapter 11 Cases, on November 13, 2012, the Company terminated its unfunded, nonqualified savings plan covering highly compensated U.S. shore-based employees in which the investment choices are directed by the employees. In addition, the OSG Non-Employee Director Deferred Compensation Plan, under which participating directors can elect to invest deferred fees in phantom shares of the Company's stock, was also terminated. The Company has recognized an increase in general and administrative expenses for 2012 of $288 compared with decrease in 2011 of $1,490, because of the impact of changes in the overall stock market, including OSG stock, during the periods.

During 2011, general and administrative expenses decreased by $17,246 to $83,178 from $100,424 in 2010 principally because of the following:

- a decrease in compensation and benefits paid to shore-based staff of approximately $14,644, driven by headcount reductions and a decrease in incentive compensation;
- reduced legal and consulting expenses of $3,858; and
- a reduction in the expense recognized for director fees of $587.

These decreases were partially offset by the impact of unfavorable changes in foreign currency exchange rates totaling $2,225.

Moreover, in the fourth quarter of 2011, management reduced the annual cash incentive bonus that was being accrued for 2011 by approximately $6,200 to reflect the Company's weak operating performance. This was the primary driver in a material reduction in general and administrative expenses of $7,591 in the fourth quarter compared with the comparable quarter in 2010. Incentive compensation recognized in 2011 for the full year was $5,197 lower than that recognized in 2010.

In relation to the Company's unfunded, nonqualified savings plan covering highly compensated U.S. shore-based employees and OSG's Non-Employee Director Deferred Compensation Plan, the Company recognized a decrease in general and administrative expenses for 2011 compared with 2010 of $2,799, because of the impact of declines in the overall stock market, including OSG stock, in 2011.

EQUITY IN INCOME OF AFFILIATED COMPANIES

During 2012, equity in income of affiliated companies increased by $12,931 to $33,486 from $20,555 in 2011. The increase reflects the current year recognition of an increase in the operating expense portion of the charter hire rates on the LNG vessels. The charter addendums executed in September 2012 were retroactive to June 1, 2010. The Company's share of the retroactive increases recognized in equity in income from affiliates in 2012 was $4,103. Also contributing to the year-over-year increase was the increase in charter hire revenue earned on the FSO Africa due to the commencement of a new service contract with MOQ and the lower current period losses from the changes in the mark-to-market valuation of the interest rate swap covering the FSO Africa's debt. The Company's share of such mark-to-market gains or losses recognized in equity in income from affiliated companies for the years ended December 31, 2012 and 2011 were losses of $2,216 and $6,574, respectively. On October 1, 2012, the FSO Africa commenced a new five year FSO services contract with Maersk Oil Qatar ("MOQ") replacing the existing service contract that was originally scheduled to expire in August 2013. The new service contract provides for an increase in the daily hire rate to the same daily hire rate schedule as for the existing MOQ service contract for the FSO Asia and grants MOQ the option to extend the contract for one or two additional years.

During 2011, equity in income of affiliated companies increased by $16,962 to $20,555 from $3,593 in 2010. The increase resulted from the full utilization during 2011 of the two FSO vessels that were converted from ULCCs (as described below), as well as the lower current period losses from the changes in the mark-to-market valuation of the interest rate swap covering the FSO Africa's portion of the joint venture's outstanding debt. The Company's share of such charges recognized in equity in income from affiliated companies for 2011 was $6,574 compared with $9,885 for 2010.

Results for 2010 were impacted adversely by delays in the completion of the conversion of the two ULCCs to FSOs and the de-designation of the interest rate swap covering the FSO Africa's portion of the joint venture's debt outstanding. The FSO Asia completed conversion in November 2009, but experienced mechanical problems that delayed commencement of its charter until January 4, 2010. As a result of such delays in the completion of the conversion of the TI Asia to an FSO, the joint venture chartered in the TI Oceania, a ULCC wholly owned by the Company, as a temporary replacement floating storage unit. Charter hire received from MOQ from early August 2009 through the vessel's redelivery in January 2010 was substantially offset by liquidated damages payable by the joint venture to MOQ under the service contracts. The FSO Africa completed conversion in March 2010 and was idle from its delivery through August 30, 2010, at which time it commenced a three year service contract with MOQ. Because of MOQ's notification that it was cancelling the service contract for the FSO Africa, the joint venture recorded a charge in the first quarter of 2010 attributable to the de-designation of interest rate swaps that were being accounted for as cash flow hedges. All subsequent changes in the market value of the swaps have been recognized in the joint venture's statement of operations. Also, the reduction in borrowing capacity related to the FSO Africa debt agreed to in the fourth quarter of 2010 resulted in the joint venture recognizing a charge of $716 for the write-off of a portion of the unamortized balance of deferred finance charges. For more information with respect to the FSO joint venture see below "Liquidity and Sources of Capital."

Additionally, the Company has a 37.5% interest in ATC, a company that operates U.S. Flag tankers to transport Alaskan crude oil for BP. ATC earns additional income (in the form of incentive hire paid by BP) based on meeting certain predetermined performance standards. Such income is included in the U.S. segment.

The following table summarizes OSG's proportionate share of the revenue days for the respective vessels held in its vessel owning equity method investments, excluding ATC. Revenue days are adjusted for OSG's percentage ownership in order to state the revenue days on a basis comparable to that of a wholly-owned vessel. The ownership percentages reflected below are the Company's actual ownership percentages as of December 31 of each year.

	2012			2011			2010		
	Revenue Days	% of Ownership		Revenue Days	% of Ownership		Revenue Days	% of Ownership	
LNG Carriers operating on long-term charters	715	49.9	%	726	49.9	%	729	49.9	%
FSOs operating on long-term charter	366	50.0	%	365	50.0	%	243	50.0	%
ULCC operating as temporary FSO	-	-		-	-		11	50.0	%
Total	1,081			1,091			983		

INTEREST EXPENSE

The components of interest expense are as follows:

For the year ended December 31,	2012	2011	2010

Interest before impact of swaps and capitalized interest	$86,018	$76,128	$64,692
Impact of swaps	8,464	10,537	12,686
Capitalized interest	(1,061)	(6,767)	(10,334)
Interest expense	$93,421	$79,898	$67,044

Interest expense increased by $13,523 to $93,421 in 2012 from $79,898 in 2011 as a result of increases in the average amount of variable debt outstanding of $359,000, the impact of the de-designation of all of OSG’s remaining interest rate swaps of approximately $2,197, the impact of commitment fees on the forward start facility through November 13, 2012, the write-off of $12,540 in deferred financing costs related to the forward start facility and a decline in capitalized interest. These increases were partially offset by a decrease in expenses from interest rate swaps due to the expiry of two interest rate swap agreements as well as the impact of the commencement of the Chapter 11 Cases. The withdrawal of reliance on the audited financial statements for the three years ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012 coupled with the Company’s failure to file the quarterly report on Form 10-Q for the quarter ended September 30, 2012 and the filing of the Chapter 11 Cases resulted in a default or otherwise triggered repayment obligations under the Company’s Unsecured Revolving Credit Facility, Unsecured Senior Notes due in 2013, 2018 and 2024, Unsecured Forward Start Revolving Credit Agreement and Secured Loan Facilities maturing in 2020 and 2023. In accordance with applicable accounting guidance for financial reporting in reorganization, the Company reclassified the outstanding balances on these loan facilities and related accrued interest and unamortized debt discount as Liabilities Subject to Compromise in the accompanying consolidated balance sheet as of December 31, 2012 and ceased accruing interest. From November 14, 2012 to December 31, 2012, interest expense of $9,395, including $445 relating to the amortization of debt discounts and deferred financing costs, which would have been incurred had the Company’s indebtedness not been reclassified as Liabilities Subject to Compromise, was not recorded.

Interest expense increased by $12,854 to $79,898 in 2011 from $67,044 in 2010 as a result of (i) a $177,774 increase in the average amount of variable debt outstanding during 2011, (ii) a $44,378 net increase in the average amount of fixed debt outstanding during 2011, reflecting the impact of the 2010 issuance of the 8.125% senior unsecured notes in March 2010, (iii) a $5,747 increase in commitment fees primarily driven by fees on the forward start facility, and (iv) a $3,567 decline in capitalized interest as the Company's newbuilding program continued to wind down with the delivery of several newbuilds during 2011. These increases were partially offset by a decrease in expenses from interest rate swaps due to the expiry of the two interest rate swap agreements and the favorable impact on 2011 of the prepayment on July 1, 2010 of $42,174 of fixed rate term loans with a weighted average interest rate of 6% and the 2010 write off of $1,029 in unamortized deferred finance charges related to a $200,000 secured revolving credit facility, which the Company terminated in June 2010.

INCOME TAX BENEFIT

The income tax benefits for 2012 and 2010 and the income tax provision for 2011 are substantially based on the pre-tax results of the Company's U.S. operations and certain implications of the co-obligor borrowings and intercompany balances.

Significant judgment is required in determining the provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. OSG is regularly under audit by tax authorities and tax years ended 2003 through 2011 are currently being audited by the Internal Revenue Service. Although management believes that its tax estimates are reasonable, the final determination of tax audits could be materially different from the historical income tax provisions, reserves for uncertain tax positions and accruals. The results of an audit could, therefore, have a material effect on the Company's financial statements in the period or periods in which that determination is made.

