

OVERSEAS SHIPHOLDING GROUP INC
Form 10-Q
August 01, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 1-6479-1

OVERSEAS SHIPHOLDING GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

13-2637623

(IRS Employer Identification No.)

666 Third Avenue, New York, New York
(Address of principal executive offices)

10017
(Zip Code)

(212) 953-4100

Registrant's telephone number, including area code

No Change

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Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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 "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Shares outstanding as of July 28, 2008 30,362,888

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

DOLLARS IN THOUSANDS

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 219,524	\$ 502,420
Voyage receivables, including unbilled of \$191,481 and \$135,210	252,452	180,406
Other receivables, including income taxes recoverable	83,447	84,627
Inventories, prepaid expenses and other current assets	66,504	37,300
Total Current Assets	621,927	804,753
Capital Construction Fund	103,639	151,174
Vessels and other property, less accumulated depreciation of \$518,646 and \$492,357	2,706,499	2,691,005
Vessels under capital leases, less accumulated amortization of \$6,167 and \$85,580	2,151	24,399
Vessels held for sale	48,819	
Deferred drydock expenditures, net	83,629	81,619
Total Vessels, Deferred Drydock and Other Property	2,841,098	2,797,023
Investments in Affiliated Companies	86,446	131,905
Intangible Assets, less accumulated amortization of \$11,498 and \$7,748	110,333	114,077
Goodwill	72,463	72,463
Other Assets	154,235	87,522
Total Assets	\$ 3,990,141	\$ 4,158,917
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, sundry liabilities and accrued expenses	\$ 195,802	\$ 178,837
Current installments of long-term debt	26,143	26,058
Current obligations under capital leases	2,102	8,406
Total Current Liabilities	224,047	213,301
Long-term Debt	1,229,654	1,506,396
Obligations under Capital Leases	30	24,938
Deferred Gain on Sale and Leaseback of Vessels	169,629	182,076
Deferred Income Taxes (\$209,095 and \$230,924) and Other Liabilities	341,138	281,711
Minority Interest	130,279	132,470
Stockholders Equity	1,895,364	1,818,025
Total Liabilities and Stockholders Equity	\$ 3,990,141	\$ 4,158,917

See notes to condensed consolidated financial statements.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Shipping Revenues:				
Pool revenues, including \$32,816, \$18,860, \$62,994 and \$35,785 received from companies accounted for by the equity method	\$ 226,018	\$ 134,363	\$ 449,464	\$ 269,741
Time and bareboat charter revenues	90,374	90,447	182,861	175,381
Voyage charter revenues	111,832	75,187	206,575	130,159
	428,224	299,997	838,900	575,281
Operating Expenses:				
Voyage expenses	42,110	25,763	76,952	41,863
Vessel expenses	77,785	68,858	150,654	129,672
Charter hire expenses, including \$20,244 and \$41,121 in 2007 paid to a company accounted for by the equity method	103,368	67,949	194,039	117,365
Depreciation and amortization	47,315	44,099	94,906	86,582
General and administrative	34,509	31,687	71,794	60,725
Gain on disposal of vessels	(23,686)	(5,623)	(23,691)	(5,620)
Total Operating Expenses	281,401	232,733	564,654	430,587
Income from Vessel Operations	146,823	67,264	274,246	144,694
Equity in Income of Affiliated Companies	4,048	2,885	5,377	6,269
Operating Income	150,871	70,149	279,623	150,963
Other Income/(Expense)	(46,404)	34,290	(43,435)	57,048
	104,467	104,439	236,188	208,011
Interest Expense	17,191	18,281	35,554	31,449
Income before Minority Interest and Income Taxes	87,276	86,158	200,634	176,562
Minority Interest	(1,112)		(2,035)	
Income before Income Taxes	86,164	86,158	198,599	176,562
(Provision)/Credit for Income Taxes	771	(7,166)	771	(12,918)
Net Income	\$ 86,935	\$ 78,992	\$ 199,370	\$ 163,644
Weighted Average Number of Common Shares Outstanding:				
Basic	30,615,359	34,404,900	30,861,429	36,733,878
Diluted	30,895,367	34,622,798	31,072,727	36,895,084
Per Share Amounts:				
Basic net income	\$ 2.84	\$ 2.30	\$ 6.46	\$ 4.45
Diluted net income	\$ 2.81	\$ 2.28	\$ 6.42	\$ 4.44
Cash dividends declared	\$ 0.75	\$ 0.5625	\$ 1.0625	\$ 0.8125

See notes to condensed consolidated financial statements.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

DOLLARS IN THOUSANDS

(UNAUDITED)

