OVERSEAS SHIPHOLDING GROUP INC
Form 10-K
February 29, 2008

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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, 2007

OR

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

For the Transition Period from __________________ to __________________.

Commission File Number 1-6479-1

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

Delaware	13-2637623
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
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, 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 ý	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 ý

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2007, the last business day of the registrant's most recently completed second quarter, was $2,377,427,578, based on the closing price of $81.40 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 22, 2008, 31,189,735 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 2008 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, 2007, the Company owned or operated a modern fleet of 112 vessels (aggregating 12.2 million deadweight tons and 432,400 cubic meters) of which 93 vessels operated in the international market and 19 operated in the U.S. Flag market. OSG's newbuilding program of owned and chartered-in vessels totaled 44 and extends across each of its operating segments, bringing the Company's total operating and newbuild fleet to 156 vessels.

OSG's vessel operations are organized into four strategic business units and focused on market segments each serve: crude oil ("International Flag Crude Tankers"), refined petroleum products ("International Product Carriers"), U.S. Flag vessels ("U.S. Flag") and gas ("Gas"). The International Flag Crude Tankers unit manages International Flag V-Plus, VLCC, Suezmax, Aframax and Panamax tankers; the International Product Carriers unit principally manages Panamax and Handysize Product Carriers; the U.S. Flag unit manages most U.S. Flag vessels; and the Gas unit at year end had two LNG Carriers under management with two additional vessels delivering in the first quarter of 2008. For 2007, the Gas unit was not a reportable business segment for financial reporting purposes. 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 daily amounts. Spot market rates are highly volatile, while time and bareboat 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 strategy is to be the most respected energy transportation company in the world and to have a balanced portfolio of vessels in its fleet. As a major international shipping company, OSG intends to achieve its strategy by focusing on three goals: maximizing returns to shareholders throughout all markets; providing reliable transportation to its customers while protecting its crews, vessels and the environment; and creating a rewarding and challenging workplace for its sea and shore-based employees.

To achieve its strategy, OSG seeks to be a market leader in each of the segments in which it operates, International Flag Crude Tankers, International Product Carriers, U.S. Flag and Gas. To support this goal, 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 provision of reliable, safe transportation services to customers.

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 and supported by experienced shore side personnel, has in place a program of standardized operational practices and procedures that have been 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 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 2007 Events
During 2007, the Company pursued numerous initiatives that supported its balanced growth strategy, some of which are highlighted below.

Fleet Diversification, Fleet Expansion and Active Asset Management

International Flag Crude Tankers The crude oil fleet expanded from 49 operating vessels and four newbuilds at the end of 2006 to 53 operating vessels and 10 newbuilds at the end of 2007. The crude oil transportation unit executed a number of sale, purchase, diversification and charter-in transactions in order to better serve its customers. Key events and transactions included:

Forward sale. The Company agreed to sell the Overseas Donna, a 2000-built VLCC for forward delivery. At the discretion of the purchaser, the vessel will be delivered no later than July 2009, at which time OSG will recognize a gain on the sale in excess of $75 million.

Acquisition of Hiedmar Lightering. On April 20, 2007, OSG completed the acquisition of the Heidmar Lightering business from a subsidiary of Morgan Stanley Capital Group Inc. for approximately $41 million. The Houston-based operation provides crude oil lightering services to refiners, oil companies and trading companies, primarily in the U.S. Gulf. The business manages a portfolio of one-to-three year fixed rate cargo contracts with a fleet of five dedicated International Flag Aframaxes and three U.S. Flag workboats. Subsequent to the acquisition, the International Flag lightering operations expanded to the U.S. West Coast.

Purchased vessels. In January 2007, OSG acquired 49.99% interest in a company that is constructing two VLCC tankers in China, which are expected to deliver in 2009.

Fleet diversification. In the third quarter, OSG announced the planned addition of four Suezmax tankers to its crude oil fleet, giving the Company the distinction of being the only ship owner that offers service across all crude vessel classes: V-Plus, VLCC, Suezmax, Aframax, Panamax and Lightering. The Company purchased two secondhand vessels that were then sold and bareboat chartered-back for seven and 10 years. Two newbuilding Suezmaxes were time chartered-in for three years commencing upon their delivery, which are expected in the fourth quarter of 2008. The first of the two secondhand vessels, the Overseas Newcastle, was delivered and began trading in December 2007. The other secondhand vessel, the Overseas London, commenced its 10-year bareboat charter to the Company in late-January 2008.

Fleet expansion through charter-in arrangements. The Watban, a 1996-built VLCC, was chartered-in through 2011 replacing 50% interests in two VLCCs that redelivered during the year. OSG took a 50% interest in three-year time charter-in commitments for two newbuild Aframaxes, the Aqua and the Action, which entered the fleet in the second and third quarter of 2007, respectively; and OSG took a 50% interest in a five-year time charter-in of a VLCC, the KHK Vision, which delivered in the second quarter of 2007. All of these vessels trade in Commercial Pools in which the Company participates.

International Product Carriers The product carrier fleet expanded from 32 operating vessels and 12 newbuilds at the end of 2006 to 35 operating vessels and 16 newbuilds at the end of 2007. Key events and transactions are highlighted below:

Vessel Deliveries. The Overseas Cygnus delivered in the first quarter of 2007 and the Overseas Sextans delivered in the second quarter of 2007. Both vessels have been time chartered-in for 10 years. The 2007-built vessels are IMO III certified, which gives them the flexibility to transport vegetable oils.

Vessel sales. The Overseas Almar, a 1996-built Handysize Product Carrier, was sold and a gain of approximately $5.6 million was recognized in the second quarter of 2007.

LR1 Fleet Expansion. In an effort to diversify its portfolio of vessels to better serve customers and enhance its competitive position as product trades shift and globalize, OSG expanded its large size coated Panamax fleet, or LR1 tankers. The Company purchased two 2006-built LR1s, the Overseas Visayas and the Overseas Luzon, which

delivered in the third quarter. In August, OSG announced that it will build four LR1 vessels, which are expected to deliver in 2010 and 2011, and in the fourth quarter, OSG exercised an option to build two additional LR1 vessels, which are expected to deliver in late 2011. This expansion brings the OSG's operating and newbuild LR1 fleet to 10 vessels.

Sale-leasebacks. OSG sold and bareboat chartered back two 1996-built Handysize Product Carriers, the Overseas Nedimar and the Overseas Limar. The $10.8 million gain from the sales has been deferred and is being amortized over seven and one-half years (the term of the charter-backs) as a reduction of charter hire expense. OSG has renewal options at the end of each charter-hire period.

U.S. Flag The U.S. Flag fleet of 19 operating vessels and 16 newbuilds as of December 31, 2007, contracted slightly from 20 operating vessels and 14 newbuilds at the end of 2006, primarily a result of selling older tonnage and ordering shuttle tankers and ATBs for transporting refined petroleum products. Key events and transactions were:

Fleet Expansion and Modernization. In the first quarter of 2007, OSG announced a definitive agreement to build three new Articulated Tug Barges. The vessels are scheduled to be delivered in the fourth quarter of 2009 and the second and fourth quarters of 2010. Further expanding its Jones Act Product Carrier newbuild program, OSG announced a definitive agreement to expand its Aker newbuild series by two additional MT-46 Jones Act Product Carriers during the fourth quarter of 2007. This agreement brings the total number of ships OSG will bareboat-charter in from Aker to twelve.

The M211 was taken out of service to be expanded and converted to a double-hull configuration in April 2007 and is expected to rejoin the operating fleet in the first half of 2008. During the year, the Company sold three older Dry Bulk Carriers: the Overseas Harriette, the Allegiance and the Perseverance.

Vessel Deliveries. Three U.S. Flag Jones Act Product Carriers delivered in 2007. The Overseas Houston delivered and began trading in the first quarter, the Overseas Long Beach began trading in July and the Overseas Los Angeles began trading in November. An ATB, OSG 242, reentered the fleet after being converted to a double-hull configuration and expanding its capacity by 38,000 barrels using a patented methodology.

New Trade. In October 2007, OSG announced that it has signed a definitive agreement to charter two 46,000 dwt Jones Act tankers to Petrobras America, Inc., marking the first U.S. Flag shuttle tankers to transport oil from ultra-deepwater drilling projects in the U.S. Gulf of Mexico. OSG will provide shuttle tanker services from a Floating Production Storage and Offloading facility, or FPSO, at the Chinook and Cascade ultra-deepwater fields in the Walker Ridge area of the Gulf of Mexico. Ultra-deepwater discoveries are located in water at least 8,000 feet deep and require an additional 15,000 feet of drilling beneath the ocean floor. FPSOs and shuttle tankers are a cost-effective means of transporting offshore oil where pipeline infrastructure is too costly or technologically not feasible to construct. This will be the first FPSO and shuttle tanker project in U.S. waters.

Gas The first two of OSG's Q-Flex LNG Carriers delivered during the fourth quarter of 2007 and began trading. The Al Gattara, delivered on November 6 and commenced its 25-year time charter on November 23. The Tembek delivered on November 19 and commenced its 25-year time charter on December 6. Two additional LNG Carriers delivered in the first quarter of 2008. OSG has a 49.9% ownership interest in each of the LNG Carriers.

Financial Strength and Stability

During the year, the Company repurchased a total of 8.3 million shares at a cost of approximately $551 million through open market purchases and one single block transaction of 5.1 million shares. As of December 31, 2007, approximately $45 million remained available for further share repurchases under the $200 million repurchase program that was approved by the Company's Board of Directors in April 2007.

On June 6, 2007, the Company's Board of Directors announced a regular quarterly dividend of $0.3125 per share, a 25% increase from $0.25 per share, which had been in place since April 2006.

During the first half of 2007, OSG sold its entire 44.5% interest in Double Hull Tankers (NYSE: DHT) and recognized total gains from the sale of approximately $40.6 million. OSG continues to time charter-in DHT's initial fleet of seven vessels that remain subject to valuable extension options.

In May 2007, OSG formed OSG America L.P., a master limited partnership ("MLP"), and on November 15, 2007, completed an initial public offering, issuing 7.5 million common units (representing a 24.5% limited partner interest),

priced at $19.00 per unit. OSG America L.P. trades on the New York Stock Exchange under the ticker "OSP". At December 31, 2007, the OSG America L.P. fleet consisted of 19 U.S. Flag product carriers and tug barges, a newbuild fleet of five product carriers and options to purchase an additional 10 vessels upon delivery. OSG executed this transaction in order to enhance the valuation of its U.S. Flag assets, which have generally predictable cash flows generated by medium and long-term charters. The MLP structure should also lower its cost of capital, enabling it to pursue growth opportunities more competitively. The transaction generated $129.3 million in proceeds to OSG, which the Company used to pay down debt in the fourth quarter.

In November 2007, OSG America L.P. entered into a five-year senior secured revolving credit agreement. Borrowings under this facility bear interest at a rate based on LIBOR. The facility may be extended by 24 months subject to approval by the lenders.

Active Asset Management

In support of its balanced growth strategy, OSG seeks to balance the mix of owned and chartered-in tonnage of both its operating and newbuild fleet. As noted in the summary of events and transactions by business units above, the Company entered into a number of transactions whereby it sold or sold and leased-back vessels during the year. Fleet disposition activity during 2007 resulted in proceeds on vessel sales of $224 million resulting in $7.1 million in gains. Sale and lease-back transactions allow the Company to monetize assets in a favorable secondhand 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 $47.3 million in 2007, 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, 2007, OSG's owned, operated and newbuild fleet aggregated 156 vessels. Of this total, 121 vessels are International Flag and 35 vessels are U.S. Flag. The Marshall Islands is the principal flag of registry of the Company's International Flag vessels. The Company has one of the industry's most modern and efficient fleets in the international market. 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 (3)	Total
	Crude Tankers				Product Carriers					
	VLCC (1)	Suezmax	Aframax (2)	Panamax	Handysize	Panamax	Gas	Other		
Owned	10		7	9	12	4	2	1	14	59
Chartered-in	10	1	14	2	19			2	5	53
Newbuilds	2	2	6		10	6	2		16	44
Total	22	3	27	11	41	10	4	3	35	156

(1)

Includes V-Pluses

(2)
Includes lightering vessels

(3)
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 as of December 31, 2007

Year/Segment	Q1	Q2	Q3	Q4	Total
2008					
Crude		1	3	3	7
Products	1	3	1		5
U.S. Flag	1	2	2		5
Gas	2				2
Total	*4*	*6*	*6*	*3*	*19*
2009					
Crude	1	1		1	3
Products	1		1		2
U.S. Flag	2	1	1	1	5
Gas					0
Total	*4*	*2*	*2*	*2*	*10*
2010					
Crude					0
Products	1	1	1	2	5
U.S. Flag	1	2		2	5
Gas					0
Total	*2*	*3*	*1*	*4*	*10*
2011					
Crude					0
Products	1	2	1		4
U.S. Flag	1				1
Gas					0
Total	*2*	*2*	*1*	*0*	*5*
TOTAL					**44**

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, 2007, operated an aggregate of 47 VLCC and V-Plus tankers that trade on long haul routes throughout the world. All of OSG's Aframax tankers except for four dedicated lightering vessels operate in the Aframax International pool, which at year end 2007 consisted of 40 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 oil Panamax tankers participate in Panamax International, which operated a total of 21 Panamaxes as of December 31, 2007 on short haul and medium haul routes between South and Central America, the U.S. and the Caribbean. Five of OSG's Handysize Product Carriers participate in the Clean Products International Pool, a regional pool comprising six vessels that concentrates on triangulation trades in South America. 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 safety, quality and environmental ("SQE") 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 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 SQE regulations and standards established by customers and 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.

Commercial Teams

OSG's commercial teams based in offices in Houston, 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 strong 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 2007, stockholders' equity declined by $389 million to $1.8 billion, principally due to the Company's repurchase of $551 million of its shares, and liquidity, including undrawn bank facilities, stood at more than $1.8 billion at December 31, 2007. During 2007, OSG America L.P., a subsidiary of OSG, entered into a new $200 million secured credit facility, which is nonrecourse to the Company.

Liquidity adjusted debt to capital was 32.6% at December 31, 2007, compared with 14.8% as of December 31, 2006. The increase was principally the result of $551 million in share repurchases in 2007, which were substantially funded through borrowings under the Company's unsecured credit facility. 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, 2007, the Company had 3,754 employees comprised of 3,278 seagoing personnel and 476 shore side staff. The Company has collective bargaining agreements with three different maritime unions covering 599 seagoing personnel employed on the Company's U.S. Flag vessels. These agreements are in effect for periods ending between March 2008 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; prospects for the growth of the Gas segment; 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 ability of the Company to attract and retain experienced, qualified and skilled crewmembers; delays or cost overruns in the building of new vessels; 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 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, 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, 2007 and excludes the Company's proportionate share of TCE revenues of affiliated companies.

	Percentage of TCE Revenues		
	2007	**2006**	**2005**
International			
Crude Tankers	54.8%	68.9%	69.6%
Product Carriers	23.4%	21.7%	19.3%
Other	2.3%	1.8%	2.7%
Total International Segments	80.5%	92.4%	91.6%
U.S.	19.5%	7.6%	8.4%
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		
	2007	**2006**	**2005**
International			
Crude Tankers	69.3%	88.5%	78.6%
Product Carriers	17.6%	14.5%	14.5%
Other	1.1%	(5.9)%	0.9%
Total International Segments	88.0%	97.1%	94.0%

	Percentage of Income from Vessel Operations		
U.S.	12.0%	2.9%	6.0%
Total	100.0%	100.0%	100.0%

For additional information regarding the Company's three reportable segments for the three years ended December 31, 2007, 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 F 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.

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 principally from time charters generating a more predictable level of TCE earnings. Accordingly, the relative contributions of the 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, as they did in 2007, and decreasing when such rates increase.

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 62% of the Company's TCE revenues in 2007 and 69% in 2006 and 2005. 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 or conversion) 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 and Bareboat Charter Market

A significant portion of the Company's U.S. Flag fleet, its International Flag Product Carrier fleet and the LNG fleet is on time charter, providing a significant and predictable level of earnings, which is not subject to fluctuations in spot-market rates. Time and bareboat charters constituted 38% of the Company's TCE revenues in 2007 and 31% in 2006 and 2005. Some of the Company's older chartered-in vessels are chartered through the remainder of their commercial lives.

Fleet Summary

As of December 31, 2007, OSG's International Flag and U.S. Flag operating fleet consisted of 112 vessels, 53% of which were owned, with the remaining vessels bareboat or time chartered-in. 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, 2007		
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	10	7.5	20	17.5	6,398,415
Suezmax			1	1	1	1	164,000
Aframax	6	6	12	8.6	18	14.6	1,913,154
Panamax	9	9	2	2	11	11	764,083
Lightering	1	1	2	1	3	2	252,111
International Flag Crude Tankers	26	26	27	20.1	53	46.1	9,491,763
Panamax Product Carriers	4	4			4	4	290,527
Handysize Product Carriers (1)	12	12	19	19	31	31	1,360,616
International Flag Product Carriers	16	16	19	19	35	35	1,651,143
Car Carrier (2)	1	1			1	1	16,101
International Bulk Carriers			2	2	2	2	319,843
International Flag Other (2)	1	1	2	2	3	3	335,944
Total Int'l Flag Operating Fleet	43	43	48	41.1	91	84.1	11,478,850
Handysize Product Carriers	3	3	5	5	8	8	367,497
Clean ATBs	8	8			8	8	216,630
Lightering:							
Crude Carrier	1	1			1	1	39,948
ATBs	2	2			2	2	90,908
Total U.S. Flag Operating Fleet	14	14	5	5	19	19	714,983
LNG Carriers	2	1			2	1	432,400 cbm
Total Operating Fleet	59	58	53	46.1	112	104.1	12,193,833 432,400 cbm
Newbuild Fleet							
International Flag							
VLCC	2	1			2	1	594,000
Suezmax			2	2	2	2	312,000
Aframax	4	4	2	1	6	5	686,000

	Vessels Owned		Vessels Chartered-in		Total at December 31, 2007		
Panamax Product Carriers	6	6			6	6	441,000
Handysize Product Carriers	2	2	8	8	10	10	489,350
U.S. Flag							
Product Carriers			9	9	9	9	421,335
Clean ATBs	4	4			4	4	136,777
Lightering ATBs	3	3			3	3	136,668
LNG Carriers	2	1			2	1	432,400 cbm
Total Newbuild Fleet	23	21	21	20	44	41	3,217,130 432,400 cbm
Total Operating and Newbuild Fleet	82	79	74	66.1	156	145.1	15,410,963 864,800 cbm

(1) Includes three owned U.S. Flag Product Carriers that trade internationally, thus associated revenue is included in the Product Carrier segment.