EBITDA

EBITDA represents operating earnings before interest expense and income taxes 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 U.S. 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, as reflected in the consolidated statements of operations set forth in Item 8, "Financial Statements and Supplementary Data," to EBITDA:

For the year ended December 31,	2012	2011 (As Restated)	2010 (As Restated)

Net loss	$(480,114)	$(201,363)	$(122,542)
Income tax (benefit)/provision	(1,481)	1,986	(19,157)
Interest expense	93,421	79,898	67,044
Depreciation and amortization	201,284	179,721	170,670
EBITDA	$(186,890)	$60,242	$96,015

EFFECTS OF INFLATION

The Company does not believe that inflation has had or is likely, in the foreseeable future, to have a significant impact on vessel operating expenses, drydocking expenses and general and administrative expenses.

LIQUIDITY AND SOURCES OF CAPITAL

Working capital at December 31, 2012 was approximately $316,000 compared with $180,000 at December 31, 2011 and $358,000 at December 31, 2010. Current assets are highly liquid, consisting principally of cash, interest-bearing deposits and receivables. The positive working capital position at December 31, 2012 reflects the application of accounting principles applicable to companies operating under bankruptcy protection.

Net cash used by operating activities approximated $33,000 in 2012 compared with $61,000 in 2011 and $28,000 in 2010. The Company's reliance on the spot market contributes to fluctuations in cash flows from operating activities historically as a result of the exposure to highly cyclical tanker rates and more recently as a result of the impact of the downturn in the shipping markets, as described in more detail under "Operations and Oil Tanker Markets" earlier in Item 7. Spot (voyage) charter rates - since 2009 have been at depressed levels and opportunities to enter longer term time charters at satisfactory rates have been very limited. Therefore, expiring time charters and synthetic time charters (utilizing FFAs and bunker swaps) have been replaced at significantly lower TCE rates.

Impact of the Estimated Tax Settlements on Liquidity

As presented in the contractual obligations table, we have a current reserve of approximately $326,121 for uncertain tax positions for which it is reasonable to believe that settlement will occur during 2013. Additionally, we have a noncurrent reserve of approximately $17,067 for other uncertain tax positions, and we are uncertain if or when such amounts may be settled. Settlement of such amounts could require the utilization of working capital.

Impact of the Chapter 11 Cases on Liquidity

Prior to the commencement of the Chapter 11 Cases, our principal sources of funds had been operating cash flows, equity financings, issuance of long-term debt securities, long-term bank borrowings and opportunistic sales of our older vessels. Our principal use of funds had been capital expenditures to establish and grow our fleet, maintain the quality of our vessels, comply with U.S. and international shipping standards and environmental laws and regulations and fund working capital requirements and repayments on outstanding loan facilities. Historically, we had also used funds to pay dividends and to repurchase our common stock from time to time. We have not declared any dividends since the third quarter of 2011 and currently do not plan to resume the payment of dividends. Future dividends, if any, will depend on, among other things, our cash flows, cash requirements, financial condition, results of operations, required capital expenditures or reserves, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant. The Company does not intend to pay dividends during the Chapter 11 proceedings and cannot provide assurance that it will pay dividends after such proceedings conclude, that there will be any recoveries available for the Company's equity security holders, or that the equity securities of the Company will continue to trade actively in over-the-counter markets.

Our historical practice had been to acquire vessels or newbuilding contracts using a combination of working capital, cash generated from operating activities, bank debt secured by mortgages on our vessels and existing long-term unsecured credit facilities.

The commencement of the Chapter 11 Cases and weak industry conditions have negatively impacted the Company's results of operations and cash flows and may continue to do so in the future. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. See Note 3, "Bankruptcy Filing and Going Concern," to the accompanying consolidated financial statements for additional information with respect to the Company's ability to continue as a going concern.

The Company's Bankruptcy Filing is intended to permit the Company to reorganize and improve liquidity in the U.S. and abroad, fairly resolve legacy liabilities, and focus on the most valuable business lines to enable sustainable profitability. The Company's goal is to develop and implement a reorganization plan that meets the standards for confirmation under the Bankruptcy Code. Additionally, if liquidity needs require, the Company could pursue the sale of certain of its cash generating businesses that have leading market positions. Our current liquidity needs arise primarily from capital expenditures for our vessels, working capital requirements to support our business and payments required under our secured indebtedness as approved by the Bankruptcy Court. We expect that our primary sources of liquidity during the pendency of the Chapter 11 Cases will be cash flow from operations, cash on hand, trade credit extended by vendors and proceeds from sales of assets.

As of December 31, 2012, we had approximately $507.3 million of cash and cash equivalents on hand compared with $566.9 million as of September 30, 2012 and $54.9 million as of December 31, 2011. The decline from September 30, 2012 to December 31, 2012 primarily reflects net cash used in operating activities as payments to critical suppliers accelerated due to the temporary withdrawal of credit by vendors due to their concerns with respect to the Bankruptcy process. This decline in cash and cash equivalents reversed itself subsequent to year end 2012. The increase from December 31, 2011 to September 30, 2012 primarily reflects additional drawdowns under our Unsecured Revolving Credit Facility of $572 million. Approximately 21% of cash on hand at December 31, 2012 is held by the Company's foreign subsidiaries.

Notwithstanding the impact of the Chapter 11 Cases on our liquidity, including the stay of payments on our obligations, our current and future liquidity is greatly dependent upon our operating results. Our ability to continue to meet our liquidity needs is subject to and will be affected by cash utilized in operations, including our ongoing reorganization activities, the economic or business environment in which we operate, weakness in shipping industry conditions, the financial condition of our customers, vendors and service providers, our ability to comply with any financial and other covenants contained in our debt and other agreements, our ability to reorganize our capital structure under Bankruptcy Court supervision and other factors. Additionally, our Chapter 11 Cases and related matters could negatively impact our financial condition.

Although the continuation of depressed spot rates in the International Flag segments in the near term will have an adverse effect on the Company's operating cash flows and performance, we believe that existing cash and cash equivalents on hand, cash generated from operations, trade credit extended by vendors and proceeds from sales of assets will be sufficient to fund anticipated working capital cash requirements during the Bankruptcy process. However, there can be no assurance that cash on hand will be sufficient to meet our ongoing working capital cash needs. We could also be forced to consider other alternatives to maximize potential recovery for our various creditor constituencies, including a possible sale of the Company or certain of our material assets pursuant to Section 363 of the Bankruptcy Code.

The earnings from shipping operations of the Company's foreign subsidiaries, which account for a significant amount of the Company's consolidated retained earnings, are not subject to U.S. income taxation as long as such earnings are not repatriated or deemed to be repatriated to the U.S. The Company determined that, because OIN was a co-obligor with the Company on a joint and several basis under certain credit agreements, OIN could be deemed under applicable tax rules to have made a taxable dividend to the Company in certain years during which borrowings were outstanding under such credit agreements or as a result of certain intercompany balances. The Company has determined that because it is in bankruptcy as of December 31, 2012, and its actions are subject to Bankruptcy Court approval, it can no longer make the assertion that it has both the ability and intent to permanently reinvest the remaining undistributed, previously untaxed, earnings of its foreign subsidiaries indefinitely outside the U.S. The Company has analyzed the book and tax basis differences for its foreign assets and analyzed how foreign earnings would likely be repatriated. Such repatriation would be dependent on the sale of foreign assets, which based on current fair values would significantly erode accumulated earnings by an amount that would exceed previously untaxed earnings. As a result, it is likely that there is no incremental tax expense to be recorded as of December 31, 2012.

On November 14, 2012, Standard & Poor’s Ratings Services (“Standard & Poor’s”) downgraded our long-term corporate rating and the rating on our senior unsecured debt to “D” from “CCC-”. As of January 11, 2013, Standard & Poor’s has withdrawn all of its ratings. In October 2012, Moody’s Investors Service (“Moody’s) downgraded our long-term corporate credit rating and the rating on our Company’s senior unsecured debt from Caa1 to Ca and from Caa2 to C, respectively. On November 19, 2012, Moody’s withdrew all of its ratings.

Debt Facilities

The Company’s financing agreements impose operating restrictions and establish minimum financial covenants. Failure to comply with any of the covenants in the financing agreements could result in a default under those agreements and under other agreements containing cross-default provisions. A default would permit lenders to accelerate the maturity of the debt under these agreements and to foreclose upon any collateral securing that debt. The withdrawal of reliance on the Company’s audited financial statements and the failure to file the Quarterly Report on Form 10-Q for the three months ended September 30, 2012 and the filing of the Chapter 11 Cases constituted an event of default or termination event under a number of instruments and agreements relating to debt of the Company and therefore the Company was not in compliance with all of the financial covenants under all of its debt agreements as of December 31, 2012.

Unsecured Revolving Credit Facility

In 2006, the Company entered into a $1,800,000 seven-year unsecured revolving credit agreement with a group of banks, which was scheduled to mature on February 8, 2013 (the “Unsecured Revolving Credit Facility”). In accordance with the terms of the credit agreement, the maximum amount the Company could borrow under the Unsecured Revolving Credit Facility decreased by $150,000 in February 2011 and by an additional $150,000 in February 2012. Borrowings under this facility bore interest at a rate based on LIBOR.

