OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
March 01, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the Transition Period from U U to U U.

Commission File Number 1-6479-1

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

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

Registrant’s telephone number, including area code: 212-953-4100

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 x

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant's most recently completed second quarter, was $997,320,920, based on the closing price of $37.04 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 25, 2011, 30,469,469 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 2011 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 tanker companies engaged primarily in the ocean transportation of crude oil and petroleum products. At December 31, 2010, the Company owned or operated a modern fleet of 111 vessels (aggregating 11.3 million deadweight tons and 864,800 cubic meters) of which 88 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 11 International and U.S. Flag vessels, bringing the Company's total owned, operated and newbuild fleet to 122 vessels.

The Company's vessel operations are organized into strategic business units and focused on broad market segments: crude oil, refined petroleum products, and U.S. Flag. The International Flag Crude Tanker unit manages International Flag ULCC, VLCC, Suezmax, Aframax, Panamax and Lightering tankers; the International Flag Product Carrier unit principally manages LR1 and MR product carriers and the U.S. unit manages most of the Company's U.S. Flag vessels. Through joint venture partnerships, the Company operates four LNG carriers and two Floating Storage and Offloading ("FSO") service vessels. Dedicated chartering and commercial personnel manage specific fleets while the Company's technical ship management operations and corporate departments support the Company's global operations.

OSG generally charters its vessels to customers either for specific voyages at spot rates or for specific periods of time at fixed daily amounts. Spot market rates are highly volatile, while time and bareboat charter rates, because they are fixed for specific periods of time, provide a more predictable stream of Time Charter Equivalent revenues ("TCE" revenues). For a more detailed discussion on factors influencing spot and time charter markets, see Operations—Charter Types later in this section.

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

BUSINESS STRATEGY

OSG is committed to providing safe, reliable transportation services to its customers while ensuring the safety of its crews, vessels and the environment. The Company is also committed to creating long-term shareholder value by executing on a growth strategy designed to diversify its revenue sources across its chosen sectors and thereby maximize returns and reduce risk over shipping cycles. OSG's growth strategy is focused on four elements:

§ Sector Leadership

OSG seeks to maintain or achieve market leading positions in each of the primary markets it operates: crude oil, products and U.S. Flag. The Company has expanded its fleet through organic growth and acquisitions of companies that have expanded its market presence, the scale of its fleet and service offerings.

§ Fleet Optimization

The Company believes that it can improve returns in any shipping cycle by taking a portfolio approach to managing its business. This approach includes operating a diverse set of vessels that trade in different markets; participating in commercial pools that maximize vessel utilization; managing a fleet of owned and chartered-in tonnage that provides for flexibility and optionality; and trading its fleet in both the spot and time charter markets to enhance returns.

§ Superior Technical Ship Management

OSG is committed to operational excellence across its fleet. The Company's high-quality, modern fleet is operated by experienced crews supported by skilled shore side personnel. OSG's Safety Management System ("SMS") is designed to ensure that operational practices and procedures are standardized fleet wide and those seafarers and vessel operations meet or exceed all applicable safety, regulatory and environmental standards established by International and U.S. maritime laws. For more information, see Technical Operations later in this section.

§ Financial Flexibility

The Company believes its strong balance sheet, ample liquidity, proven access to the capital markets and a significant unencumbered asset base provide significant financial flexibility. OSG has been able to access substantial amounts of debt capital on an unsecured basis in both the bank and public debt markets, thereby reducing its issuance of secured debt, which typically has collateral maintenance requirements. This financial flexibility permits the Company to pursue attractive business opportunities.

Summary of 2010 Events

OSG's growth strategy seeks to balance the expansion and renewal of its fleet across multiple market segments and manage the mix of owned and chartered-in assets. Chartering-in vessels gives the Company greater flexibility in both contracting and expanding markets through an ability to exercise redelivery, purchase or charter extension options. Sale and leaseback transactions not only raise cash that can be redeployed or reinvested, but shift risk, providing for greater flexibility in uncertain market conditions.

Fleet Expansion

In 2010, OSG took delivery of eleven vessels.

§ In the Crude Oil segment, one 297,000 dwt owned VLCC, the Overseas Everest, delivered.

§ In the Products segment, six MR vessels delivered. The MRs included the Overseas Mykonos and Overseas Santorini, both 52,000 dwt owned newbuilds, the Aegean Wave (50,000 dwt), the Adriatic Wave (51,000 dwt) and the Carina (47,000 dwt newbuild), which were all time chartered-in for eight years, and the 50,000 dwt newbuild Overseas Kythnos, which was initially chartered-in on a bareboat basis for five years, but subsequently purchased in October 2010.

