Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2011

Marsh & McLennan Companies, Inc.

1166 Avenue of the Americas

New York, New York 10036

(212) 345-5000

Commission file number 1-5998

State of Incorporation: Delaware

I.R.S. Employer Identification No. 36-2668272

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting Company. See the definitions of large accelerated filer, accelerated filer and smaller reporting Company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if a smaller reporting Company)	Smaller Reporting Company ¨

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

As of April 30, 2011, there were outstanding 548,481,740 shares of common stock, par value $1.00 per share, of the registrant.

Table of Contents

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management s current views concerning future events or results, use words like anticipate, assume, believe, continue, estimate, expect, future, intend, plan, project and similar terms, and future or conditional tense verbs like could, may, will and would. For example, we may use forward-looking statements when addressing topics such as: the outcome of contingencies; market and industry conditions; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure and the outcome of cost-saving or restructuring initiatives; dividend policy; the expected impact of acquisitions and dispositions; pension obligations; cash flow and liquidity; future actions by regulators; and the impact of changes in accounting rules.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include, among other things:

¡ our exposure to potential liabilities arising from errors and omissions claims against us, particularly in our Marsh and Mercer businesses;

¡ our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from the businesses we acquire;

¡ changes in the funded status of our global defined benefit pension plans and the impact of any increased pension funding resulting from those changes;

¡ the impact on our net income caused by fluctuations in foreign currency exchange rates;

¡ the impact on our net income or cash flows and our effective tax rate in a particular period caused by settled tax audits and expired statutes of limitation;

¡ the extent to which we retain existing clients and attract new business, and our ability to incentivize and retain key employees;

¡ the potential impact of rating agency actions on our cost of financing and ability to borrow, as well as on our operating costs and competitive position;

¡ our exposure to potential criminal sanctions or civil remedies if we fail to comply with foreign and U.S. laws and regulations that are applicable to our international operations, including import and export requirements, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the pending anti-bribery law in the UK, local laws prohibiting corrupt payments to government officials, as well as various trade sanctions laws;

¡ the impact of competition, including with respect to pricing;

¡ the impact of any regional, national or global political, economic, regulatory or market conditions on our results of operations and financial condition;

- our ability to successfully recover should we experience a disaster or other business continuity problem;
- changes in applicable tax or accounting requirements; and
- potential income statement effects from the application of FASB s ASC Topic No. 740 (Income Taxes) regarding accounting treatment of uncertain tax benefits and valuation allowances and ASC Topic No. 350 (Intangibles Goodwill and Other), including the effect of any subsequent adjustments to the estimates we use in applying these accounting standards.

The factors identified above are not exhaustive. Marsh & McLennan Companies and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, we caution readers not to place undue reliance on the above forward-looking statements, which speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made. Further information concerning Marsh & McLennan Companies and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in the Company s filings with the Securities and Exchange Commission, including the Risk Factors section of our most recently filed Annual Report on Form 10-K.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

For the Three Months Ended March 31,

(In millions, except per share figures)	**2011**	2010
Revenue	**$2,884**	$2,635
Expense:		
Compensation and benefits	**1,721**	1,575
Other operating expenses	**691**	635
Operating expenses	**2,412**	2,210
Operating income	**472**	425
Interest income	**7**	4
Interest expense	**(51)**	(60)
Investment income	**19**	8
Income before income taxes	**447**	377
Income taxes	**128**	103
Income from continuing operations	**319**	274
Discontinued operations, net of tax	**12**	(22)
Net income before non-controlling interests	**331**	252
Less: Net income attributable to non-controlling interests	**6**	4
Net income attributable to the Company	**$ 325**	$ 248
Basic net income per share Continuing operations	**$ 0.57**	$ 0.50
Net income attributable to the Company	**$ 0.59**	$ 0.46
Diluted net income per share Continuing operations	**$ 0.56**	$ 0.49
Net income attributable to the Company	**$ 0.58**	$ 0.45
Weighted average number of shares outstanding Basic	**544**	533
Diluted	**552**	536
Shares outstanding at March 31,	**548**	541
Dividends declared per share	**$ 0.42**	$ 0.40

The accompanying notes are an integral part of these consolidated statements.

4

Table of Contents

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31,	December 31,
(In millions of dollars)	**2011**	2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,330**	$ 1,894
Receivables		
Commissions and fees	**2,704**	2,544
Advanced premiums and claims	**87**	96
Income tax receivable	**326**	323
Other	**216**	186
	3,333	3,149
Less-allowance for doubtful accounts and cancellations	**(121)**	(114)
Net receivables	**3,212**	3,035
Other current assets	**394**	347
Total current assets	**4,936**	5,276
Goodwill and intangible assets	**6,993**	6,823
Fixed assets (net of accumulated depreciation and amortization of $1,461 at March 31, 2011 and $1,411 at December 31, 2010)	**828**	822
Pension related assets	**344**	265
Deferred tax assets	**1,091**	1,205
Other assets	**881**	919
	$15,073	$15,310

The accompanying notes are an integral part of these consolidated statements.

5

Table of Contents

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(In millions of dollars)	**March 31, 2011**	December 31, 2010
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	**$ 261**	$ 8
Accounts payable and accrued liabilities	**1,796**	1,741
Accrued compensation and employee benefits	**667**	1,294
Accrued income taxes	**49**	62
Dividends payable	**116**	
Total current liabilities	**2,889**	3,105
Fiduciary liabilities	**4,272**	3,824
Less cash and investments held in a fiduciary capacity	**(4,272)**	(3,824)
Long-term debt	**2,771**	3,026
Pension, retirement and postemployment benefits	**1,220**	1,211
Liabilities for errors and omissions	**452**	430
Other liabilities	**1,054**	1,123
Commitments and contingencies		
Equity:		
Preferred stock, $1 par value, authorized 6,000,000 shares, none issued		
Common stock, $1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares at March 31, 2011 and December 31, 2010	**561**	561
Additional paid-in capital	**1,050**	1,185
Retained earnings	**7,528**	7,436
Accumulated other comprehensive loss	**(2,183)**	(2,300)
Non-controlling interests	**58**	47
	7,014	6,929
Less treasury shares, at cost, 12,533,907 shares at March 31, 2011 and 20,132,120 December 31, 2010	**(327)**	(514)
Total equity	**6,687**	6,415
	$15,073	$15,310

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the Three Months Ended March 31,

(In millions of dollars)	**2011**	2010
Operating cash flows:		
Net income before non-controlling interests	**$ 331**	$ 252
Adjustments to reconcile net income to cash used for operations:		
Depreciation and amortization of fixed assets and capitalized software	**67**	80
Amortization of intangible assets	**16**	17
Provision for deferred income taxes	**110**	100
Gain on investments	**(19)**	(8)
Loss on disposition of assets		26
Stock option expense	**7**	6
Changes in assets and liabilities:		
Net receivables	**(172)**	(73)
Other current assets	**(73)**	(7)
Other assets	**(45)**	(63)
Accounts payable and accrued liabilities	**68**	64
Accrued compensation and employee benefits	**(627)**	(682)
Accrued income taxes	**(20)**	(37)
Other liabilities	**50**	15
Effect of exchange rate changes	**(69)**	59
Net cash used for operations	**(376)**	(251)
Financing cash flows:		
Repayments of debt	**(2)**	(2)
Purchase of non-controlling interests	**(13)**	(15)
Shares withheld for taxes on vested units treasury shares	**(85)**	(40)
Issuance of common stock	**89**	10
Dividends paid	**(117)**	(109)
Net cash used for financing activities	**(128)**	(156)
Investing cash flows:		
Capital expenditures	**(67)**	(80)
Net sales of long-term investments		19
Proceeds from sales of fixed assets	**1**	1
Dispositions	**1**	110
Acquisitions (including amounts paid into escrow)	**(104)**	(197)
Other, net	**1**	5
Net cash used for investing activities	**(168)**	(142)
Effect of exchange rate changes on cash and cash equivalents	**108**	(61)
Decrease in cash and cash equivalents	**(564)**	(610)
Cash and cash equivalents at beginning of period	**1,894**	1,777
Cash and cash equivalents at end of period	**$1,330**	$1,167
Cash and cash equivalents reported as discontinued operations		63
Cash and cash equivalents continuing operations	**$1,330**	$1,104

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

For the Three Months Ended March 31,

(In millions, except per share figures)	**2011**	2010
COMMON STOCK		
Balance, beginning and end of year	**$ 561**	$ 561
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	**$ 1,185**	$ 1,211
Change in accrued stock compensation costs	**(129)**	(71)
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax impact	**(6)**	(16)
Issuance of shares for acquisitions		(15)
Balance, end of period	**$ 1,050**	$ 1,109
RETAINED EARNINGS		
Balance, beginning of year	**$ 7,436**	$ 7,033
Net income attributable to the Company [a]	**325**	248
Dividend equivalents paid	**(4)**	(4)
Dividends declared (per share amounts: $0.42 in 2011 and $0.40 in 2010)	**(229)**	(215)
Balance, end of period	**$ 7,528**	$ 7,062
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	**$(2,300)**	$(2,171)
Foreign currency translation adjustments [b]	**171**	(185)
Unrealized investment holding losses, net of reclassification adjustments [c]	**(3)**	(8)
Net changes under benefit plans, net of tax [d]	**(51)**	118
Balance, end of period	**$(2,183)**	$(2,246)
TREASURY SHARES		
Balance, beginning of year	**$ (514)**	$ (806)
Issuance of shares under stock compensation plans and employee stock purchase plans	**187**	105
Issuance of shares for acquisitions		192
Balance, end of period	**$ (327)**	$ (509)
NON-CONTROLLING INTERESTS		
Balance, beginning of year	**$ 47**	$ 35
Net Income attributable to non-controlling interests, net of discontinued operations [e]	**6**	4
Other changes	**5**	(2)
Balance, end of period	**$ 58**	$ 37
TOTAL EQUITY	**$ 6,687**	$ 6,014
TOTAL COMPREHENSIVE INCOME (LOSS) (a+b+c+d+e)	**$ 448**	$ 177

The accompanying notes are an integral part of these consolidated statements.

Table of Contents

MARSH & McLENNAN COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations

Marsh & McLennan Companies, Inc. (the Company), a global professional services firm, is organized based on the different services that it offers. Under this organizational structure, the Company s two business segments are Risk and Insurance Services and Consulting.

As discussed below, on August 3, 2010, the Company completed the sale of Kroll, the Company s former Risk Consulting & Technology segment, to Altegrity, Inc. (Altegrity).

The Risk and Insurance Services segment provides risk management and insurance broking, reinsurance broking and insurance program management services for businesses, public entities, insurance companies, associations, professional services organizations, and private clients. The Company conducts business in this segment through Marsh and Guy Carpenter.