At December 31, 2012, the Company had $1,489,000 outstanding under the Unsecured Revolving Credit Facility. Pursuant to the applicable bankruptcy law, the Company does not expect to make any principal payments on the Unsecured Revolving Credit Facility during the pendency of the Chapter 11 Cases. In accordance with ASC 852, *Reorganizations*, the Company reclassified borrowings outstanding under the Unsecured Revolving Credit Facility and related accrued interest and unamortized deferred financing costs to Liabilities Subject to Compromise on November 14, 2012, the date of the Chapter 11 filings. Also, as interest on the Company’s unsecured debt subsequent to the Petition Date is not expected to be an allowed claim, the Company ceased accruing interest on the Unsecured Revolving Credit Facility on November 14, 2012, and the Company does not expect to make any interest payments on the Unsecured Revolving Credit Facility during the pendency of the Chapter 11 Cases.

Unsecured Forward Start Revolving Credit Agreement

The Company had taken steps to replace the borrowing capacity under the Unsecured Revolving Credit Facility by entering into a $900,000 unsecured forward start revolving credit agreement on May 26, 2011 that was due to mature on December 31, 2016. Under the terms of the agreement, OSG would have been able to draw on the forward start facility beginning on February 8, 2013, the date on which OSG’s Unsecured Revolving Credit Facility would have expired. Financial covenants under the Unsecured Forward Start Revolving Credit Agreement, which were more restrictive than those contained in the $1,800,000 unsecured credit facility (due principally to differences in definitions between the two agreements), would have first become applicable on December 31, 2012. The commitments under the unsecured forward start revolving credit agreement were terminated during the fourth quarter of 2012.

Unsecured Senior Notes

On March 29, 2010, the Company issued $300,000 principal amount of senior unsecured notes at a discount pursuant to a Form S-3 shelf registration filed March 22, 2010. The notes are due in March 2018 and have a coupon of 8.125%. The Company received proceeds of approximately $289,745, after deducting underwriting discounts and expenses. The Company used the net proceeds to reduce the outstanding indebtedness under its Unsecured Revolving Credit Facility.

On August 5, 2011, the Company repurchased and retired $9,665 par value of its outstanding 8.75% debentures due in 2013. The Company recognized a loss of $375 on this transaction.

The Company reclassified the unsecured Senior Notes due in 2013, 2018 and 2024 and related accrued interest and unamortized debt discount and financing costs to Liabilities Subject to Compromise in the consolidated balance sheet at December 31, 2012 and ceased accruing interest on all of the Senior Notes on November 14, 2012 as such amounts are not expected to be allowed claims.

Secured Loan Facilities

While the Company was primarily an unsecured borrower, two debt agreements with an aggregate outstanding balance of $576,982 as of December 31, 2012 contain loan-to-value clauses that require the charter-free market value of the vessels pledged as collateral under each of the secured facilities to be no less than a specified percentage of the borrowings outstanding. For covenant compliance purposes, the market values of the vessels are determined on the basis of a “willing seller and willing buyer” by independent third party ship brokers approved by the Company and the lenders. Such valuations are not necessarily equivalent to the amounts that the Company would receive upon sale of any of these vessels, which may be more or less. In the event that the aggregate market value of the vessels that secure the Company’s obligations under any of the secured facilities falls below the minimum required percentage and the lenders request or require compliance, the Company has the option to either repay a portion of the borrowings under the facility or pledge additional collateral consisting of cash, cash equivalents or vessels of a similar size, class and age that are acceptable to the lenders.

Term loans maturing in 2016 – On January 18, 2012, the Company prepaid the outstanding principal balance of $49,000 associated with term loans maturing in 2016 with borrowings from its Unsecured Revolving Credit Facility. The two vessels that were pledged as collateral under these term loans are no longer encumbered.

As of December 31, 2012, 15 vessels, representing approximately 29% of the net book value of the Company's vessels, are pledged as collateral under the following debt agreements:

Term loans maturing in 2020 – This facility, with an outstanding balance of $266,490 at December 31, 2012, provides secured term loans originally covering seven MR Product Carriers, one Aframax and one VLCC. The facility provides that the market values of the vessels pledged as collateral be compared with the outstanding loan balance semi-annually. In December 2011, the facility was amended to, among other things; reduce the minimum required loan-to-value ratio from 110% to 100% through January 2013. In connection with the exchange of the MR Product Carriers previously servicing the U.S. Maritime Security Program, the Company reflagged two of the seven MR Product Carriers originally pledged as collateral under the above term loans. Accordingly, in June 2012, the lenders under this facility agreed to accept replacing the two MR Product Carriers with two Panamax Product Carriers. The Company believes that the value of the collateral securing these loans was less than the outstanding balance of such loans as of the Petition Date, and has therefore classified these secured term loans and related accrued interest and unamortized deferred financing costs as Liabilities Subject to Compromise in the consolidated balance sheets at December 31, 2012. As of December 31, 2012, the loan-to-value ratio was estimated to approximate 84%.

Term loans maturing in 2023 – This facility, with an outstanding balance of $310,492 as of December 31, 2012, financed the construction of three VLCCs and two Aframaxes in China, the last of which delivered in January 2012. As of December 31, 2010, the Company had unused availability of $89,807 under this facility, of which $61,548 was borrowed in January 2011 to finance the construction of one of the VLCCs. In December 2011, the Company entered into an amendment of the loan agreement which, among other things, reduced the total borrowing capacity of the facility by approximately $28,000 and reduced the minimum required loan-to-value ratio from 125% to 105% through January 2013. The Company believes that the value of the collateral securing these loans was less than the outstanding balance of such loans as of the Petition Date, and has therefore classified these secured term loans and related accrued interest and unamortized deferred financing costs as Liabilities Subject to Compromise in the consolidated balance sheets on December 31, 2012. As of December 31, 2012, the loan-to-value ratio was estimated to approximate 86%.

In conjunction with the amendments discussed above, the Company also prepaid $37,665 in principal installments due in 2012 and 2013 in December 2011.

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

In accordance with ASC 852, no interest is accrued and/or paid on secured debt when the fair value of the underlying collateral is below the outstanding principal of the debt. Accordingly, the Adequate Protection Interest Payments when made will be classified as reductions of outstanding principal. Debt included in Liabilities Subject to Compromise will be paid in accordance with the ultimate claims resolution in the Bankruptcy Cases.

OIN Debtor in Possession Loan Facilities

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

Outstanding Letters of Credit

The Company has a $9,146 letter of credit outstanding as of December 31, 2012. This letter of credit, which was issued in connection with certain arbitration proceedings in which the Company is involved, is fully cash collateralized.

Carrying Value of Vessels

The following table presents information with respect to the carrying amount of the Company’s vessels by type and indicates whether their estimated market values are below their carrying values as of December 31, 2012. The carrying value of each of the Company’s vessels does not necessarily represent its fair market value or the amount that could be obtained if the vessel were sold. The Company’s estimates of market values for its International Flag vessels assume that the vessels are all in good and seaworthy condition without need for repair and, if inspected, would be certified as being in class without notations of any kind. In addition, because vessel values are highly volatile, these estimates may not be indicative of either the current or future prices that the Company could achieve if it were to sell any of the vessels. The Company would not record a loss for any of the vessels for which the fair market value is below its carrying value unless and until the Company either determines to sell the vessel for a loss or determines that the vessel is impaired as discussed above in “Critical Accounting Policies – Vessel Impairment.” The Company believes that the future undiscounted cash flows expected to be earned over the estimated remaining useful lives for those vessels that have experienced declines in market values below their carrying values would exceed such vessels’ carrying values, after taking into consideration the impairment charge of $278,345 (including $94,288 applicable to five Handysize Product Carriers that are pledged as collateral under the Company’s term loans maturing in 2020) recorded, as of December 31, 2012.

The Company believes that the availability, quality and reliability of fair market valuations of U.S Flag vessels are limited given the fact that the U.S. Flag market is relatively small and illiquid with very limited second hand sales and purchases activity from which to benchmark vessel values. Accordingly, management does not believe that disclosure of such estimated valuations would be meaningful to the users of the financial statements, particularly since none of the Company’s U.S. Flag vessels are pledged as collateral under any of the Company’s debt facilities.

Footnotes to the following table exclude those vessels with an estimated market value in excess of their carrying value.

As of December 31, 2012

Vessel Type	Average Vessel Age (weighted by dwt)[3]	Number of Owned Vessels	Carrying Value [4]

International Flag Crude Tankers			
VLCCs (includes ULCC)	9.5	11	$711,827
Suezmaxes	-	-	284
Aframaxes (includes OSG Lightering fleet)	9.7	9	270,440
Panamaxes	10.1	9	318,110
Total International Flag Crude Tankers(1)	9.6	29	1,300,661
International Flag Product Carriers			
LR2 under construction	-	1	35,469
Panamax	4.1	4	215,950
Handysize	7.8	14	284,660
Total International Flag Product Carriers(2)	5.9	19	536,079
Total U.S. Flag Vessels	5.4	14	975,100
Fleet Total	8.7	62	$2,811,840

(1) As of December 31, 2012, the International Flag Crude Tankers segment includes vessels with an aggregate carrying value of $1,097,034, which the Company believes exceeds their aggregate market value of approximately $687,000 by $410,034.

(2) As of December 31, 2012, the International Flag Product Carriers segment includes vessels with an aggregate carrying value of $364,409, which the Company believes exceeds their aggregate market value of approximately $218,000 by $146,409.

(3) Calculation includes impact of two Aframaxes (one of which is a coated LR2) that were under construction as of December 31, 2012.

(4) Includes construction in progress totaling $95,283 and capital expenditures totaling $7,792 made in relation to vessels chartered-in by the Company.