	Six Months Ended June 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 199,370	\$ 163,644
Items included in net income not affecting cash flows:		
Depreciation and amortization	94,906	86,582
Amortization of deferred gain on sale and leasebacks	(24,510)	(23,561)
Deferred compensation relating to restricted stock and stock option grants	6,104	4,606
Provision for deferred income taxes	1,437	5,668
Unrealized losses on forward freight agreements and bunker swaps	29,500	2,310
Undistributed earnings of affiliated companies	379	7,717
Other net	(3,506)	1,357
Items included in net income related to investing and financing activities:		
(Gain)/loss on sale of securities net	6	(41,285)
Gain on disposal of vessels	(23,691)	(5,620)
Payments for drydocking	(27,613)	(24,690)
Distributions from subsidiaries to minority owners	(4,168)	
Changes in operating assets and liabilities	(156,485)	(43,379)
Net cash provided by operating activities	91,729	133,349
Cash Flows from Investing Activities:		
Purchases of marketable securities	(11,311)	
Expenditures for vessels	(252,260)	(149,991)
Withdrawals from Capital Construction Fund	49,830	106,700
Proceeds from disposal of vessels	216,884	117,548
Acquisition of Heidmar Lightering, net of cash acquired		(38,375)
Expenditures for other property	(7,207)	(4,848)
Investments in and advances to affiliated companies	(5,734)	(27,934)
Proceeds from disposal of investments in affiliated companies		194,706
Distributions from affiliated companies	19,960	
Other net	3	367
Net cash provided by investing activities	10,165	198,173
Cash Flows from Financing Activities:		
Purchases of treasury stock	(57,551)	(427,618)
Issuance of debt, net of issuance costs	59,000	267,000
Payments on debt and obligations under capital leases	(366,875)	(17,680)
Cash dividends paid	(19,385)	(18,163)
Issuance of common stock upon exercise of stock options	398	317
Other net	(377)	(20)
Net cash (used in) financing activities	(384,790)	(196,164)
Net increase/(decrease) in cash and cash equivalents	(282,896)	135,358
Cash and cash equivalents at beginning of year	502,420	606,758
Cash and cash equivalents at end of period	\$ 219,524	\$ 742,116

See notes to condensed consolidated financial statements.

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OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

DOLLARS IN THOUSANDS

(UNAUDITED)

	Common Stock*	Paid-in Additional Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income/(Loss)**	Total
				Shares	Amount		
Balance at January 1, 2008	\$ 40,791	\$ 208,817	\$ 2,170,098	9,697,620	\$ (583,708)	\$ (17,973)	\$ 1,818,025
Net Income			199,370				199,370
Net Unrealized Holding Gain on Available-for-sale Securities						1,782	1,782
Effect of Derivative Instruments						(39,592)	(39,592)
Effect of Pension and Other Postretirement Benefit Plans						(319)	(319)
Comprehensive Income							161,241***
Cash Dividends Declared			(32,670)				(32,670)
Deferred Compensation Related to Options Granted		2,448					2,448
Issuance of Restricted Stock Awards		(1,277)		(115,598)	1,277		
Amortization of Restricted Stock Awards		3,656					3,656
Options Exercised and Employee Stock Purchase Plan		315		(6,535)	83		398
Purchases of Treasury Stock				851,101	(57,551)		(57,551)
Increase in Loss on Public Offering of OSG America L.P. Units		(183)					(183)
Balance at June 30, 2008	\$ 40,791	\$ 213,776	\$ 2,336,798	10,426,588	\$ (639,899)	\$ (56,102)	\$ 1,895,364
Balance at January 1, 2007	\$ 40,791	\$ 202,712	\$ 1,996,826	1,565,559	\$ (34,522)	\$ 1,504	\$ 2,207,311
Net Income			163,644				163,644
Effect of Derivative Instruments						15,538	15,538
Effect of Pension and Other Postretirement Benefit Plans						(206)	(206)
Comprehensive Income							178,976***
Cash Dividends Declared			(28,411)				(28,411)
Deferred Compensation Related to Options Granted		1,771					1,771
Issuance of Restricted Stock Awards		(1,662)		(135,619)	1,662		
Amortization of Restricted Stock Awards		2,835					2,835
Options Exercised and Employee Stock Purchase Plan		237		(6,302)	80		317
Purchases of Treasury Stock				6,573,564	(427,618)		(427,618)
Balance at June 30, 2007	\$ 40,791	\$ 205,893	\$ 2,132,059	7,997,202	\$ (460,398)	\$ 16,836	\$ 1,935,181

* Par value \$1 per share; 120,000,000 shares authorized; 40,790,759 shares issued.

** Amounts are net of tax.

*** Comprehensive income for the three month periods ended June 30, 2008 and 2007 was \$75,305 and \$92,530, respectively.

See notes to condensed consolidated financial statements.

OVERSEAS SHIPHOLDING GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements:

Note A Basis of Presentation:

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The consolidated balance sheet as of December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Vessels, deferred drydocking expenditures and other property Vessels are recorded at cost and are depreciated to their estimated salvage value on the straight-line basis over the lives of the vessels, which are generally 25 years. Each vessel's salvage value is equal to the product of its lightweight tonnage and an estimated scrap rate. Effective January 1, 2008, the Company effected a change in estimate related to the estimated scrap rate for substantially all of its vessels from \$150 per lightweight ton to \$300 per lightweight ton. The resulting increase in salvage value will be applied prospectively and will reduce depreciation by approximately \$10,900,000 for the year ended December 31, 2008 and by approximately \$2,700,000 for each quarter in 2008.

Newly Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (FAS 158), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). FAS 158 requires companies to:

- recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status,
- measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year, and
- recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur.

FAS 158 does not change the amount of net periodic benefit cost included in net income or address the various measurement issues associated with postretirement benefit plan accounting. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements was effective for OSG for the year ended December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. Earlier application of the measurement date provisions is encouraged; however, early application must be for all of an employer's benefit plans. The adoption of the measurement date provisions of FAS 158 will not have a material effect on the Company's financial position.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (FAS 141R). FAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. FAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (FAS 160). FAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. This statement is required to be applied prospectively as of the beginning of the fiscal year in which it initially applied, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented.

In March 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of Statement of Financial Accounting Standards No. 133 (FAS 161). FAS 161 requires qualitative disclosures about an entity's objectives and strategies for using derivatives and quantitative disclosures about how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with early application allowed. FAS 161 allows but does not require, comparative disclosures for earlier periods at initial adoption.

Note B Earnings per Common Share:

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

Dollars in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 86,935	\$ 78,992		