(2) The Overseas Joyce, the Company's only pure car carrier, was reflagged from U.S. Flag to International Flag in the fourth quarter of 2007 and no longer participates in the Maritime Security Program.

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 12/31/07**	**Average Age of OSG's Owned Fleet at 12/31/06**	**Average Age of World Fleet at 12/31/07***
VLCC (including V-Plus)	7.0 years	5.9 years	9.1 years
Aframax	9.2 years	8.2 years	8.9 years
Panamax (crude oil and refined petroleum products)	4.3 years	3.8 years	9.1 years
Handysize Product Carrier	6.2 years	5.9 years	9.4 years

* Source: Clarkson database as of January 1, 2008

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, except four dedicated lightering vessels, as well as a number of Panamax tankers into Commercial Pools that are responsible for the Commercial Management of these vessels. The pools collect revenue from customers, pay voyage-related expenses, and distribute TCE revenues to the participants, after deducting administrative fees, according to formulas based upon the relative carrying capacity, speed, and fuel consumption of each vessel.

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, 2007, Tankers International had nine participants and managed a fleet of 47 modern VLCCs and V-Pluses that trade throughout the world, including all 20 (17.5, 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, 2007, there were eight participants in Aframax International and the pool Commercially Managed 40 vessels, including 14 (11.6, 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, 2007, Panamax International managed a fleet of 21 modern Panamaxes, which includes six of the Company's crude Panamaxes and two of its Panamax Product Carriers, as well as three crude Panamaxes 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 31 medium-range ("MR") Product Carriers and four

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 revenues 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 five of its Handysize Product Carriers, including two that are time chartered to the other pool participant, in the Clean Products International Pool, a regional Commercial Pool formed in 2006 with Ultragas Group. The pool is comprised of six 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 and six newbuild Panamax Product Carriers. Delivery of these vessels began in 2006 and will continue through 2011. 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 Handysize vessels scheduled for 2008 and 2009. Of the Product Carrier newbuild program, all except one of the Handysize 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 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 LNG and CNG markets are characterized by long-term time-charters.

OSG has constructed four 216,000 cbm LNG Carriers, two of which delivered in the fourth quarter of 2007 and two of which delivered in the first quarter of 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 $913 million. The Company provides Technical Management for these state-of-the-art vessels. The Company's expansion into the LNG segment supports its strategy of fleet diversification and expansion into markets with significant growth opportunities. For more information about the financing of the LNG Carriers, see Note H 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 Gas Transport Modules

("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 since 2004 and today consists of 35 owned, operated and newbuild Handysize Product Carrier and tug barges. 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.

ATBs In November 2006, OSG acquired Maritrans Inc., a leading U.S. Flag crude oil and petroleum product shipping company that owned and operated one of the largest fleets of double hull Jones Act vessels serving the East and U.S. Gulf coastwise trades. This strategic acquisition gave OSG a presence in all major U.S. 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. In addition, the acquisition provided for a qualifying use of OSG's Capital Construction Fund towards the acquisition of construction contracts for three ATBs, which will be used for lightering services in the Delaware Bay.

Jones Act Product Carrier Newbuild Order In June 2005, OSG signed agreements to bareboat charter-in 10 Jones Act Product Carriers to be constructed by Aker Philadelphia Shipyard, Inc. and in October 2007, the order was further expanded by an additional two sister ships. The unique market dynamic of a declining Jones Act single hull fleet in the United States as a result of the U.S. Oil Pollution Act of 1990 ("OPA 90"), coupled with the expected continued growth in demand by U.S. consumers for crude oil and petroleum products transported by sea, served as the basis for OSG placing the series order for the product carriers prior to securing employment for the vessels. OSG has chartered-in each vessel for initial terms of five to ten years commencing on delivery of each vessel. The Company has extension options for the life of the vessels. As of December 31, 2007, OSG has entered into long-term time charters-out for 11 of these 12 vessels. Three of the ships delivered in 2007 and commenced long-term charters. The remaining nine vessels under construction will deliver from 2008 through 2011.

Alaskan North Slope Trade OSG has a significant presence in the Alaskan North Slope trade through its 37.5% equity interest in Alaska Tanker Company, LLC ("ATC"), a joint venture that was formed in 1999 among OSG, BP p.l.c. ("BP") and Keystone Shipping Company ("Keystone"), to support BP's Alaskan crude oil transportation requirements. The Company's participation in ATC provides it with the ability to earn additional income (incentive hire) based upon ATC's meeting certain predetermined performance standards. Such income, which is included in equity in income of affiliated companies, amounted to $5.5 million in 2007, $6.8 million in 2006 and $8.1 million in 2005.

Maritime Security Program From late 1996 until late 2007, the Company's U.S. Flag Pure Car Carrier participated in the U.S. Maritime Security Program (the "Program"), which ensures that militarily useful U.S. Flag vessels are available to the U.S. Department of Defense in the event of war or national emergency. In 2005, the Company signed four agreements with the Maritime Administrator of the Department of Transportation pursuant to which the Company entered three reflagged U.S. Flag Product Carriers and re-entered its U.S. Flag Pure Car Carrier into the Program. The terms of the three agreements relating to the reflagged Product Carriers are four years, subject to extension to a total of ten years in the event that the Company is awarded certain construction subsidies under the National Defense Tanker Vessel Construction Program ("NDTVCP") and substitutes appropriate newbuild vessels constructed with such subsidies for the reflagged Product Carriers. Congressional funding of the NDTVCP has not been approved and there can be no assurance that Congress will provide such construction subsidies, that such subsidies will be awarded to the Company or that terms of these agreements will be extended if the Company does not substitute newbuild vessels constructed with such subsidies. Under the Company's 10-year agreement relating to the Pure Car Carrier, the vessel continued in the Program through October 2007, at which time the vessel, Overseas Joyce, exited the Program and was reflagged under the Marshalls Island flag. Under the Program, the Company receives approximately $2.6 million per year for each vessel through 2008, $2.9 million per year for

each vessel from 2009 through 2011, and $3.1 million per year for each vessel from 2012 through 2016, subject in each case to annual Congressional appropriations.

Capital Construction Fund To encourage private investment in U.S. Flag vessels, the Merchant Marine Act of 1970 (the "Act") permits deferral of taxes on earnings from U.S. Flag vessels deposited into a Capital Construction Fund and amounts earned thereon, which can be used for the construction or acquisition of, or retirement of debt on, qualified U.S. Flag vessels (primarily those limited to foreign, Great Lakes, and noncontiguous domestic trades). The Company is a party to an agreement under such Act. Under the agreement, the general objective is for U.S. Flag vessels to be constructed or acquired through the use of assets accumulated in the fund. If the agreement is terminated or amounts are withdrawn from the Capital Construction Fund for non-qualified purposes, such amounts will then be subject to federal income taxes. Monies can remain tax-deferred in the fund for a maximum period of 25 years (commencing January 1, 1987 for deposits prior thereto). The Company had approximately $151 million in its Capital Construction Fund as of December 31, 2007. The Company's balance sheet at December 31, 2007 includes a liability of approximately $55 million for deferred taxes on the fund deposits and earnings thereon. During 2007, the Company withdrew approximately $172 million from its Capital Construction Fund towards the initial acquisition of the construction contracts for the three Lightering ATBs and for subsequent construction costs.

Investments in Affiliated Companies

The following chart reflects the percentage of income of investments in joint ventures and other investments accounted for using the equity method by each reportable segment.

	Percentage of Income of Equity Method Investments		
	2007	**2006**	**2005**
International			
Crude Tankers	40.9%	66.6%	82.2%
Other	(5.6%)	3.1%	(0.6%)
Total International Segments	35.3%	69.7%	81.6%
U.S.	64.7%	30.3%	18.4%
Total	100.0%	100.0%	100.0%

As a result of the 2005 sales of Front Tobago (a VLCC in which the Company held a 30% joint venture interest) and the Compass I (an Aframax in which OSG held a 50% joint venture interest) and the Company's purchase of its partner's 50.1% interest in a joint venture that owned four V-Pluses (see discussion below), the only operating vessels held in companies accounted for by the equity method at December 31, 2006 and 2005 were those held through Double Hull Tankers, Inc. ("DHT"), all of which are on time charters to OSG, with profit sharing. In October 2005, the Company sold seven tankers (three VLCCs and four Aframaxes) to DHT in connection with DHT's initial public offering. These vessels are time chartered back to OSG at fixed rates for initial periods of five to six and one-half years. The charters provide for the payment of additional hire, on a quarterly basis, by OSG when the aggregate revenue earned by these vessels for the Company exceeds the sum of the basic hire paid during the quarter by the Company. During the first six months of 2007, the company sold its remaining shares of DHT and reducing its interest in DHT to 0.0% as of June 30, 2007 from 44.5% as of December 31, 2006.

The first two of four 216,000 cbm LNG Carriers were delivered from shipyards in the Far East in the fourth quarter of 2007. After a ballast voyage to the Middle East, the cost of which was expensed in accordance with current accounting rules, each vessel commenced 25-year time charters. The Company's share of the results of these vessels is included in International Other in the above table.

COMPETITION

The shipping industry is highly competitive and fragmented with OSG competing with other owners of U.S. and International Flag tankers and dry cargo ships. Competitors include other independent shipowners and integrated oil companies and state owned entities with their own fleets, oil traders with logistical operations, and pipelines.

OSG's vessels compete with all other vessels of a size and type required by the customer that can be available at the date specified. In the spot market, competition is based primarily on price, although charterers are becoming more selective with respect to the quality of the vessel they hire considering other key factors such as the vessel age, the reliability and quality of operations and preference for modern double hull vessels based on concerns about environmental risks associated with older vessels. Consequently, owners of large modern double hull fleets have gained a competitive advantage over owners of older fleets. In the time charter market, factors such as the age and quality of the vessel and reputation of its owner and operator tend to be more significant when competing for business.

OSG's fleet of VLCCs and V-Pluses is commercially managed through Tankers International. Tankers International, with a total of 47 VLCCs and V-Pluses as of December 31, 2007 is a leading player in this highly competitive and fragmented market. Tankers International's main competitors include Frontline Ltd., Mitsui OSK Lines, Ltd., Nippon Yusen Kabushiki Kaisha and VELA International Marine Ltd., the shipping arm of the Saudi Arabian oil company, and AGELEF Shipping Co. (London) Ltd.

OSG is a founding member of Aframax International, which consists of 40 Aframaxes trading primarily in the Atlantic Basin, North Sea, Baltic and Black Sea areas and in the Mediterranean. Aframax International is one of the three largest operators in this market sector. Aframax International's main competitors include Teekay Shipping Corporation, Malaysian International Shipping Corporation Berhad, Novorossiysk Shipping Company, Sigma Tankers Heidmar Inc. and British Petroleum Shipping Ltd.

OSG's main competitors in the highly fragmented Panamax trade include owners, trader's relets and pool operators. OSG's fleet of Panamax tankers is commercially managed by Panamax International, who commercially manages 21 double hull vessels. Main competitors include Star Tankers Heidmar Inc., A/S Dampskibsselskabet Torm, Scorpio Pool Management S.A.M. as well as Glencore International AG.

In the Handysize Product Carrier segment, OSG owns or charters-in a fleet of 31 vessels that competes in a highly fragmented market. Some of the OSG vessels are operated in the Clean Product International Pool. Main competitors include Glencore International AG, Handytankers K/S, Vitol Group, Trafigura, A/S Dampskibsselskabet Torm, Sovcomflot OAO and Novorossiysk Shipping Company.

The U.S. Jones Act restricts U.S. point-to-point seaborne shipments to vessels operating under U.S. Flag that were built in the U.S., manned by U.S. crews and at least 75% owned and operated by U.S. citizens. OSG's primary competitors are operators of U.S. Flag oceangoing barges and tankers, such as Seacor Holdings Inc., Crowley and U.S. Shipping Partners L.P. and operators of refined product pipelines, such as the Colonial and Plantation pipeline systems that transport refined petroleum products directly from refineries to markets.

ENVIRONMENTAL AND SECURITY MATTERS RELATING TO BULK SHIPPING

Government regulation significantly affects the operation of the Company's vessels. OSG's vessels are subject to international conventions, national, state and local laws and regulations in force in the countries in which such vessels may operate or are registered.

The Company's vessels undergo regular and rigorous in-house safety reviews. In addition, a variety of governmental and private entities subject the Company's vessels to both scheduled and unscheduled inspections. These entities include local port state control authorities (U.S. Coast Guard, harbor master or equivalent), Classification Societies, flag state administration (country of registry) and charterers, particularly terminal operators and oil companies. Certain of these entities require OSG to obtain permits, licenses and certificates for the operation of the Company's vessels. Failure to maintain necessary permits or approvals could require OSG to incur substantial costs or temporarily suspend operation of one or more of the Company's vessels.

The Company believes that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older tankers throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to the stricter environmental standards. The Company is required to maintain operating standards for all of its tankers emphasizing operational safety, quality maintenance, continuous training of its officers and crews and compliance with international and U.S. regulations. OSG believes that the operation of its vessels is in compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stringent requirements, OSG cannot

predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of its tankers.

International Environmental and Safety Restrictions and Regulations

Phase Out of Non Double Hull Tankers:

In April 2001, the International Maritime Organization ("IMO") adopted regulations under the International Convention for the Prevention of Pollution from Ships, or MARPOL, requiring new tankers of 5,000 dwt and over, contracted for construction since July 6, 1993, to have double hull, mid-deck or equivalent design. At that time the regulations also required the phase out of non double hull tankers by 2015, with tankers having double sides or double bottoms permitted to operate until the earlier of 2017 or when the vessel reaches 25 years of age. Existing single hull tankers were required to be phased out unless retrofitted with double hull, mid-deck or equivalent design no later than 30 years after delivery. These regulations were adopted by over 150 nations, including many of the jurisdictions in which the Company's tankers operate. Subsequent amendments to the MARPOL regulations accelerated the phase out of single hull tankers to 2005 for Category I vessels and 2010 for Category II vessels. Category I vessels are crude oil tankers of 20,000 dwt and above and product carriers of 30,000 dwt and above that are pre-MARPOL Segregated Ballast Tanks ("SBT") carriers. Category II tankers are crude oil tankers of 20,000 dwt and above and product carriers of 30,000 dwt and above that are post-MARPOL SBT tankers. In addition, a Condition Assessment Scheme ("CAS") will apply to all single hull tankers 15 years or older. Flag states, however, may permit the continued operation of Category II tankers beyond 2010, subject to satisfactory CAS results, but only to 2015 or 25 years of age, whichever comes earlier. Category II tankers fitted with double bottoms or double sides not used for the carriage of oil will be permitted to trade beyond 2010 to 25 years of age, subject to the approval of the flag state. Although flag states may grant life extensions to Category II tankers, port states are permitted to deny entry to their ports and offshore terminals to single hull tankers operating under such life extensions after 2010, and to double sided or double bottomed tankers after 2015.

MARPOL Regulation 13H banned the carriage of heavy grade oils in single hull tankers of more than 5,000 dwt after April 5, 2005, except that flag states may permit Category II tankers to continue to carry heavy grade oil beyond 2005, subject to satisfactory CAS results. This regulation predominantly affected heavy crude oil from Latin America, as well as heavy fuel oil, bitumen, tar and related products.

The IMO may adopt additional regulations in the future that could further restrict the operation of single hull vessels.

European Union ("EU") regulation (EC) No. 417/2002, which was introduced in the wake of the sinking of the Erika off the coast of France in December 1999, provided a timetable for the phase out of single hull tankers from EU waters. In 2003, in response to the Prestige oil spill in November 2002, the EU adopted legislation that (a) banned all Category I single hull tankers over the age of 23 years immediately, (b) phased out all other Category I single hull tankers in 2005 and (c) prohibits all single hull tankers used for the transport of oil from entering its ports or offshore terminals after 2010, with double sided or double bottomed tankers permitted to trade until 2015 or until reaching 25 years of age, whichever comes earlier. The EU, following the lead of certain EU nations such as Italy and Spain, also banned all single hull tankers carrying heavy grades of oil from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction.

Many users of oil transportation services operating around Europe are showing a willingness to pay a higher freight rate for double hull tankers than for single hull tankers. It is becoming increasingly more difficult to obtain clearance for single hull tankers from many countries and oil terminals.

OSG's International Flag tanker fleet is comprised of modern double hull vessels, except for 13 chartered-in Handysize Product Carriers and two chartered-in Aframax lightering vessels, which do not qualify as double hull for MARPOL or EU purposes. The direct impact to the Company of the revised and accelerated IMO phase out schedule will be limited, as all of the Company's crude oil tankers, except these two chartered-in, double sided Aframaxes that are used exclusively in lightering activities in the U.S. Gulf, and all but these 13 chartered-in International Flag Product Carriers, are double hull, and the charters-in expire prior to the date of the respective vessels' IMO phase out. However, because eight of these 13 vessels are not already chartered out through the end of their respective charters-in, they are less likely to command premium rates when their current time charters out end. Likewise, the two non double hull International Flag lightering vessels may not command premium rates if customers become less inclined to use non double hull vessels generally or for this purpose. The Company's four double bottom U.S. Flag

Product Carriers and two single hull barges (one is being rebuilt to double hull specifications with completion scheduled for the first half of 2008 and the other is currently in lay-up) participate in the U.S. Jones Act trades and are therefore not affected by the IMO phase-out schedule. The U.S. has not adopted the 2001 amendments to the MARPOL regulations, which were viewed as less restrictive than OPA 90 regulations that were already in place.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters.

Other International Environmental and Safety Regulations:

Under the International Safety Management Code, or ISM Code, promulgated by the IMO, vessel operators are required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating their vessels safely and describing procedures for responding to emergencies. OSG has developed such a safety management system. The ISM Code also requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its operator has been awarded a document of compliance, issued by the flag state of that vessel, under the ISM Code.

All of the Company's vessels are certified under the standards promulgated by the International Standards Organization in ISO 9001 in 2000 and ISO 14001 in 2004 and those promulgated by the IMO in its International Safety Management ("ISM") safety and pollution prevention protocols. The ISM Code requires a document of compliance to be obtained for the vessel manager and a safety management certificate to be obtained for each vessel that it operates. The Company has obtained documents of compliance for its shore side offices that have responsibility for vessel management and safety management certificates for each of the vessels that such offices manage. These documents of compliance and safety management certificates must be verified or renewed periodically (annually or less frequently, depending on the type of document) in accordance with the ISM Code. Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. For example, the U.S. Coast Guard and EU authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading with U.S. and EU ports.