Off-Balance Sheet Arrangements

As of December 31, 2012, the affiliated companies in which OSG held an equity interest had total bank debt outstanding of $1,030,165 of which $783,839 was nonrecourse to the Company.

MOQ has awarded two service contracts to a joint venture between OSG and Euronav NV to provide two vessels, the FSO Asia and the FSO Africa, to perform Floating, Storage and Offloading ("FSO") services in the Al Shaheen Field off the shore of Qatar after each vessel had been converted to an FSO. The Company has a 50% interest in this joint venture. The joint venture financed the purchase of the vessels from each of Euronav NV and OSG and the conversion costs through partner loans and $500,000 in long-term bank financing, which is secured by the service contracts. As a result of the cancellation of the service contract of the FSO Africa, on December 1, 2010, the joint venture entered into an agreement with the lenders to restructure the FSO Africa tranche of the loan facility reducing the balance available to borrow to $120,000, shortening the term of the loan to approximately three years and increasing the margin over LIBOR. As a result of this amendment, cash collateral aggregating $111,000 (previously posted by the joint venture partners in January 2010) was released to the joint venture partners in December 2010. Approximately $246,326 and $294,937 was outstanding under this facility as of December 31, 2012 and 2011, respectively, with the outstanding amount of this facility being subject to acceleration, in whole or in part, on termination of one or both of such service contracts. In connection with the secured bank financing, the partners severally issued 50% guarantees. The joint venture entered into floating-to-fixed interest rate swaps with major financial institutions covering notional amounts aggregating $351,987 as of December 31, 2012, which pay fixed rates of approximately 3.9% and receive floating rates based on LIBOR. These agreements have maturity dates ranging from July to September 2017.

The Company's Chapter 11 filing has no impact on the continued operations of the FSO joint venture, including the ability of the joint venture to continue to perform its obligations under the existing charters as well as its ability to continue to service its outstanding debt obligations and maintain continued compliance with the covenants under such debt agreements. On November 12, 2012, MOQ issued a waiver to the FSO joint venture agreeing not to exercise its rights to terminate the service contracts. The initial waiver period expired on February 15, 2013 and was subsequently extended to February 15, 2014, with MOQ having the right to terminate such waiver at an earlier date upon occurrence of certain events or after giving a 90-day notice of its intent to do so. In November 2012, the joint venture also obtained waivers of any events of default arising as a result of the commencement of the Chapter 11 Cases from (i) the bank syndicate that funds its loan facilities, (ii) the counterparties to the interest rate swaps agreements described above, and (iii) the bank that has issued performance guarantees of the joint venture's performance of certain of its obligations under the FSO Africa and FSO Asia service contracts. The initial waiver periods on all such waivers expired on February 15, 2013 and were subsequently extended to February 15, 2014, subject to the occurrence of certain events.

In November 2004, the Company formed a joint venture with Qatar Gas Transport Company Limited (Nakilat) ("QGTC") whereby companies in which OSG holds a 49.9% interest ordered four 216,000 cbm LNG Carriers. Upon delivery in 2007 and 2008, these vessels commenced 25-year time charters to Qatar Liquefied Gas Company Limited (II) ("QG-II"). QTGC subsequently contributed its ownership interests in the joint venture to its wholly owned subsidiary, Nakilat Marine Services Ltd. ("NMS"). The aggregate construction cost for such newbuildings was financed by the joint venture through long-term bank financing that is nonrecourse to the partners and partner contributions. The joint venture has entered into floating-to-fixed interest rate swaps with a group of major financial institutions that are being accounted for as cash flow hedges. The interest rate swaps cover notional amounts aggregating approximately $760,293 at December 31, 2012 pursuant to which it pays fixed rates of approximately 4.9% and receives a floating rate based on LIBOR. These agreements have maturity dates ranging from July to November 2022.

The Company's Chapter 11 filing has no impact on the continued operations of the LNG joint venture, including the ability of the joint venture to continue to perform its obligations under the existing charters as well as its ability to continue to service its outstanding debt obligations and maintain continued compliance with the covenants under such debt agreements. While the Company's view was that the Company's Chapter 11 filing did not constitute an event of default under the joint venture shareholders' agreement, in an abundance of caution, in November 2012 NMS granted the Company a 30-day waiver of the events of default under this agreement. The waiver was extended in December 2012 and automatically renews every 30 days unless NMS gives a notice of its intent to terminate such waiver.

On November 14, 2012, QG II agreed not to terminate the charter agreements nor exercise its options to purchase or bareboat charter any of the LNG Carriers, pursuant to the terms of the charter agreements, as a result of or in connection with the Company's Chapter 11 filing. This undertaking lapsed after 30 days and was not deemed necessary to extend since on November 21, 2012, QGTC executed deeds of guarantee to QGII, guaranteeing that the joint venture will duly perform and comply with its obligations under all four charter agreements. These guarantees serve as replacements of the guarantees previously issued by OSG in November 2004. QGTC's guarantees, as subsequently amended and extended, are effective through the earlier of (i) June 8, 2014 or (ii) OSG's consummation of a Chapter 11 reorganization plan, attainment of corporate credit rating acceptable to QGII, and issuance by OSG of a replacement guarantee in a form acceptable to QGII that is binding on OSG following the consummation of a Chapter 11 reorganization plan.

Aggregate Contractual Obligations

A summary of the Company's long-term contractual obligations as of December 31, 2012 follows:

	2013	2014	2015	2016	2017	Beyond 2017	Total
Uncertain tax positions, including interest and penalties[1]	$326,121	$-	$-	$-	$-	$-	$326,121
Debt[2]	-	-	-	-	-	-	-
Operating lease obligations[3]							
Bareboat Charter-ins	112,887	116,389	119,917	121,200	120,520	266,013	856,926
Time Charter-ins	112,169	86,136	67,388	51,782	36,237	25,652	379,364
Construction contracts[4]	31,635	10,089	-	-	-	-	41,724
Office space lease obligations	4,648	4,160	3,564	3,704	3,599	9,286	28,961
Total	$587,460	$216,774	$190,869	$176,686	$160,356	$300,951	$1,633,096

(1) The uncertain tax positions, including interest, relate to issues currently under examination by taxing authorities for which it is reasonable to believe that settlement will occur during 2013. In addition to the obligations in the table above, a noncurrent reserve of approximately $17,067 for other uncertain tax positions has also been recorded since we are uncertain about if or when such amounts may be settled.

(2) As a result of the Chapter 11 Cases, all obligations to make principal and interest payments on the Company's secured and unsecured indebtedness were stayed until the Bankruptcy Court determines the allowable claims.

(3) As of December 31, 2012, the Company had charter-in commitments for 39 vessels on leases that are, or will be, accounted for as operating leases. Certain of these leases provide the Company with various renewal and purchase options. The future minimum commitments for time charters-in have been reduced to reflect estimated days that the vessels will not be available for employment due to drydock. Note that subsequent to December 31, 2012, the Bankruptcy Court approved the Company's rejection of leases on 23 chartered-in vessels. The Company entered into new agreements with the owners of eight of these vessels and redelivered 15 of the vessels to their owners. Refer to Note 24, "Subsequent Events," to the accompanying consolidated financial statements for further information.

(4) Represents remaining commitments under shipyard construction contracts, excluding capitalized interest and other construction costs.

In addition to the above long-term contractual obligations the Company has certain obligations for its domestic shore-based employees as of December 31, 2012, related to pension and other postretirement benefit plans as follows:

	2013	2014	2015	2016	2017
Supplemental pension plan obligations(1)	$-	$-	$-	$-	$-
Defined benefit pension plan contributions(2)	1,318	1,600	1,900	1,700	1,400
Postretirement health care plan obligations(3)	181	186	189	193	203

(1)Obligations under this plan are stayed as a result of the filing of the Chapter 11 cases.
(2)Represents estimated contributions under the Maritrans Plan.
(3)Amounts are estimated based on the 2012 cost taking the assumed health care cost trend rate for 2013 to 2017 into consideration. See Note 18, "Pension and Other Postretirement Benefit Plans," to the consolidated financial statements set forth in Item 8, "Financial Statements and Supplementary Data." Because of the subjective nature of the assumptions made, actual premiums paid in future years may differ significantly from the estimated amounts.

RISK MANAGEMENT

The following section discusses practices prior to the commencement of the Chapter 11 Cases. The extent to which such practices will continue, if at all, is not currently known:

The Company is exposed to market risk from changes in interest rates, which could impact its results of operations and financial condition. The Company manages this exposure to market risk through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company manages its ratio of fixed-to-floating rate debt with the objective of achieving a mix that reflects management's interest rate outlook at various times. To manage this mix in a cost-effective manner, the Company, from time-to-time, enters into interest rate swap agreements, in which it agrees to exchange various combinations of fixed and variable interest rates based on agreed upon notional amounts. The Company uses such derivative financial instruments as risk management tools and not for speculative or trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage exposure to nonperformance on such instruments by the counterparties. The filing of the Chapter 11 Cases constituted an event of default under the interest rate swap agreements to which the Company was a party to as of the Petition Date. As such, the outstanding obligations under said agreements were reclassified to Liabilities Subject to Compromise on the consolidated balance sheet as of December 31, 2012. Therefore, tabular disclosure with respect to derivative financial instruments and other financial instruments that are sensitive to changes in interest rates at December 31, 2011 has been omitted in Item 7A, "Quantitative and Qualitative Disclosures about Market Risks."

