OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
March 01, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the Transition Period from ________________ to ________________.
Commission File Number 1-6479-1

O V E R S E A S S H I P H O L D I N G G R O U P , I N C .
(Exact name of registrant as specified in its charter)

Delaware	13-2637623
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
666 Third Avenue, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 212-953-4100
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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 ý No o

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

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2006, the last business day of the registrant's most recently completed second quarter, was $2,117,808,906, based on the closing price of $59.15 per share on the New York Stock Exchange on that date. (For this purpose, all outstanding shares of Common Stock have been considered held by non-affiliates, other than the shares beneficially owned by directors, officers and certain 5% shareholders of the registrant; certain of such persons disclaim that they are affiliates of the registrant.)

As of February 26, 2007, 39,359,177 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed by the registrant in connection with its 2007 Annual Meeting of Shareholders are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Overseas Shipholding Group, Inc. ("OSG" or the "Company") is one of the world's leading bulk shipping companies engaged primarily in the ocean transportation of crude oil and petroleum products. At December 31, 2006, the Company owned or operated a modern fleet of 103 vessels (aggregating 11.7 million deadweight tons) of which 80 vessels operated in the international market and 23 operated in the U.S. Flag market. OSG's newbuilding program of owned and chartered-in vessels totaled 34 and extends across each of its operating segments, bringing the Company's total operating and newbuild fleet to 137 vessels.

OSG's vessel operations are organized into strategic business units and focused on market segments each serve: crude oil, refined petroleum products, U.S. Flag vessels and gas. The International Crude Tanker unit manages International Flag V-Plus, VLCC, Aframax and Panamax tankers; the International Product Carriers unit principally manages long- and medium-range Product Carriers; the U.S. unit manages most U.S. Flag vessels; and the Gas unit is developing its chartering and commercial capabilities in preparation for the delivery of four LNG carriers beginning in late 2007. Each business unit has dedicated chartering and commercial personnel while the Company's technical ship management operations and corporate departments support the Company's global fleet and corporate operations.

The Company generally charters its vessels either for specific voyages at spot rates or for specific periods of time at fixed monthly amounts. Spot market rates are highly volatile, while time charter rates are fixed for a specific period of time, and provide a more predictive stream of Time Charter Equivalent Revenues. For a more detailed discussion on factors influencing spot and time charter markets, see Operations Charter Types later in this section.

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

BUSINESS STRATEGY

The Company's vision is to be a market leader in each of the segments in which it operates. To support its goal of market leadership, OSG balances the expansion of its International and U.S. Flag fleets on an opportunistic basis, continuously improves its operations and seeks to maintain a strong balance sheet and financial flexibility to support future growth. OSG believes that it differentiates itself from its competitors through the scale and diversity of its fleet, the skills, experience and capabilities of its sea-based crew and shore-based personnel, and its reputation of providing reliable, safe transportation services to customers while protecting the health and safety of its crews and the sanctity of the environment.

Balanced Growth The Company believes that by balancing the types of vessels it deploys and actively managing the mix of charter types as well as the ownership profile of its fleet, it can maximize returns on invested capital while making it less dependent on any particular market sector.

Operational Excellence The Company is committed to technical excellence across its fleet. The Company's high quality, modern fleet, which is operated by experienced crews, is supported by a program of standardized operational practices and procedures that are designed to ensure that seafarers and vessel operations comply with all applicable environmental, regulatory and safety standards established by International and U.S. maritime laws. The Company has a philosophy of continuous improvement in its systems and technologies designed to support such compliance. For more information, see Technical Operations later in this section.

Financial Flexibility The Company believes its strong balance sheet, high credit rating and high level of unencumbered assets give it access to both the unsecured bank markets and to the public debt markets, allowing it to borrow primarily on an unsecured basis. This, in turn, reduces its financing costs and cash flow breakeven levels. This financial flexibility permits the Company to pursue attractive business opportunities.

Summary of 2006 Events
During 2006, the Company pursued numerous initiatives that supported its balanced growth strategy, some of which are highlighted below.