Although the U.S. is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969. Under this convention, depending on whether the country in which the damage results is a party to the 1992 Protocol to the International Convention on Civil Liability for Oil Pollution Damage, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability will be limited to approximately $7.2 million plus $1,007 for each additional gross ton over 5,000. For vessels over 140,000 gross tons, liability will be limited to approximately $143 million. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on February 1, 2008. Under the 1969 Convention, the right to limit liability is forfeited where the spill is caused by the owner's actual fault; under the 1992 Protocol, a shipowner cannot limit liability where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the International Convention on Civil Liability for Oil Pollution Damage has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. The Company believes that its P&I insurance will cover any liability under the plan adopted by the IMO. See the discussion of Insurance below.

IMO regulations also require owners and operators of vessels to adopt Shipboard Oil Pollution Emergency Plans, or SOPEPs. Periodic training and drills for response personnel and for vessels and their crews are required. In addition to SOPEPs, OSG has adopted Shipboard Marine Pollution Emergency Plans, or SMPEPs, which cover potential releases not only of oil but of any noxious liquid substances (known as NLSs).

The EU has adopted legislation that: (1) bans manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters, creates an obligation for port states to inspect at least 25% of vessels using their ports annually and provides for increased

surveillance of vessels posing a high risk to maritime safety or the marine environment, and (2) provides the EU with greater authority and control over Classification Societies, including the ability to seek to suspend or revoke the authority of negligent societies. In addition, the EU is considering the adoption of criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. Certain member states of the European Union, by virtue of their national legislation, already impose criminal sanctions for pollution events under certain circumstances. It is impossible to predict what additional legislation or regulations, if any, may be promulgated by the EU or any other country or authority.

Annex VI to MARPOL, which was designed to address air pollution from ships and which became effective internationally on May 19, 2005, sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with more stringent controls on sulfur emissions. For vessels over 400 gross tons, Annex VI imposes various survey and certification requirements. While the U.S. has not yet ratified Annex VI, vessels operating internationally are subject to the requirements of Annex VI in those countries that have implemented its provisions, and the Company's vessels are currently in compliance with these requirements. However, additional or new conventions, laws and regulations (including those implementing MARPOL Annex VI in the U.S., as discussed below) may be adopted that could adversely affect the Company's ability to comply with applicable air pollution regulations in the future.

Domestic Environmental and Safety Restrictions and Regulations

The U.S. regulates the shipping industry with an extensive regulatory and liability regime for environmental protection and cleanup of oil spills, consisting primarily of OPA 90, and the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA. OPA 90 affects all owners and operators whose vessels trade with the U.S. or its territories or possessions, or whose vessels operate in the waters of the U.S., which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances (other than oil) whether on land or at sea. Both OPA 90 and CERCLA impact the Company's operations.

Under OPA 90, vessel owners, operators and bareboat or demise charterers are "responsible parties" who are liable, without regard to fault, for all containment and clean-up costs and other damages, including property and natural resource damages and economic loss without physical damage to property, arising from oil spills and pollution from their vessels. In general, OPA 90 has historically limited the liability of responsible parties to the greater of $1,200 per gross ton or $10 million per vessel that is over 3,000 gross tons. Federal legislation signed into law on July 11, 2006 increased these limits to the greater of $1,900 per gross ton or $16 million per vessel that is over 3,000 gross tons (subject to possible adjustment for inflation). For OSG's vessels, the increased limits became effective on October 9, 2006. The statute specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states that have enacted this type of legislation have not yet issued implementing regulations defining vessel owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages associated with discharges of hazardous substances (other than oil). Liability under CERCLA is limited to the greater of $300 per gross ton or $5 million.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. Similarly, these limits do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA 90 and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA 90 also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the statute. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility consistent with the previous limits of liability described above for OPA 90 and CERCLA, which combined limit for vessels was increased from $1,500 per gross ton to $2,200 per gross ton effective October 9, 2006, when the increased liability limits under OPA 90 went into effect. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternative method subject to approval by the Director of the U.S. Coast Guard

National Pollution Funds Center. Under OPA 90 regulations, an owner or operator of more than one vessel is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the vessel having the greatest maximum strict liability under OPA 90 and CERCLA. OSG has provided the requisite guarantees and has received certificates of financial responsibility from the U.S. Coast Guard for each of its vessels required to have one.

OSG has insurance for each of its vessels with pollution liability insurance in the amount of $1 billion. However, a catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on the Company's business.

OPA 90 calls for the elimination of all single hull vessels by the year 2010 on a phase-out schedule that is based on size and age, unless the tankers are retrofitted with double hulls. The law permits existing single hull vessels to operate until 2015 if they discharge at deep water ports, or lighter more than 60 miles offshore.

The Company's four double bottom U.S. Flag Product Carriers will be affected by the OPA 90 phase-out schedule in 2012 and 2013; however, two of these vessels are operated under capital leases expiring in 2011, before their phase-out dates, while the other two vessels will be close to 30 years old at the dates they are first affected by the OPA 90 phase-out schedule. The Company also has two single hull U.S. Flag barges, one of which is being rebuilt to double hull specifications with completion scheduled for the first half of 2008, while the other will be over 33 years old when it is affected by the OPA 90 phase-out. The OPA 90 phase-out dates for the Company's non double hull International Flag Product Carriers and two double sided International Flag lightering vessels are subsequent to their respective IMO phase-out dates.

OPA 90 also amended the Federal Water Pollution Control Act to require owners and operators of vessels to adopt vessel response plans for reporting and responding to oil spill scenarios up to a "worst case" scenario and to identify and ensure, through contracts or other approved means, the availability of necessary private response resources to respond to a "worst case discharge." The plans must include contractual commitments with clean-up response contractors in order to ensure an immediate response to an oil spill. The Company has developed and filed its vessel response plans with the U.S. Coast Guard and has received approval of such plans. The U.S. Coast Guard has announced its intention to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 also requires training programs and periodic drills for shoreside staff and response personnel and for vessels and their crews.

OPA 90 does not prevent individual U.S. states from imposing their own liability regimes with respect to oil pollution incidents occurring within their boundaries. In fact, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws are in some cases more stringent than U.S. federal law.

In addition, the U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under the more recent OPA and CERCLA, discussed above. The U.S. Environmental Protection Agency, or EPA, has exempted the discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. ports from Clean Water Act permitting requirements. However, on March 30, 2005, a U.S. District Court ruled that the EPA exceeded its authority in creating an exemption for ballast water. On September 18, 2006, the court issued an order invalidating the exemption in EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, directing EPA to develop a system for regulating all discharges from vessels by that date. Although the EPA has appealed this decision, if the exemption is repealed, the Company's vessels would be subject to Clean Water Act permitting requirements that could include ballast water treatment obligations that could increase the cost of operating in the United States. For example, repeal of the ballast water exemption could require the installation of equipment on the Company's vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost and/or otherwise restrict the Company's vessels from entering U.S. waters.

Domestic Air Emissions Standards

The U.S. has not yet ratified MARPOL Annex VI. Without knowing how Annex VI will be implemented, if at all, in the U.S., it is difficult for the Company to evaluate whether the cost of complying with Annex VI as so implemented will be material. The Company believes that its fleet would not be impacted disproportionately compared with those of its competitors.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. OSG's vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Each of the Company's vessels operating in the transport of clean petroleum products in regulated port areas where vapor control standards are required has been outfitted with a vapor recovery system that satisfies these requirements. In addition, in December 1999, the EPA issued a final rule regarding emissions standards for marine diesel engines. The final rule applies emissions standards to new engines beginning with the 2004 model year. In the preamble to the final rule, the EPA noted that it may revisit the application of emissions standards to rebuilt or remanufactured engines, if the industry does not take steps to introduce new pollution control technologies. Finally, the EPA recently entered into a settlement that will expand this rulemaking to include certain large diesel engines not previously addressed in the final rule. Adoption of such standards could require modifications to some existing marine diesel engines and may require the Company to incur capital expenditures.

Lightering activities in Delaware are subject to Title V of the CAA, and OSG is the only marine operator with a Title V permit to engage in lightering operations. The State of Delaware is in non-compliance with EPA requirements for volatile organic compounds, or VOCs. OSG's U.S. Flag lightering operations are the State of Delaware's largest single source of VOCs. The Delaware Department of Natural Resources and Environment Control, or DNREC, is currently engaged in rule making to address emissions of VOCs from lightering operations, and the Company is working closely with DNREC to craft regulations designed to reduce such emissions. New regulations designed to reduce the release of VOCs during crude oil lightering went into effect on May 11, 2007. In cooperation with DNREC, the Company's U.S. Flag operations have engaged in a pilot project involving vapor balancing between one of its tankers, the Overseas Integrity, and "ships to be lightered." In addition, OSG continues to evaluate other vapor reduction technologies and has incorporated vapor control technologies in the design of the Company's new ATBs.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in major metropolitan and industrial areas. Where states fail to present approvable SIPs, or SIP revisions by certain statutory deadlines, the U.S. government is required to draft a Federal Implementation Plan. Several SIPs regulate emissions resulting from barge loading and degassing operations by requiring the installation of vapor control equipment. Where required, the Company's vessels are already equipped with vapor control systems that satisfy these requirements. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase its costs, the Company believes, based upon the regulations that have been proposed to date, that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required as a result of the SIPs program.

Individual states have been considering their own restrictions on air emissions from engines on vessels operating within state waters. California regulations of emissions of diesel particulate matter, nitrogen oxides and sulfur oxides from the use of certain types of engines on ocean-going vessels within California waters became effective January 1, 2007. The Company's vessels that operate in California waters are in compliance with these regulations.

Security Regulations

As of July 1, 2004, all ships involved in international commerce and the port facilities that interface with those ships must comply with the International Ship and Port Facility Security Code ("ISPS Code"). This includes passenger ships, cargo ships over 500 gross tons, and mobile offshore drilling rigs. The ISPS Code provides a set of measures and procedures to prevent acts of terrorism, which threaten the security of passengers and crew and the safety of ships and port facilities. All of OSG's Ship Security Plans for its vessels have been approved by the appropriate regulatory authorities and have been implemented.

All of the Company's ships have obtained an International Ship Security Certificate from a recognized security organization approved by the appropriate flag states and each vessel has developed and implemented an approved Ship Security Plan.

Insurance

Consistent with the currently prevailing practice in the industry, the Company presently carries protection and indemnity ("P&I") insurance coverage for pollution of $1.0 billion per occurrence on every vessel in its fleet. P&I insurance is provided by mutual protection and indemnity associations ("P&I Associations"). The P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to each of its members at approximately $5.45 billion. As a member of a P&I Association which is a member of the International Group, the Company is subject to calls payable to the Associations based on its claim record as well as the claim records of all other members of the individual Associations of which it is a member, and the members of the pool of P&I Associations comprising the International Group. As of December 31, 2007, the Company was a member of three P&I Associations with each of its vessels insured by one of these three Associations. While the Company has historically been able to obtain pollution coverage at commercially reasonable rates, no assurances can be given that such insurance will continue to be available in the future.

The Company carries marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of its vessels. The vessels are each covered up to at least their fair market value, with deductibles ranging from $100,000 to $500,000 per vessel per incident. The Company is self insured for hull and machinery claims in amounts in excess of the individual vessel deductibles up to a maximum aggregate loss of $3,000,000 per policy year.

The Company currently maintains loss of hire insurance to cover loss of charter income resulting from accidents or breakdowns of its vessels that are covered under the vessels' marine hull and machinery insurance. Loss of hire insurance covers up to 120 days lost charter income per vessel per incident in excess of the first 60 days lost for each covered incident, which is borne by the Company.

Taxation of the Company

The following summary of the principal United States tax laws applicable to the Company, as well as the conclusions regarding certain issues of tax law, are based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Department regulations, administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. No assurance can be given that changes in or interpretation of existing laws will not occur or will not be retroactive or that anticipated future circumstances will in fact occur. The Company's views should not be considered official, and no assurance can be given that the conclusions discussed below would be sustained if challenged by taxing authorities.

All of the Company's International Flag vessels are owned or operated by foreign corporations that are subsidiaries of OSG International, Inc., a wholly owned subsidiary of the Company incorporated in the Marshall Islands ("OIN"). These corporations have made special U.S. tax elections under which they are treated as "branches" of OIN rather than separate corporations for U.S. federal income tax purposes.

As a result of changes made by the American Jobs Creation Act of 2004 ("2004 Act"), as discussed below, for taxable years beginning after December 31, 2004, the Company is no longer required to report in taxable income on a current basis the undistributed foreign shipping income earned by OIN under the "Subpart F" provisions of the Code.

Legislation has been introduced that is aimed at deferring the claiming by a taxpayer of deductions attributable to foreign source income that is not subject to current U.S. taxation until the income is repatriated. The enactment of such proposed legislation is uncertain and the effect on the Company can not be determined until agreement has been reached on the exact wording of the provision.

Taxation to OIN of its Shipping Income: In General

OIN derives substantially all of its gross income from the use and operation of vessels in international commerce. This income principally consists of hire from time and voyage charters for the transportation of cargoes and the performance of services directly related thereto, which is referred to herein as "shipping income."

Shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. will be considered to be 50% derived from sources within the United States. Shipping income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. OIN does not engage in transportation that gives rise to 100% U.S. source income. Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the U.S. will not be subject to any U.S. federal income tax. OIN's vessels will operate in various parts of the world, including to or from U.S. ports. Unless exempt from U.S. taxation under Section 883 of the Code, OIN will be subject to U.S. federal income taxation of 4% of its U.S. source shipping income on a gross basis without the benefit of deductions.

Application of Code Section 883

Under Section 883 of the Code and recently promulgated temporary Treasury regulations, OIN will be exempt from the foregoing U.S. taxation of its U.S source shipping income if, for more than half of the days in its taxable year, it is a "controlled foreign corporation" within the meaning of Section 957 of the Code and more than 50 percent of the total value of its stock is owned by certain U.S. persons including a domestic corporation. These requirements should be met and therefore OIN should continue to benefit from the application of Section 883 of the Code. To the extent OIN is unable to qualify for exemption from tax under Section 883, OIN's U.S. source shipping income will become subject to the 4% gross basis tax regime described below.

Taxation to OSG of OIN's Shipping Income

For taxable years beginning on or after January 1, 1987 and ending on or before December 31, 2004, the Company, as a 10% shareholder of controlled foreign corporations, was subject to current taxation on the shipping income of its foreign subsidiaries. To make U.S.-controlled shipping companies competitive with foreign-controlled shipping companies, through the passage of the 2004 Act, Congress repealed the current income inclusion by 10% shareholders of the shipping income of controlled foreign corporations. Accordingly, for years beginning on or after January 1, 2005, the Company is not required to include in income OIN's undistributed shipping income.

For taxable years beginning on or after January 1, 1976 and ending on or before December 31, 1986, the Company was not required to include in income the undistributed shipping income of its foreign subsidiaries that was reinvested in qualified shipping assets. For taxable years beginning on or after January 1, 1987, the Company is required to include in income the deferred shipping income from this period to the extent that at the end of any year the investment in qualified shipping assets is less than the corresponding amount at December 31, 1986. By virtue of the nature of OIN's business, the Company anticipates that the recognition of this deferred income will be postponed indefinitely. This is discussed in more detail in the notes to the Company's consolidated financial statements set forth in Item 8.

U.S. Tonnage Tax Regime

The 2004 Act changed the U.S. tax treatment of the foreign operations of the Company's U.S. Flag vessels by allowing it to make an election to have such vessels taxed under a new "tonnage tax" regime rather than the usual U.S. corporate income tax regime. Because OSG made the tonnage tax election, its gross income for U.S. income tax purposes with respect to eligible U.S. flag vessels for 2005 and subsequent years does not include (1) income from qualifying shipping activities in U.S. foreign trade (*i.e.,* transportation between the U.S. and foreign ports or between foreign ports), (2) income from cash, bank deposits and other temporary investments that are reasonably necessary to meet the working capital requirements of qualifying shipping activities, and (3) income from cash or other intangible assets accumulated pursuant to a plan to purchase qualifying shipping assets. The Company's taxable income with respect to the operations of its eligible U.S. Flag vessels is based on a "daily notional taxable income," which is taxed at the highest U.S. corporate income tax rate. The daily notional taxable income from the operation of a qualifying vessel is 40 cents per 100 tons of the net tonnage of the vessel up to 25,000 net tons, and 20 cents per 100 tons of the net tonnage of the vessel in excess of 25,000 net tons. The taxable income of each

qualifying vessel is the product of its daily notional taxable income and the number of days during the taxable year that the vessel operates in U.S. foreign trade.

Glossary

Aframax A medium size crude oil tanker of approximately 80,000 to 120,000 deadweight tons. Because of their size, Aframaxes are able to operate on many different routes, including from Latin America and the North Sea to the U.S. They are also used in lightering (transferring cargo from larger tankers, typically VLCCs, to smaller tankers for discharge in ports from which the larger tankers are restricted). Modern Aframaxes can generally transport from 500,000 to 800,000 barrels of crude oil.

Articulated Tug Barge ATB is the abbreviation for Articulated Tug Barge, which is a tug-barge combination system capable of operating on the high seas, coastwise and further inland. It combines a normal barge, with a bow resembling that of a ship, but having a deep indent at the stern to accommodate the bow of a tug. The fit is such that the resulting combination behaves almost like a single vessel at sea as well as while maneuvering.

Bareboat Charter A Charter under which a customer pays a fixed daily or monthly rate for a fixed period of time for use of the vessel. The customer pays all costs of operating the vessel, including voyage and vessel expenses. Bareboat charters are usually long term.

CAP The Condition Assessment Program of ABS Consulting, a subsidiary of the American Bureau of Shipping, which evaluates a vessel's operation, machinery, maintenance and structure using the ABS Safe Hull Criteria. A CAP 1 rating indicates that a vessel meets the standards of a newly built vessel.

Capesize Bulk Carrier A large Dry Bulk Carrier (any vessel used to carry non-liquid bulk commodities) with a carrying capacity of more than 80,000 deadweight tons that mainly transports iron ore and coal.

Charter Contract entered into with a customer for the use of the vessel for a specific voyage at a specific rate per unit of cargo ("Voyage Charter"), or for a specific period of time at a specific rate per unit (day or month) of time ("Time Charter").

Classification Societies Organizations that establish and administer standards for the design, construction and operational maintenance of vessels. As a practical matter, vessels cannot trade unless they meet these standards.

Compressed Natural Gas or CNG CNG is the abbreviation for compressed natural gas. CNG is a gas that has been compressed for transportation in pressurized containers and can be transported on ships, barges or trucks. In many parts of the world, gas fields that cannot be readily connected by pipeline or are not large enough to support the cost of developing LNG facilities are excellent candidates for CNG development.