The Company seeks to reduce its exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts and through the purchase of bulk quantities of currencies at rates that management considers favorable. For contracts which qualify as cash flow hedges for accounting purposes, hedge effectiveness is assessed based on changes in foreign exchange spot rates with the change in fair value of the effective portions being recorded in accumulated other comprehensive loss.

The Company seeks to reduce its exposure to future increases in fuel prices in the normal course of its International Crude Tankers lightering business, which includes a number of fixed rate Contracts of Affreightment, by entering into standalone bunker swaps. In August 2010, the Company entered into an agreement with a counterparty to purchase 787 metric tons per month of fuel oil for $430 per metric ton through June 2011. In January 2011, the Company entered into two additional agreements with a counterparty to purchase 400 metric tons per month of fuel for $511 and $522 per metric ton, respectively, through September 2012. Also, in September 2011, the Company entered into two agreements to purchase 500 metric tons per month of fuel for $607 and $580 per metric ton through September 2013. In May 2012, the Company entered into an additional agreement to purchase 325 metric tons per month of fuel for $607 through March 2014. These swap contracts, which do not qualify as cash flow hedges for accounting purposes, settle on a net basis at the end of each calendar month, based on the average daily closing prices, as quoted by the Baltic Exchange, of the commodity during each month. In September 2012, the Company closed out its positions in the three open swap contracts by entering into swap contracts to sell equal volumes of bunkers to a counterparty.

The Company does not intend to enter into derivative financial instruments of any type during the pendency of the Chapter 11 proceedings.

The shipping industry's functional currency is the U.S. dollar. All of the Company's revenues and most of its operating costs are in U.S. dollars.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information presented below for the quarters prior to the third quarter of 2012 and the years ended December 31, 2011 and 2010 have been restated as set forth in this Annual Report on Form 10-K as more fully described in Note 2, "Company Inquiry and Restatement," to the accompanying consolidated financial statements. The Company has not amended its previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31

DOLLARS IN THOUSANDS

	2012	2011 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$507,342	$ 54,877
Voyage receivables, including unbilled of $131,333 and $132,194	179,259	168,313
Income taxes recoverable	-	5,441
Other receivables	28,900	25,107
Inventories	15,532	19,219
Prepaid expenses and other current assets	40,394	47,401
Total Current Assets	771,427	320,358
Vessels and other property, less accumulated depreciation	2,837,288	3,226,923
Deferred drydock expenditures, net	74,418	66,023
Total Vessels, Deferred Drydock and Other Property	2,911,706	3,292,946
Investments in Affiliated Companies	252,398	232,370
Intangible Assets, less accumulated amortization	71,975	77,158
Goodwill	9,589	9,589
Other Assets	26,440	61,124
Total Assets	$4,043,535	$ 3,993,545
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$99,273	$ 124,743
Deferred income taxes	25,900	-
Income taxes payable, including reserve for uncertain tax positions of $326,121 and $0	329,799	368
Current installments of long-term debt	-	14,990
Total Current Liabilities	454,972	140,101
Reserve for Uncertain Tax Positions	17,067	323,403
Long-term Debt	-	2,050,902
Deferred Gain on Sale and Leaseback of Vessels	3,839	11,051
Deferred Income Taxes	343,162	396,679
Other Liabilities	37,712	69,117
Liabilities Subject to Compromise	2,652,537	-
Total Liabilities	3,509,289	2,991,253
Equity:		
Common stock ($1 par value; 120,000,000 shares authorized; 44,290,759 shares issued)	44,291	44,291

Paid-in additional capital	414,411	413,016
Retained earnings	1,024,480	1,504,594
	1,483,182	1,961,901
Cost of treasury stock (13,396,320 and 13,826,882 shares)	835,155	840,302
	648,027	1,121,599
Accumulated other comprehensive loss	(113,781)	(119,307)
Total Equity	534,246	1,002,292
Total Liabilities and Equity	$4,043,535	$ 3,993,545

See notes to consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	2012	2011 (As Restated)	2010 (As Restated)
Shipping Revenues:			
Pool revenues, including $78,523 in 2012, $83,955 in 2011 and $68,231 in 2010 received from companies accounted for by the equity method	$241,314	$245,028	$355,915
Time and bareboat charter revenues	299,267	267,159	276,636
Voyage charter revenues	583,253	537,344	413,059
Sunoco termination fee	13,300	-	-
	1,137,134	1,049,531	1,045,610
Operating Expenses:			
Voyage expenses	296,288	259,330	192,332
Vessel expenses	285,023	287,610	265,251
Charter hire expenses	370,405	383,940	369,667
Depreciation and amortization	201,284	179,721	170,670
General and administrative	88,845	83,178	100,424
Severance and relocation costs	3,163	-	-
Shipyard contract termination recoveries	-	-	(2,061)
(Gain)/loss on disposal of vessels, including impairments	271,359	(2,060)	28,622
Total Operating Expenses	1,516,367	1,191,719	1,124,905
Loss from Vessel Operations	(379,233)	(142,188)	(79,295)
Equity in Income of Affiliated Companies	33,486	20,555	3,593
Operating Loss	(345,747)	(121,633)	(75,702)
Other Income/(Expense)	(1,314)	2,154	1,047
Loss before Interest Expense, Reorganization Items and Taxes	(347,061)	(119,479)	(74,655)
Interest Expense	(93,421)	(79,898)	(67,044)
Loss before Reorganization Items and Income Taxes	(440,482)	(199,377)	(141,699)
Reorganization Items, net	(41,113)	-	-
Loss before Income Taxes	(481,595)	(199,377)	(141,699)
Income Tax Benefit/(Provision)	1,481	(1,986)	19,157
Net Loss	$(480,114)	$(201,363)	$(122,542)
Weighted Average Number of Common Shares Outstanding:			
Basic	30,339,258	30,228,441	29,498,127
Diluted	30,339,258	30,228,441	29,498,127

Per Share Amounts:			
Basic net loss	$(15.82)	$(6.67)	$(4.15)
Diluted net loss	$(15.82)	$(6.67)	$(4.15)
Cash dividends declared	$-	$1.53	$1.75

See notes to consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

DOLLARS IN THOUSANDS

	2012	2011 (As Restated)	2010 (As Restated)
Net Loss	$(480,114)	$ (201,363)	$ (122,542)
Other Comprehensive (Loss)/Income, net of tax:			
Net change in unrealized holding losses on available-for-sale securities	15	(231)	649
Net change in unrealized losses on cash flow hedges	5,617	(34,668)	(17,237)
Defined benefit pension and other postretirement benefit plans:			
Net change in unrecognized transition obligation	6	(29)	12
Net change in unrecognized prior service credits/(costs)	1,731	(968)	240
Net change in unrecognized actuarial (losses)/gains	(1,843)	(6,523)	212
Other Comprehensive Income/(Loss)	5,526	(42,419)	(16,124)
Comprehensive Loss	$(474,588)	$ (243,782)	$ (138,666)

See notes to consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

DOLLARS IN THOUSANDS

	2012	2011 (As Restated)	2010 (As Restated)
Cash Flows from Operating Activities:			
Net Loss	$(480,114)	$ (201,363)	$ (122,542)
Items included in net loss not affecting cash flows:			
Depreciation and amortization	201,284	179,721	170,670
Loss on write-down of vessels and intangible assets	279,382	-	28,783
Amortization of deferred gain on sale and leasebacks	(5,905)	(29,825)	(41,624)
Amortization of debt discount and other deferred financing costs	3,198	3,576	4,081
Deferred financing costs write-off	12,540	-	-
Compensation relating to restricted stock and stock option grants	7,910	10,069	11,940
Dedesignation of interest rate swap agreements	1,866	-	-
Deferred income tax benefit	(29,751)	(29,636)	(17,114)
Unrealized losses/(gains) on forward freight agreements and bunker swaps	(156)	427	(345)
Undistributed earnings of affiliated companies	(22,771)	(7,628)	7,388
Deferred payment obligations on charters-in	5,600	5,399	4,931
Reorganization items, non-cash	34,676	-	-
Loss on sublease contracts	895	-	-
Other – net	7,133	4,060	5,717
Items included in net loss related to investing and financing activities:			
(Gain)/loss on sale or write-down of securities and investments – net	3,166	(313)	753
Gain on disposal of vessels and shipyard contract termination recoveries – net	(8,023)	(2,060)	(2,222)
Loss on repurchase of bonds	-	375	-
Payments for drydocking	(45,990)	(47,360)	(20,015)
Changes in operating assets and liabilities			
Decrease/(increase) in receivables	(30,324)	(7,468)	(18,586)
Security deposits with vendors and lenders	(10,344)	-	-
Decrease in Sunoco deferred revenue	(27,104)	-	-
Net change in prepaid items and accounts payable, accrued expenses and other current and long term liabilities	69,933	60,965	(39,529)
Net cash used in operating activities	(32,899)	(61,061)	(27,714)
Cash Flows from Investing Activities:			
Long-term investments	-	(13,708)	-
Short-term investments	-	-	(20,048)
Disposal of short-term investments	-	20,047	50,000