§ In the U.S. segment, three product carriers and one articulated tug barge (ATB) delivered. The three U.S. Flag product carriers were the Overseas Anacortes, Overseas Martinez and Overseas Chinook, all 46,800 dwt vessels. The Overseas Anacortes and Overseas Martinez are bareboat chartered-in for five years with OSG having extension options for the life of the vessels. The Overseas Chinook is owned and is currently being converted to a shuttle tanker. The OSG Vision/OSG 350, a 45,600 dwt owned lightering ATB delivered in March 2010. In addition, the Overseas Cascade, which was originally delivered in December 2009, completed conversion to a shuttle tanker in March 2010 and commenced a five-year time charter in the ultra-deepwater U.S. Gulf, a Jones Act trade.

Active Asset Management

OSG's active asset management strategy seeks to enhance returns by timing the acquisition and disposition of vessels and by managing the mix of its owned and chartered-in fleet. In strong markets where asset values rise, the Company may emphasize chartering-in over ownership due to a lower implicit cost of capital. Similarly, sale and leaseback transactions provide an opportunity to capitalize on rising asset values while maintaining control of an asset. Leaseback terms can offer extension and purchase options, providing flexibility in volatile markets as well as transferring residual risk to third parties. In declining market conditions where asset values are falling, the Company may seek to increase its ownership of vessels.

USale Transactions

During 2010, the Company sold three owned U.S. Flag vessels, the Overseas Philadephia, Overseas Diligence and Overseas Galena Bay, and one chartered-in International Flag Aframax, the Sabine, a chartered-in lightering vessel in which the Company had a residual value interest. These transactions generated total proceeds of $14.9 million.

URedeliveries

The Crude Oil segment redelivered two time chartered-in Aframaxes during the year, the Mare Salernum and Action. The Company had less than 100% interests in the Mare Salernum and Action.

Changes to Charter-in Obligations and Orderbook Modifications

OSG actively managed its products orderbook over the past two years by negotiating price reductions, vessel swaps and modified delivery dates. In connection with these efforts:

§ During the first quarter of 2010, OSG reached an agreement with Cido Tanker Holding Co., a privately held shipping company, to cancel two newbuild MR product carriers that were time chartered-in for seven years and scheduled to deliver in the first quarter of 2011. In exchange, OSG agreed to time charter-in the Aegean Wave and the Adriatic Wave, both 2009-built MR product carriers at lower rates, for periods of eight years (see Fleet Expansion section above).

- In October 2010, the Company finalized amendments to certain construction contracts, the result of which was to replace contracts for two LR1s with scheduled delivery dates in 2011 with two crude Aframaxes slated to deliver in 2013. These amendments increased the Company's remaining construction commitments by approximately $4.5 million, but deferred $70 million of construction commitments from 2011 into 2012 and 2013.

Commercial Pool Activity
A new pool partner, the Dr. Peters Group, joined the Company's Aframax International pool during the third quarter of 2010 and has entered two vessels into the pool as of December 31, 2010.

In December 2010, the Suezmax International pool entered into one-year time charter-in agreements for two additional Suezmax tankers. The vessels were delivered to the pool in January 2011.

Two new pool partners joined the Company's Clean Products International pool during 2010. Koenig & Cie joined the pool by adding one vessel in the third quarter. Mitsui O.S.K. entered one vessel in the third quarter and an additional vessel in the fourth quarter of 2010.

Financial Strength and Stability
The Company strengthened its capital structure by raising approximately $450 million during the first quarter of 2010. In doing so, the Company diversified its lending sources, lengthened its average debt maturity and gained greater flexibility for future investment and expansion opportunities.

- In March 2010, the Company completed the sale of 3.5 million shares of common stock at $45.33 per share and received proceeds of $158.3 million, net of issuance costs.

- Also in March 2010, the Company issued $300 million of senior unsecured notes due 2018 with a coupon of 8.125%. The Company received proceeds of approximately $289.7 million after deducting underwriting discounts, commissions and other expenses.

Proceeds from these transactions were used to reduce the outstanding indebtedness under the Company's unsecured revolving credit facility and for working capital purposes.