Fleet Diversification and Expansion

Acquisition of Maritrans On November 28, 2006, the Company completed the acquisition of Maritrans Inc., a leading U.S. Flag crude oil and petroleum product shipping company with a fleet of 19 operating and newbuild vessels. OSG paid $37.50 per share, which valued the transaction at approximately $506 million, including debt assumed upon closing. OSG has initially financed the acquisition through borrowings under existing credit facilities. As a result of the combination, OSG's U.S. Flag fleet now totals 37 operating and newbuild vessels that include Handysize Product Carriers, Articulated Tug Barges ("ATBs"), Dry Bulk Carriers and a Car Carrier. OSG will be able to use approximately $292 million of its Capital Construction Fund to fund payments towards the construction contracts and related costs of three newbuild ATBs. The strategic acquisition gives OSG a presence in all major U.S. Jones Act trading routes (intra U.S. Gulf, U.S. Gulf to the East Coast, U.S. Gulf to the West Coast, the Alaskan North Slope trades and the Delaware Bay) and provides customers with a broad range of short- and long-haul transportation and lightering services.

Entrance into the CNG Transportation Market through a Strategic Partnership with TransCanada On August 6, 2006, OSG announced a strategic partnership with TransCanada CNG Technologies Ltd., a subsidiary of TransCanada Corporation. Under the agreement, OSG will develop and operate a new type of vessel capable of moving large quantities of compressed natural gas ("CNG"). The ships will utilize TransCanada's patented technology for the design, construction and operation of Gas Transport Modules ("GTMs") for the transportation of CNG from stranded gas fields throughout the world.

Product Carrier Fleet Expansion Augmenting a fleet expansion program that began in 2005, during 2006 OSG ordered or chartered-in 10 medium-range ("MR") Product Carriers, vessels capable of transporting petroleum products, vegetable oils and easy chemicals.

In the first half of 2006, OSG time chartered-in four 47,000 dwt IMO III Product Carriers, from subsidiaries of Cido Tanker Holding Co., a privately held shipping company. Two of the vessels, the Overseas Aquarius and the Overseas Leo, have been chartered-in for periods of seven years with three year extension options. The Overseas Polaris and the Overseas Pisces have been chartered-in for 10 years. The sister ships will be built by Hyundai Mipo Dockyard Co. Ltd., in Ulsan, South Korea and are scheduled to be delivered to OSG between May 2008 and July 2009.

In the third quarter of 2006, OSG took delivery of two 51,000 dwt IMO III Product Carriers from Hong-Kong based Parakou Shipping Ltd. The Company has control of the vessels, the Overseas Hercules and the Overseas Orion, built by STX Shipbuilding Co., Ltd. in Chinhae, South Korea, for a period of 10 years. Two additional sister ships, the Overseas Cygnus and the Overseas Sextans, also time chartered-in from Parakou, are scheduled for delivery in the first half of 2007. The order for the vessels was announced on October 7, 2005.

On November 2, 2006, the Company announced the bareboat charter-in of three 50,000 dwt IMO II/III Product Carriers from Capital Maritime and Trading, Inc. for 10 years. The Overseas Serifos, the Overseas Sifnos and the Overseas Kimolos will be constructed at the STX Shipbuilding Co., Ltd. in South Korea. The vessels are slated for delivery in 2008.

In the fourth quarter of 2006, OSG bareboat chartered-in one 47,000 dwt IMO III Product Carrier from Daishin Technos Co., Ltd., a privately held shipping company in Japan, for a period of eight years with an option to purchase the vessel beginning in 2015. The vessel, to be named the Overseas Carina, will be built by Imabari Shipbuilding Co., Ltd. in Japan, and is expected to be delivered to OSG in the third quarter of 2010.

In the fourth quarter of 2006, the Company agreed to build two 52,000 dwt IMO III Product Carriers at Hyundai Mipo Dockyard Co. Ltd. The vessels are scheduled to be delivered to OSG in 2010.

Crude Oil Tanker Fleet In the first quarter of 2006, OSG announced that it will build four 114,000 dwt 44-meter beam Aframax tankers at the New Times Shipbuilding Co. Ltd. shipyard based in Jinjiang, China. The vessels, scheduled for delivery in 2008 and 2009, will operate in the Aframax International pool and increase OSG's ability to serve customers in the Atlantic basin. The tankers will be built using the new Common Structural Rules recently established by the International Association of Classification Societies ("IACS") for all tankers and bulk carriers ordered after April 1, 2006. The new Common Structural Rules include stricter hull strength requirements.