Proceeds from sale of marketable securities and investments	13,000	3,491	253
Expenditures for vessels	(52,604)	(187,510)	(421,363)
Withdrawals from Capital Construction Fund	-	-	40,727
Proceeds from disposal of vessels	12,886	19,628	14,888
Expenditures for other property	(2,862)	(6,736)	(2,656)
Investments in and advances to affiliated companies	-	(1,650)	(126,904)
Distributions from affiliated companies	6,608	8,733	25,823
Shipyard contract termination payments		-	(1,973)
Other – net	563	3,532	1,592
Net cash used in investing activities	(22,409)	(154,173)	(439,661)
Cash Flows from Financing Activities:			
Issuance of common stock, net of issuance costs	-	-	158,266
Decrease/(increase) in restricted cash	-	-	7,945
Purchases of treasury stock	(307)	(920)	(1,718)
Issuance of debt, net of issuance costs and deferred financing costs	572,000	168,393	643,080
Payments on debt	(63,990)	(104,774)	(510,409)
Cash dividends paid	-	(46,875)	(51,884)
Issuance of common stock upon exercise of stock options	70	638	1,054
Net cash provided by financing activities	507,773	16,462	246,334
Net increase/(decrease) in cash and cash equivalents	452,465	(198,772)	(221,041)
Cash and cash equivalents at beginning of year	54,877	253,649	474,690
Cash and cash equivalents at end of year	$507,342	$ 54,877	$ 253,649

See notes to consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

DOLLARS IN THOUSANDS

	Common Stock	Paid-in Additional Capital	Retained Earnings[1]	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2009, as reported	$40,791	$262,117	$2,465,949	13,933,435	$(840,238)	$ (60,764)	$1,867,855
Restatement Adjustments (1)			(538,691)				(538,691)
Balance at December 31, 2009, as restated	40,791	262,117	1,927,258	13,933,435	(840,238)	(60,764)	1,329,164
Net Loss (as restated)			(122,542)				(122,542)
Other Comprehensive Loss, net of taxes						(16,124)	(16,124)
Cash Dividends Declared			(51,884)				(51,884)
Issuance of Common Stock	3,500	154,766					158,266
Issuance of Restricted Stock Awards		(862)		(57,654)	862		-
Compensation Related to Options Granted		4,240					4,240
Amortization of Restricted Stock Awards		7,700					7,700
Options Exercised and Employee Stock Purchase Plan		643		(32,419)	411		1,054
Purchases of Treasury Stock				37,391	(1,718)		(1,718)
Reduction in Tax Basis of Assets Held by OSG America L.P.		(25,003)					(25,003)
Balance at December 31, 2010, as restated	44,291	403,601	1,752,832	13,880,753	(840,683)	(76,888)	1,283,153
Net Loss (as restated)			(201,363)				(201,363)
Other Comprehensive Loss, net of taxes, as						(42,419)	(42,419)

restated							
Cash Dividends Declared			(46,875)				(46,875)
Issuance of Restricted Stock Awards		(990)		(62,501)	999		9
Compensation Related to Options Granted		2,821					2,821
Amortization of Restricted Stock Awards		7,248					7,248
Options Exercised and Employee Stock Purchase Plan		336		(24,139)	302		638
Purchases of Treasury Stock				32,769	(920)		(920)
Balance at December 31, 2011, as restated	44,291	413,016	1,504,594	13,826,882	(840,302)	(119,307)	1,002,292
Net Loss			(480,114)				(480,114)
Other Comprehensive Income, net of taxes						5,526	5,526
Issuance of Restricted Stock Awards		(5,084)		(458,029)	5,316		232
Compensation Related to Options Granted		1,795					1,795
Amortization of Restricted Stock Awards		6,115					6,115
Options Exercised and Employee Stock Purchase Plan		(68)		(11,041)	138		70
Tax Impact of Vesting of Stock Awards		(1,363)					(1,363)
Purchases of Treasury Stock				38,508	(307)		(307))
Balance at December 31, 2012	$44,291	$414,411	$1,024,480	13,396,320	$(835,155)	$ (113,781)	$534,246

(1) See Note 2, “Company Inquiry and Restatement,” to the accompanying financial statements for details

See notes to consolidated financial statements

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS:

The consolidated financial statements include the accounts of Overseas Shipholding Group, Inc., a Delaware corporation, and its wholly owned subsidiaries (the "Company" or "OSG"). All significant intercompany balances and transactions have been eliminated in consolidation. Investments in 50% or less owned affiliated companies, in which the Company exercises significant influence, are accounted for by the equity method. Dollar amounts except per share amounts are in thousands.

Certain prior year amounts have been reclassified to conform to the current year presentation, primarily related to the disaggregation of tax-related balances.

The Company owns and operates a fleet of oceangoing vessels engaged in the transportation of liquid cargoes in the international market and the U.S. Flag trades.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

NOTE 2 — COMPANY INQUIRY AND RESTATEMENT:

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

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

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

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

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

In addition to giving rise to a current tax liability, the potential deemed dividends from OIN in connection with the Credit Facilities (which effectively would treat OIN as having already repatriated significant earnings for U.S. tax purposes) have required the Company to reassess its intent and ability to permanently reinvest earnings from foreign shipping operations accumulated through December 31, 2012. As a result, the Company has concluded that, as of December 31, 2000 and at each subsequent year end through December 31, 2011, it could not assert its intent to permanently reinvest OIN's earnings to the extent these earnings could be deemed repatriated as a result of OIN's joint and several liability under the Credit Facilities, as discussed above. See Note 14 for information with respect to undistributed earnings that are still considered to be permanently reinvested in foreign operations on which U.S. income taxes have not been recognized.

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

The Company is also restating the accompanying consolidated balance sheet as of December 31, 2011 and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 to reflect the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees. The credit risk valuation adjustments were incorrectly estimated without giving consideration to the credit enhancements that were contractually linked to the obligations under such contracts for the year ended December 31, 2011 and for the quarters ended March 31, 2012 and June 30, 2012. Such error overstated the investments in affiliated Companies by $19,015 and retained earnings by $1,499 and understated net loss by $1,499 and accumulated other comprehensive loss by $17,516 as of and for the year ended December 31, 2011.The appropriate estimation of the credit risk valuation adjustments has been applied within the consolidated financial statements for the year ended December 31, 2012.

The following tables present the effects of the correction of the errors described above that have been made to the Company's previously reported consolidated balance sheet as of December 31, 2011 and the Company's previously reported consolidated statements of operations and consolidated cash flows from operating activities for the years ended December 31, 2011 and 2010 and the Company's previously reported consolidated statement of comprehensive loss for the year ended December 31, 2011 and opening retained earnings as of January 1, 2010.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

	As of December 31, 2011			
	As Previously Reported	Adjustment		As Restated
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 54,877			$ 54,877
Voyage receivables	168,313			168,313
Income taxes recoverable	27,365	$ (21,924	) (a)	5,441
Other receivables	24,972	135	(a)	25,107
Inventories	19,219			19,219
Prepaid expenses and other current assets	47,401			47,401
Total Current Assets	342,147	(21,789	)	320,358
Vessels and other property, less accumulated depreciation	3,226,923			3,226,923
Deferred drydock expenditures, net	66,023			66,023
Total Vessels, Deferred Drydock and Other Property	3,292,946			3,292,946
Investments in Affiliated Companies	251,385	(19,015	) (c)	232,370
Intangible Assets, less accumulated amortization	77,158			77,158
Goodwill	9,589			9,589
Other Assets	61,124			61,124
Total Assets	$ 4,034,349	$ (40,804	)	$ 3,993,545
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable, accrued expenses and other current liabilities	$ 125,111	$ (368	) (b)	$ 124,743
Income taxes payable	-	368	(b)	368
Current installments of long-term debt	14,990			14,990
Total Current Liabilities	140,101	-		140,101
Reserve for Uncertain Tax Positions	4,804	318,599	(a)(d)	323,403
Long-term Debt	2,050,902			2,050,902
Deferred Gain on Sale and Leaseback of Vessels	11,051			11,051
Deferred Income Taxes	203,129	193,550	(e)	396,679
Other Liabilities	69,117			69,117
Total Liabilities	2,479,104	512,149		2,991,253
Equity:				
Common stock	44,291			44,291
Paid-in additional capital	413,016			413,016
Retained earnings	2,040,031	(535,437	) (f)	1,504,594
	2,497,338	(535,437	)	1,961,901
Cost of treasury stock	840,302			840,302

	1,657,036	(535,437)	1,121,599
Accumulated other comprehensive loss	(101,791)	(17,516)(c)	(119,307)
Total Equity	1,555,245	(552,953)	1,002,292
Total Liabilities and Equity	$4,034,349	$(40,804)	$3,993,545

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

(a) To adjust income taxes recoverable to reflect the reserve for uncertain tax positions.

(b) To reclassify $368 to conform to 2012 balance sheet presentation of tax accounts.

(c) To adjust for the cumulative overstatement in investments in affiliated companies and accumulated other comprehensive loss resulting from the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees.

(d) To record a reserve for the tax liability of uncertain tax positions, primarily resulting from deemed dividends by OIN and relating to intercompany balances as described in Note 2.

(e) To adjust the deferred income tax liability for the tax effects of unremitted earnings of foreign subsidiaries, to reflect the utilization of net operating loss carryforwards to offset the deemed distributions by OIN, and to establish a deferred tax asset for the benefit of accrued interest.