In January 2011, Marsh acquired RJF Agencies, an independent insurance agency in the upper Midwest. In February 2011, Marsh acquired Hampton Roads Bonding, a surety bonding agency for commercial, road, utility, maritime and government contractors in the state of Virginia, and the Boston office of Kinloch Consulting Group, Inc.

In the first quarter of 2010, Marsh acquired Haake Companies, Inc., an insurance broking firm in the Midwest region and Thomas Rutherfoord, Inc., an insurance broking firm in the Southeast and mid-Atlantic regions of the U.S. In the second quarter of 2010, Marsh acquired HSBC Insurance Brokers Ltd., an international provider of risk intermediary and risk advisory services and the Bostonian Group Insurance Agency, Inc. and Bostonian Solutions, Inc. (collectively the Bostonian Group), a regional insurance brokerage in New England. In the fourth quarter of 2010 Marsh acquired Trion, a U.S. private benefits specialist and SBS, a Georgia-based benefits brokerage and consulting firm.

The Consulting segment provides advice and services to the managements of organizations in the area of human resource consulting, comprising retirement and investments, health and benefits, outsourcing and talent; and strategy and risk management consulting, comprising management, economic and brand consulting. The Company conducts business in this segment through Mercer and Oliver Wyman Group. In the first quarter of 2011, Mercer acquired Hammond Associates, an investment consulting company for endowments and foundations in the U.S. In July 2010, Mercer acquired Innovative Process Administration (IPA), a provider of health and benefit recordkeeping and employee enrollment technology. In August 2010, Mercer acquired ORC Worldwide, a premier provider of HR knowledge, data and solutions for professionals in numerous industries.

In the first quarter of 2010, Kroll completed the sale of Kroll Laboratory Specialists (KLS). On August 3, 2010, the Company completed the sale of Kroll to Altegrity for cash consideration of $1.13 billion. The after-tax loss on the sale of KLS, along with Kroll s, and KLS s 2010 comparative results of operations are included in discontinued operations in 2010.

With the sale of Kroll in August 2010, along with previous divestiture transactions between 2008 and 2010, the Company has divested its entire Risk Consulting & Technology segment (CARG). The run-off of the Company s involvement in the CARG businesses, in which the Company has continuing involvement as defined in SEC Staff Accounting Bulletin Topic 5e, is now managed by the Company s corporate departments. Consequently, the financial results of the CARG businesses are included in Corporate for segment reporting purposes.

2. Principles of Consolidation and Other Matters

The consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted pursuant to such rules and regulations for interim filings, although the Company believes that the information and disclosures presented are adequate to make such information and disclosure not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 10-K).

The financial information contained herein reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the Company s results of operations for the three-month periods ended March 31, 2011 and 2010.

Investment Income

The caption investment income in the consolidated statements of income comprises realized and unrealized gains and losses from investments recognized in current earnings. It includes, when applicable, other than temporary declines in the value of available for sale securities and the change in value of the Company s holdings in certain private equity funds. The Company s investments may include direct investments in insurance or consulting companies and investments in private equity funds. Equity method gains/(losses) of $18 million and $(1) million are included in this line in 2011 and 2010, respectively.

The Company has an investment in Trident II limited partnership, a private equity investment fund. At March 31, 2011, the Company s investment in Trident II was approximately $150 million, reflected in other assets in the consolidated balance sheet. The Company s maximum exposure to loss is equal to its investment plus any calls on its remaining capital commitment of $80 million. Since this fund is closed to new investments, none of the remaining capital commitment is expected to be called.

Income Taxes

The Company reported a 28.6% effective tax rate in the first quarter of 2011. The effective tax rate includes a benefit from the effective settlement of the IRS audit for 2006 through 2008. Excluding this benefit, the effective tax rate for the first quarter of 2011 was 31.6%.

The Company reported a 27.3% effective tax rate in the first quarter of 2010. The effective rate reflects the impact of the release of valuation allowances in international jurisdictions. Excluding this benefit, the effective tax rate for the first quarter of 2010 was 30.3%.

The Company is routinely examined by tax authorities in the jurisdictions in which it has significant operations. The Company regularly considers the likelihood of assessments in each of the taxing jurisdictions resulting from examinations. When appropriate, the Company establishes liabilities for uncertain tax positions in relation to the potential assessments, including the possible assessment of penalties. When establishing this liability, the Company considers a number of relevant factors under penalty statutes, including appropriate disclosure of the tax return position, the existence of legal authority supporting the Company s position, and reliance on the opinion of professional tax advisors.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in the tax return. The Company s gross unrecognized tax benefits decreased from $199 million at December 31, 2010 to $145 million at March 31, 2011, primarily reflecting the effective settlement of issues on audit. It is reasonably possible that the total amount of unrecognized tax benefits will decrease between zero and approximately $15 million within the next twelve months due to settlement of audits and expiration of statutes of limitation.

Other Matters Impacting Results in Prior Periods

In December 2009, the U.S. District Court for the Southern District of New York approved the settlement of a purported securities class action lawsuit against the Company, Marsh and certain of their former officers and directors based on allegations similar to those made by the New York Attorney General against the Company in October 2004. Under the terms of the settlement agreement, the Company agreed to pay $425 million, $205 million of which was covered by insurance.

In June 2010, the Company settled a lawsuit brought by the Alaska Retirement Management Board against Mercer. Under the terms of the settlement agreement, Mercer paid $500 million, of which $100 million was covered by insurance.

3. Fiduciary Assets and Liabilities

In its capacity as an insurance broker or agent, the Company collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurance underwriters. The Company also collects claims or refunds from underwriters on behalf of insureds. Unremitted insurance premiums and claims proceeds are held by the Company in a fiduciary capacity. Risk and Insurance Services revenue includes interest on fiduciary funds of $12 million and $11 million for the three-month periods ended March 31, 2011 and 2010, respectively. The Consulting segment recorded fiduciary interest income of $1 million in the three-month periods ended March 31, 2011 and 2010, respectively. Since fiduciary assets are not available for corporate use, they are shown in the consolidated balance sheets as an offset to fiduciary liabilities.

Fiduciary assets include approximately $232 million and $283 million of fixed income securities classified as available for sale at March 31, 2011 and December 31, 2010, respectively. Unrealized gains or losses from available for sale securities are recorded in other comprehensive income until the securities are disposed of, or mature. Unrealized gains, net of tax, were $3 million and $5 million at March 31, 2011 and December 31, 2010, respectively.

Net uncollected premiums and claims and the related payables amounted to $9.3 billion at March 31, 2011 and $9.1 billion at December 31, 2010. The Company is not a principal to the contracts under which the right to receive premiums or the right to receive reimbursement of insured losses arises. Net uncollected premiums and claims and the related payables are, therefore, not assets and liabilities of the Company and are not included in the accompanying consolidated balance sheets.

In certain instances, the Company advances premiums, refunds or claims to insurance underwriters or insureds prior to collection. These advances are made from corporate funds and are reflected in the accompanying consolidated balance sheets as receivables.

4. Per Share Data

Under the accounting guidance which applies to the calculation of earnings per share (EPS) for share-based payment awards with rights to dividends or dividend equivalents, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of basic and dilutive EPS using the two-class method.

Table of Contents

Basic net income per share attributable to the Company and income from continuing operations per share are calculated by dividing the respective after-tax income attributable to common shares by the weighted average number of outstanding shares of the Company s common stock.

Diluted net income per share attributable to the Company and income from continuing operations per share are calculated by dividing the respective after-tax income attributable to common shares by the weighted average number of outstanding shares of the Company s common stock, which have been adjusted for the dilutive effect of potentially issuable common shares (excluding those that are considered participating securities). The diluted earnings per share calculation reflects the more dilutive effect of either (a) the two-class method that assumes that the participating securities have not been exercised or (b) the treasury stock method. Reconciliation of the applicable income components used for diluted earnings per share and basic weighted average common shares outstanding to diluted weighted average common shares outstanding is presented below.

Basic EPS Calculation

Continuing Operations
For the Three Months Ended March 31,

(In millions)	**2011**	2010
Net income from continuing operations	**$ 319**	$ 274
Less: Net income attributable to non-controlling interests	**6**	4
Net income from continuing operations attributable to the Company	**313**	270
Less: Portion attributable to participating securities	**3**	6
Net income attributable to common shares for basic earnings per share	**$ 310**	$ 264
Basic weighted average common shares outstanding	**544**	533

Basic EPS Calculation

Net Income
For the Three Months Ended March 31,

(In millions)	**2011**	2010
Net income attributable to the Company	**$ 325**	$ 248
Less: Portion attributable to participating securities	**3**	5
Net income attributable to common shares for basic earnings per share	**$ 322**	$ 243
Basic weighted average common shares outstanding	**544**	533

Diluted EPS Calculation

Continuing Operations
For the Three Months Ended March 31,

(In millions, except per share figures)	**2011**	2010
Net income from continuing operations	**$ 319**	$ 274
Less: Net income attributable to non-controlling interests	**6**	4
Net income from continuing operations attributable to the Company	**313**	270
Less: Portion attributable to participating securities	**3**	6
Net income attributable to common shares	**$ 310**	$ 264
Basic weighted average common shares outstanding	**544**	533
Dilutive effect of potentially issuable common shares	**8**	3
Diluted weighted average common shares outstanding	**552**	536
Average stock price used to calculate common stock equivalents	**$28.90**	$22.83

Table of Contents

Diluted EPS Calculation

Net Income
For the Three Months Ended March 31,

(In millions, except per share figures)	**2011**	2010
Net income attributable to the Company	**$ 325**	$ 248
Less: Portion attributable to participating securities	**3**	5
Net income attributable to common shares	**$ 322**	$ 243
Basic weighted average common shares outstanding	**544**	533
Dilutive effect of potentially issuable common shares	**8**	3
Diluted weighted average common shares outstanding	**552**	536
Average stock price used to calculate common stock equivalents	**$28.90**	$22.83

There were 42.4 million and 47.2 million stock options outstanding as of March 31, 2011 and 2010, respectively.

5. Supplemental Disclosures to the Consolidated Statements of Cash Flows

The following schedule provides additional information concerning acquisitions, interest and income taxes paid for the three-month periods ended March 31, 2011 and 2010.

(In millions of dollars)	**2011**	2010
Assets acquired, excluding cash	**$124**	$260
Liabilities assumed	**(21)**	(36)
Shares issued (7.4 million shares in 2010)		(178)
Contingent/deferred purchase consideration	**(13)**	(55)
Subtotal	**90**	(9)
Deferred purchase consideration from prior year acquisitions	**14**	12
Cash paid into escrow for future acquisitions		194
Net cash outflow for acquisitions	**$104**	$197

(In millions of dollars)	**2011**	2010
Interest paid	**$ 72**	$ 86
Income taxes paid	**$ 85**	$ 69

The Company had non-cash issuances of common stock under its share-based payment plan of $177 million and $119 million for the three months ended March 31, 2011 and 2010, respectively. The Company recorded stock-based compensation expense related to equity awards of $40 million and $42 million for the three month periods ended March 31, 2011 and 2010, respectively.