On April 24, 2006, Flota Petrolera Ecuatoriana ("FLOPEC"), an Ecuadorian state-owned oil company, joined Panamax International, bringing the number of vessels in the commercial pool to 20 modern, double hull tankers, all of which trade in the Americas. In addition to adding five vessels to the pool, FLOPEC provides access to preference cargoes coming out of Ecuador.

Financial Strength and Stability

On February 15, 2006, the Company announced it had entered into a $1.8 billion seven-year unsecured revolving credit agreement with a group of banks. Borrowings under this facility bear interest at a rate based on LIBOR. The terms, conditions and financial covenants were generally more favorable than those contained in the Company's prior long-term facilities. In connection with entering into the agreement, the Company terminated all of its other unsecured revolving credit facilities (long-term credit of $1.285 billion and short-term of $45 million).

On April 12, 2006, OSG's Board of Directors announced a regular quarterly dividend of 25¢ per share, a 43% increase from 17.5¢ per share, which had been in place since June 2003. OSG has paid a quarterly dividend to stockholders since 1974.

On June 9, 2006, the Company announced a share repurchase program of $300 million, which, at the time of the announcement, represented nearly 15% of the total shares outstanding. During the year, the Company repurchased 313,500 shares at an average price of $59.09 per share.

In 2006, the Company amended its floating rate secured term loans covering ten vessels. The amendments provided additional borrowings of approximately $84 million, removed the encumbrance on one of its vessels, reduced the applicable interest rates and extended the maturity dates of certain of the loans.

Active Asset Management

In furtherance of the Company's strategy to balance the mix of owned and chartered-in tonnage and to capitalize on a strong market for second-hand tonnage, the Company entered into a number of transactions whereby it sold or sold and leased-back vessels during the year. Fleet disposition activity during 2006 resulted in proceeds on vessel sales of $259 million resulting in $39.0 million in gains. Sale and lease-back transactions allow the Company to monetize assets in a favorable second-hand market, thereby transferring residual risk of older tonnage to third parties while retaining control of the tonnage. Amortization of deferred gains from sale and lease back transactions, which amounted to $43.1 million in 2006, is recorded as a reduction of charter hire expense.

Tax Changes Benefiting OSG's International Shipping Operations

In October 2004, Congress passed the American Jobs Creation Act of 2004 which, for taxable years beginning in 2005, reinstates the indefinite deferral of United States taxation on international shipping income until such income is repatriated to the U.S. as dividends. From 1987 through 2004, the Company's international shipping income was subject to current taxation. The tax law effectively restored the pre-1976 tax treatment of international shipping income beginning in 2005 and placed the Company's international fleet on a level playing field with its offshore competitors for the first time since 1986. For more information, see Taxation of the Company later in this section.

Fleet Highlights

As of December 31, 2006, OSG's owned, operated and newbuild fleet aggregated 137 vessels. Of this total, 100 vessels are International Flag and 37 vessels are U.S. Flag. The Marshall Islands is the principal flag of registry of the Company's International Flag vessels. In the international market, the Company has one of the industry's most modern and efficient fleets. At a time when customers are demonstrating an increasingly clear preference for modern tonnage based on concerns about the environmental risks associated with older vessels, 100% of OSG's owned International Flag fleet is double hull.

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

Fleet

	International Flag Fleet							U.S. Flag Fleet	Total
	Crude Tankers			Product Carriers					
	VLCC	Aframax	Panamax	Handysize	Panamax	Gas	Dry Bulk		
Owned	10	7	9	12*	2	0	0	20	60
Chartered-in	11	10	2	15	0	0	2	3	43
Newbuilds	0	4	0	12	0	4	0	14	34
Total	21	21	11	39	2	4	2	37	137

* Excludes three U.S. Flag vessels that trade primarily in the international markets and are therefore reflected in the International Product Carriers reportable segment.