(f) To record cumulative reductions to retained earnings of $1,499 relating to the credit valuation error described above and of $533,938 resulting primarily from the errors relating to the Company's assertion concerning its intent and ability to permanently reinvest earnings from foreign shipping operations accumulated through December 31, 2011.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

	For the year ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated
Shipping Revenues:			
Pool revenues	$245,028		$245,028
Time and bareboat charter revenues	267,159		267,159
Voyage charter revenues	537,344		537,344
	1,049,531		1,049,531
Operating Expenses:			
Voyage expenses	259,330		259,330
Vessel expenses	287,610		287,610
Charter hire expenses	383,940		383,940
Depreciation and amortization	179,721		179,721
General and administrative	83,178		83,178
Gain on disposal of vessels, including impairments	(2,060)		(2,060)
Total Operating Expenses	1,191,719		1,191,719
Loss from Vessel Operations	(142,188)		(142,188)
Equity in Income of Affiliated Companies	22,054	$ (1,499)(a)	20,555
Operating Loss	(120,134)	(1,499)	(121,633)
Other Income	2,154		2,154
Loss before Interest Expense and Taxes	(117,980)	(1,499)	(119,479)
Interest Expense	(79,898)		(79,898)
Loss before Income Taxes	(197,878)	(1,499)	(199,377)
Income Tax Benefit/(Provision)	4,962	(6,948)(b)	(1,986)
Net Loss	$(192,916)	$ (8,447)	$(201,363)
Earnings per share:			
Basic	$(6.39)	$ (0.28)	$(6.67)
Diluted	$(6.39)	$ (0.28)	$(6.67)
Cash dividends declared	$1.53		$1.53
Weighted Average Number of Common Shares Outstanding:			
Basic	30,228,441		30,228,441
Diluted	30,228,441		30,228,441

(a) To adjust for the overstatement in equity in income of affiliated companies resulting from the correction of an error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees.

(b)

To adjust for the understatement in the income tax provision benefit primarily related to changes in reserves for uncertain tax positions and the after-tax effect of accrued interest related to the reserve for uncertain tax positions offset by the reversal of the originally recorded valuation allowance.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

	For the year ended December 31, 2010		
	As Previously Reported	Adjustments	As Restated
Shipping Revenues:			
Pool revenues	$355,915		$355,915
Time and bareboat charter revenues	276,636		276,636
Voyage charter revenues	413,059		413,059
	1,045,610		1,045,610
Operating Expenses:			
Voyage expenses	192,332		192,332
Vessel expenses	265,251		265,251
Charter hire expenses	369,667		369,667
Depreciation and amortization	170,670		170,670
General and administrative	100,424		100,424
Shipyard contract termination recoveries	(2,061)		(2,061)
Loss on disposal of vessels, including impairments	28,622		28,622
Total Operating Expenses	1,124,905		1,124,905
Loss from Vessel Operations	(79,295)		(79,295)
Equity in Income of Affiliated Companies	3,593		3,593
Operating Loss	(75,702)		(75,702)
Other Income	1,047		1,047
Loss before Interest Expense and Taxes	(74,655)		(74,655)
Interest Expense	(67,044)		(67,044)
Loss before Income Taxes	(141,699)		(141,699)
Income Tax Benefit	7,456	$ 11,701 (a)	19,157
Net Loss	$(134,243)	$ 11,701	$(122,542)
Earnings per share:			
Basic	$(4.55)	$ 0.40	$(4.15)
Diluted	$(4.55)	$ 0.40	$(4.15)
Cash dividends declared	$1.75		$1.75
Weighted Average Number of Common Shares Outstanding:			
Basic	29,498,127		29,498,127
Diluted	29,498,127		29,498,127

(a) To adjust the income tax benefit primarily related to the reversal of the originally recorded valuation allowance, changes in reserves for uncertain tax positions and the after-tax effect of accrued interest related to reserves for uncertain tax positions.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

	For the year ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated
Net Loss	$ (192,916)	$ (8,447)(a)	$ (201,363)
Other Comprehensive (Loss)/Income, net of tax:			
Net change in unrealized holding losses on available-for-sale Securities	(231)		(231)
Net change in unrealized losses on cash flow hedges	(17,152)	(17,516)(b)	(34,668)
Defined benefit pension and other postretirement benefit plans:			
Net change in unrecognized transition obligation	(29)		(29)
Net change in unrecognized prior service costs	(968)		(968)
Net change in unrecognized actuarial losses	(6,523)		(6,523)
Other Comprehensive Loss	(24,903)	(17,516)	(42,419)
Comprehensive Loss	$ (217,819)	$ (25,963)	$ (243,782)

(a) To adjust for the understatement of the net loss resulting from (1) the $1,499 overstatement in equity in income of affiliated companies resulting from the error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees and (2) the $6.948 understatement in the income tax provision primarily related to changes in reserves for uncertain tax positions and the after-tax effect of accrued interest related to reserves for uncertain tax positions offset by the reversal of the originally recorded valuation allowance.

(b) To adjust for the understatement of other comprehensive loss resulting from the error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees.

The restatements did not affect total net cash flows from operating, investing or financing activities for the years ended December 2010 and 2011 or any prior period. However, the following components of total cash flows from operating activities have been restated as follows:

	For the year ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated
Net Loss	$ (192,916)	$ (8,447)(a)	$ (201,363)
Items included in net loss not affecting cash flows:			
Deferred income tax benefit	(4,667)	(24,969)(b)	(29,636)

Undistributed earnings of affiliated companies	(9,127	)	1,499	(c)	(7,628	)
Changes in operating assets and liabilities:						
Decrease/(increase) in receivables	33,808		(41,276	)(b)	(7,468	)
Net change in prepaid items and accounts payable, accrued expenses and other current and long term liabilities	(12,228	)	73,193	(b)	60,965	

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

(a) To adjust for the understatement of the net loss resulting from (1) the $1,499 overstatement in equity in income of affiliated companies resulting from the error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees and (2) the $6,948 understatement in the income tax provision relating to changes in reserves for uncertain tax positions and the after-tax effect of accrued interest related to reserves for uncertain tax positions offset by the reversal of the originally recorded valuation allowance.

(b) To adjust for the understatement of the deferred tax benefit, the overstatement of income taxes recoverable which is a component of receivables, and the understatements of income taxes payable and reserve for uncertain tax positions.

(c) To adjust undistributed earnings of affiliated companies for the $1,499 overstatement in equity in income of affiliated companies resulting from the error in the method used to estimate the credit valuation adjustments associated with the fair valuation of the interest rate swap derivative contracts of certain of the Company's equity method investees .

	For the year ended December 31, 2010			
	As Previously Reported	Adjustments		As Restated
Net Loss	$ (134,243)	$ 11,701	(a)	$ (122,542)
Items included in net loss not affecting cash flows:				
Deferred income tax benefit	(10,176)	(6,938)	(b)	(17,114)
Changes in operating assets and liabilities:				
Net change in prepaid items and accounts payable, accrued expenses and other current and long term liabilities	(34,766)	(4,763)	(b)	(39,529)

(a) To adjust for the understatement in the income tax benefit related to the reversal of the originally recorded valuation allowance, changes in reserves for uncertain tax positions and the after-tax effect of accrued interest related to reserves for uncertain tax positions.

(b) To adjust for the understatements of the deferred tax benefit, income taxes payable and the reserve for uncertain tax positions.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

The following table provides a reconciliation of retained earnings, as previously reported and as restated, at December 31, 2009.

Retained earnings at December 31, 2009, as previously reported	$2,465,949
Tax adjustments	
Year ended December 31, 2000	(122,500)
Year ended December 31, 2001	(36,364)
Year ended December 31, 2002	12,919
Year ended December 31, 2003	(23,405)
Year ended December 31, 2004	(7,317)
Year ended December 31, 2005	(18,342)
Year ended December 31, 2006	(337,404)
Year ended December 31, 2007	(46,193)
Year ended December 31, 2008	43,130
Year ended December 31, 2009	(3,215)
Cumulative adjustment to retained earnings as of December 31, 2009	(538,691)
Retained earnings at December 31, 2009, as restated	$1,927,258

NOTE 3 — BANKRUPTCY FILING AND GOING CONCERN:

Chapter 11 Filing

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

Reorganization Plan

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

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

(DEBTOR-IN-POSSESSION)

The Debtors have not yet prepared or filed a plan of reorganization with the Bankruptcy Court. The Debtors have the exclusive right to file a plan of reorganization through and including August 2, 2013, subject to the ability of third parties to file motions to terminate the Debtors' exclusivity period, as well as the Debtors' rights to seek further extensions of such period. The Debtors have the right to seek further extensions of such exclusivity periods, subject to the statutory limit of 18 months from the Petition Date in the case of filing a plan of reorganization and 20 months from the Petition Date in the case of soliciting and obtaining acceptances. On August 2, 2013, the Debtors filed a motion with the Bankruptcy Court to further extend their exclusive period to file a plan of reorganization through and including November 30, 2013. Under the Bankruptcy Court's local rules, such motion automatically extends the Debtors' exclusivity period until the Bankruptcy Court conducts a hearing on the motion, which is currently scheduled for August 26, 2013. Any proposed reorganization plan will be subject to revision prior to submission to the Bankruptcy Court based upon discussions with the Debtors' creditors and other interested parties, and thereafter in response to creditor claims and objections and the requirements of the Bankruptcy Code or the Bankruptcy Court. There can be no assurance that the Debtors will be able to secure requisite accepting votes for any proposed reorganization plan or confirmation of such plan by the Bankruptcy Court.