Commercial Management or Commercially Managed The management of the employment, or chartering, of a vessel and associated functions, including seeking and negotiating employment for vessels, billing and collecting revenues, issuing voyage instructions, purchasing fuel, and appointing port agents.

Commercial Pool A commercial pool is a group of similar size and quality vessels with different shipowners that are placed under one administrator or manager. Pools allow for scheduling and other operating efficiencies such as multi- legged charters and Contracts of Affreightment and other operating efficiencies.

Condition Assessment Scheme An inspection program designed to check and report on the vessel's physical condition and on its past performance based on survey and IMO's International Safety Management audit reports and port state performance records.

Contract of Affreightment or COA COA is the abbreviation for Contract of Affreightment, which is an agreement providing for the transportation between specified points for a specific quantity of cargo over a specific time period but without designating specific vessels or voyage schedules, thereby allowing flexibility in scheduling since no vessel designation is required. COAs can either have a fixed rate or a market-related rate. One example would be two shipments of 70,000 tons per month for the next two years at the prevailing spot rate at the time of each loading. Another example is lightering services that are provided to the Company's customers in the Delaware Bay region pursuant to contracts under which it commits to provide such services using a vessel of the Company's choice. When choosing the vessel, the Company takes into account vessel positioning and capacity at the time the inbound vessel is ready to discharge its cargo.

Consecutive Voyage Charters or CVC CVC is the abbreviation for Consecutive Voyage Charter, which are used when a customer contracts for a particular vessel for a certain period of time to transport cargo between specified points for a rate that is determined based on the volume of cargo delivered. The Company bears the risk of delays under CVC arrangements.

Crude Oil Oil in its natural state that has not been refined or altered.

Cubic Meters or cbm cbm is the abbreviation for cubic meters, the industry standard for measuring the carrying capacity of a LNG Carrier.

Deadweight tons or dwt dwt is the abbreviation for deadweight tons, representing principally the cargo carrying capacity of a vessel, but including the weight of consumables such as fuel, lube oil, drinking water and stores.

Demurrage Additional revenue paid to the shipowner on its Voyage Charters for delays experienced in loading and/or unloading cargo that are not deemed to be the responsibility of the shipowner, calculated in accordance with specific Charter terms.

Double Hull Hull construction design in which a vessel has an inner and an outer side and bottom separated by void space, usually two meters in width.

Drydocking An out-of-service period during which planned repairs and maintenance are carried out, including all underwater maintenance such as external hull painting. During the drydocking, certain mandatory Classification Society inspections are carried out and relevant certifications issued. Normally, as the age of a vessel increases, the cost of drydocking increases.

Handysize Product Carrier A small size Product Carrier of approximately 29,000 to 53,000 deadweight tons. This type of vessel generally operates on shorter routes (short haul). Also, may be referred to as an MR Product Carrier.

IMO IMO is the abbreviation for International Maritime Organization, an agency of the United Nations, which is the body that is responsible for the administration of internationally developed maritime safety and pollution treaties, including MARPOL.

International Flag vessel A vessel that is registered under a flag other than that of the U.S.

Jones Act U.S. law that applies to port-to-port shipments within the continental U.S. and between the continental U.S. and Hawaii, Alaska, Puerto Rico, and Guam, and restricts such shipments to U.S. Flag Vessels that are built in the U.S. and that are owned by a U.S. company that is more than 75% owned and controlled by U.S. citizens.

Lightering The process of off-loading crude oil or petroleum products from deeply laden inbound tankers into smaller tankers and/or barges.

LNG Carrier A vessel designed to carry liquefied natural gas, that is, natural gas cooled to -163° centigrade, turning it into a liquid and reducing its volume to 1/600 of its volume in gaseous form. LNG is the abbreviation for liquefied natural gas.

MARPOL International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto. This convention includes regulations aimed at preventing and minimizing pollution from ships by accident and by routine operations.

OPA 90 OPA 90 is the abbreviation for the U.S. Oil Pollution Act of 1990.

Panamax A medium size vessel of approximately 53,000 to 80,000 deadweight tons. A coated Panamax operating in the refined petroleum products trades may be referred to as an LR1.

Product Carrier General term that applies to any tanker that is used to transport refined oil products, such as gasoline, jet fuel or heating oil.

Pure Car Carrier A single-purpose vessel with many decks, designed to carry automobiles, which are driven on and off using ramps.

Scrapping The disposal of vessels by demolition for scrap metal.

Special Survey An extensive inspection of a vessel by classification society surveyors that must be completed within five years. Special Surveys require a vessel to be drydocked.

Suezmax A large crude oil tanker of approximately 120,000 to 200,000 deadweight tons. Modern Suezmaxes can generally transport about one million barrels of crude oil.

Technical Management The management of the operation of a vessel, including physically maintaining the vessel, maintaining necessary certifications, and supplying necessary stores, spares, and lubricating oils. Responsibilities also generally include selecting, engaging and training crew, and arranging necessary insurance coverage.

Time Charter A Charter under which a customer pays a fixed daily or monthly rate for a fixed period of time for use of the vessel. Subject to any restrictions in the Charter, the customer decides the type and quantity of cargo to be carried and the ports of loading and unloading. The customer pays all voyage expenses such as fuel, canal tolls, and port charges. The shipowner pays all vessel expenses such as the Technical Management expenses.

Time Charter Equivalent or TCE TCE is the abbreviation for Time Charter Equivalent. TCE revenues, which is voyage revenues less voyage expenses, serves as an industry standard for measuring and managing fleet revenue and comparing results between geographical regions and among competitors.

U.S. Flag vessel A U.S. Flag vessel must be crewed by U.S. sailors, and owned and operated by a U.S. company.

Vessel Expenses Includes crew costs, vessel stores and supplies, lubricating oils, maintenance and repairs, insurance and communication costs associated with the operations of vessels.

VLCC VLCC is the abbreviation for Very Large Crude Carrier, a large crude oil tanker of approximately 200,000 to 320,000 deadweight tons. Modern VLCCs can generally transport two million barrels or more of crude oil. These vessels are mainly used on the longest (long haul) routes from the Arabian Gulf to North America, Europe, and Asia, and from West Africa to the U.S. and Far Eastern destinations.

Voyage Charter A Charter under which a customer pays a transportation charge for the movement of a specific cargo between two or more specified ports. The shipowner pays all voyage expenses, and all vessel expenses, unless the vessel to which the Charter relates has been time chartered in. The customer is liable for Demurrage, if incurred.

Voyage Expenses Includes fuel, port charges, canal tolls, cargo handling operations and brokerage commissions paid by the Company under Voyage Charters. These expenses are subtracted from shipping revenues to calculate Time Charter Equivalent Revenues for Voyage Charters.

V-Plus A large crude oil tanker of more than 350,000 deadweight tons. Modern V-Pluses can transport three million barrels of crude oil and are mainly used on the same long haul routes as VLCCs.

Worldscale Industry name for the Worldwide Tanker Nominal Freight Scale published annually by the Worldscale Association as a rate reference for shipping companies, brokers, and their customers engaged in the bulk shipping of oil in the international markets. Worldscale is a list of calculated rates for specific voyage itineraries for a standard vessel, as defined, using defined voyage cost assumptions such as vessel speed, fuel consumption and port costs. Actual market rates for voyage charters are usually quoted in terms of a percentage of Worldscale.

Available Information

The Company makes available free of charge through its internet website, *www.osg.com*, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

The Company also makes available on its website, its corporate governance guidelines, its code of business conduct, and charters of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee of the Board of Directors.

ITEM 1A. RISK FACTORS

The following important risk factors could cause actual results to differ materially from those contained in the forward-looking statements made in this report or presented elsewhere by management from time to time. If any of

the circumstances or events described below actually arise or occur, the Company's business, results of operations and financial condition could be materially adversely affected.

Industry specific risk factors:

The highly cyclical nature of the industry may lead to volatile changes in charter rates and vessel values, which may adversely affect the Company's earnings

Factors affecting the supply and demand for vessels are outside of the Company's control, and the nature, timing and degree of changes in industry conditions are unpredictable and may adversely affect the values of the Company's vessels and result in significant fluctuations in the amount of charter hire the Company may earn, which could result in significant fluctuations in OSG's quarterly results. The factors that influence the demand for tanker capacity include:

- demand for oil and oil products, which affect the need for vessel capacity;
- global and regional economic and political conditions which among other things, could impact the supply of oil as well as trading patterns and the demand for various types of vessels;
- changes in the production of crude oil, particularly by OPEC and other key producers, which impact the need for vessel capacity;
- developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances that cargoes are transported;
- environmental concerns and regulations;
- new pipeline construction and expansions;
- weather; and
- competition from alternative sources of energy.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- the number of vessels that are out of service; and
- environmental and maritime regulations.

An increase in the supply of vessels without an increase in demand for such vessels could cause charter rates to decline, which could have a material adverse effect on OSG's revenues and profitability

Historically, the marine transportation industry has been cyclical. The profitability and asset values of companies in the industry have fluctuated based on changes in the supply and demand of vessels. The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels. The newbuilding order book equaled 39% of the existing world tanker fleet as of December 31, 2007 and no assurance can be given that the order book will not increase further in proportion to the existing fleet. If the number of new ships delivered exceeds the number of vessels being scrapped, capacity will increase. If supply increases and demand does not, the charter rates for the Company's vessels could decline significantly. A decline in charter rates could have a material adverse effect on OSG's revenues and profitability.

Charter rates may decline from their current level, which could have a material adverse effect on OSG's revenues and profitability

Because many of the factors that influence the supply of, and demand for, tanker capacity are unpredictable and beyond the Company's control, the nature, timing and degree of changes in charter rates are unpredictable. A decline in charter rates could have a material adverse effect on OSG's revenues and profitability.

OSG's revenues are subject to seasonal variations

OSG operates its tankers in markets that have historically exhibited seasonal variations in demand for tanker capacity, and therefore, charter rates. Charter rates for tankers are typically higher in the fall and winter months as a result of increased oil consumption in the Northern Hemisphere. Because a majority of the Company's vessels trade in the spot market, seasonality has affected OSG's operating results on a quarter-to-quarter basis and could continue to do so in the future.

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

Additional terrorist attacks like those in New York on September 11, 2001 and in London on July 7, 2005, the outbreak of war or the existence of international hostilities could damage the world economy, adversely affect the availability of and demand for crude oil and petroleum products and adversely affect the Company's ability to re-charter its vessels on the expiration or termination of the charters and the charter rates payable under any renewal or replacement charters. The Company conducts its operations internationally, and its business, financial condition and results of operations may be adversely affected by changing economic, political and government conditions in the countries and regions where its vessels are employed. Moreover, OSG operates in a sector of the economy that is likely to be adversely impacted by the effects of political instability, terrorist or other attacks, war or international hostilities.

The market value of vessels fluctuates significantly, which could adversely affect OSG's liquidity, result in breaches of its financing agreements or otherwise adversely affect its financial condition

The market value of vessels has fluctuated over time. The fluctuation in market value of vessels over time is based upon various factors, including:

- age of the vessel;
- general economic and market conditions affecting the tanker industry;
- number of vessels in the world fleet;
- types and sizes of vessels available;
- changes in trading patterns affecting demand for particular sizes and types of vessels;
- cost of newbuildings;
- prevailing level of charter rates;
- competition from other shipping companies;
- other modes of transportation; and
- technological advances in vessel design and propulsion.

Declining values of the Company's vessels could adversely affect its liquidity by limiting its ability to raise cash by refinancing vessels. Declining vessel values could also result in a breach of loan covenants or trigger events of default under relevant financing agreements that require the Company to maintain certain loan-to-value ratios. In such instances, if OSG is unable to pledge additional collateral to offset the decline in vessel values, its lenders could accelerate its debt and foreclose on its vessels pledged as collateral for the loans.

Shipping is a business with inherent risks, and OSG's insurance may not be adequate to cover its losses

OSG's vessels and their cargoes are at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- mechanical failures;
- human error;

- war, terrorism and piracy; and

- other unforeseen circumstances or events.

In addition, transporting crude oil creates a risk of business interruptions due to political circumstances in foreign countries, hostilities, labor strikes, port closings and boycotts. Any of these events may result in loss of revenues and increased costs.

The Company carries insurance to protect against most of the accident-related risks involved in the conduct of its business. OSG currently maintains one billion dollars in coverage for each of its vessels for liability for spillage or leakage of oil or pollution. OSG also carries insurance covering lost revenue resulting from vessel off-hire due to vessel damage. Nonetheless, risks may arise against which the Company is not adequately insured. For example, a catastrophic spill could exceed OSG's insurance coverage and have a material adverse effect on its operations. In addition, OSG may not be able to procure adequate insurance coverage at commercially reasonable rates in the future, and OSG cannot guarantee that any particular claim will be paid. In the past, new and stricter environmental regulations have led to higher costs for insurance covering environmental damage or pollution, and new regulations could lead to similar increases or even make this type of insurance unavailable. Furthermore, even if insurance coverage is adequate to cover the Company's losses, OSG may not be able to timely obtain a replacement ship in the event of a loss. OSG may also be subject to calls, or premiums, in amounts based not only on its own claim records but also the claim records of all other members of the P & I Associations through which OSG obtains insurance coverage for tort liability. OSG's payment of these calls could result in significant expenses which would reduce its profits or cause losses.

Because OSG conducts its business on a worldwide basis, OSG faces a number of significant risks that could result in losses or higher costs

The Company's vessels operate all over the world, exposing it to many risks, including:

- changing economic, political and social conditions in the countries where OSG does business or where its vessels are registered or flagged;

- the imposition of increased environmental and safety regulations by international organizations, Classification Societies, flag states and port states;

- the imposition of taxes by flag states, port states and jurisdictions in which OSG or its subsidiaries are incorporated or where its vessels operate;

- currency fluctuations;

- pandemics or epidemics which may result in a disruption of worldwide trade including quarantines of certain areas;

- terrorism, piracy and war, including the possible outbreak of hostilities that could reduce or otherwise affect the movement of oil from the Middle East; and

- expropriation of its vessels.

As a result of these risks, OSG may incur losses or higher costs, including those incurred as a result of the impairment of its assets or a curtailment of its operations.

Compliance with environmental laws or regulations may adversely affect OSG's business

The Company's operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties, conventions and standards in force in international waters, the jurisdictional waters of the countries in which OSG's vessels operate, as well as the countries of its vessels' registration. Many of these requirements are designed to reduce the risk of oil spills and other pollution, and OSG's compliance with these requirements can be costly.

These requirements can affect the resale value or useful lives of the Company's vessels, require a reduction in carrying capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in, certain ports. Under local, national and foreign laws, as well as international treaties and conventions,

OSG could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from its vessels or otherwise in connection with its operations. OSG could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with its current or historic operations. Violations of or liabilities under environmental requirements also can result in substantial penalties, fines and other sanctions, including in certain instances, seizure or detention of the Company's vessels.

OSG could incur significant costs, including cleanup costs, fines, penalties, third-party claims and natural resource damages, as the result of an oil spill or other liabilities under environmental laws. The Company is subject to the oversight of several government agencies, including the U.S. Coast Guard, the Environmental Protection Agency and the Maritime Administration of the U.S. Department of Transportation. OPA 90 affects all vessel owners shipping oil or hazardous material to, from or within the United States. OPA 90 allows for potentially unlimited liability without regard to fault for owners, operators and bareboat charterers of vessels for oil pollution in U.S. waters. Similarly, the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, which has been adopted by most countries outside of the United States, imposes liability for oil pollution in international waters. OPA 90 expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability.

OPA 90 provides for the scheduled phase out of all non double hull vessels that carry oil in bulk in U.S. waters. IMO and the European Union also have adopted separate phase out schedules applicable to single hull vessels operating in international and EU waters. These regulations will reduce the demand for single hull vessels, force the remaining single hull vessels into less desirable trading routes, increase the number of ships trading in routes open to single hull vessels and could increase demands for further restrictions in the remaining jurisdictions that permit the operation of these vessels. As a result, single hull vessels are likely to be chartered less frequently and at lower rates.

In addition, in complying with OPA, IMO regulations, EU directives and other existing laws and regulations and those that may be adopted, shipowners may incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become more strict in the future and require the Company to incur significant capital expenditures on its vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. As a result of accidents such as the November 2002 oil spill from the Prestige, a 26 year old single hull tanker unrelated to the Company, OSG believes that regulation of the shipping industry will continue to become more stringent and more expensive for the Company and its competitors. In recent years, the IMO and EU have both accelerated their existing non double hull phase out schedules in response to highly publicized oil spills and other shipping incidents involving companies unrelated to OSG. Future accidents can be expected in the industry, and such accidents or other events could be expected to result in the adoption of even stricter laws and regulations, which could limit the Company's operations or its ability to do business and which could have a material adverse effect on OSG's business and financial results.

The market value of OSG's vessels, which have recently been at or near historically high levels, may be depressed at a time and in the event that it sells a vessel

Vessel values have generally experienced high volatility and values have recently been at or near historically high levels. The fair market value of the Company's vessels can be expected to fluctuate, depending on general economic and market conditions affecting the tanker industry and competition from other shipping companies, types and sizes of vessels and other modes of transportation. In addition, although OSG has a modern fleet, as vessels grow older, they generally decline in value. These factors will affect the value of the Company's vessels at the time of any vessel sale. If for any reason, OSG sells a vessel at a time when prices have fallen, the sale may be at less than the vessel's carrying amount on its financial statements, with the result that the Company would also incur a loss on the sale and a reduction in earnings and surplus.

Company specific risk factors:

OSG's financial condition would be materially adversely affected if the shipping income of OSG's foreign subsidiaries becomes subject to current taxation in the U.S.

As a result of changes made by the 2004 Act, the Company does not report in taxable income on a current basis the undistributed shipping income earned by its international flag vessels, which in recent years represented substantially all of the Company's pre-tax income. These changes in the 2004 Act were made to make U.S. controlled shipping companies competitive with foreign-controlled shipping companies, which are generally incorporated in jurisdictions in which they either do not pay income taxes or pay minimal income taxes.

The Congressional elections in 2006 resulted in Democratic majorities in both the House of Representatives and the Senate. The Democrats, in their platform for the 2006 elections, said that they would seek to "repeal tax giveaways that encourage companies to move jobs overseas." While the Company believes that the changes made in the 2004 Act with respect to foreign shipping income do not "move jobs overseas," and, in fact, have enabled the Company to expand its U.S. Flag fleet and create jobs in the U.S., Congress may decide to repeal the changes made in the 2004 Act with respect to taxation of foreign shipping income. Such a repeal would have a materially adverse affect on the Company's business and financial results.