On March 31, 2010, the Company paid $194 million into an escrow fund for an acquisition that closed on April 1, 2010. This amount is reported as an investing cash outflow in the consolidated statement of cash flows in 2010.

The consolidated statement of cash flows for the period ended March 31, 2010 includes the cash flow impact of discontinued operations in each cash flow category. The cash flow impact of discontinued operations from the operating, financing and investing cash flow categories in 2010 is as follows:

Table of Contents

For the Year Ended March 31,

(In millions of dollars)	2010
Net cash (used for) provided by operations	$ 1
Net cash used for investing activities	$(5)
Effect of exchange rate changes on cash and cash equivalents	$(3)

The information above excludes the cash flow impacts of actual disposal transactions related to discontinued operations because the Company believes these transactions to be cash flows attributable to the parent company, arising from its decision to dispose of the discontinued operation. The Company s cash flow reflects the cash provided by investing activities in the first quarter of 2010 of $110 million for the disposition of KLS.

6. Comprehensive Income (Loss)

The components of comprehensive income (loss) for the three-month periods ended March 31, 2011 and 2010 are as follows:

(In millions of dollars)	**2011**	2010
Foreign currency translation adjustments, net of income tax expense ($2 for 2011 and $0 for 2010, respectively)	**$171**	$(185)
Unrealized investment holding losses, net of income tax credit ($1 for 2011 and $3 for 2010, respectively)	**(3)**	(8)
(Losses) gains related to pension/retiree plans, net of income tax credit (expense) ($13 for 2011 and $(43) for 2010, respectively)	**(51)**	118
Other comprehensive income (loss)	**117**	(75

The levels of the fair value hierarchy established by ASC 820 are as follows:

Level 1-Quoted prices in active markets for identical assets or liabilities

Level 2-Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3-Inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The estimated fair values of the Company’s financial instruments, other than derivatives, that are not measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows:

Page 21

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Fair Value	Level 1	Level 2
March 31, 2015:			
Cash[1]	$595,331	$595,331	$-
8.125% notes due 2018	(300,270)	-	(300,270)
OBS Term Loan due 2019	(604,462)	-	(604,462)
OIN Term Loan due 2019	(632,238)	-	(632,238)
7.5% Election 1 notes due 2021	(5,747)	-	(5,747)
7.5% Election 2 notes due 2021	(131,426)	-	(131,426)
7.5% notes due 2024	(604)	-	(604)
December 31, 2014:			
Cash[1]	$512,404	$512,404	$-
8.125% notes due 2018	(294,300)	-	(294,300)
OBS Term Loan due 2019	(589,863)	-	(589,863)
OIN Term Loan due 2019	(618,981)	-	(618,981)
7.5% Election 1 notes due 2021	(5,511)	-	(5,511)
7.5% Election 2 notes due 2021	(131,773)	-	(131,773)
7.5% notes due 2024	(626)	-	(626)

(1) Includes restricted cash of $118,010 and $123,178 at March 31, 2015 and December 31, 2014, respectively.

Derivatives

Interest Rate Risk

The Company uses interest rate caps and swaps for the management of interest rate risk exposure. The interest rate caps effectively convert a portion of the Company’s debt from a floating to a fixed rate and were designated and qualified as cash flow hedges. At March 31, 2015, OBS and OIN were party to two separate interest rate cap agreements (“Interest Rate Cap”) each with a start date of February 5, 2015 with major financial institutions covering notional amounts of $375,000 and $400,000, respectively, to limit the floating interest rate exposure associated with their respective term loans. The Interest Rate Cap agreements contain no leverage features. The OBS Interest Rate Cap has a cap rate of 2.5%

through February 5, 2017, at which time the cap rate increases to 3.0% through the termination date of February 5, 2018. The OIN Interest Rate Cap has a cap rate of 2.5% through the termination date of February 5, 2017.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular disclosure of derivatives location

Derivatives are recorded in the March 31, 2015 balance sheet on a net basis by counterparty when a legal right of offset exists. The following table presents information with respect to the fair values of derivatives reflected in the March 31, 2015 balance sheet on a gross basis by transaction.

	Asset Derivatives		Liability Derivatives	
March 31, 2015	Balance Sheet Location	Amount	Balance Sheet Location	Amount
Derivatives designated as hedging instruments:				
Interest rate caps:				
Long-term portion	Other assets	$ 927	Other liabilities	$ -
Total derivatives designated as hedging instruments		$ 927		$ -

	Asset Derivatives		Liability Derivat
December 31, 2014	Balance Sheet Location	Amount	Balance Sheet L
Derivatives designated as hedging instruments:			
Interest rate caps:			
Long-term portion	Other assets	$2,115	Other liabilities
Total derivatives designated as hedging instruments		$2,115	

The Interest Rate Cap agreements had no effect on the consolidated statement of operations for the three month period ended March 31, 2015.

The effect of cash flow hedging relationships recognized in other comprehensive income/(loss) excluding amounts reclassified from accumulated other comprehensive income (effective portion), including hedges of equity method investees, for the three months period ended March 31, 2014 and March 31, 2014 follows:

	Three Months Ended March 31,	
	2015	2014
Interest rate swaps	$ (7,431)	$ (6,843)
Interest rate caps	(1,187)	-
Total	$ (8,618)	$ (6,843)

See Note 8, “Equity Method Investments,” for additional information relating to derivatives held by the Company’s equity method investees and Note 13, “Accumulated Other Comprehensive Loss,” for disclosures relating to the impact of derivative instruments on accumulated other comprehensive loss.

Page 23

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Hierarchy

The following table presents the fair values, which are pre-tax, for assets and liabilities measured on a recurring basis (excluding investments in affiliated companies):

	Fair Value	Level 1	Level 2	
Assets at March 31, 2015:				
Derivative Assets (interest rate caps)	$ 927	$ -	$ 927	(1)
Assets at December 31, 2014:				
Derivative Assets (interest rate caps)	$ 2,115	$ -	$ 2,115	(1)

(1) For interest rate caps, fair values are derived using valuation models that utilize the income valuation approach. These valuation models take into account contract terms such as maturity, as well as other inputs such as interest rate yield curves and creditworthiness of the counterparty and the Company.

Note 11 — Taxes:

For the three months ended March 31, 2015 and 2014, the Company recorded an income tax provision of $ 2,660 and $ 1,329, respectively, which represents an effective tax rate of 6% and 10%, respectively.

As of March 31, 2015 and December 31, 2014, the Company had a reserve for uncertain tax positions of $42,635 and $34,520, respectively, after taking into consideration tax attributes, such as net operating loss carryforwards, and interest of $672 and $534, respectively. Taxes otherwise payable on current year taxable income earned by the Company's domestic subsidiaries are recorded as an unrecognized tax benefit based on the anticipated use of net operating loss carryforwards (recorded as a deferred tax asset) previously offset in full by unrecognized tax benefits. Such increase in unrecognized tax benefits is offset by a reduction in deferred tax liabilities.

The Company’s application for a Pre-Filing Agreement with the IRS with respect to OSG’s payments as guarantor made during 2014 has been accepted by the IRS and the examination of the Company’s position by the IRS has commenced. As a result, the Company believes that it is reasonably possible that a decrease of up to $179,151 in unrecognized tax benefits may occur within the next twelve months. Such decrease could result in an increase in the Company’s deferred tax assets for net operating loss carryforwards or an increase in its tax basis in foreign subsidiaries.

Note 12 — Capital Stock and Stock Compensation:

Warrant Conversions

During the three months ended March 31, 2015, the Company issued 694,517 shares of Class B Common Stock as a result of the exercise of 695,945 Class B Warrants.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Stock Compensation

The Company accounts for stock compensation expense in accordance with the fair value based method required by ASC 718, *Compensation – Stock Compensation*. Such fair value based method requires share based payment transactions to be measured based on the fair value of the equity instruments issued.

Director Compensation - Restricted Common Stock

On March 3, 2015, Mr. John J. Ray, III resigned from the Board of Directors of Overseas Shipholding Group, Inc. Pursuant to a waiver letter agreement entered into by the Company and Mr. Ray in connection with his resignation, 32,282 shares of the 58,333 shares originally granted to Mr. Ray, relating to his period of service as a director, vested on March 3, 2015. The balance of his restricted stock awards (26,051 shares) was forfeited and cancelled. The incremental compensation expense recognized as a result of the difference between the grant date fair value of the vested shares and estimated fair value of the Company's Class A common stock on March 3, 2015 was approximately $8.

Management Compensation - Restricted Stock Units and Stock Options

During the three months ended March 31, 2015, the Company entered into employment agreements with certain executive officers which provide for stock compensation grants comprised of a $1,500 grant of time –based restricted stock units which vest over a three year period; and two grants aggregating $4,000, one-third as stock options, one-third as time based restricted stock units and one-third as performance based restricted stock units, each subject to three year vesting. Also, during the three months ended March 31, 2015, the Company granted restricted stock units awards totaling $2,040 to certain employees, each award subject to three years vesting. All of the aforementioned awards were made pursuant to Form of Grant Agreements which are conditioned upon shareholder approval of the Management Plan within 12 months of the grant date. Therefore, for book purposes, stock compensation will not be recorded, until the specified grant condition is satisfied.

There were no stock options, restricted common stock, restricted stock units or performance related grants under the 2004 Plan during the three months ended March 31, 2014.

Stock compensation expense related to awards of stock option grants, restricted stock units and restricted stock of $357 and $542 was recorded for the three months ended March 31, 2015 and 2014, respectively.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 13 — Accumulated Other Comprehensive Loss:

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

As of	March 31, 2015	December 31, 2014
Unrealized losses on derivative instruments, substantially entered into by the Company's equity method joint venture investees	$ (65,123)	$ (61,547)
Items not yet recognized as a component of net periodic benefit cost (pension and other postretirement plans)	(21,337)	(21,833)
	$ (86,460)	$ (83,380)

The changes in the balances of each component of accumulated other comprehensive loss, net of related taxes, during the three months ended March 31, 2015 and 2014 follow:

	Unrealized losses on cash flow hedges	Items not yet recognized as a component of net periodic benefit cost (pension and other postretirement plans)	Total
Balance as of December 31, 2014	$ (61,547)	$ (21,833)	$ (83,380)
Current period change excluding amounts reclassified from other comprehensive income	(8,302)	496	(7,806)
Amounts reclassified from accumulated other comprehensive income	4,726	-	4,726
	(3,576)	496	(3,080)

Total change in accumulated other comprehensive income			
Balance as of March 31, 2015	$ (65,123)	$ (21,337)	$(86,460)
Balance as of December 31, 2013	$ (59,263)	$ (10,081)	$(69,344)
Current period change excluding amounts reclassified from other comprehensive income	(6,843)	(104)	(6,947)
Amounts reclassified from accumulated other comprehensive income	5,065	-	5,065
Total change in accumulated other comprehensive income	(1,778)	(104)	(1,882)
Balance as of March 31, 2014	$ (61,041)	$ (10,185)	$(71,226)

Page 26

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Amounts reclassified out of each component of accumulated other comprehensive loss follow:

Amounts Reclassified Out of Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Loss Component	Three Months Ended March 31, 2015	2014	Statement of Operations Line Item
Unrealized losses on cash flow hedges:			
Interest rate swaps entered into by the Company's equity method joint venture investees	$(4,726)	$(5,065)	Equity in income of affiliated companies
	$(4,726)	$(5,065)	Total before and net of tax

See Note 8, “Equity Method Investments,” for additional information relating to derivatives held by the Company’s equity method investees and Note 10, “Fair Value of Financial Instruments, Derivatives and Fair Value,” for additional disclosures relating to derivative instruments.