Newbuild Delivery Schedule

Year of Delivery	Q1	Q2	Q3	Q4
2007	U.S. Flag Product Carrier ATB Product Carrier	Product Carrier U.S. Flag Product Carrier		ATB U.S. Flag Product Carrier LNG (2)
2008	LNG (2) Product Carrier	Product Carriers (4) U.S. Flag Product Carrier	U.S. Flag Product Carrier Aframax Tanker ATB	Aframax Tankers (2)
2009	U.S. Flag Product Carrier	ATB Product Carrier U.S. Flag Product Carrier Aframax Tanker	U.S. Flag Product Carrier Product Carrier	
2010	U.S. Flag Product Carrier Product Carrier	U.S. Flag Product Carrier Product Carrier	Product Carrier	

Commercial Pools

To increase vessel utilization and thereby revenues, the Company participates in Commercial Pools with other like-minded ship owners of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, Commercial Pools offer customers greater flexibility and a higher level of service while achieving improved scheduling efficiencies. All of the Company's V-Plus and VLCC vessels are managed in the Tankers International pool which, as of December 31, 2006, operated an aggregate of 44 VLCC and V-Plus tankers that trade on long haul routes throughout the world. All of OSG's Aframax tankers are in the Aframax International pool, which at year end 2006 consisted of 34 Aframaxes that generally trade in the Atlantic Basin, North Sea and the Mediterranean on short and medium haul routes. Nine of the Company's 11 crude Panamax tankers participate in Panamax International, which operated a total of 20 Panamaxes as of December 31, 2006 on short haul and medium haul routes between South and Central America, the U.S. and the Caribbean. These commercial ventures negotiate charters with customers primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and Contracts of Affreightment ("COAs"), thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service offerings to customers. For more information on the pools, see Operations International Fleet Operations.

Technical Operations

OSG believes that its commercial success depends in large part on the Company's compliance with quality, safety and environmental ("QSE") standards mandated by worldwide regulators and customers. The Company's integrated technical management centers in the U.S. and Europe manage its operating fleet of International Flag crude oil tankers and refined petroleum product carriers, the U.S. Flag fleet and soon the gas fleet. In addition to regular maintenance and repair, crews onboard each vessel and OSG's technical management teams of shore side personnel are responsible for ensuring that the Company's fleet meets or exceeds QSE regulations and standards established by the U.S. Coast Guard, SOLAS (the International Convention for the Safety of Life at Sea) and MARPOL. This is achieved by hiring highly qualified crews and personnel, developing and deploying standardized, fleet-wide operational practices and procedures, continuous education and training and the reinforcement of Company policies through integrated systems and technology, open reporting programs and shore side support. In connection with the Company's philosophy of continuous improvement, OSG's operational integrity group, an audit and investigative function, audits both compliance by vessel crews with operating procedures and vessel compliance with environmental regulatory requirements and vessel safety and maintenance standards and responds to the Company's anonymous self reporting system of possible violations of Company policies and procedures. Furthermore, the Company's Operational Compliance Officer, who reports to the President and the Board of Directors, has independent oversight of fleet-wide vessel operating practices and procedures and global training programs. OSG believes it has one of the most comprehensive environmental compliance programs in the industry with checks and balances throughout its system. As a result of the settlement with the U.S. Department of Justice in 2006, the Company agreed to an environmental compliance program, which was substantially the same as its existing environmental management programs. For more information on the settlement, see Item 3 Legal Proceedings, later in this document.

Commercial Teams
OSG's commercial teams based in offices in London, New York, Singapore and Tampa enable customers to have access, at all times, to information about their cargo's position and status. The Company believes that the scale of its fleet, its commercial management skills and its extensive market knowledge allow it to consistently achieve better rates than smaller, independent shipowners. OSG's reputation in the marketplace is the result of longstanding relationships with its customers and business partners. Investments in technology, including database and software tools, have enabled OSG to improve the speed and quality of information it provides to its customers.

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

Liquidity
The Company believes that the strength of its balance sheet, and the financial flexibility that it affords, distinguishes it from many of its competitors. In 2006, stockholders' equity increased by $331 million to $2.2 billion and liquidity, including undrawn bank facilities, stood at more than $2.1 billion at December 31, 2006. In 2006, OSG entered into a new $1.8 billion unsecured credit facility, which replaced bank facilities that provided up to $1.33 billion of unsecured financing.