Fleet Highlights
As of December 31, 2010, OSG's owned, operated and newbuild fleet aggregated 122 vessels. Of this total, 95 vessels are International Flag and 27 vessels are U.S. Flag. The Marshall Islands is the principal flag of registry of the Company's International Flag vessels. At a time when customers are demonstrating a clear preference for modern tonnage based on concerns about the environmental risks associated with older vessels, all but one of OSG's International Flag fleet is double hull. The one single hull vessel is on a charter-in that expires in August 2011. In addition, the U.S. Flag fleet is fully double-hulled with the exception of two tankers, both of which are currently under contract of sale and expected to be delivered to buyers in the first half of 2011.

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.

Commercial Pools
To increase vessel utilization and thereby revenues, the Company participates in Commercial Pools with other like-minded shipowners 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 scheduling efficiencies. Pools consist of experienced commercial owners and operators, while technical management is performed by each shipowner. Pools negotiate charters with customers primarily in the spot

market. The size and scope of these pools enable them to enhance utilization for pool vessels by securing backhaul voyages and Contracts of Affreightment (“COAs”) and reduce waiting time, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service to customers.

As of December 31, 2010, OSG participates in five pools: Tankers International (“TI”), Aframax International (“AI”), Panamax International (“PI”), Clean Products International (“CPI”) and Suezmax International (“SI”). For more information on the pools, see Operations—International Fleet Operations.

Technical Operations

OSG’s global fleet operations are managed on an integrated basis by segment: crude, products and U.S. Flag. In addition to regular maintenance and repair, crews onboard each vessel and shore side personnel are responsible for ensuring that the Company’s fleet meets or exceeds regulatory standards established by the International Maritime Organization (“IMO”) and U.S. Coast Guard, including SOLAS (the International Convention for the Safety of Life at Sea) and MARPOL (the International Convention for the Prevention of Pollution from Ships).

The Company is committed to providing safe, reliable and environmentally sound transportation to its customers. Integral to meeting standards mandated by worldwide regulators, customers and OSG is the Company’s SMS. The SMS is a framework of processes and procedures that addresses a spectrum of operational risks associated with quality, environment, health and safety. The SMS is certified by ISM (International Safety Management Code), ISO 9001 (Quality Management) and ISO 14001 (Environmental Management).

The Company recruits, hires and trains the crews on its vessels and believes that the quality of its senior officers, crew and shore side support personnel provide it with a competitive advantage. OSG’s mandatory training and education requirements exceed the IMO Standards of Training, Certification and Watchkeeping (STCW). In early 2009, OSG completed the installation of an integrated engine room and bridge simulator, located in its Manila office. In 2010, a cargo handling simulator was added. These simulators are to familiarize OSG engine and deck officers with correct procedures and to respond effectively when faced with unusual or unexpected situations. OSG believes its ability to provide professional development and long-term employment opportunities for qualified crew are competitive advantages in a market where skilled labor shortages are expected to remain a challenge. In 2010, both International and U.S. Flag crew retention was greater than 95%.

The fleet is supported by shore side operations that include fleet managers, marine and technical superintendents, purchasing staff, security officers, crewing and training personnel and a safety, quality and environmental (“SQE”) department. Further augmenting technical operations are assurance functions that conduct vessel audits and assure compliance with marine and environmental regulations and manage preparedness for emergency response. OSG has an Open Reporting system whereby seafarers can anonymously report possible violations of Company policies and procedures. All open reports are investigated and appropriate actions are taken as needed. Furthermore, the Company’s Vice President, Marine Operations Assurance and Response has independent oversight of fleet-wide vessel operating practices and procedures and global training programs.

Commercial Teams

OSG’s commercial teams based in offices in Houston, London, Montreal, New York, Singapore, Newark (Delaware) and Tampa enable customers to have access, at all times, to information about their cargo’s position and status. The Company believes that the scale of its fleet, its commercial management skills and its extensive market knowledge allow it to achieve better rates than smaller, independent shipowners on a consistent basis. OSG’s strong reputation in the marketplace is the result of longstanding relationships with its customers and business partners.

Customers

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

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 2010, total equity decreased by $57.7 million to $1.8 billion. The change reflects the 2010 loss and an increase in the unrealized hedging expense of $17.2 million related to derivatives that are accounted for as cash flow hedges, offset by the net proceeds of $158.3 million raised in March 2010 through the issuance of 3.5 million shares of common stock. Liquidity, including undrawn bank facilities, was approximately $1.3 billion at December 31, 2010.

Liquidity adjusted debt to capital was 48.0% at December 31, 2010, compared with 40.1% as of December 31, 2009. For this purpose, liquidity adjusted debt is defined as long-term debt reduced by cash, short-term investments and the balance in the Capital Construction Fund.