The income tax expense/(benefit) allocated to each component of other comprehensive loss follows:

	Unrealized gains/(losses) on cash flow hedges	Items not yet recognized as a component of net periodic benefit cost	Totals
For the three months ended March 31, 2015			
Current period change excluding amounts reclassified from accumulated other comprehensive loss	$ 316	$ -	$ 316
Amounts reclassified from accumulated other comprehensive loss	-	-	-
	$ 316	$ -	$ 316

Total change in accumulated other comprehensive loss

For the three months ended March 31, 2014 the income tax expense/(benefit) allocated to each component of other comprehensive loss was de minimus.

Note 14 — Leases:

1. Charters-in:

As of March 31, 2015, the Company had commitments to charter-in 17 vessels. All of these charters-in are accounted for as operating leases, of which 13 are bareboat charters and four are time charters. Lease expense relating to charters-in is included in “charter hire expenses” on the condensed consolidated statements of operations. The future minimum commitments and related number of operating days under these operating leases are as follows:

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Bareboat Charters-in at March 31, 2015	Amount	Operating Days
2015	$74,145	3,575
2016	99,038	4,758
2017	98,219	4,713
2018	93,200	3,929
2019	111,819	3,470
Thereafter	50,300	2,008
Net minimum lease payments	$526,721	22,453

Time Charters-in at March 31, 2015	Amount	Operating Days
2015	$17,584	1,596
2016	1,004	73
Net minimum lease payments	$18,588	1,669

The future minimum commitments for time charters-in excludes amounts with respect to vessels chartered-in where the duration of the charter was one year or less at the inception but includes amounts with respect to workboats employed in the International Crude Tankers Lightering business. Time charter-in commitments have been reduced to reflect estimated days that the vessels will not be available for employment due to drydock because the Company does not pay time charter hire when time chartered-in vessels are not available for its use. Certain of the bareboat charters-in provide for the payment of profit share to the owners of the vessels calculated in accordance with the respective charter agreements. Because such amounts and the periods impacted are not reasonably estimable they are not currently reflected in the table above. Certain of the charters in the above tables also provide the Company with renewal and purchase options.

2. Charters-out:

The future minimum revenues, before reduction for brokerage commissions, expected to be received on noncancelable time charters and certain contracts of affreightment (“COAs”) for which minimum annual revenues can be reasonably estimated and the related revenue days (revenue days represent calendar days, less days that vessels are not available for employment due to repairs, drydock or lay-up) are as follows:

At March 31,2015	Amount	Revenue Days
2015	$324,838	7,132
2016	283,393	5,194
2017	178,914	2,808
2018	123,156	1,699
2019	78,067	933
Thereafter	176,082	2,078
Future minimum revenues	$1,164,450	19,844

Page 28

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Future minimum revenues do not include (1) the Company's share of time charters entered into by the pools in which it participates, (2) the Company's share of time charters entered into by the joint ventures, which the Company accounts for under the equity method and (3) COAs for which minimum annual revenues cannot be reasonably estimated. Revenues from those COAs that are included in the table above of $19,373 (2015), $22,023 (2016), $22,347 (2017), $22,698 (2018), $23,031 (2019) and $6,356 (2020) are based on minimum annual volumes of cargo to be loaded during the contract periods at a fixed price and do not contemplate early termination of the COAs as provided in the agreements. Amounts that would be due to the Company in the event of the cancellation of the COA contracts have not been reflected in the table above. Revenues from a time charter are not generally received when a vessel is off-hire, including time required for normal periodic maintenance of the vessel. In arriving at the minimum future charter revenues, an estimated time off-hire to perform periodic maintenance on each vessel has been deducted, although there is no assurance that such estimate will be reflective of the actual off-hire in the future.

Note 15 — Pension and Other Postretirement Benefit Plans:

The net periodic benefit cost for the Company's domestic defined benefit pension (for which the benefits have been frozen) and postretirement health care and life insurance plans was not material during the three months ended March 31, 2015 and 2014.

The Company does not expect to make contributions to its domestic defined benefit pension plan in 2015 because any minimum contributions required for 2015 will be met from excess contributions made during 2014 as a result of the provisions of the Highway and Transportation Funding Act of 2014 enacted in August 2014.

Certain of the Company's foreign subsidiaries have or had pension plans that, in the aggregate, are not significant to the Company's consolidated financial position. The liabilities for such pension plans are included in other liabilities in the condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014. In August 2014, OSG provided a guarantee to the Trustees of the OSG Ship Management (UK) Ltd. Retirement Benefits Plan (the "Scheme"), which superseded entirely a guarantee previously entered into in November 2010, in respect to the obligations of OSG Ship Management (UK) Ltd., the principal employer of the Scheme, in the amount not to exceed GBP 4,896

($7,235 and $7,601 at March 31, 2015 and December 31, 2014, respectively).

Note 16 – Severance Costs:

Severance related costs are recognized over the period commencing on the date on which the affected employees are notified and ending on the date when required services are completed.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Costs Associated with Exit or Disposal Activities

On January 13, 2014, the Company announced that certain subsidiaries of OSG that own or charter-in 33 International Flag vessels (which was subsequently increased to 46 vessels) intended to outsource certain management services, including, but not limited to, the technical management, certain aspects of commercial management and crew management to V. Ships UK Limited ("V.Ships"). Charges relating to employee transition and termination benefits and similar transition and termination costs ("Outsourcing RIF") and set-up, wind down and transition costs ("Transition Costs") are included separately in the condensed consolidated statement of operations. Management does not to expect to incur any significant additional Outsourcing RIF costs in the remainder of 2015. Outsourcing RIF severance costs of $17,020 were incurred for the year ended 2014, of which $6,683 was incurred for the three months ended March 31, 2014 comprised of $1,427 and $2,716 relating to the International Crude Tankers and International Product Carriers business segments, respectively, with the balance relating to corporate offices. Transition Costs of $194 incurred for the three months ended March 31, 2014 included $90 and $60 relating to the International Crude Tankers and International Product Carriers business segments, respectively, with the balance relating to corporate offices. Management does not expect to incur significant additional costs relating to the winding down of activities of its foreign office locations in 2015.

Activity relating to the reserves for the Outsourcing RIF for the three months ended March 31, 2015 and March 31, 2014 is summarized as follow:

Activity for the three months ended March 31,	2015	2014
Balance as of January 1,	$1,159	$-
Original estimate	-	6,334
Utilized	(693)	(289)
Balance at March 31,	$466	$6,045

The above table excludes related professional fees, which are expensed as incurred.

Note 17 — Contingencies:

The Company’s policy for recording legal costs related to contingencies is to expense such legal costs as incurred.

Class Action Lawsuits and Derivative Actions

The Company has fully and finally resolved all potential direct claims by members of the putative class of securities claimants through a settlement effectuated through the Equity Plan, which became effective on August 5, 2014. Under the terms of that settlement, the Equity Plan provides for full satisfaction of the claims of the putative class through (i) $7,000 in cash, which was paid on August 5, 2014, (ii) 15% of the net litigation recovery in the action against Proskauer, described below, (iii) $5,000 in cash, payable following the entry of a final order resolving the Proskauer action, (iv) $3,000 in cash, payable by the reorganized Company on August 5, 2015, (v) proceeds of any residual interest the Company has in certain director and officer insurance policies, and (vi) any remaining cash in the class E1 disputed claims reserve established by the Equity Plan following resolution of all other class E1 claims. The settlement proceeds will be held in escrow pending allocations and distributions to members of the putative class to be determined by the district court overseeing the Exchange Act claims.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The settled claims stem from the Company's filing of a 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. Shortly thereafter several putative class action suits were filed in the United States District Court for the Southern District of New York (the "Southern District") 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 the Directors, its current 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 suit is purportedly 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 assert claims under the Securities Act against all defendants and claims under the Securities Exchange Act of 1934 (the "Exchange Act") against the then former President and former Chief Financial Officer of the Company. Following additional amendments on plaintiffs' Exchange Act claims and motion to dismiss briefing, on April 28, 2014, the Southern District denied the motion to dismiss the Exchange Act claims filed by the then former President and former Chief Financial Officer on the third amended complaint. On July 2, 2014, the Southern District issued a scheduling order provided that discovery would be completed by July 22, 2015. On October 20, 2014, the plaintiffs moved for leave to file another amended complaint alleging claims under the Exchange Act against the Company's current and former independent registered public accounting firms, and on November 28, 2014, the Southern District denied the plaintiffs' motion. On February 17, 2015, the Company's former independent registered public accounting firm requested that the Southern District strike the class allegations in the active complaint as they relate to that firm. On March 2, 2015, the Southern District stayed all depositions to allow the Company's former independent registered public accounting firm to move for summary judgment or judgment on the pleadings. On March 18, 2015, our former independent registered public accounting firm moved for summary judgment. On April 14, 2015, the Southern District stayed all discovery related to merits experts pending the resolution of that motion. Briefing of that motion is now complete.

The plaintiffs in the Southern District action filed a proof of claim against the Company in the Bankruptcy Court. Pursuant to a settlement with such plaintiffs and the putative class on whose behalf their claim is filed, their direct claims against the Company are fully and finally resolved based on the Equity Plan treatment described above. Separately, certain of the defendants in the Southern District have filed claims in the Bankruptcy Court against the Company for indemnification or reimbursement based on potential losses incurred in connection with such action. Certain of those indemnification claims, asserted by former directors of the Company, have been released pursuant to the Equity Plan. In addition, the indemnification claims asserted by the Company's former underwriters have been capped at no more than $1,500, pursuant to orders of the Bankruptcy Court. All claims of the defendants in the Southern District against the Company are subordinated pursuant to Section 510(b) of the Bankruptcy Code and are classified in Class E1. Under the Equity Plan, subordinated claims against the Company are limited to recoveries from a segregated reserve of $2,000 to be funded by the Company pursuant to the Equity Plan. The Equity Plan and related confirmation order do not permit any recoveries by the defendants beyond this $2,000 cap. Any amounts remaining following full and complete satisfaction of all Class E1 claims, including claims of defendants in the Southern District, will be distributed to members of the putative class pursuant to the terms of the settlement described above. The Equity Plan and confirmation order foreclose the defendants in the Southern District from pursuing any other or further remedies against the Company.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As such, management estimates the amount of its exposure with respect to the actions pending before the Southern District described above at between zero and $2,000.