The Company's substantial debt could adversely affect its financial condition

OSG has substantial debt and debt service requirements. At December 31, 2007, the Company's consolidated total debt, including capital lease obligations, was $1.56 billion and its unused borrowing capacity under revolving credit facilities was $1.27 billion.

The amount of the Company's debt could have important consequences. For example, it could:

- increase OSG's vulnerability to general adverse economic and industry conditions;
- limit OSG's ability to fund future capital expenditures, working capital and other general corporate requirements;
- require the Company to dedicate a substantial portion of its cash flow from operations to make interest and principal payments on its debt;
- limit OSG's flexibility in planning for, or reacting to, changes in its business and the shipping industry;
- place OSG at a competitive disadvantage compared with competitors that have less debt; and
- limit OSG's ability to borrow additional funds, even when necessary to maintain adequate liquidity.

When OSG's credit facilities mature, it may not be able to refinance or replace them

When OSG's indebtedness matures, the Company may need to refinance it and may not be able to do so on favorable terms or at all. If OSG is able to refinance maturing indebtedness, the terms of any refinancing or alternate credit arrangements may contain terms and covenants that restrict OSG's financial and operating flexibility.

The Company is highly dependent upon volatile spot market charter rates

OSG depends on spot charters for a significant portion of its revenues. In 2007, 2006 and 2005, OSG derived approximately 62%, 69% and 69%, respectively, of its TCE revenues in the spot market. Although chartering a significant portion of OSG's vessels on the spot market affords it greater opportunity to increase income from operations when rates rise, dependence on the spot market could result in earnings volatility. A significant decrease in OSG's spot market TCE revenues could adversely affect its profit or result in cash losses.

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

There can be no assurance that any of the Company's existing time charters will be renewed or that it will be successful in entering into new time charters on certain of the newbuilds that will be delivered to the Company or if renewed or entered into, that they will be at favorable rates. If, upon expiration of the existing time charters or delivery of newbuilds, OSG is unable to obtain time charters or voyage charters at desirable rates, the Company's profitability may be adversely affected.

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

All of the Company's VLCCs participate in the Tankers International pool. All but four of OSG's Aframaxes participate in the Aframax International pool. Nine of its crude Panamaxes and two of its Panamax Product Carriers participate directly in Panamax International. Participation in these pools enhances the financial performance of the Company's vessels as a result of the higher vessel utilization. Any participant in any of these pools has the right to withdraw upon notice in accordance with the relevant pool agreement. The Company cannot predict whether the pools in which its vessels operate will continue to exist in the future. In addition, the EU is in the process of substantially reforming the way it regulates traditional agreements for maritime services from an antitrust perspective. The proposed draft guidelines impose new restrictions on the way the pools are operated and it is likely that many of these restrictions will be included in the final guidelines scheduled to be issued by the Fall of 2008. Any significant restriction on pooling arrangements or the withdrawal of any participants could adversely affect the ability to commercially market the respective types of vessels in pools.

OSG may not be able to grow its fleet

One part of OSG's strategy is to continue to grow its fleet on an opportunistic basis. The Company's ability to grow its fleets will depend upon a number of factors, many of which the Company cannot control. These factors include OSG's ability to:

- identify acquisition candidates and joint venture opportunities;
- replace expiring charters-in at comparable rates;
- identify suitable charter-in opportunities;
- consummate acquisitions or joint ventures;
- integrate any acquired vessels or businesses successfully with its existing operations;
- hire and train qualified personnel; and
- obtain required financing.

OSG's strategy of growing its business in part through acquisitions is capital intensive, time consuming and subject to a number of inherent risks

Part of OSG's business strategy is to opportunistically acquire complementary businesses or vessels such as the Company's acquisitions of Stelmar Shipping Ltd. in January 2005 and Maritrans Inc. in November 2006. If the Company fails to develop and integrate any acquired businesses or vessels effectively, its earnings may be adversely affected. In addition, the Company's management team will need to devote substantial time and attention to the integration of the acquired businesses or vessels, which could distract them from their other duties and responsibilities.

Operating costs and capital expenses will increase as the Company's vessels age

In general, capital expenditures and other costs necessary for maintaining a vessel in good operating condition increase as the age of the vessel increases. Accordingly, it is likely that the operating costs of OSG's older vessels will increase. In addition, changes in governmental regulations and compliance with Classification Society standards may require OSG to make additional expenditures for new equipment. In order to add such equipment, OSG may be required to take its vessels out of service. There can be no assurance that market conditions will justify such expenditures or enable OSG to operate its older vessels profitably during the remainder of their economic lives.

OSG's purchase of second hand vessels carries risks associated with the quality of those vessels

OSG's expansion strategy includes the opportunistic acquisition of quality second hand vessels either directly or through corporate acquisitions. Second hand vessels typically do not carry warranties with respect to their condition, whereas warranties are generally available for newbuildings. While the Company generally inspects all second hand

vessels prior to purchase, such inspections would normally not provide OSG with as much knowledge about vessel condition as the Company would possess if the vessels had been built for it.

Delays or cost overruns in building new vessels, the double-hulling of certain vessels or in the scheduled shipyard maintenance of the Company's vessels could adversely affect OSG's results of operations

Building new vessels, rebuilding certain of the Company's existing single-hulled barges and scheduled shipyard maintenance of vessels may be subject to the risks of delay or cost overruns caused by one or more of the following:

- unforeseen quality or engineering problems;
- work stoppages;
- weather interference;
- unanticipated cost increases;
- delays in receipt of necessary materials or equipment; and
- inability to obtain the requisite permits, approvals or certifications from the U.S. Coast Guard or international foreign flag state authorities and the applicable classification society upon completion of work.

Significant delays and cost overruns could materially increase the Company's expected contract commitments, which would have an adverse effect on the Company's revenues, borrowing capacity and results of operations. Furthermore, delays would result in vessels being out-of-service for extended periods of time, and therefore not earning any revenue, which could have a material adverse effect on OSG's revenues, financial condition and results of operations.

The Company's business would be adversely affected if it failed to comply with the Jones Act provisions on coastwise trade, or if these provisions were repealed and if changes in international trade agreements were to occur

The Company is subject to the Jones Act and other federal laws that restrict maritime transportation between points in the U.S. (known as marine cabotage services or coastwise trade) to vessels built and registered in the U.S. and owned and manned by U.S. citizens. The Company is responsible for monitoring the ownership of its common stock and other interests to insure compliance with the Jones Act. If the Company does not comply with these restrictions, it would be prohibited from operating its vessels in U.S. coastwise trade, and under certain circumstances would be deemed to have undertaken an unapproved foreign transfer, resulting in severe penalties, including permanent loss of U.S. coastwise trading rights for the Company's vessels, fines or forfeiture of the vessels.

Additionally, the Jones Act restrictions on the provision of maritime cabotage services are subject to exceptions under certain international trade agreements, including the General Agreement on Trade in Services and the North American Free Trade Agreement. If maritime cabotage services were included in the General Agreement on Trade in Services, the North American Free Trade Agreement or other international trade agreements, or if the restrictions contained in the Jones Act were otherwise repealed or altered, the transportation of maritime cargo between U.S. ports could be opened to international-flag or international-manufactured vessels. On two occasions during 2005, the U.S. Secretary of Homeland Security, at the direction of the President of the U.S., issued limited waivers of the Jones Act for the transportation of petroleum and petroleum products as a result of the extraordinary circumstances created by Hurricane Katrina and Hurricane Rita on Gulf Coast refineries and petroleum product pipelines. During the past several years, interest groups have lobbied Congress to repeal the Jones Act to facilitate international flag competition for trades and cargoes currently reserved for U.S. Flag vessels under the Jones Act and cargo preference laws. The Company believes that continued efforts will be made to modify or repeal the Jones Act and cargo preference laws currently benefiting U.S. Flag vessels. Because international vessels may have lower construction costs, wage rates and operating costs, this could significantly increase competition in the coastwise trade, which could have a material adverse effect on the Company's business, results of operations and financial condition.

In the highly competitive international market, OSG may not be able to effectively compete for charters with companies with greater resources

The Company's vessels are employed in a highly competitive market. Competition arises from other vessel owners, including major oil companies, which may have substantially greater resources than OSG does. Competition for the transportation of crude oil and other petroleum products depends on price, location, size, age, condition, and the acceptability of the vessel operator to the charterer. The Company believes that because ownership of the world tanker fleet is highly fragmented, no single vessel owner is able to influence charter rates. To the extent OSG enters into new geographic regions or provides new services, it may not be able to compete profitably. New markets may involve competitive factors that differ from those of the Company's current markets, and the competitors in those markets may have greater financial strength and capital resources than OSG does.

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

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

The Company is subject to certain credit risks with respect to its counterparties on contracts and failure of such counterparties to meet their obligations could cause the Company to suffer losses on such contracts, decreasing revenues and earnings

The Company charters its vessels to other parties, who pay the Company a daily rate of hire. The Company also enters into Contracts of Affreightment ("COAs") and Voyage Charters. As OSG increases the portion of its revenues from time charters, it increases its reliance on the ability of time charterers to pay charter hire, especially when spot market rates are less than previously agreed upon time charter rates. Historically, the Company has not experienced any material problem collecting charter hire. Additionally, the Company enters into FFAs. All of these contracts subject the Company to counterparty credit risk. As a result, the Company is subject to credit risks at various levels, including with charterers or cargo interests. If the counterparties fail to meet their obligations, the Company could suffer losses on such contracts which would decrease revenues and earnings.

As the Company expands its business, it will need to improve its operations and financial systems, and recruit additional staff and crew; if it cannot improve these systems or recruit suitable employees, it may not effectively control its operations

The Company's current operating and financial systems may not be adequate as it implements its plan to expand, and its attempts to improve these systems may be ineffective. If the Company is unable to operate its financial and operations systems effectively or to recruit suitable employees for its vessels and offices as it expands its operations, it may be unable to effectively control and manage substantially larger operations. Although it is impossible to predict what errors might occur as the result of inadequate controls, it is the case that it is harder to oversee a sizable operation and, accordingly, more likely that errors will occur as operations grow and that additional management infrastructure and systems will be required to attempt to avoid such errors.

OSG's ability to obtain business from the Military Sealift Command (MSC) or other U.S. government agencies may be adversely affected by a determination by the MSC that OSG is not presently responsible for a single contract

OSG Product Tankers, LLC ("Product Tankers"), which is an indirect OSG subsidiary (owned through OSG America L.P.), participated in a Request for Proposals issued by the MSC, an agency of the United States Department of the Navy, to time charter to the MSC two Jones Act compliant product carriers. On July 6, 2007, the MSC advised Product Tankers that the MSC could not find Product Tankers presently "responsible" under the Federal Acquisition Regulation and, therefore, ineligible to time charter the vessels to the MSC. The MSC based its

decision on the December 2006 guilty plea by OSG to violations related to the handling of bilge water and oily mixtures from the engine rooms on certain of its international flag vessels. The MSC reached this decision notwithstanding an earlier decision by the United States Maritime Administration of the Department of Transportation ("Mar Ad") on June 25, 2007 not to suspend or debar OSG from business with the U.S. government. The federal agencies, including the United States Department of Navy, had agreed that Mar Ad would serve as the lead agency in any administrative action regarding discretionary suspension or debarment of OSG from federal contracts under the Federal Acquisition Regulation. On July 25, 2007, Product Tankers filed a protest of the MSC's decision in the United States Court of Federal Claims, asserting that the MSC decision was arbitrary, capricious, and unsupported by the administrative record.

No assurance can be given that the MSC decision will be overturned by the United States Court of Federal Claims. Although the MSC decision specifically addresses only the single contract, if the decision is not overturned, it may have an adverse effect on OSG's ability to obtain business from the U.S. government. For 2007, OSG did not do any business with the MSC and, accordingly, did not generate any shipping revenues from the MSC. Historically, OSG has not sought to generate significant revenues from conducting business with the MSC or other agencies and departments within the U.S. government, nor does OSG intend to in the future. The only business OSG currently conducts with the U.S. government is the participation by two of its vessels in the Maritime Security Program ("MSP"), which is intended to support the operation of up to 60 U.S. flag vessels in the foreign commerce of the United States to make available a fleet of privately owned vessels to the Department of Defense during times of war or national emergency. Payments are made under the MSP to vessel operators, including OSG, to help offset the high cost of employing a U.S. crew. Mar Ad, the agency which decided not to suspend or debar OSG, administers the MSP. To date, the MSC decision has not had an adverse effect on OSG's ability to obtain business from commercial customers.

American Shipping Corporation ("Aker") has informed OSG that as a result of OSG's order of three articulated tug barges ("ATBs") from Bender Shipbuilding & Repair Co., Inc. ("Bender"), Aker is exercising a right it claims to have under its agreement with OSG to impose a five year extension of the term of each of the bareboat charters for the ten Jones Act product carriers that subsidiaries of OSG are chartering from subsidiaries of Aker

Aker and OSG are parties to an agreement containing two provisions. In one of the provisions, if during the period ending in September 2015, OSG or any of its affiliates purchases, charters or contracts for a U.S. flag product carrier or ocean-going tank barge from a shipyard other than Aker Philadelphia Shipyard, Inc. ("APSI"), then, at Aker's option, the charter terms of all the bareboat charters from subsidiaries of Aker may be extended for five additional years at the prevailing rate from the date of contract signing with the supplier of the relevant product carrier or tank barge. In the second provision, which OSG maintains is separate and independent, if APSI contracts to build a new U.S. flag product carrier or ocean-going tank barge for any party other than OSG or its affiliates, then, at OSG's option, the initial term of all the bareboat charters from subsidiaries of Aker may be reduced to three years from the effective date of such bareboat charters and all option periods may be reduced to the lesser of one year or the remaining option period at the time, and all later option periods may be reduced to twelve months exercisable with 12 months' prior notice.

In February 2007, Aker and OSG entered into an agreement (the "Amendment Agreement") in which they, among other things, agreed to use their best efforts to negotiate in good faith for six product carriers and agree upon the documentation of the amendment of, among other things, the foregoing agreement to provide that the provisions summarized above do not apply to ocean-going tank barges, such as ATBs, with Aker being given an opportunity to participate in the competitive bidding in connection with any such order placed by OSG for an ocean-going tank barge. After the Amendment Agreement was signed, OSG informed APSI that it desired to contract for three ocean-going tank barges and offered APSI the opportunity to participate in a competitive bidding process for the tank barges. APSI declined the opportunity to bid, following which OSG ordered three ATBs from Bender. Subsequently, the Amendment Agreement expired on August 31, 2007 without Aker and OSG otherwise documenting their agreement on the matters provided in the Amendment Agreement.

On October 25, 2007, Aker informed OSG that Aker was exercising its alleged right to extend the bareboat charters for an additional five year period as a result of OSG's order of the three ATBs from Bender. Aker also claims that

OSG has lost its rights in the separate and independent provision to reduce the bareboat charter terms of the vessels to three years if APSI contracts to build product carriers or ocean-going tank barges for third parties.

OSG disputes Aker's claim because, among other reasons, OSG believes that Aker waived, contracted away, and is otherwise estopped from asserting, its right under its agreement with respect to the order for the tank barges and further that Aker violated its agreement with OSG to use its best efforts to negotiate in good faith and agree upon the documentation of the clear agreement concerning ATBs contained in the Amendment Agreement.

On January 11, 2008, Aker sent OSG a notice demanding arbitration of Aker's claims against OSG. OSG denies Aker's claims in the arbitration. The parties to the arbitration are now in the process of scheduling the discovery and other events in the arbitration leading to a hearing on its merits. A five-year extension of the initial term of the bareboat charters would lengthen the period OSG is required to charter these vessels. If OSG would not have exercised its option to charter each vessel for the five year extension period, this mandatory extension could have an adverse effect on OSG, the quantification of such adverse effect being dependent upon market conditions during such five year period. No assurance can be given that OSG's positions with respect to Aker's claims will be upheld in arbitration.

Compliance with the environmental compliance plan agreed to with the U.S. Department of Justice imposes a more rigorous standard on OSG's technical management of its vessels, which may adversely affect its business

In connection with the comprehensive settlement of the investigation by the U.S. Department of Justice of the Company's handling of waste oils and maintenance of books and records relating thereto, the Company agreed to implement and fund an environmental compliance plan, which contains detailed rules, programs and procedures that the Company must follow for a three year period from March 2007 to ensure full compliance with environmental laws and regulations. The Company has implemented these rules, programs and procedures and does not believe that they will adversely affect its ability to technically manage its vessels in a competitive manner. However, because the environmental compliance plan is a condition of the Company's three year probation, violations of certain of these rules and procedures, while not necessarily a violation of environmental laws and regulations, could result in sanctions and have an adverse affect on the Company's business.

OSG's vessels call on ports located in countries that are subject to restrictions imposed by the U.S. government, which could negatively affect the trading price of the Company's common stock

From time to time, vessels in OSG's fleet call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism, such as Syria and Iran. Although these sanctions and embargoes do not prevent OSG's vessels from making calls to ports in these countries, potential investors could view such port calls negatively, which could adversely affect the Company's reputation and the market for its common stock.

OSG depends on its key personnel and may have difficulty attracting and retaining skilled employees

OSG's success depends to a significant extent upon the abilities and efforts of its key personnel. The loss of the services of any of the Company's key personnel or its inability to attract and retain qualified personnel in the future could have a material adverse effect on OSG's business, financial condition and operating results.

The Company may face unexpected drydock costs for its vessels

Vessels must be drydocked periodically. The cost of repairs and renewals required at each drydock are difficult to predict with certainty and can be substantial. The Company's insurance does not cover these costs. In addition, vessels may have to be drydocked in the event of accidents or other unforeseen damage. OSG's insurance may not cover all of these costs. Large drydocking expenses could significantly decrease the Company's profits.

Maritime claimants could arrest OSG's vessels, which could interrupt its cash flow

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or

more of the Company's vessels could interrupt OSG's cash flow and require it to pay a significant amount of money to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in the Company's fleet for claims relating to another vessel in its fleet.

Governments could requisition OSG's vessels during a period of war or emergency without adequate compensation

A government could requisition one or more of OSG's vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although OSG would be entitled to compensation in the event of a requisition of one or more of its vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of OSG's vessels may negatively impact its revenues.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Vessels:

At December 31, 2007, the Company owned or operated (including newbuilds) an aggregate of 156 vessels. See tables presented under Item 1. Additional information about the Company's fleet is set forth on the Company's website, www.osg.com.

ITEM 3. LEGAL PROCEEDINGS

On February 23, 2008, the U.S. Department of Justice notified the Company that it agreed to close the investigation of allegations of possible violations of law concerning the Company's handling of waste oils and maintenance of books and records on one of the Company's International Flag vessels which the Company, acting in compliance with terms of its existing policies, self-reported to the U.S. Department of Justice on March 2, 2007.