Liquidity adjusted debt to capital was 14.8% at December 31, 2006, a reduction of more than nine percentage points from 24.5% as of December 31, 2005. The Company achieved this improvement after consideration of the acquisition of Maritrans Inc. in a transaction valued at $506 million. For this purpose, liquidity adjusted debt is defined as long-term debt reduced by cash and the balance in the Capital Construction Fund.

Employees
As of December 31, 2006, the Company had 3,980 employees: 3,579 seagoing personnel and 401 shore side staff. The Company has collective bargaining agreements with three different maritime unions covering 561 seagoing personnel employed on the Company's U.S. Flag vessels. These agreements are in effect for periods ending between May 2007 and June 2015. Under the collective bargaining agreements, the Company is obligated to make contributions to pension and other welfare programs. OSG believes that it has a satisfactory relationship with its employees.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements regarding the outlook for tanker and articulated tug/barge markets, and the Company's prospects, including prospects for certain strategic alliances and investments. There are a number of factors, risks and uncertainties that could cause actual results to differ from the expectations reflected in these forward-looking statements, including changes in production of or demand for oil and petroleum products, either globally or in particular regions; greater than anticipated levels of newbuilding orders or less than anticipated rates of scrapping of older vessels; changes in trading patterns for particular commodities significantly impacting overall tonnage requirements; changes in the rates of growth of the world and various regional economies; risks incident to vessel operation, including accidents and discharge of pollutants; unanticipated changes in laws and regulations; increases in costs of operation; drydocking schedules differing from those previously anticipated; the availability to the Company of suitable vessels for acquisition or chartering-in on terms it deems favorable; changes in the pooling arrangements in which the Company participates, including withdrawal of participants or termination of such arrangements; the ability of the Company to successfully combine the operations of the Company and Maritrans Inc.; estimates of future costs and other liabilities for certain environmental matters and compliance plans; and projections of the costs needed to develop and implement the Company's strategy of being a market leader in the segments in which the Company competes. The Company assumes no obligation to update or revise any forward-looking statements. Forward-looking statements in this Form 10-K and written and oral forward-looking statements attributable to the Company or its representatives after the date of this Form 10-K are qualified in their entirety by the cautionary statement contained in this paragraph and in other reports hereafter filed by the Company with the Securities and Exchange Commission.

OPERATIONS

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

The following chart reflects the percentage of TCE revenues generated by the Company's three reportable segments for each year in the three-year period ended December 31, 2006 and excludes the Company's proportionate share of TCE revenues of affiliated companies. Segment information for 2005 and 2004 has been reclassified to conform to the 2006 presentation.

	Percentage of TCE Revenues		
	2006	**2005**	**2004**
International			
Crude Tankers	68.9%	69.6%	82.7%
Product Carriers	21.7%	19.3%	4.8%
Other	1.8%	2.7%	3.2%
Total International Segments	92.4%	91.6%	90.7%
U.S.	7.6%	8.4%	9.3%
Total	100.0%	100.0%	100.0%

The following chart reflects the percentage of income from vessel operations accounted for by each reportable segment. Income from vessel operations is before general and administrative expenses, gain on disposal of vessels and the Company's share of income from affiliated companies:

	Percentage of Income from Vessel Operations		
	2006	**2005**	**2004**
International			
Crude Tankers	88.5%	78.6%	90.8%
Product Carriers	14.5%	14.5%	3.4%
Other	(5.9)%	0.9%	0.4%
Total International Segments	97.1%	94.0%	94.6%
U.S.	2.9%	6.0%	5.4%
Total	100.0%	100.0%	100.0%

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2006, and reconciliations of (i) time charter equivalent revenues to shipping revenues and (ii) income from vessel operations for the segments to income before federal income taxes, as reported in the consolidated statements of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7, and Note D to the Company's consolidated financial statements set forth in Item 8.

The Other International segment for 2006 reflects a $27 million increase in the reserve for the settlement of investigations by the U.S. Department of Justice. The increase in the relative contribution of International Product Carriers to TCE revenues and income from vessel operations in 2006 and 2005 compared with 2004 reflects the addition of 26 product carriers as a result of the Stelmar acquisition in 2005. Revenues from International Crude Tankers are derived principally from voyage charters and are, therefore, significantly affected by prevailing spot rates.