Proskauer Action

On February 23, 2014, Proskauer and four of its partners filed an action in the Supreme Court of the State of New York, County of New York (the “Supreme Court”) against the then Senior Vice President, General Counsel and Secretary and the former Chief Financial Officer alleging that the defendants engaged in tortious and fraudulent conduct that caused significant harm to the plaintiffs and the Company. The plaintiffs alleged that the defendants made false representations and thereby deceived and misled Proskauer into providing legal advice to the Company, which was the subject of the Company’s malpractice suit against Proskauer and four of its partners filed on November 18, 2013 in the Bankruptcy Court. On May 1, 2014, the defendants in the action filed by Proskauer and four of its partners filed motions to dismiss the action. On June 9, 2014, the plaintiffs filed an amended complaint that included certain additional factual allegations and an additional claim against the former Chief Financial Officer of the Company. On July 18, 2014, the defendants filed motions to dismiss the plaintiffs’ amended complaint. On January 15, 2015, the Supreme Court dismissed the plaintiffs’ amended complaint against the defendants. On March 2, 2015, the plaintiffs appealed the Supreme Court’s decision to the Appellate Division of the Supreme Court, First Department. On February 21, 2014, the Bankruptcy Court declined to hear the Company’s malpractice claims against Proskauer and four of its partners that were filed on November 18, 2013 under the doctrine of permissive abstention, and on March 11, 2014, the Company re-filed its malpractice claims against such defendants in the Supreme Court. On April 11, 2014, Proskauer and four of its partners filed a motion to dismiss the malpractice action, and on September 10, 2014, the Supreme Court denied the motion to dismiss the legal malpractice for breach of duty of care claim but granted the motion to dismiss the legal malpractice for breach of duty of loyalty claim as subsumed within the duty of care claim. Proskauer and four of its partners appealed this decision to the Appellate Division of the Supreme Court, First Department and on February 11, 2015 the appellate court heard oral argument on the appeal. A ruling on the appeal is pending. In addition, on December 3, 2014, the Company filed a motion with the Supreme Court or partial summary judgment on whether the “joint and several” liability provisions of certain of the Company’s prior loan agreements, which are the focus of the malpractice action, are unambiguous as a matter of law. That motion is fully briefed, and a court hearing on this motion is scheduled for June 11, 2015.

On May 15, 2014, the Supreme Court issued a scheduling order for discovery in the Company’s malpractice action against Proskauer. Discovery has now commenced. Under the terms of the scheduling order, all discovery will be completed by September 30, 2015.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEC Investigation

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

The Equity Plan provides for funding for potential liabilities that the SEC may assert in connection with its proof of claim (the "SEC Claim") to the extent that the SEC Claim is allowed. The SEC filed the SEC Claim in respect of contingent and unliquidated amounts that the SEC may assert against the Company as a result of the outcome of its investigation of the Company and certain of its advisors. Pursuant to the Equity Plan, the Debtors will fund a cash reserve of up to $5,000 to satisfy any liabilities on account of the SEC Claim, solely to the extent and upon the entry of a final order of the Bankruptcy Court providing that the SEC Claim or any portion thereof is allowed. The SEC and the Debtors have agreed that there is no inference, assertion, concession, admission, determination or conclusion that should be drawn from the establishment of the reserve, as the SEC's investigation of the Company, its advisors and individuals inside and outside of the Company is ongoing, and the SEC will make a determination of whether there were securities laws violations only at the conclusion of its investigation. The SEC has reached no such conclusion, and the Staff sought a reserve solely in recognition of the fact that the SEC had not completed its investigation prior to the Equity Plan's confirmation.

Environmental Incident

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 voluntarily disclosed to the U.S. Coast Guard and the U.S. Department of Justice 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. On June 4, 2014 the U.S. Coast Guard accepted the Company’s self-reporting of this matter under the Coast Guard’s voluntary disclosure policy. Under such policy, the Coast Guard will not recommend to the U.S. Department of Justice or other prosecuting authority that criminal charges be brought against the Company arising from this matter. The Company is cooperating with the Department of Justice in its investigation resulting from the voluntary disclosures. Any liabilities for potential fines or penalties that may be imposed in connection with this matter cannot be estimated at this time.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Legal Proceedings Arising in the Ordinary Course of Business

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 (including without limitation exposure to asbestos and other toxic materials), wrongful death, collision or other casualty and to claims arising under charter parties. A substantial majority of such personal injury, wrongful death, 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, should not be material to the Company’s financial position, results of operations and cash flows.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward looking statements. Such forward-looking statements represent the Company's reasonable expectation with respect to future events or circumstances based on various factors and are subject to various risks and uncertainties and assumptions relating to the Company's operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause the Company's actual results to differ materially from those indicated in these statements. Undue reliance should not be placed on any forward-looking statements and consideration should be given to the following factors when reviewing such statement. Such factors include, but are not limited to:

- the highly cyclical nature of OSG's industry;
- fluctuations in the market value of vessels;
- declines in charter rates, including spot charter rates or other market deterioration;
- an increase in the supply of vessels without a commensurate increase in demand;
- the adequacy of OSG's insurance to cover its losses;
- constraints on capital availability;
- changing economic, political and governmental conditions in the United States and/or abroad and general conditions in the oil and natural gas industry;
- changes in fuel prices;
- acts of piracy on ocean-going vessels;
- terrorist attacks and international hostilities and instability;
- 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 sufficient cash to service its indebtedness and to comply with debt covenants;
- the Company's ability to make additional capital expenditures to expand the number of vessels in its fleet and to maintain all its vessels;
- the availability and cost of third party service providers for technical and commercial management of the Company's International Flag fleet;
- fluctuations in the contributions of the Company's joint ventures to its profits and losses;
- the Company's ability to renew its time charters when they expire or to enter into new time charters;

- termination or change in the nature of OSG’s relationship with any of the Commercial Pools in which it participates;
- competition within the Company’s industry and OSG’s ability to compete effectively for charters with companies with greater resources;
- the Company’s ability to realize benefits from its past acquisitions or acquisitions it may make in the future;
- changes in demand in specialized markets in which the Company currently trades;
- increasing operating costs and capital expenses as the Company’s vessels age, including increases due to limited shipbuilder warranties or the consolidation of suppliers;
- refusal of certain customers to use vessels of a certain age;
- the Company’s ability to replace its operating leases on favorable terms, or at all;

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

- changes in credit risk with respect to the Company’s counterparties on contracts;
- the failure of contract counterparties to meet their obligations;
- the Company’s ability to attract, retain and motivate key employees;
- work stoppages or other labor disruptions by the unionized employees of OSG or other companies in related industries;
- unexpected drydock costs;
- the potential for technological innovation to reduce the value of the Company’s vessels and charter income derived therefrom;
- the impact of an interruption in or failure of the Company’s information technology and communication systems upon the Company’s ability to operate;
- seasonal variations in OSG’s revenues;
- the Company’s compliance with 46 U.S.C. sections 50501 and 55101 (commonly known as the “Jones Act”) limitations on U.S coastwise trade, the waiver, modification or repeal of the Jones Act limitations or changes in international trade agreements;
- government requisition of the Company’s vessels during a period of war or emergency;
- the Company’s compliance with requirements imposed by the U.S. government restricting calls on ports located in countries subject to sanctions and embargoes;
- the Company’s compliance with complex laws, regulations and in particular, environmental laws and regulations, including those relating to the emission of greenhouse gases;
- delays and costs overruns in construction projects;
- any non-compliance with the U.S. Foreign Corrupt Practices Act of 1977 or other applicable regulations relating to bribery;
- the impact of litigation, government inquiries and investigations;
- governmental claims against the Company;
- the arrest of OSG’s vessels by maritime claimants;
- the potential for audit or material adjustment by the IRS of certain tax benefits recognized by the Company;
- the Company’s ability to use it net operating loss carryforwards;
- the shipping income of OSG’s foreign subsidiaries becoming subject to current taxation in the United States; and
- changes in laws, treaties or regulations;

The Company assumes no obligation to update or revise any forward looking statements. Forward looking statements in this Quarterly Report on Form 10-Q and written and oral forward looking statements attributable to the Company or its representatives after the date of this Quarterly Report on Form 10-Q 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.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

General:

We are a leading provider of ocean transportation services for crude oil and refined petroleum products, and the only major tanker company to operate in both the U.S. Flag and International Flag fleet markets. We operate our vessels in two strategic business units: we serve the U.S. Flag market through our subsidiary OBS and the International Flag market through our subsidiary OIN. Our U.S. Flag business operates as a single reportable segment. Our International Flag business includes two reportable segments: International Crude Tankers and International Product Carriers.

As of March 31, 2015, we owned or operated a fleet of 80 vessels aggregating 7.5 million dwt and 864,800 cbm, including 17 vessels that have been chartered-in under operating leases. Our 24-vessel U.S. Flag fleet includes tankers and ATBs, of which 22 operate under the Jones Act and two operate internationally in the U.S. Maritime Security Program. Our 56-vessel International Flag fleet includes ULCC, VLCC, Aframax and Panamax crude tankers and LR1, LR2 and MR product carriers, as well as the FSO and LNG joint venture vessels (the “JV Vessels”). Revenues from our U.S. Flag fleet and JV Vessels are derived predominantly from time charter agreements which, within a contract period, provide a more predictable level of revenues. Revenues from our International Flag fleet (other than the JV Vessels) are derived predominantly from spot market voyage charters and those vessels are predominantly employed in the spot market via market-leading commercial pools. Revenues from our International Flag fleet constituted 50% and 53% of our total TCE revenues during the three months ended March 31, 2015 and 2014, respectively. Revenues from our U.S. Flag segment constituted 50% and 47% of our total TCE revenues during the three months ended March 31, 2015 and 2014, respectively.

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

Our Emergence from Bankruptcy

We emerged from Bankruptcy on August 5, 2014. During the period from November 14, 2012 through August 4, 2014, we conducted our business in the ordinary course as debtors-in-possession under the protection of the Bankruptcy Court. Pursuant to the Equity Plan, all claims allowed by the Bankruptcy Court (other than subordinated claims) are either reinstated or paid in full in cash plus interest for the period from November 14, 2012 through the Effective Date, at either the contractual rate as provided by statute, or, at the rate of 2.98%, as set forth in the Equity Plan.