The Company is a party, as plaintiff or defendant, to various suits in the ordinary course of business for monetary relief arising principally from personal injuries, collision or other casualty and to claims arising under charter parties. All such personal injury, collision or other casualty claims against the Company are fully covered by insurance (subject to deductibles not material in amount). Each of the claims involves an amount which, in the opinion of management, is not material to the Company's financial position, results of operations and cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Executive Officers of the Registrant

Name	Age	Position Held	Has Served as Such Since
Morten Arntzen	52	President and Chief Executive Officer	January 2004
Myles R. Itkin	60	Executive Vice President, Chief Financial Officer and Treasurer	June 2006 June 1995
Mats H. Berglund	45	Senior Vice President and Head of International Crude Transportation Strategic Business Unit	September 2005

Name	Age	Position Held	Has Served as Such Since
Robert E. Johnston	60	Senior Vice President and Head of Shipping Operations	October 1998 September 2005

Jonathan Whitworth	41	Senior Vice President and Head of U.S. Strategic Business Unit	November 2006
Ian T. Blackley	53	Managing Director and Chief Operating Officer, OSG Ship Management (UK) Ltd.	September 2005
Angus Campbell	52	Head of Gas Strategic Business Unit	November 2004
George Dienis	55	Managing Director and Chief Operating Officer, OSG Ship Management (GR) Ltd.	January 2005
James I. Edelson	51	General Counsel and Secretary	January 2005 March 2005
Robert R. Mozdean	54	Head of Worldwide Human Resources	August 2005
Lois K. Zabrocky	38	Head of International Product Carrier Strategic Business Unit	September 2005

The term of office of each executive officer continues until the first meeting of the Board of Directors of the Company immediately following the next annual meeting of its stockholders, to be held on June 10, 2008, and until the election and qualification of his successor. There is no family relationship between the executive officers.

Mr. Arntzen was employed by American Marine Advisors, Inc., a U.S.-based merchant banking firm specializing in the maritime industry, as Chief Executive Officer for at least four years prior to January 2004. Mr. Itkin served as Senior Vice President for at least five years prior to his appointment as Executive Vice President. Mr. Berglund was an officer of Stena Rederi AB of Sweden, a company which supports and coordinates the shipping activities of Stena AB, one of the largest privately-held shipping companies in the world, serving as President from January 2003 to August 2005. Mr. Johnston served as Chief Commercial Officer of the Company for at least five years prior to becoming Head of Shipping Operations. Mr. Whitworth was employed by Maritrans Inc., a publicly traded shipping company, as President and Chief Executive Officer from May 2004 until the Company acquired such company in November 2006. From 2000 until May 2004, Mr. Whitworth was Managing Director of Teekay Shipping (USA), Inc., a shipping company. Mr. Blackley was employed by the Company in numerous positions, including Assistant Treasurer and Vice President, Treasury of OSG Ship Management, Inc. for at least five years prior to becoming Chief Operating Officer of OSG Ship Management (UK) Ltd. Mr. Campbell served as Operations Director of OSG Ship Management (UK) Ltd. for at least four years prior to becoming Head of the Company's Gas Strategic Business Unit. Mr. Dienis worked for Stelmar Shipping Ltd., a publicly traded shipping company that the Company acquired in January 2005, in several management capacities including Chief Operating Officer for at least five years prior to becoming Managing Director and Chief Operating Officer of OSG Ship Management (GR) Ltd. Prior to becoming General Counsel of the Company, Mr. Edelson was employed as Associate General Counsel of the Company from January 2000 until January 2005. For at least five years prior to becoming Head of Worldwide Human Resources for the Company, Mr. Mozdean served as Vice President of Human Resources and Legal Affairs at the Dannon Company, Inc., a leading producer of yogurt products in the United States. Ms. Zabrocky worked for the Company in various management capacities relating to chartering and other commercial functions for at least five years prior to becoming Head of the Company's International Product Carrier Strategic Business Unit in September 2005.

PART II

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

(a)

The Company's common stock is listed for trading on the New York Stock Exchange under the trading symbol OSG. The range of high and low closing sales prices of the Company's common stock as reported on the New York Stock Exchange for each of the quarters during the last two years are set forth below.

2006	**High**	**Low**
	(In dollars)	
First Quarter	66.15	54.25
Second Quarter	82.32	61.49
Third Quarter	90.38	66.80
Fourth Quarter	79.77	58.82

2006	High	Low
First Quarter	52.92	47.93
Second Quarter	59.50	47.02
Third Quarter	69.44	59.29
Fourth Quarter	64.44	56.30

(b)

On February 22, 2008, there were 321 stockholders of record of the Company's common stock.

(c)

In June 2007, OSG announced a 25% increase in its annual dividend to $1.25 per share from $1.00 per share of common stock. Subsequent thereto, the Company paid two regular quarterly dividends of $0.3125 per share of common stock. Prior to the above change, the Company paid regular quarterly dividends of $0.25 per share of common stock subsequent to April 2006 and $0.175 per share of common stock prior to April 2006. The payment of cash dividends in the future will depend upon the Company's operating results, cash flow, working capital requirements and other factors deemed pertinent by the Company's Board of Directors.

STOCKHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph for the five years ended December 31, 2007 comparing the yearly percentage change in the cumulative total stockholder return on the Company's common stock against the cumulative return of the published Standard and Poor's 500 Index, a peer group index consisting of Frontline Ltd., Teekay Shipping Corporation and the Company referred to as the peer group index (old) previously used by the Company and included herein for comparative purposes, and a peer group index consisting of Frontline Ltd., Teekay Shipping Corporation, General Maritime Corporation, Kirby Corporation, Seacor Holdings Inc., Tsakos Energy Navigation Limited and the Company referred to as the peer group index (new). The companies added to the peer group index (new), which was last changed in 2004, consist of those corporations in the peer group index used for determining vesting of performance share units for the Company's senior management whose stock has been publicly traded in the United States for at least five years. The Company believes that this expanded peer group index is more relevant for comparative purposes. One company previously in the peer group index (old), OMI Corporation, was acquired in 2007 and has been removed from the index.

STOCK PERFORMANCE GRAPH
COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
THE COMPANY, S&P 500 INDEX, PEER GROUP INDEX (OLD), PEER GROUP INDEX (NEW)

*
Assumes that the value of the investment in the Company's common stock and each index was $100 on December 31, 2002 and that all dividends were reinvested.

During June 2006, the Board approved a repurchase program, authorizing $300,000,000 to be expended on the repurchase of common stock. On April 24, 2007, the OSG's Board of Directors authorized, and the Company agreed to purchase, all of the outstanding shares of the Company's common stock held by Archer-Daniels-Midland Company

("ADM"), or 5,093,391 shares, at $65.42 per share. In addition, on April 24, 2007, the Board of Directors authorized a new share repurchase program of $200,000,000, which replaced the prior $300,000,000 share repurchase program. The total shares repurchased to date under the June 2006 and April 2007 authorities and the ADM purchase aggregates approximately $569,526,000, or 8,591,989 shares.

The following table shows the fourth quarter 2007 stock repurchase activity:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
November and total	125,000	$ 61.62	125,000	726,330

(a) Remaining shares represent the remaining dollar amount authorized divided by the average purchase price in the month.

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited selected consolidated financial data for the years ended December 31, 2007, 2006 and 2005, and at December 31, 2007 and 2006, are derived from the audited consolidated financial statements of the Company set forth in Item 8, which have been audited by Ernst & Young LLP, independent registered public accounting firm. The unaudited selected consolidated financial data for the years ended December 31, 2004 and 2003, and at December 31, 2005, 2004 and 2003, are derived from audited consolidated financial statements of the Company not appearing in this Annual Report, which have also been audited by Ernst & Young LLP.

In thousands, except per share amounts	2007	2006	2005	2004	2003
Shipping revenues	$1,129,305	$1,047,403	$1,000,303	$810,835	$454,120
Income from vessel operations	207,572	378,544	474,939	493,002	184,298
Income before federal income taxes	216,137	384,473	463,719	481,014	168,153
Net income (a)	211,310	392,660	464,829	401,236	121,309
Depreciation and amortization	185,499	141,940	152,311	100,088	90,010
Net cash provided by operating activities	167,624	445,975	435,147	374,471	224,779
Total vessels, deferred drydock and other property, at net book amount (b)	2,797,023	2,583,370	2,344,553	1,489,512	1,384,524
Total assets	4,158,917	4,230,669	3,348,680	2,680,798	2,000,686
Debt long-term debt and capital lease obligations (exclusive of short-term debt and current portions) (c)	1,531,334	1,306,947	965,655	906,183	787,588
Reserve for deferred federal income taxes noncurrent	230,924	234,269	113,255	105,424	151,304
Stockholders' equity	1,818,025	2,207,311	1,876,028	1,426,372	917,075
Debt/total capitalization	45.7%	37.2%	34.0%	38.8%	46.2%
Per share amounts:					
Basic net income	6.19	9.94	11.78	10.26	3.49
Diluted net income	6.16	9.92	11.77	10.24	3.47
Stockholders' equity	58.47	56.27	47.56	36.20	25.54
Cash dividends paid	1.125	0.925	0.70	0.70	0.65
Average shares outstanding for basic earnings per share	34,136	39,515	39,444	39,113	34,725
Average shares outstanding for diluted earnings per share	34,327	39,586	39,506	39,176	34,977

In thousands, except per share amounts	2007	2006	2005	2004	2003
Other data:					
Time charter equivalent revenues (d)	1,039,211	992,817	961,662	789,581	431,136
EBITDA (e)	476,332	595,065	705,519	655,248	320,287

(a)

Results for 2004 reflect a $77,423 reduction in deferred tax liabilities recorded on enactment of the American Jobs Creation Act of 2004.

(b) Includes vessel held for sale of $9,744 in 2004.

(c) Amounts do not include debt of affiliated companies accounted for using the equity method.

(d) Reconciliations of time charter equivalent revenues to shipping revenues as reflected in the consolidated statements of operations follow:

In thousands	2007	2006	2005	2004	2003
Time charter equivalent revenues	$1,039,211	$992,817	$961,662	$789,581	$431,136
Add: Voyage expenses	90,094	54,586	38,641	21,254	22,984
Shipping revenues	$1,129,305	$1,047,403	$1,000,303	$810,835	$454,120

Consistent with general practice in the shipping industry, the Company uses time charter equivalent revenues, which represents shipping revenues less voyage expenses, as a measure to compare revenue generated from a voyage charter to revenue generated from a time charter. Time charter equivalent revenues, a non-GAAP measure, provides additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance.

(e) EBITDA represents operating earnings, which is before interest expense and income taxes, plus other income and depreciation and amortization expense. EBITDA is presented to provide investors with meaningful additional information that management uses to monitor ongoing operating results and evaluate trends over comparative periods. EBITDA should not be considered a substitute for net income or cash flow from operating activities prepared in accordance with accounting principles generally accepted in the United States or as a measure of profitability or liquidity. While EBITDA is frequently used as a measure of operating results and performance, it is not necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.
The following table reconciles net income as reflected in the consolidated statements of operations, to EBITDA:

In thousands	2007	2006	2005	2004	2003
Net income	$211,310	$392,660	$464,829	$401,236	$121,309
Provision/(credit) for federal income taxes	4,827	(8,187)	(1,110)	79,778	46,844
Interest expense	74,696	68,652	89,489	74,146	62,124
Depreciation and amortization	185,499	141,940	152,311	100,088	90,010
EBITDA	$476,332	$595,065	$705,519	$655,248	$320,287

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

GENERAL

The Company is one of the largest independent bulk shipping companies in the world. The Company's operating fleet as of December 31, 2007 consisted of 112 vessels aggregating 12.2 million dwt and 432,400 cbm, including three vessels that have been chartered-in under capital leases and 50 vessels that have been chartered-in under operating leases. In addition to its operating fleet of 112 vessels, charters-in for 21 vessels are scheduled to commence upon delivery of the vessels between 2008 and 2011 and 23 newbuilds (including one U.S. Flag ATB that is being converted to a double hull configuration) are scheduled for delivery between 2008 and 2011, bringing the total operating and newbuild fleet to 156 vessels.

ACQUISITION OF HEIDMAR LIGHTERING

In April 2007, OSG acquired the Heidmar Lightering business from a subsidiary of Morgan Stanley Capital Group Inc. for cash of approximately $41 million. The operation provided crude oil lightering services to refiners, oil companies and trading companies primarily in the U.S. Gulf with a fleet of four International Flag Aframaxes and two U.S. Flag workboats. The business manages a portfolio of one-to-three year fixed rate cargo contracts. Under the agreement, OSG acquired the lightering fleet, which was time chartered-in, including a 50% residual interest in two specialized lightering Aframaxes. The operating results of the Heidmar Lightering business have been included in the Company's financial statements commencing April 1, 2007.

ACQUISITION OF MARITRANS INC.

On November 28, 2006, the Company acquired Maritrans Inc. ("Maritrans"), a leading U.S. Flag crude oil and petroleum product shipping company that owned and operated one of the largest fleets of double hull vessels serving the East Coast and U.S. Gulf Coast trades. The operating results of Maritrans have been included in the Company's financial statements commencing November 29, 2006. Maritrans' fleet consisted of 11 tug barges, one of which was in the process of being converted to a double hull configuration, five product carriers, two of which had

been redeployed to transport grain, and three large ATBs under construction. Holders of Maritrans' common stock received $37.50 per share in cash for an aggregate consideration of approximately $450 million. Taking into account the assumption of Maritrans' outstanding debt, the total purchase price was approximately $506 million. OSG financed the acquisition through borrowings under existing credit facilities.

ACQUISITION OF STELMAR SHIPPING LTD.

On January 20, 2005, the Company acquired Stelmar Shipping Ltd. ("Stelmar"), a leading provider of petroleum product and crude oil transportation services. The operating results of Stelmar have been included in the Company's financial statements commencing January 21, 2005. Holders of Stelmar's common stock received $48.00 per share in cash for an aggregate consideration of approximately $844 million. Taking into account the assumption of Stelmar's outstanding debt, the total purchase price was approximately $1.35 billion. The Company funded the acquisition of Stelmar and the refinancing of its debt with $675 million of borrowings under new credit facilities and $675 million of cash and borrowings under long-term credit facilities in existence as of December 31, 2004. Stelmar's 40 vessel fleet consisted of 24 Handysize, 13 Panamax and three Aframax tankers. Stelmar's fleet included two chartered-in Aframax and nine chartered-in Handysize vessels.

SALE OF SEVEN TANKERS TO DOUBLE HULL TANKERS, INC.

In October 2005, OSG sold seven tankers (three VLCCs and four Aframaxes) to Double Hull Tankers, Inc. ("DHT") in connection with DHT's initial public offering. In consideration, OSG received $412.6 million in cash and 14,000,000 shares in DHT, representing a 46.7% equity stake in the new tanker concern. The total consideration to OSG valued the transaction at $580.6 million. In November 2005, the Company sold 648,500 shares of DHT pursuant to the exercise of the over-allotment option granted to the underwriters of DHT's initial public offering, and received net cash proceeds of $7.3 million. During 2007, the company sold the remaining 13,351,500 shares of DHT and received net cash proceeds of $194.7 million. Such sales reduced the Company's interest in DHT to 0.0% as of June 30, 2007. OSG has time chartered the vessels back from DHT for initial periods of five to six and one-half years with various renewal options up to an additional five to eight years, depending on the vessel. The charters provide for the payment by the Company of additional hire, on a quarterly basis, when the aggregate revenue earned, or deemed earned, by these vessels exceeds the sum of the basic hire paid during the quarter by the Company. Under related agreements, a subsidiary of the Company technically manages these vessels for DHT for amounts that have been fixed (except for vessel insurance premiums) over the term of the agreements.

OSG booked a gain on the sale and charter back of these vessels of $232,159,000 in the fourth quarter of 2005. The gain was deferred for accounting purposes and is being recognized as a reduction of time charter hire expense over the initial charter periods. The cash proceeds from the sale were used to reduce debt and for general corporate purposes.

OPERATIONS

The Company's revenues are highly sensitive to patterns of supply and demand for vessels of the size and design configurations owned and operated by the Company and the trades in which those vessels operate. Rates for the transportation of crude oil and refined petroleum products from which the Company earns a substantial majority of its revenue are determined by market forces such as the supply and demand for oil, the distance that cargoes must be transported, and the number of vessels expected to be available at the time such cargoes need to be transported. The demand for oil shipments is significantly affected by the state of the global economy and level of OPEC's exports. The number of vessels is affected by newbuilding deliveries and by the removal of existing vessels from service, principally because of scrappings or conversions. The Company's revenues are also affected by the mix of charters between spot (Voyage Charter) and long-term (Time or Bareboat Charter). Because shipping revenues and voyage expenses are significantly affected by the mix between voyage charters and time charters, the Company manages its vessels based on time charter equivalent ("TCE") revenues. Management makes economic decisions based on anticipated TCE rates and evaluates financial performance based on TCE rates achieved.

Overview

Average freight rates for VLCCs, Aframaxes and Product Carriers in 2007 were below the rates realized in 2006 while 2007 Panamax tanker rates were slightly higher. The U.S. Flag Jones Act Product Carrier rates continued their upward trend in 2007.

Crude oil prices adversely impacted demand during 2007, increasing from a first quarter average of $58 per barrel for West Texas Intermediate crude to $91 per barrel during the fourth quarter of 2007. Crude price increases were attributable, in part, to OPEC production cuts that began in the fourth quarter of 2006. The reduction in available supplies caused a worldwide decline in inventory levels to meet oil demand. In addition, higher crude oil prices resulted in the market moving from contango (future prices above current prompt prices) to backwardation (future prices below current prompt prices), which further exacerbated inventory drawdowns. In a backwardation market it is generally preferable to use inventories to meet current demand since replacing inventories is more economical in the future.

Global oil demand in 2007 was 85.9 million barrels per day ("b/d"), an increase of 1.4%, or 1.1 million b/d, above the 2006 demand level. Non-OECD demand increased by 3.7% against an OECD demand decline of 0.3%. Demand growth in non-OECD countries was led by a 4.5% increase in China where naphtha and middle distillates use was particularly strong. A 5.4% increase in Other non-OECD Asia and a 4.8% increase in the Middle East accounted for much of the rest of non-OECD demand growth. Demand in North America, the world's largest consuming region, increased by 1.0% while demand in OECD Europe and OECD Asia declined by 1.9% and 1.4%, respectively.