Employees
As of December 31, 2010, the Company had approximately 3,500 employees comprised of 3,050 seagoing personnel and 450 shore side staff. The Company has collective bargaining agreements with three different U.S. maritime unions covering 667 seagoing personnel employed on the Company’s U.S. Flag vessels. These agreements are in effect for periods ending between March 2011 and June 2015. Under the collective bargaining agreements, the Company is obligated to make contributions to pension and other welfare programs. The Company also has collective bargaining agreements with seven other maritime unions covering 2,270 seagoing personnel employed on the Company’s International Flag vessels. These agreements are in effect through December 2011. OSG believes that it has a satisfactory relationship with its employees.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward looking statements regarding the outlook for tanker and articulated tug/barge markets, and the Company's prospects, including prospects for certain strategic alliances and investments. All statements other than statements of historical facts should be considered forward-looking statements. There are a number of factors, risks and uncertainties, many of which are beyond the control of the Company, that could cause actual results to differ materially from the expectations expressed or implied in these forward looking statements, including changes in production of or demand for oil and petroleum products, either globally or in particular regions; greater than anticipated levels of newbuilding orders or less than anticipated rates of scrapping of older vessels; changes in trading patterns for particular commodities significantly impacting overall tonnage requirements; changes in the global economy and various regional economies; risks incident to vessel operation, including accidents and discharge of pollutants; unanticipated changes in laws and regulations; increases in costs of operation; drydocking schedules differing from those previously anticipated; the ability of the Company to attract and retain experienced, qualified and skilled crewmembers; changes in credit risk of counterparties, including shipyards, suppliers and financial lenders, and of joint venturers, partners and charterers; delays (including failure to deliver) or cost overruns in the building of new vessels or the conversion of existing vessels for other uses; the cost and availability of insurance coverage; the availability to the Company of suitable vessels for acquisition or chartering-in on terms it deems favorable; changes in the pooling arrangements in which the Company participates, including withdrawal of participants or termination of such arrangements; estimates of future costs and other liabilities for certain environmental matters and compliance plans; and projections of the costs needed to develop and implement the Company's strategy of being a market leader in the segments in which the Company competes. The Company assumes no obligation to update or revise any forward looking statements. Forward looking statements in this Form 10-K and written and oral forward looking statements attributable to the Company or its representatives after the date of this Form 10-K are qualified in their entirety by the cautionary statement contained in this paragraph and in other reports hereafter filed by the Company with the Securities and Exchange Commission.

OPERATIONS

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

The following chart reflects the percentage of TCE revenues generated by the Company's three reportable segments for each year in the three-year period ended December 31, 2010 and excludes the Company's proportionate share of TCE revenues of affiliated companies.

	Percentage of TCE Revenues		
	2010	2009	2008
International			
Crude Tankers	49.6 %	51.2 %	64.9 %
Product Carriers	22.1 %	23.7 %	19.3 %
Other	1.4 %	0.8 %	1.4 %
Total International Segments	73.1 %	75.7 %	85.6 %
U.S.	26.9 %	24.3 %	14.4 %
Total	100.0 %	100.0 %	100.0 %

The following chart reflects the percentage of income/(loss) from vessel operations accounted for by each reportable segment. Results from vessel operations is before general and administrative expenses, severance and relocation costs, shipyard contract termination costs, gain/(loss) on disposal of vessels, impairment charges (vessel and goodwill) and the Company's share of income from affiliated companies:

	Percentage of Income/(loss) from Vessel Operations		
	2010	2009	2008
International			
Crude Tankers	130.6 %	81.2 %	83.1 %
Product Carriers	(35.1)%	(3.2)%	11.3 %
Other	(1.2)%	(1.4)%	0.8 %
Total International Segments	94.3 %	76.6 %	95.2 %
U.S.	5.7 %	23.4 %	4.8 %
Total	100.0 %	100.0 %	100.0 %

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2010, and reconciliations of (i) time charter equivalent revenues to shipping revenues and (ii) income/(loss) from vessel operations for the segments to income/(loss) before income taxes, as reported in the consolidated statements of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7, and Note D to the Company's consolidated financial statements set forth in Item 8.