As part of an overall strategy to position the Company to successfully emerge from Chapter 11 with a smaller, more concentrated fleet without the need for costly systems, multiple offices and the associated expenses, we embarked on an organizational restructuring process over the past 24-months that notably involved (i) rejecting 25 executory contracts relating to above-market charter agreements (17 of the vessels were redelivered and 8 were renegotiated), (ii) exiting our full service International Crude Tankers Lightering business to focus only on ship-to-ship Lightering services, (iii) outsourcing the technical and commercial management of our International Flag conventional tanker fleet and (iv) deleveraging our balance sheet by using a combination of cash on hand and proceeds from two exit financing facilities and an equity offering to pay down $2,131,290 of our pre-petition debt obligations of $2,577,290 (gross of original issue discount). As of March 31, 2015 our total debt (including the Exit Financing Facilities) was $1,665,612. We believe these actions have positioned us to compete more effectively in the markets in which we operate.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

The following is a discussion and analysis of the Company's financial condition as of March 31, 2015 and results of operations for the three month periods ended March 31, 2015 and 2014. You should consider the foregoing when reviewing the condensed consolidated financial statements and this discussion and analysis. You should read this section together with the condensed consolidated financial statements, including the notes thereto. This Quarterly Report on Form 10-Q includes industry data and forecasts that we have prepared based, in part, on information obtained from industry publications and surveys. Third-party industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. In addition, certain statements regarding our market position in this report are based on information derived from the Company's market studies and research reports. Unless we state otherwise, statements about the Company's relative competitive position in this report are based on our management's beliefs, internal studies and management's knowledge of industry trends.

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, levels of U.S. domestic production and 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.

The International Energy Agency ("IEA") estimates global oil consumption for the first quarter at 92.7 million barrels per day ("b/d"), an increase of 1.0 million b/d, or 1.1%, over the same quarter in 2014. The increase was mainly caused by higher demand in non-OECD areas. The estimate for global oil consumption for all of 2015 is 93.5 million b/d, an increase of 1.1% compared with 2014. OECD demand in 2015 is estimated to be flat, remaining at around 45.6 million b/d.

Global oil production in the first quarter of 2015 reached 94.0 million b/d, an increase of 2.1 million b/d over the first quarter of 2014. OPEC crude oil production (excluding natural gas liquids and non-conventional oils) continued their higher production levels, averaging 30.3 million b/d in the first quarter of 2015, an increase from 29.9 million b/d in the first quarter of 2014, although unchanged from the fourth quarter of 2014. Non-OPEC production growth, largely driven by the United States, increased by 1.5 million b/d in the first quarter of 2015 compared with the first quarter of 2014 to reach 57.2 million b/d. Oil production in the United States in the first quarter of 2015 reached 12.6 million b/d, an increase of 1.5 million b/d over the first quarter of 2014.

U.S. refinery throughput decreased by about 0.1 million b/d in the first quarter compared with the comparable quarter in 2014. Crude oil imports, however, decreased by about 0.4 million b/d as local production growth more than offset the change in crude runs. Imports from OPEC countries were reduced by 0.9 million b/d, mainly due to reductions of imports from Venezuela, West Africa and Saudi Arabia. Chinese imports of crude oil increased by 7.5% from the first quarter of 2014 to the first quarter of 2015, reaching 6.5 million b/d. This has had a continued positive impact on VLCC rates in 2015.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

During the first quarter of 2015, the tanker fleet of vessels over 10,000 deadweight tons ("dwt") increased by 3.4 million dwt primarily comprised of Handysize (1.2 million dwt increase), Aframaxes (1.0 million dwt increase), VLCCs (0.7 million dwt increase) and Suezmaxes (0.6 million dwt increase).

Year over year, the total tanker orderbook at March 31, 2015 gained 5.3 million dwt attributable primarily to increases for Suezmaxes with smaller increases in the VLCC and Panamax orderbooks. The MR orderbook decreased by 3.6 million dwt as ships under construction are being delivered with few new orders.

VLCC freight rates continued their upward trend in the first quarter of 2015, driven by higher Chinese imports, lower bunker prices, as well as a general tightness of tonnage availability. The other crude segments followed the VLCC lead with improved rates throughout the first quarter. MR earnings also continued their upward trend.

TCE rates for prompt Jones Act Product Carriers and large Articulated Tug Barges ("ATBs") averaged $90,700 and $61,900 per day, respectively, during the first quarter of 2015, representing a decrease of 4% and an increase of 2%, respectively, for each class of vessel compared with the first quarter of 2014. These are estimated rates as there was little spot-market activity in the first quarter of 2015 because nearly all vessels were committed to time charters in the U.S. Flag coastwise trades. Spot voyages only occurred when time-charter customers relet their vessels for the occasional voyage or Delaware Bay lightering vessels were employed when underutilized in the lightering service. The slight softening in rates in the first quarter of 2015 compared with the same quarter of 2014 for Jones Act Product Carriers reflects the uncertainty created by the sharp drop in crude oil prices (and what that might mean to domestic crude oil production) in the fourth quarter of 2014. The charter rates for ATBs were also negatively affected by the uncertainty created by falling crude oil prices, but the impact was more than offset by the benefit resulting from the decrease in fuel costs.

The average monthly rate of production from the Eagle Ford formation increased by approximately 419,000 b/d in March 2015 compared with March 2014. Eagle Ford oil is transported through pipeline infrastructure to Corpus Christi where it is loaded on Jones Act vessels for transportation to refineries in Texas, Louisiana and Mississippi and the Philadelphia area.

As of March 31, 2015, the industry's entire Jones Act fleet of Product Carriers and large ATBs (defined as vessels having carrying capacities of between 140,000 barrels and 350,000 barrels, which excludes numerous tank barges below 140,000 barrel capacity and 10 much larger tankers dedicated exclusively to the Alaskan crude oil trade) consisted of 73 vessels. There were no newbuild deliveries or vessels scrapped during the first quarter of 2015. In addition to the 73 vessels mentioned above, there are two late-1970s-built Alaskan crude tankers (Kodiak and Sierra) that were sold by Exxon to competitors who were expected to redeploy them into the lower 48 coastwise trade. The Kodiak, renamed the Eagle Ford, has been redeployed into the Eagle Ford crude trade. Exxon is expected to deliver the Sierra in the second quarter of 2015 at which time it is expected to join the Eagle Ford trade.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

The industry's firm Jones Act orderbook as of March 31, 2015, with deliveries scheduled between the second quarter of 2015 and the third quarter of 2017 consisted of 24 vessels (14 Product Carriers and ten large ATBs). Options for an additional two Product Carriers and four ATBs remain open.

Delaware Bay lightering volumes averaged 72,000 b/d in the first quarter of 2015 compared with 96,000 b/d in the first quarter of 2014. The decrease resulted from Delaware Bay refineries sourcing increased amounts of crude oil from North American sources via rail and U.S. Flag vessels at the expense of crude imports. Our lightering ATBs have offset reduced lightering demand by occasionally carrying crude from the U.S. Gulf Coast to refineries in the Philadelphia area.

Update on Critical Accounting Policies:

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments and opinions of management. For a description of all of the Company's material accounting policies, see Note 3, "Summary of Significant Accounting Policies," to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for 2014. There have been no changes in the Company's evaluation of its critical accounting policies since December 31, 2014.

RESULTS FROM VESSEL OPERATIONS

During the first quarter of 2015, results from vessel operations improved by $30,502 to income of $65,132 from income of $34,630 in the first quarter of 2014. This increase reflects the impact of a significant decrease in charter hire expense, a growth in TCE revenues, and lower non-bankruptcy related general and administrative expenses and severance costs. Such impacts were partially offset by a quarter-over-quarter increase in vessel expenses.

The decrease in charter hire expense in the first quarter of 2015 compared with the first quarter of 2014 was principally the result of the redeliveries of ten vessels (eight Aframaxes, one Suezmax and one MR) at the expiry of their short-term time charters in 2014.

Also contributing to the improvement in results from vessel operations was an increase in TCE revenues in the current quarter of $7,089, or 3%, to $221,642 from $214,553 in the first quarter of 2014 due to (i) a strengthening of rates in all of the International Flag sectors, most notably in the VLCC and Handysize Product Carrier fleets and (ii) a continued robust Jones Act market benefitting the U.S. Flag segment. These positive factors were partially offset by a 1,432 day decrease in revenue days, which reflects the vessel redeliveries discussed above, the Company's exit from the full service International Flag Lightering business upon the expiry of its Lightering contracts in September 2014, and the sale of two VLCCs and one Panamax in December 2014.

The increase in vessel expenses resulted primarily from (i) reactivation costs incurred in conjunction with the Company's ULCC being taken out of lay-up in the current quarter, (ii) incremental costs relating to redelivery of one of the Company's Panamaxes that had previously been bareboat chartered-out, and (iii) technical management fees paid to V.Ships. As discussed in further detail in Note 16, "Severance Costs," the Company began transferring management of 46 of its International Flag conventional tankers to V.Ships in March 2014 and completed the 46 vessel transfers by September of 2014. Three of the transferred vessels were subsequently sold during the fourth quarter of 2014. With the reactivation of the ULCC and Panamax bareboat charter out redelivery, there were 45 vessels under V.Ships' technical management as of March 31, 2015. Vessel operating expenses in the first quarter of 2015 included approximately $1,600 in technical management fees, compared with approximately $100 in the first quarter for 2014. These increases in vessel expenses are more than offset by a decrease in general and administrative expenses.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

See Note 6, "Business and Segment Reporting," to the condensed consolidated financial statements 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 before income taxes and reorganization items, as reported in the condensed consolidated statements of operations. Information with respect to the Company's proportionate share of revenue days for vessels operating in companies accounted for using the equity method is shown below in the discussion of "Equity in Income of Affiliated Companies."

International Crude Tankers

	Three Months Ended March 31,	
	2015	2014
TCE revenues	$ 66,821	$ 82,921
Vessel expenses	(20,836)	(21,414)
Charter hire expenses	(1,549)	(14,176)
Depreciation and amortization	(12,445)	(14,260)
Income from vessel operations [(a)]	$ 31,991	$ 33,071
Average daily TCE rate	$ 33,868	$ 24,228
Average number of owned vessels [(b)]	24.0	28.9
Average number of vessels chartered-in under operating leases	-	10.7
Number of revenue days[(c)]	1,973	3,421
Number of ship-operating days:[(d)]		
Owned vessels	2,160	2,600
Vessels bareboat chartered-in under operating leases	-	90
Vessels time chartered-in under operating leases	-	682
Vessels spot chartered-in under operating leases	-	191

(a) Income from vessel operations by segment is before general and administrative expenses, technical management transition costs, severance and relocation costs and gain/(loss) on disposal of vessels.

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

(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 three months ended March 31, 2015 and 2014, between spot and fixed earnings and the related revenue days. The information in these tables is based, in part, on information provided by the pools or commercial joint ventures in which the segment's vessels participate.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Three months ended March 31,	2015		2014	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
VLCCs: *				
Average rate	$49,280	$-	$32,024	$16,748
Revenue days	648	-	892	10
Suezmaxes:				
Average rate	$-	$-	$15,603	$-
Revenue days	-	-	38	-
Aframaxes: **				
Average rate	$30,932	$-	$26,927	$-
Revenue days	620	-	1,108	-
Panamaxes:				
Average rate	$27,695	$14,007	$26,664	$11,870
Revenue days	348	354	359	427

* The 2014 average rates reported in the above tables represent VLCCs under 15 years of age. The Company did not operate any VLCCs aged 15 years and older in the first quarter of 2015. The average spot TCE rates earned by Company's VLCCs on an overall basis during the three months ended March 31, 2014 was $30,421.