World oil demand in the fourth quarter of 2007 was 87.2 million b/d, an increase of 1.5 million b/d (1.8%) from 85.7 million b/d in the fourth quarter of 2006. Demand increased by 0.5% in OECD areas and by 3.4% in non-OECD countries. Demand in OECD North America and OECD Europe increased by 0.9% and 0.2%, respectively, primarily due to increased consumption of middle distillate products. There was no change in demand in OECD Asia. Higher demand in non-OECD areas was led by a 7.5% increase in Other Asia, principally reflecting the increased use of transportation fuels in India. China oil demand increased by only 4.4% as shortages of gasoil resulted in lower sales volumes than might have otherwise occurred.

Rates in 2007 were adversely impacted by OPEC's decision in late 2006 to reduce its official production quota by 1.2 million b/d. As most of the production cut was allocated to Arabian Gulf OPEC members, the volume of long-haul crude shipments was reduced, lowering tonne-mile demand for VLCCs. The lower quota level remained in effect until December 2007 when OPEC announced a 500,000 b/d increase in production. This increase had an immediate positive impact on long-haul shipments as this incremental volume was largely sourced from Arabian Gulf OPEC members, particularly Saudi Arabia.

OECD refining runs in 2007 were lower than in 2006, especially in the U.S. and Europe, reflecting the impact of planned and unplanned downtime. Refinery utilization in the U.S. averaged 88.7% during 2007 compared with 89.7% in 2006 and a six-year average of 91.7%. Much of the downtime in North America in the first half of the year was unplanned, which presented arbitrage opportunities that generated additional trans-Atlantic product movements from Europe to the U.S. Despite this, European refinery runs were approximately 100,000 b/d lower in 2007 than in 2006 as a result of increased planned downtime and discretionary run cuts due to poor refining margins primarily in the last half of the year.

Commercial inventories in OECD countries ended 2007 5% below year-end 2006 levels reflecting a drawdown of approximately 335,000 b/d. North America experienced the largest drawdown of 52 million barrels, followed by a 37 million barrel reduction in Europe and a 34 million barrel reduction in Asia. As a result of the inventory declines, forward cover in OECD areas ended 2007 about three days below the year-end 2006 level. The OECD drawdown coupled with declines in non-OECD inventory levels dampened demand for crude imports and adversely impacted tanker demand during the year.

Crude oil imports into China during 2007 rose by 13% relative to 2006. While movements from West Africa were stable, increases in crude oil imports from the Middle East and North Africa generated a significant boost to China's tonne-mile demand during 2007 compared with 2006.

Crude oil exported from Ceyhan, which is sourced from Azerbaijan transported through the Baku-Tbilisi-Ceyhan ("B-T-C") pipeline, averaged 550,000 b/d in 2007, an increase of 400,000 b/d over 2006. Crude oil shipped through the pipeline to Ceyhan reached 670,000 b/d in November 2007 and is forecast to increase to over 1.0 million b/d in 2008.

Tanker rates during the fourth quarter of 2007 were extremely volatile in all market segments. This volatility was in response to OPEC's announcement of a 500,000 b/d increase in production. The sudden surge in oil shipments from the Middle East resulted in a temporary shortage of available tonnage, which boosted VLCC rates to over $280,000 per day in December from a low point of $6,800 per day in early November. Strength in the VLCC sector carried over

into both the Aframax and Panamax markets, lifting rates in these sectors to multi-year highs as well. This positive rate environment was reinforced by a collision on December 7 between a single hull VLCC (*Hebei Spirit*) and a barge off the coast of South Korea that resulted in that country's worst oil spill. In addition to having a positive influence on rates, the oil spill caused a significant widening in the premium in TCE rates for double hull tankers compared with single hull tankers.

Higher costs for raw materials, a significant order backlog and continued strong demand for newbuildings both in the tanker and dry cargo markets during 2007 led to further vessel price increases at shipyards of approximately 10% from year-end 2006 levels. Partly as a result, prices for modern second hand vessels also remained strong.

Overall tanker supply increased by 7.5%, or 26.8 million dwt, from year-end 2006 levels. The largest increase was in Panamax tankers (13%) and the smallest increase in the VLCC category (6.2%). The total tanker orderbook at the end of 2007 represented 39.2% of the total fleet based on deadweight tons.

The tables below show the daily TCE rates that prevailed in markets in which the Company's vessels operated for the periods indicated. It is important to note that the spot market is quoted in Worldscale rates. The conversion of Worldscale rates to the following TCE rates required the Company to make certain assumptions as to brokerage commissions, port time, port costs, speed and fuel consumption, all of which will vary in actual usage. In each case, the rates may differ from the actual TCE rates achieved by the Company in the period indicated because of the timing and length of voyages and the portion of revenue generated from long-term charters. For example, TCE rates for VLCCs are reflected in the earnings of the Company approximately one month after such rates are reflected in the tables below calculated on the basis of the fixture dates.

International Flag VLCCs

Spot Market TCE Rates
VLCCs in the Arabian Gulf*

	Q1-2007	**Q2-2007**	**Q3-2007**	**Q4-2007**	**2007**	**2006**	**2005**
Average	$44,200	$44,100	$22,400	$74,500	$46,300	$53,800	$53,600
High	$75,600	$69,200	$39,800	$283,500	$283,500	$119,000	$135,000
Low	$26,900	$20,200	$11,100	$6,800	$6,800	$19,300	$13,100

* Based on 60% Arabian Gulf to Eastern destinations and 40% Arabian Gulf to Western destinations

Rates for VLCCs trading out of the Arabian Gulf averaged $46,300 per day during 2007, a decline of 14% from the 2006 average. This decline was attributable to a 400,000 b/d reduction in Middle East OPEC production, a 6.2% increase in the VLCC fleet, lower refinery utilization rates in all OECD areas and a worldwide oil inventory drawdown as the oil market moved into backwardation. These factors were somewhat offset by a 140,000 b/d increase in West African OPEC production, primarily from new deepwater projects in Angola and an increase in long-haul movements from the Middle East and North Africa to China.

VLCC rates in the first quarter of 2007 were 30% below the average in the first quarter of 2006. Rates were lowest in the beginning of January as crude oil liftings from Middle East OPEC countries declined in the wake of production cuts, resulting in surplus tonnage. Rates rose to their highest level of the quarter at the end of March as U.S. refiners began to increase throughput and as tensions with Iran rose. In addition, VLCC loadings increased out of West Africa due to a temporary lack of available Suezmax tonnage as a port strike in southern France left many Suezmaxes stranded.

Average VLCC rates in the second quarter of 2007 remained at first quarter levels. Rates were bolstered by an increase in exports of African crudes to China, an increase in Venezuelan fuel oil movements to Asia and the expanded use of VLCCs to store crude oil in the Gulf of Mexico owing to the contango in crude oil prices. The positive affect on rates was, however, offset by lower refinery utilization in all OECD regions due to both planned and unplanned downtime and a reduction in Arabian Gulf OPEC crude oil production, which was approximately 700,000 b/d below levels in the second quarter of 2006.

VLCC rates declined in the third quarter of 2007 and averaged 70% below the average for the third quarter of 2006, which had the highest quarterly average during 2006. The lower rates reflected ongoing reductions in OPEC crude oil production levels, which significantly reduced

long-haul crude oil shipments. A counter-seasonal decline in inventory levels also occurred during the third quarter, as the crude oil market moved from contango to backwardation,

discouraging inventory accumulation. This contrasted with a significant inventory build-up during the third quarter of 2006 in anticipation of an active hurricane season.

VLCC rates reached their highest average levels of the year in the fourth quarter of 2007, about double the average rates for the fourth quarter of 2006 and significantly above those attained in the third quarter of 2007. Fourth quarter Middle East OPEC production increased by 560,000 b/d (including a 235,000 b/d increase in Iraq, which is not subject to OPEC quotas) over third quarter 2007 levels following OPEC's decision in December to increase production quotas by 500,000 b/d. Concurrently with increased production, Saudi Arabia readjusted its pricing formula providing a sharp discount on its crudes that would be sent West. This discount provided strong incentives for refiners in the U.S. and Europe to increase purchases of Arabian crude oils. As a result, there was a 60% increase in westbound cargoes in the November 12 to December 11 period compared with the same period in 2006.The sudden pickup in Middle East production moving West combined with a lack of available tonnage in the Arabian Gulf resulted in a significant increase in rates. A serious oil spill off the coast of South Korea in December also helped lift rates to $283,500 per day in December.

The world VLCC fleet expanded by 29 tankers from 497 tankers (145.5 million dwt) at the beginning of the year to 526 tankers (154.5 million dwt) at December 31, 2007. The year-end 2007 VLCC orderbook totaled 182 vessels (55.8 million dwt) representing 36.1% of the existing VLCC fleet, based on deadweight tons.

International Flag Aframaxes

Spot Market TCE Rates
Aframaxes in the Caribbean*

	Q1-2007	Q2-2007	Q3-2007	Q4-2007	2007	2006	2005
Average	$37,400	$27,100	$18,800	$36,400	$29,900	$33,700	$33,100
High	$51,000	$38,000	$35,800	$108,600	$108,600	$55,000	$65,000
Low	$26,000	$19,400	$8,900	$8,400	$8,400	$13,000	$8,000

* Based on Caribbean to the U.S. Gulf and Atlantic Coasts

Rates for Aframaxes operating in the Caribbean averaged $29,900 per day during 2007, a decline of 11% from the 2006 average. Lower rates reflected a net reduction in liftings at key Aframax ports, an 8% increase in the size of the Aframax fleet, lower refinery runs and inventory drawdowns, especially in Europe.

Crude oil production in key Aframax loading areas, which include Mexico, the North Sea and Venezuela, declined by approximately 610,000 b/d from 2006 levels. Mexican production decreased by approximately 5% primarily due to normal age-related declines in the Cantarell field and from the precautionary shut-in of production in August, October and November due to storms. Venezuela's crude oil output declined by approximately 170,000 b/d mainly because of a curtailment in investments by major oil companies stemming from the Venezuelan government's renegotiation of contracts to increase its ownership interest and tax revenues from heavy oil upgrade operations. Diminishing output from mature fields and heavier than normal maintenance activities resulted in a 5% decline in North Sea production. Reduced supplies in these three areas were somewhat offset by higher production in Brazil as new offshore fields, located primarily in the Campos Basin, came on line. In addition about 550,000 b/d of Azeri crude, transported using the B-T-C pipeline, was exported from the port of Ceyhan in 2007, up from 150,000 b/d in 2006, its first year of operation.

Aframax rates in the first quarter of 2007 were, on average, down approximately 2% from the first quarter of 2006. A year-over-year decline of approximately 200,000 b/d in the North Sea production and a 15% drop in Mexican production accounted for the lower rates. Aframax rates in the Caribbean were driven to their highest levels of the first quarter in January by weather-related delays in the U.S. Gulf of Mexico and in the Bosporus Straits. Rates then dropped to their lowest levels of the quarter in the first week in February as these weather delays abated. Rates increased again in March, especially in the Black Sea and Mediterranean Sea, primarily due to port strikes in France, bad weather in Trieste, renewed delays in the Bosporus and increased liftings from Ceyhan, which averaged 470,000 b/d in the first quarter of 2007.

Average rates during the second quarter of 2007 were 7% higher than in the second quarter of 2006, benefiting from the impact of increased liftings of Azeri crude at Ceyhan. In addition, ongoing port strikes in France as well as other related port delays significantly increased waiting

time early in the quarter, placing upward pressure on rates. Rates

then declined in May as the strike was settled, reducing port congestion, and fell further in June as both North Sea production and Russian crude oil exports declined.

Aframax rates in the third quarter of 2007 averaged 40% below those in the third quarter of 2006. More extensive-than-usual platform maintenance activities in the North Sea during the quarter, which shut-in approximately 570,000 b/d of crude oil, and precautionary field closures in Mexico in anticipation of Hurricane Dean, which shut-in approximately 520,000 b/d in August, reduced liftings in these two key loading areas. Weak refining margins in Europe resulted in discretionary cuts in refining runs that reduced crude demand, resulting in a build-up in surplus tonnage in Europe. Some of this surplus tonnage moved into the Caribbean, negatively affecting rates there as well.

Rates in the fourth quarter of 2007 rates were highly volatile, ranging from a low of $8,400 per day early in the quarter to a high of $108,600 per day late in the quarter and averaged 11% below fourth quarter of 2006 rates. Declining refinery utilization rates in Europe and lower crude oil production in key Aframax loading areas caused the initial weakness in rates. The dramatic improvement in rates later in the quarter was driven by the run up in VLCC rates in December that favorably impacted the Suezmax and Aframax markets. A number of other factors also had a positive influence on rates, including fog-related delays along the Texas coast and an ice storm that reduced crude oil shipments by pipeline from Canada to U.S. refineries.

The world Aframax fleet expanded during 2007 from 714 vessels (72.5 million dwt) as of December 31, 2006 to 764 vessels (78.3 million dwt) at December 31, 2007. The Aframax orderbook increased to 292 vessels (32.1 million dwt) at December 21, 2007 from 230 vessels (25.3 million dwt) at the beginning of the year. The current orderbook now represents 41.0% of the existing Aframax fleet, based on deadweight tons.

International Flag Panamaxes

Spot Market TCE Rates
Panamaxes Crude and Residual Oil*

	Q1-2007	Q2-2007	Q3-2007	Q4-2007	2007	2006	2005
Average	$31,300	$27,700	$21,800	$23,800	$26,100	$25,900	$28,900
High	$39,000	$43,500	$30,800	$49,000	$49,000	$38,000	$57,000
Low	$19,500	$15,000	$7,600	$7,800	$7,600	$9,000	$10,000

* Based on 50% Caribbean to the U.S. Gulf and Atlantic Coasts and 50% Ecuador to the U.S. West Coast

Rates for Panamaxes that move crude and residual fuel oils averaged $26,100 per day during 2007, slightly higher than the average of $25,900 per day in 2006. Rates during the first half of 2007 were higher than the first half of 2006 while rates during the last half of 2007 were lower. Higher fuel oil imports into the U.S. and extended delays in port turnarounds on the U.S. West Coast during the first quarter of 2007 were largely offset by a 13% increase in the Panamax fleet during 2007.

Average rates in the first quarter of 2007 were 10% above the average for the corresponding quarter in 2006. Refinery maintenance programs on the U.S. West Coast took longer than anticipated, resulting in extended delays in port turnarounds. This reduced tanker availability and benefited freight rates on the Ecuador- to-U.S. West Coast route.

Panamax rates during the second quarter of 2007 averaged 13% above the corresponding quarter in 2006 primarily because utilities with fuel-switching capability chose to substitute comparatively cheaper fuel oil (on a dollars per BTU basis) for natural gas. As a result, residual fuel oil imports increased 17% in the second quarter compared with the second quarter of 2006.

Rates for Panamaxes during the third quarter of 2007 averaged 15% lower than the third quarter of 2006 as imports of Colombian and Ecuadorian crude oil into the U.S. declined by approximately 20,000 b/d. Utilities with fuel-switching capability chose to switch back to comparatively cheaper natural gas from fuel oil, the reverse of the situation in the second quarter.

Fourth quarter 2007 rates were 5% below average rates in the fourth quarter of 2006. This decline was mainly attributable to the delivery of 11 Panamaxes, which more than offset a 60,000 b/d increase in residual fuel oil imports into the U.S. compared with the fourth quarter in 2006.

The world Panamax fleet at December 31, 2007 stood at 389 vessels (26.6 million dwt), an increase from 346 vessels (23.6 million dwt) as of December 31, 2006. The current orderbook of 133 vessels (9.7 million dwt) at December 31, 2007 represents 36.4% of the existing Panamax fleet, based on deadweight tons.

International Flag Handysize Product Carriers

	Spot Market TCE Rates Handysize Product Carriers*						
	Q1-2007	**Q2-2007**	**Q3-2007**	**Q4-2007**	**2007**	**2006**	**2005**
Average	$28,300	$29,700	$12,900	$13,300	$21,000	$22,500	$25,300
High	$39,000	$39,000	$22,800	$21,400	$39,000	$35,900	$41,500
Low	$19,100	$19,500	$6,700	$6,700	$6,700	$11,600	$9,500

* Based on 60% trans-Atlantic and 40% Caribbean to the U.S. Atlantic Coast

Rates for Handysize Product Carriers operating in the Caribbean and trans-Atlantic trades averaged $21,000 per day in 2007, 7% below the 2006 average. Product Carrier rates were higher in the first and second quarters as unplanned refinery downtime in North America opened the gasoline arbitrage window from Europe. Rates in the last half of 2007 averaged below the comparable period of 2006 as U.S. gasoline production increased, reducing trans-Atlantic movements, and the Handysize fleet increased by a net of 60 vessels.

Average Product Carrier rates during the first quarter of 2007 were 12% above the average rates for the first quarter of 2006. Rates were buoyed by an increase in gasoline and diesel demand in the U.S. compared with year-ago levels. At the same time, the domestic supply situation became strained as planned refinery downtime on both the U.S. East and West Coasts and unplanned downtime at two key refineries, resulted in lower volumes of products being produced in North America. While part of the increased demand was met by inventory drawdowns, the remainder was supplied by product imports.

Rates for Product Carriers during the second quarter of 2007 were almost 50% higher than average rates for the second quarter of 2006. Second quarter rates, which are typically below first quarter rates, were higher in 2007 largely due to a gasoline deficit in the U.S. as the result of lower refinery utilization rates from both planned and unplanned downtime combined with increased demand. Additional product imports were obtained from Europe to make up the shortfall, boosting rates.

Product Carrier rates averaged $12,900 per day during the third quarter of 2007, 45% below average rates for the third quarter of 2006. Refinery utilization rates in the U.S. increased to 90.6% (compared with the second quarter utilization rate of 89.3%) that closed the European gasoline arbitrage window, reducing trans-Atlantic product movements relative to second quarter levels. Iran also initiated a gasoline rationing program in late June and reduced gasoline imports in the third quarter from second quarter levels.

Fourth quarter 2007 rates were 33% below the average for the fourth quarter of 2006 but slightly higher than rates in the previous quarter. Fourth quarter rates reflected increased middle distillate imports into China, as a record level of imports was reached, as well as increased backhaul movements of middle distillates from the U.S. to Europe. The impact of these increases in product movements was offset by the delivery of 23 Product Carriers during the quarter.

New IMO regulations enacted at the beginning of 2007 ban existing product carriers from transporting vegetable oils unless the vessels are able to meet certain requirements. The required use of IMO II (or IMO III product carriers with waivers) has resulted in additional long haul trades as well as owners retiring older vessels. This has had a beneficial impact on Product Carrier rates throughout the year.