Revenues from International Crude Tankers are derived principally from voyage charters and are, therefore, significantly affected by prevailing spot rates. In contrast to International Crude Tankers, revenues from International Product Carriers and the vessels included in the U.S. reportable segment are derived to a much larger extent from time charters, generating a more predictable level of TCE earnings. Accordingly, the relative contributions of the International Product Carriers and the U.S. segment's vessels to consolidated TCE revenues and to consolidated income/(loss) 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, as they did in 2009. The weak markets in 2010 and 2009 resulted in TCE earnings for the Company's International Product Carriers dropping below their total operating expense levels, and in the lay up of a number of U.S. Flag vessels for substantial portions of both years. In 2010, revenues from International Product Carriers shifted away from being significantly derived from time charters as spot days increased to 72% from 52% in 2009 as a percentage of total revenue days. This combined with the decrease in average spot rates, negatively impacted the International Product Carriers segment's share of TCE revenues and contribution to consolidated results from operations. Contribution to income/(loss) from vessel operations by the U.S.

reportable segment decreased to 5.7% from 23.4% in 2009, primarily due to the increase in charter hire expense. TCE revenues for the U.S. segment declined $2.1 million in 2010 compared with 2009 due to the increase in lay-up days and decline in spot rates, which negatively affected the ATBs, partially offset by the delivery in 2010 of three newbuild Poduct Carriers and the full year operation of two newbuild Product Carriers that delivered in 2009.

Charter Types

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

Spot Market

Voyage charters, including vessels operating in Commercial Pools that predominantly operate in the spot market, constituted 64% of the Company's TCE revenues in 2010, 49% in 2009 and 65% in 2008. 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 and the levels of seaborne and shore-based inventories of crude oil and refined products. Seasonal trends often greatly affect world oil consumption and consequently vessel demand. While trends in consumption vary with seasons, peaks in demand quite often precede seasonal consumption peaks as refiners and suppliers try to anticipate consumer demand. Seasonal peaks in oil demand have been principally driven by increased demand prior to Northern Hemisphere winters, as heating oil consumption increases, and increased demand for gasoline prior to the summer driving season in the U.S. Available tonnage is affected over time, by the volume of newbuilding deliveries, the number of tankers used to store clean products and crude oil, and the removal (principally through scrapping or conversion) of existing vessels from service. Scrapping is affected by the level of freight rates, by the level of scrap prices, by vessel vetting standards established by charterers and terminals 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 and Bareboat Charter Market

The Company's U.S. Flag fleet, its International Flag Product Carrier fleet, the LNG fleet and the two FSOs include a number of vessels that operate on time charters, providing a predictable level of revenues, which is not subject to fluctuations inherent in spot-market rates. During the three years ended December 31, 2010, the Company entered into Forward Freight Agreements ("FFAs") and related bunker swaps as hedges for reducing the volatility of earnings from operating the Company's VLCCs in the spot market. These derivative instruments seek to create synthetic time charters. The impact of these derivatives, which qualify for hedge accounting treatment, is reported together with time charters in the physical market. Time and bareboat charters constituted 36% of the Company's TCE revenues in 2010, 51% in 2009 and 35% in 2008. Because of the depressed markets in 2010 and 2009, the Company has been unable to replace expiring term business at comparable levels. Although medium-term time charters are available in the Product Carrier markets, management has not deemed the rates offered by charterers to be sufficiently attractive to warrant concluding such business.

Fleet Summary

As of December 31, 2010, OSG's International Flag and U.S. Flag operating fleet consisted of 111 vessels, 57% of which were owned, with the remaining vessels bareboat or time chartered-in. Vessels chartered-in may be Bareboat Charters (where OSG is responsible for all Vessel Expenses) or Time Charters (where the shipowners pay Vessel Expenses).

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2010		
Vessel Type	Number	Weighted by Ownership	Number	Weighted by Ownership	Total Vessels	Vessels Weighted by Ownership	Total Dwt
Operating Fleet							
FSO	2	1.0	—	—	2	1.0	864,046
VLCC and ULCC	9	9.0	6	6.0	15	15.0	4,727,398
Suezmax	—	—	2	2.0	2	2.0	317,000
Aframax	6	6.0	6	5.5	12	11.5	1,344,470
Panamax	9	9.0	—	—	9	9.0	626,834
Lightering	2	2.0	4	3.5	6	5.5	563,663
International Flag Crude Tankers	28	27.0	18	17.0	46	44.0	8,443,411
LR2	—	—	1	1.0	1	1.0	104,024
LR1	2	2.0	2	2.0	4	4.0	297,374
MR (1)	14	14.0	18	18.0	32	32.0	1,531,960
International Flag Product Carriers	16	16.0	21	21.0	37	37.0	1,933,358
Car Carrier	1	1.0	—	—	1	1.0	16,101
Total Int'l Flag Operating Fleet	45	44.0	39	38.0	84	82.0	10,392,870
Handysize Product Carriers (2,3)	4	4.0	9	9.0	13	13.0	608,623
Clean ATBs (2)	6	6.0	—	—			