In contrast to the International Crude Tankers, revenues from International Product Carriers and the vessels included in the U.S. reportable segment are derived principally from time charters generating a more predictable level of TCE earnings. Accordingly, the relative contributions of the Handysize Product Carriers and the U.S. segment's vessels to consolidated TCE revenues and to consolidated income from vessel operations are influenced by the level of freight rates then existing in the international market for crude oil tankers, increasing when such rates decrease and decreasing when such rates increase. The reduction in the relative contribution of the vessels of the U.S. segment also reflects the sale of all four U.S. Flag Crude Tankers between February 2004 and year end 2005.

Charter Types

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

Spot Market

Voyage charters, including vessels operating in Commercial Pools that predominantly operate in the spot market, constituted 69% of the Company's TCE revenues in 2006 and 2005 and 85% in 2004. The above information is based, in part, on information provided by the pools or commercial ventures in which OSG participates. Accordingly, the Company's shipping revenues are significantly affected by prevailing spot rates for voyage charters in the markets in which the Company's vessels operate. Spot market rates are highly volatile. Rates are determined by market forces such as local and worldwide demand for the commodities carried (such as crude oil or petroleum products), volumes of trade, distances that the commodities must be transported, and the amount of available tonnage both at the time such tonnage is required and over the period of projected use. Seasonal trends greatly affect world oil consumption and consequently vessel demand. While trends in consumption vary with season, peaks in demand quite often precede seasonal consumption peaks as refiners and suppliers try to anticipate consumer demand. Seasonal peaks in oil demand are principally driven by increased demand prior to Northern Hemisphere winters, as heating oil consumption increases, and increased demand for gasoline prior to the summer driving season in the U.S. Available tonnage is affected over time, by the volume of newbuilding deliveries, the removal (principally through scrapping) of existing vessels from service, and by the greater efficiency of modern tonnage. Scrapping is affected by the level of freight rates, by the level of scrap prices and by international and U.S. governmental regulations that require the maintenance of vessels within certain standards and mandate the retirement of vessels lacking double hulls.

Time Charter Market

A significant portion of the Company's U.S. Flag fleet, its International Flag Product Carrier fleet and upon delivery, the LNG fleet is, or will be, on time charters, providing a significant and predictable level of earnings, which is not subject to fluctuations in spot-market rates. Time charters constituted 31% of the Company's TCE revenues in 2006 and 2005 and 15% in 2004. Some of the Company's older chartered-in vessels are chartered through the remainder of their commercial lives.

Fleet Summary

As of December 31, 2006, OSG's International Flag and U.S. Flag operating fleet consisted of 103 vessels, 42% of which are chartered-in under operating or capital leases, the balance of which is owned. In order to maximize returns on invested capital, particularly during periods when newbuilding prices and second-hand prices are near all-time highs, the Company charters-in tonnage, enabling it to expand its fleet without making additional capital commitments. Vessels chartered-in may be Bareboat Charters (where OSG is responsible for all Vessel Expenses) or Time Charters (where the shipowner pays Vessel Expenses).

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2006		
Vessel Type	**Number**	**Weighted by Ownership**	**Number**	**Weighted by Ownership**	**Total Vessels**	**Vessels Weighted by Ownership**	**Total Dwt**
Operating Fleet							
VLCC (including V-Plus)	10	10	11	7.25	21	17.25	6,693,861
Aframax	7	7	10	7.6	17	14.6	1,776,413
Panamax	9	9	2	2	11	11	764,083
International Flag Crude Tankers	26	26	23	16.85	49	42.85	9,234,357
Panamax	2	2			2	2	140,626
Handysize	12	12	15	15	27	27	1,176,834
International Flag Product Carriers	14	14	15	15	29	29	1,317,460
International Flag Dry Bulk Carriers			2	2	2	2	319,843
Total International Flag Operating Fleet	40	40	40	33.85	80	73.85	10,871,660
Handysize Product Carriers	6	6	2	2	8	8	357,217
Clean ATBs	8	8			8	8	212,981
Lightering:							
ATBs	2	2			2	2	90,908
Crude Carrier	1	1			1	1	39,213
Dry Bulk Carriers and Car Carrier	3	3	1	1	4	4	110,892
Total U.S. Flag Operating Fleet	20	20	3	3	23	23	811,211
Total Operating Fleet	60	60	43	36.85	103	96.85	11,682,871
Newbuild Fleet							
International Flag:							
Aframax Crude Tankers	4	4			4	4	456,000
Handysize Product Carriers	2	2	10	10	12	12	591,350
U.S. Flag:							
Product Carriers			10	10	10	10	460,000
Clean ATB*	1	1			1	1	29,540
Lightering ATBs	3	3			3	3	134,511
Total Newbuild Fleet	10	10	20	20	30	30	1,671,401
Crude Tankers, ATBs, Product Carriers and Dry Bulk Carriers	70	70	63	56.85	133	126.85	13,354,272
Newbuild LNG Carriers	4	2			4	2	864,800cbm
Total Operating and Newbuild Fleet	74	72	63	56.85	137	128.85	