Going Concern and Financial Reporting

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

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

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

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

Liabilities Subject to Compromise:

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

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

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

As of December 31, 2012, Liabilities Subject to Compromise consist of the following:

Pre-petition accounts payable and other accrued liabilities	$2,717
Secured long-term debt and accrued interest	577,957
Unsecured senior notes	500,780
Unsecured revolving credit facility	1,488,579
Accrued interest and fees on unsecured revolving credit facility and senior notes	10,878
Derivative liabilities	3,566
Accrued liabilities relating to rejected executory contracts	30,539
Pension and other postretirement benefit plan liabilities	37,521
	$2,652,537

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Reorganization Items, net

Reorganization items, net represent amounts incurred subsequent to the bankruptcy filing as a direct result of the filing of the Chapter 11 Cases and are comprised of the following for the year ended December 31, 2012:

Trustee fees	$672
Professional fees	7,889
Provision for estimated claims on rejected executory contracts	30,187
Expenses incurred on rejected executory contracts	2,365
	$41,113

Mr. John J. Ray III was appointed by the board of directors of the Company as Chief Reorganization Officer of the Company effective as of November 14, 2012. In connection with the appointment of Mr. Ray, the Company entered into an engagement letter agreement dated November 1, 2012 with Greylock Partners LLC for Greylock Partners to provide the Company with financial and reorganization consulting services. Mr. Ray is a Senior Managing Director and founder of Greylock Partners. The Company paid Greylock Partners a retainer of $250 upon signing the Engagement Letter and incurred additional fees of $2,382 for services rendered to the Company for 2012. Such related party expenses are included in professional fees in the table above.

Cash paid for reorganization items was $6,437 for the year ended December 31, 2012.

NOTE 4 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. *Cash and cash equivalents*—Interest-bearing deposits that are highly liquid investments and have a maturity of three months or less when purchased are included in cash and cash equivalents.

2. *Marketable securities*—The Company’s investments in marketable securities are classified as trading and available-for-sale and are carried at fair value. The Company utilizes the first-in, first-out method to determine the

cost of marketable securities sold or the amount reclassified out of accumulated other comprehensive loss into earnings. Net unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive loss within equity. If a material decline in the fair value below the Company's cost basis is determined to be other than temporary on available-for-sale securities, a noncash impairment loss is recorded in the statement of operations in the period in which that determination is made. As a matter of policy, the Company evaluates all material declines in fair value for impairment whenever the fair value of a security classified as available-for-sale has been below its cost basis for more than six consecutive months. In the period in which a decline in fair value is determined to be other than temporary, the carrying value of that security is written down to its fair value at the end of such period, thereby establishing a new cost basis. Unrealized holding gains and losses on investments in marketable securities that are classified as trading securities are included in other income on the consolidated statement of operations.

3. *Inventories*—Inventories, which consists principally of fuel, are stated at cost determined on a first-in, first-out basis.

4. *Vessels, deferred drydocking expenditures and other property*—Vessels are recorded at cost and are depreciated to their estimated salvage value on the straight-line basis over the lives of the vessels, which are generally 25 years. Each vessel's salvage value is equal to the product of its lightweight tonnage and an estimated scrap rate of $300 per ton.

Other property, including buildings and leasehold improvements, are recorded at cost and amortized on a straight-line basis over the shorter of the terms of the leases or the estimated useful lives of the assets, which range from three to 35 years.

Interest costs are capitalized to vessels during the period that vessels are under construction. Interest capitalized aggregated $1,060 in 2012, $6,767 in 2011 and $10,334 in 2010.

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Expenditures incurred during a drydocking are deferred and amortized on the straight-line basis over the period until the next scheduled drydocking, generally two and a half to five years. The Company only includes in deferred drydocking costs those direct costs that are incurred as part of the drydocking to meet regulatory requirements, or are expenditures that add economic life to the vessel, increase the vessel's earnings capacity or improve the vessel's efficiency. Direct costs include shipyard costs as well as the costs of placing the vessel in the shipyard. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

5. *Impairment of long-lived assets*—The carrying amounts of long-lived assets 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 asset 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 asset and its eventual disposition is less than the asset's carrying amount. This assessment is made at the individual vessel level since separately identifiable cash flow information for each vessel is available. The impairment charge, if any, would be measured as the amount by which the carrying amount of a vessel exceeded its fair value. If using an income approach in determining the fair value of a vessel, the Company will consider the discounted cash flows resulting from highest and best use of the vessel asset from a market-participant's perspective. Alternatively, if using a market approach, the Company will obtain third party appraisals of the estimated fair value of the vessel. See Note 7, "Vessels, Deferred Drydock and Other Property," for further discussion on the impairment charges recognized during the three years ended December 31, 2012.

6. *Goodwill and intangible assets*—Goodwill and indefinite lived intangible assets acquired in a business combination are not amortized but are reviewed for impairment annually or more frequently if impairment indicators arise. Intangible assets with estimable useful lives are amortized over their estimated useful lives. The Company's intangible assets consist primarily of long-term customer relationships acquired as part of the 2006 purchase of Maritrans, Inc. and the 2007 purchase of the Heidmar Lightering business. The long-term customer relationships are being amortized on a straight-line basis over 20 years. Accumulated amortization was $31,356 and $26,173 at December 31, 2012 and 2011, respectively. Amortization expense amounted to $5,183 in 2012, $5,183 in 2011 and $6,340 in 2010. Amortization of intangible assets for the five years subsequent to December 31, 2012 is expected to approximate $5,183 per year.

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. The Company performed its annual goodwill impairment testing as of April 1, 2012 and concluded that the goodwill was not impaired. Furthermore, the fair value of the International Crude Tankers lightering business to which all of the goodwill is allocated was substantially in excess of its carrying value as of the second quarter impairment testing date. The Company determined that the adverse change in the Company's business climate, as evidenced by the Company's Chapter 11 filing in November 2012 as well as a significant decline in the market value of the Company's debt and equity securities constituted triggering events that required an interim test for goodwill impairment as of

December 31, 2012. The interim evaluation, which took into consideration the impact of the vessel write-downs described in Note 7, did not result in an impairment charge being recognized as of December 31, 2012. Furthermore, the fair value of the lightering business continued to be well in excess of its carrying value as of December 31, 2012.

7. *Deferred finance charges*—Finance charges incurred in the arrangement of debt are deferred and amortized to interest expense using the straight-line method over the life of the related debt. Deferred finance charges of $0 and $25,777 are included in Other Assets at December 31, 2012 and 2011, respectively. On November 14, 2012, amortization ceased on $10,517 of deferred financing costs relating to the Unsecured Senior Notes, the $1,500,000 Unsecured Revolving Credit facility and the secured term loans, when such indebtedness was reclassified to Liabilities Subject to Compromise on the consolidated balance sheets (See Note 11, "Debt"). From November 14, 2012 to December 31, 2012, the Company did not record $445 of interest for amortization of deferred financing costs relating to the Unsecured Senior Notes, the $1,500,000 Unsecured Revolving Credit Facility and the Secured Term Loans, which would have been incurred had the indebtedness not been reclassified. Amortization expense amounted to $15,260 in 2012, $3,023 in 2011 and $3,663 in 2010. The 2012 amortization expense includes the write-off of $12,540 in deferred financing costs relating to the $900,000 unsecured forward start credit facility since the Company's Chapter 11 filing effectively terminated this credit facility agreement.

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

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

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

9. *Derivatives*—Accounting standards require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not effective hedges must be adjusted to fair value through earnings. If the derivative is an effective hedge, depending on the nature of the hedge, a change in the fair value of the derivative is either offset against the change in fair value of the hedged item (fair value hedge), or recognized in other comprehensive income/(loss) and reclassified into earnings in the same period or periods during which the hedge transaction affects earnings (cash flow hedge). The ineffective portion (that is, the change in fair value of the derivative that does not offset the change in fair value of the hedged item) of an effective hedge and the full amount of the change in fair value of derivative instruments that do not qualify for hedge accounting are immediately recognized in earnings.

During the year ended December 31, 2012, no ineffectiveness gains or losses were recorded in earnings relative to interest rate swaps entered into by the Company or its subsidiaries that qualified for hedge accounting. Any gain or loss realized upon the early termination of an interest rate swap is recognized as an adjustment of interest expense over the shorter of the remaining term of the swap or the hedged debt. See Note 12, "Fair Value of Financial Instruments, Derivatives and Fair Value Disclosures," for additional disclosures on the Company's interest rate swaps and other financial instruments.

10. *Income taxes*—The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been

included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Net deferred tax assets are recorded to the extent the Company believes these assets will more likely than not be realized. In making such a determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. In the event OSG were to determine that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, an adjustment would be made to the deferred tax asset valuation allowance, which would reduce the provision for income taxes in the period such determination is made.

Uncertain tax positions are recorded in accordance with ASC 740 on the basis of a two-step process whereby (1) OSG first determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority.

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11. *Use of estimates*—The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

12. *Issuance of shares or units by subsidiaries*—The Company accounts for gains or losses from the issuance of shares or units by its subsidiaries as an adjustment to equity.

13. *Newly issued accounting standards*—On September 15, 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-08, *Testing Goodwill for Impairment (the revised standard)*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard became effective for annual and interim goodwill impairment tests performed by the Company beginning January 1, 2012 and had no impact on the Company's consolidated financial statements.

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

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements. This guidance, which is to be applied prospectively, is effective for the Company's annual and interim periods beginning January 1, 2013. Based on preliminary evaluations, OSG does not believe the adoption of the new accounting guidance will have a significant impact on its consolidated financial statements.

NOTE 5 — EARNINGS PER COMMON SHARE:

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted stock units using the treasury stock method. The components of the calculation of basic earnings per share and diluted earnings per