** The 2015 average rates reported for Aframaxes exclude TCE revenues from the Company's International Flag Lightering service only business. The average rates and related days previously reported in 2014 have been adjusted to exclude the Company's International Flag Lightering business for comparative purposes.

During the first quarter of 2015, TCE revenues for the International Crude Tankers segment decreased by $16,100, or 19%, to $66,821 from $82,921 in the first quarter of 2014. This decrease in TCE revenues resulted from a 1,448 day decrease in revenue days. The decrease in revenue days reflects a reduction in the International Crude Tankers Lightering fleet associated with the Company’s exit from the full service International Flag Lightering business upon the expiry of its Lightering contracts in September 2014. Such reduction included the sale of two 1994-built Aframaxes that had been utilized in the International Flag Lightering business, one in March 2014, and a second in September 2014. Also contributing to the decrease in revenue days were 538 fewer chartered-in days in the Aframax fleet, as well as the Company's sale of a 1996-built VLCC, a 1997-built VLCC and a 2004-built Panamax in December 2014. Partially offsetting the decline in revenue days was a strengthening in average daily rates across all fleets in the segment, with the increased rates in the VLCC sector being especially significant. The Company's ULCC commenced an 11-month time charter for storage in April 2015.

Vessel expenses decreased by $578 to $20,836 in the first quarter of 2015 from $21,414 in the first quarter of 2014. The change in vessel expenses is primarily due to a 530 day decrease in owned and bareboat chartered-in vessels resulting from the fleet changes noted above, offset by an increase in average daily vessel expenses of $1,522. The increased average daily vessel expenses were driven by reactivation costs incurred for the ULCC associated with its removal from lay-up, higher drydock deviation fuel costs and technical management fees paid to V.Ships. Charter hire expenses decreased by $12,627 to $1,549 in the first quarter of 2015 from $14,176 in the first quarter of 2014, resulting from a decrease of 963 chartered-in days in the current period, driven by the return of vessels discussed above. The only vessels in the segment chartered-in by the Company during the first quarter of 2015 were workboats employed by the International Flag Lightering business. Depreciation expense decreased by $1,815 to $12,445 in the current quarter from $14,260 in the first quarter of 2014, reflecting the 2014 vessel sales noted above.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

International Product Carriers

	Three Months Ended March 31,	
	2015	2014
TCE revenues	$ 43,517	$ 31,239
Vessel expenses	(14,467)	(12,890)
Charter hire expenses	(7,797)	(8,948)
Depreciation and amortization	(6,977)	(6,411)
Income from vessel operations	$ 14,276	$ 2,990
Average daily TCE rate	$ 18,300	$ 13,327
Average number of owned vessels	19.0	18.0
Average number of vessels chartered-in under operating leases	7.9	9.0
Number of revenue days	2,378	2,344
Number of ship-operating days:		
Owned vessels	1,710	1,620
Vessels bareboat chartered-in under operating leases	270	270
Vessels time chartered-in under operating leases	437	540

The following table provides a breakdown of TCE rates achieved for the three months ended March 31, 2015 and 2014 between spot and fixed earnings and the related revenue days. The information is based, in part, on information provided by the pools or commercial joint ventures in which certain of the segment's vessels participate.

Three months ended March 31,	2015		2014	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
Aframax Product Carriers:				
Average rate	$26,755	$-	$-	$-
Revenue days	90	-	-	-
Panamax Product Carriers:				
Average rate	$29,741	$15,732	$34,926	$13,346
Revenue days	90	270	105	255
Handysize Product Carriers:				
Average rate	$18,846	$9,816	$12,646	$10,047
Revenue days	1,761	167	1,766	218

During the first quarter of 2015, TCE revenues for the International Product Carrier segment increased by $12,278, or 39%, to $43,517 from $31,239 in the first quarter of 2014. This increase in TCE revenues resulted primarily from significant period-over-period increases in average daily spot rates earned by the Handysize Product Carrier fleet. Also contributing to the increased TCE revenues was the delivery of a newbuild LR2 in July 2014.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Vessel expenses for the International Product Carrier segment increased by $1,577 to $14,467 in the first quarter of 2015 from $12,890 in the first quarter of 2014. The increase reflects the LR2 newbuild delivery noted above along with increased average daily vessel expenses of $493 per day, which related to higher crew and repair costs and V.Ships technical management fees. Charter hire expenses decreased by $1,151 to $7,797 in the first quarter of 2015 from $8,948 in the first quarter of 2014 reflecting 103 fewer chartered-in days in the Handysize Product Carrier fleet, as vessels were returned to their owners at the expiry of their charters. Depreciation and amortization increased by $566 to $6,977 in the first quarter of 2015 from $6,411 in the first quarter of 2014, principally due to the LR2 delivery discussed above.

U.S. Flag

	Three Months Ended March 31,	
	2015	2014
TCE revenues	$ 111,212	$ 100,432
Vessel expenses	(33,907)	(32,388)
Charter hire expenses	(22,552)	(22,358)
Depreciation and amortization	(17,226)	(16,779)
Income from vessel operations	$ 37,527	$ 28,907
Average daily TCE rate	$ 53,659	$ 48,077
Average number of owned vessels	14.0	14.0
Average number of vessels chartered in under operating leases	10.0	10.0
Number of revenue days	2,073	2,089
Number of ship-operating days:		
Owned vessels	1,260	1,260
Vessels bareboat chartered-in under operating leases	900	900

The following table provides a breakdown of TCE rates achieved for the three months ended March 31, 2015 and 2014 between spot and fixed earnings and the related revenue days.

Three months ended March 31,	2015		2014	
	Spot Earnings	Fixed Earnings	Spot Earnings	Fixed Earnings
Jones Act Handysize Product Carriers:				
Average rate	$ -	$ 64,777	$ -	$ 57,589
Revenue days	-	1,070	-	1,018

Non-Jones Act Handysize Product Carriers:				
Average rate	$28,103	$-	$29,470	$-
Revenue days	164	-	180	-
ATBs:				
Average rate	$-	$38,429	$-	$34,540
Revenue days	-	690	-	712
Lightering:				
Average rate	$71,390	$-	$65,751	$-
Revenue days	149	-	179	-

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

During the first quarter of 2015, TCE revenues for the U.S. Flag segment increased by $10,780, or 11%, to $111,212 from $100,432 in the first quarter of 2014. This increase reflects the continued strength of the Jones Act market, which allowed the Company's Jones Act Handysize Product Carriers and ATBs to achieve higher rates upon the expiry of their prior time charters.

U.S. Flag vessel expenses increased by $1,519 to $33,907 in the first quarter of 2015 from $32,388 in the first quarter of 2014, due to an increase in average daily vessel expenses of $703 per day, which resulted primarily from higher crew costs.

Two reflagged U.S. Flag Product Carriers participate in the U.S. Maritime Security 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, subject in each case to annual congressional appropriations, which is intended to offset the increased cost incurred by such vessels from operating under the U.S. Flag. The Company is scheduled to receive $3.1 million per year for each vessel from 2015 through 2018, $3.5 million from 2019 through 2021, and $3.7 million from 2022 through 2025.

General and Administrative Expenses

During the first quarter of 2015, general and administrative expenses decreased by $5,143 to $19,282 from $24,425 in the first quarter of 2014 principally due to the following:

- a decrease of $6,483 in employee compensation and benefits relating to (i) the outsourcing of the technical management and certain aspects of commercial management and crew management of the International Flag fleet, and (ii) costs recognized in 2014 related to retention bonus programs put into place as a result of the Company's Bankruptcy filing. This net decrease in employee compensation and benefits also reflects current period costs totaling $640 relating to a new retention bonus plan approved by the Board of Directors in December 2014. Awards under the retention bonus plan will be paid in a lump sum following completion the of the retention period in December 2016; and
- a decrease in rent and facility related expenses and travel and entertainment totaling $783.

These decreases were partially offset by higher accounting and audit related fees of $651 and legal and consulting fees of $1,733 incurred in the period subsequent to the Company's emergence from bankruptcy.

Beginning in the second quarter of 2015, general and administrative expenses are expected to increase by approximately $600 per quarter as a result of additional compensation and benefit expenses incurred for new hires. Also as discussed in Note 12, "*Capital Stock and Stock Compensation*", during the quarter ended March 31, 2015, the Company made awards of restricted stock units and stock options under the 2014 Management Plan, which are subject to shareholder approval in June 2015. Accordingly compensation expense will not be recognized until such specified grant condition is satisfied. Compensation expense related to these grants expected to be recognized in 2015 subsequent to the shareholders meeting will be approximately $1,700.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Equity in Income of Affiliated Companies:

During the first quarter of 2015, equity in income of affiliated companies increased by $3,918 to $12,412 from $8,494 in the first quarter of 2014. The quarter-over-quarter increase was principally attributable to a $3,687 increase in equity in income from the LNG joint venture. The increase of the LNG joint venture results was primarily driven by a 40 day reduction in offhire days during the quarter ended March 31, 2015 compared with 40 offhire days during the quarter ended March 31, 2014 for repairs to one of the LNG joint venture's vessels that was involved in a collision in late December 2013. Also contributing to the improvement in the LNG joint venture results was a $2,200 reimbursement received from the joint venture's charterer for increased costs incurred by the joint venture related to maintaining an inventory of ship spare parts.

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. Flag 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 March 31, 2015 and 2014.

Three months ended March 31,	2015		2014	
	Revenue Days	% of Ownership	Revenue Days	% of Ownership
LNG Carriers operating on long-term charters	180	49.9 %	160	49.9 %
FSOs operating on long-term charter	90	50.0 %	90	50.0 %
Total	270		250	

Interest Expense:

Interest expense was $28,569 in the first quarter of 2015 compared with $123 in the first quarter of 2014. Interest expense for the first quarter of 2015 reflects interest expense of $8,830 and $19,703 associated with the Company's reinstated Unsecured Senior Notes and the Exit Financing Facilities, respectively. Because interest on the Company's secured and unsecured debt subsequent to the Petition Date was not expected to be an allowed claim, the Company ceased accruing interest on such debt as of the Petition Date. The interest expense for the first quarter of 2014 of $123 relates to mortgage insurance premiums which are classified as interest expense.