* Being double hulled

OSG has one of the youngest International Flag fleets in the industry. The Company believes its modern, well maintained fleet is a significant competitive advantage in the global market. The table below reflects the average age of the Company's owned International Flag fleet in comparison with the world fleet.

Vessel Type	Average Age of OSG's Owned Fleet at 12/31/06	Average Age of OSG's Owned Fleet at 12/31/05	Average Age of World Fleet at 12/31/06*
VLCC (including V-Plus)	5.9 years	5.7 years	9.1 years
Aframax	8.2 years	8.1 years	9.3 years
Panamax (crude oil and product carriers)	3.8 years	2.8 years	9.8 years
Handysize Product Carrier	5.9 years	4.9 years	12.4 years

* Source: Clarkson database as of January 1, 2007

International Fleet Operations

Crude Oil Tankers

In order to enhance vessel utilization and TCE revenues, the Company has placed its V-Plus, VLCC and Aframax tankers as well as a number of Panamax tankers into commercial ventures that are responsible for the Commercial Management of these vessels. The pools collect revenue from customers, pay voyage-related expenses, and distribute TCE revenues to the participants, after deducting administrative fees, according to formulas based upon the relative carrying capacity, speed, and fuel consumption of each vessel.

Tankers International Tankers International was formed in December 1999 by OSG and other leading tanker companies in order to pool the commercial operation of their modern VLCC fleets. As of December 31, 2006, Tankers International had eight participants and managed a fleet of 44 modern VLCCs and V-Pluses that trade throughout the world, including all 21 (17.25, weighted by ownership) of the Company's V-Plus and VLCC owned and chartered-in vessels.

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

By consolidating the Commercial Management of its substantial fleet, Tankers International is able to offer its customers access to an expanded fleet of high-quality VLCCs and V-Pluses. The size of the fleet enables Tankers International to become the logistics partner of major customers, providing new and improved tools to help them better manage their shipping programs, inventories and risk.

Aframax International Since 1996, the Company and PDV Marina S.A., the marine transportation subsidiary of the Venezuelan state-owned oil company, have pooled the Commercial Management of their Aframax fleets. As of December 31, 2006, there were six participants in Aframax International and the pool Commercially Managed 34 vessels, including all 17 (14.6, weighted by ownership) of the Company's owned and chartered-in vessels. Aframax International's vessels generally trade in the Atlantic Basin, North Sea and the Mediterranean. The Aframax International pool has been able to enhance vessel utilization with backhaul cargoes and COAs, thereby generating higher TCE revenues than would otherwise be attainable in the spot market.

Panamax International Panamax International was formed in April 2004 and provides the Commercial Management of the Panamax fleets of its three participants. As of December 31, 2006, Panamax International managed a fleet of 20 modern Panamaxes, which includes five of the Company's Panamaxes, as well as four that are time chartered to one of the pool partners.

Product Carriers

International Product Carriers constitutes one of the Company's reportable business segments and is made up of a diverse International Flag and U.S. Flag fleet that transport refined petroleum products worldwide. The fleet, consisting of 30 medium-range Product Carriers and two long-range Panamax coated tankers ("LR1"), gives OSG the ability to provide a broad range of services to global customers. Refined petroleum product cargoes are transported from refineries to consuming markets and are characterized by both long- and short-haul routes. The market is driven by global refinery capacity, changes in consumer demand and product specifications and cargo arbitrage opportunities. The Company's expansion of its Product Carrier fleet is consistent with its balanced growth strategy and was built upon a commercial and technical platform of operating a core fleet of Handysize Product Carriers by expanding and growing revenue and earnings in a market sector with more predictable earnings characteristics.