Income Tax Provision:

For the three months ended March 31, 2015 and 2014, the Company recorded an income tax provision of $ 2,660 and $ 1,329, respectively, which represents an effective tax rate of 6% and 10%, respectively. The decrease in the effective tax rate for the 2015 period was substantially due to a change in the mix of U.S. versus foreign income, offset in part by a decrease in nondeductible reorganization costs. The foreign income is primarily attributable to operations of companies domiciled in the Marshall Islands, which are not subject to income tax.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

The Company's application for a Pre-Filing Agreement with the IRS with respect to OSG's payments as guarantor made during 2014 has been accepted and the examination of the Company's position by the IRS has commenced. The Company anticipates the resolution of this matter by December 31, 2015 and, as such, the amount of unrecognized tax benefits associated with the position may change significantly. If the IRS accepts the Company's position, we would record deferred tax assets related to the tax effect of an increase in net operating loss carryforwards of up to $438,363 and a decrease in its tax basis in foreign subsidiaries of up to $477,835, both depending on the final determination by the IRS of the allowed amount of payments as guarantor. In addition, OSG anticipates filing a refund claim for the carryback of 2014 net operating losses, which may result in an IRS examination of the 2012 and 2013 tax years.

<u>EBITDA and Adjusted EBITDA:</u>

EBITDA represents net income before interest expense, income taxes and depreciation and amortization expense. Adjusted EBITDA consists of EBITDA adjusted for the impact of certain items that we do not consider indicative of our ongoing operating performance. EBITDA and Adjusted EBITDA are presented to provide investors with meaningful additional information that management uses to monitor ongoing operating results and evaluate trends over comparative periods. EBITDA and Adjusted EBITDA do not represent, and should not be a substitute for, net income or cash flows from operations determined in accordance with GAAP. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered them in isolation, or as a substitute for analysis of our results reported under GAAP. Some of the limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs; and
- EBITDA and Adjusted EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt.

While EBITDA and Adjusted EBITDA are frequently used as a measure of operating results and performance, neither of them is necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

The following table reconciles net income, as reflected in the condensed consolidated statements of operations, to EBITDA and Adjusted EBITDA:

	Three Months Ended March 31, 2015	2014
Net income	$ 42,901	$ 12,550
Income tax provision	2,660	1,329
Interest expense	28,569	123
Depreciation and amortization	37,119	37,945
EBITDA	111,249	51,947
Technical management transition costs	40	194
Severance and relocation costs	5	6,683
Gain on disposal of vessels and other property	(1,073)	(1,477)
Reorganization items, net	3,487	29,256
Adjusted EBITDA	$ 113,708	$ 86,603

Liquidity and Sources of Capital:

Working capital at March 31, 2015 was approximately $613,000 compared with $598,000 at December 31, 2014. Current assets are highly liquid, consisting principally of cash, interest-bearing deposits and receivables. The positive working capital position at March 31, 2015 and December 31, 2014 reflects the Company’s emergence from bankruptcy with sufficient cash to settle allowed claims and fund ongoing working capital needs.

As of March 31, 2015, we had $477,321 of cash and cash equivalents and $118,010 of restricted cash. Management has designated cash reserves of $40,011 as of March 31, 2015 to be utilized within the next twelve months for the settlement of certain unsecured claims, including disputed unsecured claims, and other bankruptcy related costs related to the Company’s recent emergence from bankruptcy. Such restricted cash reserves will be subject to adjustment based upon the settlement of claims and other bankruptcy related costs and changes in estimates of future funding requirements. Additionally, restricted cash as of March 31, 2015 includes approximately $77,999 of legally restricted cash relating to the OIN Term Loan. The OIN Term Loan stipulates that if annual aggregate cash proceeds of OIN asset sales exceed $5,000, cash proceeds from each such sale are required to be reinvested in vessels within twelve months of such sale (principally by the end of 2015) or be used to prepay the principal balance outstanding of the OIN Term Loan. It is management's intent to reinvest the proceeds from the post emergence sales of certain International Flag vessels and other property through acquisitions of vessel assets during 2015 as part of the overall business strategy of modernizing the Company's fleet.

Approximately 54% of cash on hand, including restricted cash, at March 31, 2015 is held by the Company's foreign subsidiaries.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Our current sources of funds are operating cash flows, proceeds from issuances of equity securities, additional borrowings as permitted under the Exit Financing Facilities and proceeds from the opportunistic sales of our vessels. In the past we have also obtained funds from the issuance of long-term debt securities. We or our subsidiaries may in the future complete similar transactions consistent with achieving the objectives of our business plan. Our current uses of funds are to fund working capital requirements, maintain the quality of our vessels, comply with U.S. and international shipping standards and environmental laws and regulations, and repay our outstanding loan facilities. The OBS Term Loan and OIN Facilities require, beginning with the annual period commencing January 1, 2015, that Excess Cash Flow (as that term is defined in the respective term loan agreements) be used to make mandatory prepayments of outstanding loans. To the extent permitted under the terms of the OBS Term Loan and OIN Financing Facilities we may also use cash generated by operations to finance capital expenditures to modernize and grow our fleet. Our ability to pay cash dividends is restricted under both the OBS Term Loan and OIN Facilities. We do not currently intend to resume the payment of cash dividends on our common stock in the foreseeable future. Future cash dividends, if any, will be at the discretion of the Board of Directors and will depend upon, among other things, our future operations and earnings, capital requirements, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

Net cash provided by operating activities in the three months ended March 31, 2015 was $66,414, which is not necessarily indicative of the cash to be provided by operating activities for the year ending December 31, 2015.

Outlook

We believe the actions we have taken to improve our liquidity position including (i) deleveraging our balance sheet by using cash on hand and proceeds from drawdowns on our Exit Financing Facilities and issuance of equity under the Rights Offering and Equity Commitment Agreement to settle our allowed pre-petition debt and other claim liabilities, (ii) exiting the full service International Crude Tankers Lightering business, (iii) selling certain of our older vessels (specifically two International Flag Aframaxes, which had been employed in Lightering operations, two VLCCs and one Panamax, all of which operated in our International Crude Tankers segment), (iv) completing our newbuild program with the delivery of the Overseas Shenandoah in July 2014, and (v) reducing our overhead costs through the outsourcing of the technical and commercial management of our International Flag conventional fleet, have positioned us to generate sufficient cash to support our operations over the next twelve months as well as increasing our flexibility to actively pursue fleet renewal or growth opportunities that may arise within the diverse sectors in which we operate. Accordingly, we intend to reinvest the proceeds from the post emergence sales of certain International Flag vessels and other property into vessel assets to modernize and/or grow our fleet.

On May 4, 2015, we filed a Form S-1 Registration Statement with the Securities and Exchange Commission for an offering of our Class A Common Stock. The timing, number of shares and price of any such offering have not yet been determined..

Off-Balance Sheet Arrangements

OSG guarantees debt and other obligations of certain of its equity method investees. The debt and other obligations are primarily due to banks in connection with financing the purchase and conversion of vessels and equipment used in the joint venture operations. As of March 31, 2015, the affiliated companies in which OSG held an equity interest had total bank debt outstanding of $831,944 of which $706,348 was nonrecourse to the Company.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

As of March 31, 2015, the maximum potential amount of future principal payments (undiscounted) that OSG could be required to make relating to equity method investees secured bank debt was $69,125 and the carrying amount of the liability related to this guarantee was $0. See Note 8, "Equity Method Investments," to the accompanying condensed consolidated financial statements for additional information.

Aggregate Contractual Obligations

A summary of the Company's long-term contractual obligations, excluding operating lease obligations for office space, as of March 31, 2015 follows:

	Balance of 2015	2016	2017	2018	2019	Beyond 2019	Total
Long-term debt[1]							
Unsecured senior notes - fixed rate	17,663	35,325	35,325	323,138	10,950	162,501	584,902
OBS term loan - floating rate	28,326	68,727	35,283	34,962	560,283	-	727,581
OIN term loan - floating rate	31,880	59,157	40,578	40,212	602,221	-	774,048
Operating lease obligations[2]							
Bareboat Charter-ins	74,145	99,038	98,219	93,200	111,819	50,300	526,721
Time Charter-ins	17,584	1,004	-	-	-	-	18,588
Total	$169,598	$263,251	$209,405	$491,512	$1,285,273	$212,801	$2,631,84

(1) Amounts shown include contractual interest obligations. Interest obligations on fixed rate debt of $445,900 as of March 31, 2015 range from 7.5% to 8.125%. The interest rate obligations of floating rate debt have been estimated based on the aggregate LIBOR floor rate of 1% and applicable margins for the OBS Term Loan and the OIN Term Loan of 5.25% and 5.75%, respectively. Amounts shown for the OBS Term Loan and OIN Term Loan for 2016 include estimated mandatory prepayments of $37,000 and $23,000, respectively, as a result of estimated Excess Cash Flows for the year ended

December 31, 2015. Amounts shown for the OBS Term Loan and OIN Term Loan for years subsequent to 2016 exclude any estimated repayment as a result of Excess Cash Flows.

(2) As of March 31, 2015, the Company had charter-in commitments for 17 vessels on leases that are 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.

Risk Management:

Interest rate risk

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. To manage its interest rate risk in a cost-effective manner, the Company, from time-to-time, enters into interest rate swap or cap agreements, in which it agrees to exchange various combinations of fixed and variable interest rates based on agreed upon notional amounts or to receive payments if floating interest rates rise above a specified cap rate. 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.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

At March 31, 2015 and December 31, 2014, OBS and OIN were party to two separate Interest Rate Cap agreements each with a start date of February 5, 2015 with major financial institutions covering notional amounts of $375,000 and $400,000, respectively, to limit the floating interest rate exposure associated with their respective term loans. These agreements contain no leverage features. The OBS Interest Rate Cap has a cap rate of 2.5% through February 5, 2017, at which time the cap rate increases to 3.0% through the termination date of February 5, 2018. The OIN Interest Rate Cap has a cap rate of 2.5% through the termination date of February 5, 2017.

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, insider trading policy, anti-bribery and corruption policy and charters of the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Risk Assessment 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 Quarterly Report on Form 10-Q.

Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's current disclosure controls and procedures were effective as of March 31, 2015 to ensure that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the three months ending March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See Note 17, "Contingencies," to the condensed consolidated financial statements for a description of the current legal proceedings, which is incorporated by reference in this Part II, Item 1.

Item 1A. Risk Factors

Please refer to the "Risk Factors" sections of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and the Company's registration statement on Form S-1 (File No. 333-203844), filed on May 4, 2015, for a discussion of risks related to its industry and operations.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

See Exhibit Index on page 54.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OVERSEAS SHIPHOLDING GROUP, INC.
(Registrant)

Date: May 11, 2015 /s/ Ian T. Blackley
Ian T. Blackley
Chief Executive Officer

Date: May 11, 2015 /s/ Rick F. Oricchio
Rick F. Oricchio
Chief Financial Officer

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

EXHIBIT INDEX

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase
NOTE:	Instruments authorizing long-term debt of the Registrant and its subsidiaries, where the amounts authorized thereunder do not exceed 10% of total assets of the Registrant on a consolidated basis, are not being filed herewith. The Registrant agrees to furnish a copy of each such instrument to the Commission upon request.