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

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

OSG trades two of its Handysize Product Carriers in the Clean Products International Pool, a regional Commercial Pool formed in 2006 with Ultragas Group. The pool is comprised of four vessels and concentrates on triangulation trades in South America.

Since 2005, OSG has ordered or chartered-in from third parties 14 newbuild Handysize Product Carriers. Delivery of these vessels began in 2006 and will continue through 2010. These newbuilds are an important part of the business unit's strategy to modernize and expand its fleet, and offset redeliveries of older, chartered-in vessels scheduled for 2008 and 2009. Of the Product Carrier newbuild program, all except one of the vessels will be IMO III compliant, allowing for increased flexibility when switching between cargo grades.

On January 20, 2005, OSG acquired Stelmar Shipping Ltd. ("Stelmar"), a leading provider of petroleum product and crude oil transportation services. Stelmar's fleet of 40 vessels included 24 owned and chartered-in Handysize Product Carriers. The fleet and a technical management center based in Athens, Greece, significantly expanded the Company's commercial footprint and ability to compete in Atlantic Basin trades.

Three of the four U.S. Flag vessels that participate in the U.S. government's Maritime Security Program, the Overseas Maremar, the Overseas Luxmar and the Overseas Ambermar, are included in the International Product Carrier unit. For detailed information on the Maritime Security Program, see U.S. Flag Fleet Operations, Maritime Security Program later in this section.

Gas

Gas constitutes one of the Company's business units, which will transport two important energy sources: liquefied natural gas and compressed natural gas. The Company entered each of these energy sectors with strategic partners, a tactic that allows OSG to gain experience in each sector prior to committing to more significant expansion. The expansion into the gas market further enhances the Company's fixed revenue and earnings base, since both CNG and LNG markets are characterized by long-term time-charters.

OSG is constructing four 216,000 cbm LNG Carriers that will be delivered in 2007 and 2008. The Company entered this emerging energy market in November 2004, after a competitive tender process whereby Qatar Liquefied Gas Company Limited (II) selected a joint venture in which the Company has a 49.9% interest to time charter the LNG Carriers for twenty-five years, with options to extend. The joint venture between the Company and Qatar Gas Transport Company Limited (Nakilat) ordered the four vessels at a total purchase price of $908 million. The Company will provide Technical Management for these state-of-the-art vessels. Through the award of these time charters, the Company is strategically diversifying its business, entering a market that the Company believes offers significant opportunities. For more information about the financing of the LNG Carriers, see Note F to the consolidated financial statements set forth in Item 8.

The Company entered the CNG segment in 2006 through a partnership between OSG and TransCanada CNG Technologies Ltd, a subsidiary of TransCanada Corporation. The partnership combines OSG's knowledge of marine transportation and vessel construction with TransCanada's patented technology for GTMs that is intended to enable the development of efficient and commercially viable CNG vessels. TransCanada's GTM technology utilizes a proprietary composite reinforced steel pressure container system manufactured under license from NCF Industries Inc. (U.S. and foreign patents issued and pending).

U.S. Flag Fleet Operations

OSG is one of the largest commercial owners and operators of Jones Act vessels in the United States. The Company's U.S. Flag Fleet has expanded significantly in the past three years and today consists of a diverse fleet of 37 owned, operated and newbuild vessels of Handysize Product Carriers, ATBs, Dry Bulk Carriers and a Car Carrier. As a U.S.-based company, OSG is uniquely positioned to participate in the U.S. Jones Act shipping market, a trade that is not available to its foreign-based competitors. Under the Jones Act, shipping between U.S. ports, including the movement of Alaskan crude oil to U.S. ports, is reserved for U.S. Flag vessels that are built in the U.S. and owned by U.S. companies, more than 75% owned and controlled by U. S. citizens. The Jones Act regulations, coupled with tax law changes in the American Jobs Creation Act of 2004, has enabled OSG to significantly invest in and expand its U.S. Fleet business.

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