The world Handysize fleet reached 1,332 vessels (55.0 million dwt) at December 31, 2007, an increase of 72 vessels (3.6 million dwt) since December 31, 2006. The orderbook now stands at 544 vessels (25.1 million dwt), equivalent to 45.7% of the existing Handysize fleet, based on deadweight tons.

U.S. Flag Jones Act Product Carriers

Average Spot Market TCE Rates
Jones Act Product Carriers and Product Articulated Tug Barges (ATBs)

	Q1-2007	Q2-2007	Q3-2007	Q4-2007	2007	2006	2005
45,000 dwt Tankers	$64,800	$56,700	$51,100	$51,800	$56,100	$54,800	$48,700
30,000 dwt ATBs	$41,900	$37,000	$33,200	$33,600	$36,400	$35,300	$30,600

Rates for Jones Act Product Carriers and handysize ATBs averaged $56,100 per day and $36,400 per day, respectively in 2007. Product Carrier rates in 2007 were 2% above their 2006 average and ATB rates were 3% over their 2006 average. Higher refinery utilization rates at Gulf Coast refineries helped lift first half 2007 rates for both Product carriers and handysize ATBs above first half 2006 rates while higher unrecoverable fuel costs caused average TCE rates in the second half of 2007 to fall below second half 2006 rates.

In the first quarter of 2007, average spot TCE rates for handymax tankers and handysize ATBs increased 29% over the first quarter of 2006. Although refinery maintenance in the first quarter of 2007 proved to be quite extensive, this improvement in freight rates reflected significantly higher refinery utilization rates at Gulf Coast refineries (87.4%) compared with the first quarter of 2006 (83.2%).

Rates for Jones Act Product Carriers and handysize ATBs during the second quarter of 2007 were 12% higher than average rates in the comparable quarter of 2006. The higher average rates realized reflected an increase in both tanker and barge movements of petroleum products from U.S. Gulf Coast refineries to the Lower Atlantic states as well as to the U.S. West Coast.

Average rates in the third quarter of 2007 for handymax tankers and handysize ATBs were 12% below the average rates in the third quarter of 2006. Factors that negatively impacted rates included an increase in fuel prices that owners were not able to recover through higher charter rates and competition from additional tankers that were re-let into the spot market, increasing available tonnage.

Average spot TCE rates in the fourth quarter of 2007 for handymax tankers and handysize ATBs declined 14% from the fourth quarter of 2006, again driven by higher fuel prices that could not be passed through to charterers through higher rates.

The Delaware Bay lightering business transported an average of 259,000 b/d during 2007, a 6% increase over 2006. The larger volumes transported reflected an increase in draft restrictions at one of the refineries compared with the prior year and an increase in refinery throughput levels.

As of December 31, 2007, the total Jones Act Product Carrier fleet of tankers, ATBs and ITBs (Integrated Tug Barges) consisted of 61 vessels (2.4 million dwt), a decline of four vessels from December 31, 2006. There were seven deliveries (five newbuilds and two converted vessels) during 2007 compared with eight scrappings and three tankers removed from service undergoing conversion to double hull during 2007. The Jones Act Product Carrier orderbook consists of 33 tankers and barges in the 160,000 to 420,000 barrel size range, of which 31 are scheduled for delivery through 2011, and two conversions, resulting in a total orderbook of 35 vessels. These additions will be offset by the phasing out of 22 vessels during the next nine years in accordance with OPA 90 regulations. An additional seven double hull tankers will also likely be retired upon reaching 35 years of service resulting in a potential of 29 vessels being deleted from the fleet.

Outlook

According to the International Energy Agency, total worldwide demand in 2008 is forecast to average 87.6 million b/d, an increase of 1.7 million b/d, or 1.9%, over 2007 levels. Demand in non-OECD areas is forecast to increase by 3.8%, or 1.4 million b/d, while demand in OECD areas is forecast to increase by 0.6%, or 290,000 b/d, over 2007 levels. Demand growth of 740,000 b/d in Asia will necessitate additional long haul oil movements to meet demand growth. Production in non-Opec areas is forecast to increase by about 1.0 million b/d, sourced mainly from Brazil and the Former Soviet Union ("FSU"), offset by declines in the North Sea and Mexico. Additional production will, therefore, be required from OPEC in 2008 to meet the growth in demand. OPEC has begun to respond by increasing production quotas by 500,000 b/d beginning in December 2007. Middle East OPEC is expected to meet most of this demand increase.

Refining capacity is forecast to increase by 1.4 to 1.5 million b/d in 2008 with close to 1.0 million b/d of this increase located in Asia. Additions to refining capacity will occur in China (new refineries at Quindao and Huizhou and expansions at five other refineries), which are expected to increase capacity by approximately 700,000 b/d in 2008. This incremental refining capacity will generate additional seaborne movements as Chinese crude oil production is not forecast to increase during 2008.

Refinery utilization levels in the U.S. are forecast to increase during 2008 from the 88.7% rate realized during 2007. Increased throughput at BP's Texas City refinery and lower planned maintenance activities elsewhere are expected in 2008. This should result in an increase in imported crude oil but could adversely impact product imports.

Commercial inventory levels in the three major OECD regions declined significantly during 2007 resulting in year-end 2007 inventory levels declining 5% from year-end 2006 levels. Additional supply should be required during 2008 to either maintain or rebuild inventory levels. This would require additional seaborne movements and positively impact utilization rates in 2008 compared with 2007.

The growth in tanker supply for 2008 is forecast to be between 5.5% and 6.5%, which is below 2007 fleet growth. A significant number of single hull VLCCs are expected to be removed from the fleet and converted to very large ore carriers for the dry bulk market.

During December 2007, there was an oil spill off the coast of South Korea, which was caused by a barge colliding with a single hull VLCC. This was the worst oil spill in South Korea's history. As a result of the oil spill, South Korea announced its decision to ban the use of single hull tankers in their waters beginning in 2011, reversing their original announced intention to permit these single hull tankers to continue trading until 2015. South Korea's second largest refiner, GS Caltex, has announced its intention to bar single hull tankers from their port facilities beginning in 2009. Other Asian countries, such as the Philippines, also announced the acceleration of timetables for banning single hull tankers from entering their waters. These actions should have a positive affect on double hull tanker rates in 2008 as the acceptability of single hull tankers declines in Asia.

Freight rates remain highly sensitive to severe weather, geopolitical and economic events. Hurricanes in the Gulf of Mexico could have a pronounced effect on freight rates for both crude oil and product movements depending on the extent to which upstream and downstream facilities are affected. Winter-related delays in the Bosporus straits could increase tanker utilization rates in the coming months. Geopolitical events, such as ongoing violence in Nigeria's oil producing Niger delta, tensions with Iran and other regional conflicts in the Middle East, could also cause changes in supply patterns that could significantly impact rates. A weaker-than-expected economic outlook for the U.S. economy during 2008 could reduce demand in North America and have an adverse impact on demand in other regions of the world, such as Asia.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments, and opinions of management. Following is a discussion of the accounting policies that involve a higher degree of judgment and the methods of their application. For a description of all of the Company's material accounting policies, see Note A to the Company's consolidated financial statements set forth in Item 8.

Revenue Recognition

The Company generates a majority of its revenue from voyage charters, including vessels in pools that predominantly perform voyage charters. Within the shipping industry, there are two methods used to account for voyage charter revenue: (1) ratably over the estimated length of each voyage and (2) completed voyage. The recognition of voyage revenues ratably over the estimated length of each voyage is the most prevalent method of accounting for voyage revenues and the method used by OSG. Under each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In applying its revenue recognition method, management believes that the discharge-to-discharge basis of calculating voyages more accurately estimates voyage results than the load-to-load basis. Since, at the time of discharge, management generally knows the next load port and expected discharge port, the discharge-to-discharge calculation of voyage revenues can be estimated with a greater degree of accuracy. OSG does not begin recognizing voyage revenue until a Charter has been agreed to by both the Company and the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Revenues from time charters and bareboat charters are accounted for as operating leases and are thus recognized ratably over the rental periods of such charters, as service is performed. The Company does not recognize time charter revenues during periods that vessels are off hire. Certain of these charters provide for profit sharing between the Company and the charterer when rates earned exceed a base rate defined in the agreements. The Company only recognizes profit sharing when there is no longer any risk that any amounts accruable can be recaptured. Because certain of such agreements provide that profit sharing be determined annually on the anniversary of delivery of the vessels onto the charters, the Company's share, if any, will not be recognized until the charter anniversary date.

For the Company's vessels operating in commercial pools, revenues and voyage expenses are pooled and allocated to each pool's participants on a time charter equivalent basis in accordance with an agreed-upon formula. The pools may enter into contracts that earn either voyage charter revenue or time charter revenue. Each of the pools follows the same revenue recognition principles, as applied by the Company, in determining shipping revenues and voyage expenses, including recognizing revenue only after a Charter has been agreed to by both the pool and the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Vessel Lives and Impairment

The carrying value of each of the Company's vessels represents its original cost at the time it was delivered or purchased less depreciation calculated using an estimated useful life of 25 years (except for LNG Carriers for which an estimated useful life of 35 years is used) from the date such vessel was originally delivered from the shipyard or 20 years from the date the Company's ATBs were rebuilt. In the shipping industry, use of a 25-year life has become the standard. The actual life of a vessel may be different. The Company has evaluated the impact of the revisions to MARPOL Regulation 13G that became effective April 5, 2005 and the EU regulations that went into force on October 21, 2003 on the economic lives assigned to the tankers in the Company's International Flag fleet. The OSG International Flag tanker fleet comprises mainly modern, double hull vessels. The revised regulations do not require any double sided International Flag tankers to be removed from service prior to attaining 25 years of age. The revised Regulation 13G allows the flag state to permit the continued operation of the Company's double sided tankers beyond 2010. Because such regulations do not explicitly permit double sided tankers to continue trading beyond 2010, their operation beyond 2010 is not assured. OSG considered the need to reduce the estimated remaining useful lives of its double sided International Flag tankers because of the EU regulations and the revised and accelerated phase-out schedule agreed to by IMO in December 2003. These regulations do not prevent any of these vessels from trading prior to reaching 25 years of age. Accordingly, it was not deemed necessary to reduce the estimated remaining useful lives of any of OSG's double sided International Flag tankers. If the economic lives assigned to the tankers prove to be too long because of new regulations or other future events, higher depreciation expense and impairment losses could result in future periods related to a reduction in the useful lives of any affected vessels.

The carrying values of the Company's vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Historically, both charter rates and vessel values tend to be cyclical. The Company records impairment losses only when events occur that cause the Company to believe that future cash flows for any individual vessel will be less than its carrying value. The carrying amounts of vessels held and used by the Company are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount. This assessment is made at the individual vessel level as separately identifiable cash flow information for each vessel is available.

In developing estimates of future cash flows, the Company must make assumptions about future charter rates, ship operating expenses, and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective.

There have been no impairment indicators since 2003.

Goodwill and Intangible Assets

The Company allocates the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as

ONT SIZE=2>11,000 $143,000

2/20/2008

Annual 2/7/2008 11,000 $143,000

2/20/2008

Former Executives

Sonia Clark

Retention 2/7/2008 34,000 $13.00 220,922

2/20/2008

Annual 2/7/2008 30,000 $13.00 194,931

2/20/2008

Retention 2/7/2008 10,000 130,000

2/20/2008

Annual 2/7/2008 10000 130,000

2/20/2008

Approval Date. The Compensation Committee met on February 7, 2008 to finalize the grant of annual equity awards. Upon approval of the stock option and restricted stock unit grants for each NEO, the Compensation Committee determined that the actual date of grant would be February 20, 2008. This grant date was chosen in order to allow sufficient time for the CEO to notify each named executive officer and other members of the management team of the grant.

Estimated Possible Payouts under Non-Equity Incentive Plan Awards. The amounts shown under this column represent the range of possible dollar payouts the NEOs could have earned for 2008. For 2008, the target cash incentive award for each NEO (other than the CEO and the Senior VP, Business Operations) was 60% of his or her base salary and, for the CEO and Senior VP, Business Operations was 100% and 70% of his base salary, respectively, based upon the achievement of specified performance objectives. Each year, senior management sets corporate financial and critical strategic priorities for Align and individual performance measures for each executive officer, which are reviewed and approved by the Compensation Committee. The final determination of the percentage of the total bonus pool available for distribution is based on relative achievement of the corporate financial and critical strategic priorities. For a description of the performance objectives applicable to the receipt of these payments, see "Compensation Discussion and Analysis Annual Cash Incentive (Bonus) Awards". The actual amount paid to each NEO in 2008 is set forth in the Summary Compensation Table above in the column "Non-Equity Incentive Plan Compensation".

Threshold. There is no threshold performance level. Rather, company performance below a specific target automatically reduces only the payout related to that specific goal, not the other goals, because we want executives to have the same incentive to achieve strategic priorities as well as their individual performance goals even if our financial performance tracks below the target during the course of the year. The Compensation Committee, however, in order to ensure

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a minimum level of financial achievement prior to increasing the payout due to achievement of these strategic priorities, has determined that net income must exceed 100% of target to fund any non-financial metric in excess of 100% achievement. For example, if we achieve 80% of net income, even if the actual achievement of a key strategic objective is 150%, funding for this non-financial objective would be capped at 100%.

Target. The target amounts assume a corporate performance percentage of 100% and that the NEO received 100% of his target.

Maximum. Although each financial and strategic objective is capped at 225% for funding the total pool available for distribution, there is no maximum amount that an NEO could receive.

Stock Awards. Stock awards represent grants of restricted stock units ("RSUs") under our 2005 Incentive Plan. In accordance with the terms of the 2005 Incentive Plan, any grants of RSUs will reduce shares available for grant under the 2005 Incentive Plan at a 2:1 ratio. Since RSUs are taxable to each NEO when they vest, the number of shares we issue to each named executive officer will be net of applicable withholding taxes which will be paid by Align on behalf of each NEO.

Vesting Schedule for Annual Awards. The RSUs will result in payment to the NEO only if the vesting criteria are met. Typically, each RSU vests over a four year period, with 25% of the shares subject to the RSU vesting each anniversary of the date of grant, with full vesting in four years.

Vesting Schedule for Retention Awards. In addition to the annual equity grants, in 2008 the Compensation Committee determined to grant a one-time award of equity to those individual employees (including executive officers) critically important to the achievement of our multi-year strategic plan. These grants will vest 1/3rd on the second year anniversary of the grant date with the remaining 2/3rd vesting on the third year anniversary of the grant date. The delayed vesting schedule (when compared to our standard vesting schedule described above) associated with these grants is intended to encourage participants (including NEOs) to focus on Align's achievement of specific, strategic objectives over a three-year performance cycle and to incent these critical employees to remain with the company

Option Awards. Stock option awards were granted under our 2005 Incentive Plan. Each option grant allows the NEO to acquire shares of Align common stock at the closing market price on the date of grant. As a result, the option grants will provide a return only if the executive remains with Align and only if the market price of Align's common stock appreciates over the term of the option. The term of each option award is ten years.

Vesting Schedule for Annual Rewards. Typically, each option vests over a four year period, with 25% of the shares subject to the option award vesting on the one year anniversary of the date of grant and 1/48th of the shares subject to the award vesting each month thereafter, subject to the NEO's continued service through the vesting date.

Vesting Schedule for Retention Awards. In addition to the annual equity grants, in 2008 the Compensation Committee determined to grant a one-time award of equity to those individual employees (including executive officers) critically important to the achievement of our multi-year strategic plan. These grants will vest 1/3rd on the second year anniversary of the grant date with the remaining 2/3rd vesting on the third year anniversary of the grant date. The delayed vesting schedule (when compared to our standard vesting schedule described above) associated with these grants is intended to encourage participants (including NEOs) to focus on Align's achievement of specific, strategic objectives over a three-year performance cycle and to incent these critical employees to remain with the company.

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Grant Date Fair Value. Subject to the proviso noted in the second sentence of this paragraph, the grant date fair value of the option and stock award was determined under the Black Scholes pricing model in accordance with SFAS 123R. Under SFAS 123R, Align's estimate of fair value requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), related tax effects and future forfeitures; *provided that,* in accordance with the rules and regulations of the SEC, the compensation cost disclosed above does not include an estimate of forfeitures related to service-based vesting conditions. Rather, compensation costs for these awards are disclosed assuming that the NEO will remain employed by the company for a sufficient period of time to fully vest in the award. A more complete discussion of the relevant assumptions is contained in Note 10 to Align's Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008 and is incorporated into this proxy statement by reference.

Timing of Stock Option Grants. The Compensation Committee, in consultation with management, our independent auditors and legal counsel, has adopted the following practices on equity compensation awards:

- Align does not plan to time, nor has it timed, the release of material non-public information for the purpose of affecting the exercise price of its stock options;

- consistent with the policy described in the bullet point above, all awards of equity compensation for new employees (other than new executive officers described in the next bullet point) are made on the first day of the month for those employees who started during the period between the 16th day of the month that is two month's prior to the grant date and the 15th day of the month prior to the month of the grant date. For example, May 1 grants will cover new hires starting between March 16, 2009 and April 15, 2009;

- as part of the compensation package offered to new executives, incentive grants for these individuals are generally awarded as of the first day of their employment;

- annual incentive grants are made on the same day for all employees (including executive officers); in fiscal 2009 and 2008 such date was February 20. The Compensation Committee sets the actual grant date approximately one week following approval of the size of each grant in order to provide Align managers with adequate time to inform each employee individually of their grant; and

- all grants of options to our executive officers and other employees, as well as to our directors are granted with exercise prices equal to the fair value of the underlying shares of common stock on the grant date, as determined by our Compensation Committee.

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OUTSTANDING EQUITY AWARDS AT FISCAL 2008 YEAR END

The following table provides information relating to unexercised options, stock that has not vested and equity incentive plan awards for each NEO as of December 31, 2008.

	Option Awards					Stock Awards	
Name	Number of securities underlying unexercised options (#) Exercisable(1)	Number of securities underlying unexercised options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(18)
Thomas M. Prescott	328,596			4.95	3/27/2012		
	137,499			6.15	4/23/2013		
	150,000(2)			18.73	3/12/2014		
	150,000(2)			7.35	2/22/2015		
	93,494	39,375(3)		8.38	2/24/2016		
	55,000	65,000(4)		17.88	2/20/2017		
		130,000(5)		13.00	2/20/2018		
		140,000(6)		13.00	2/20/2018		
						17,188(7)	150,395
						22,500(8)	196,875
						42,000(5)	367,500
						48,000(9)	420,000
Kenneth B. Arola	51,166	20,834(10)		6.56	8/1/2015		
	14,166	5,834(3)		8.38	2/24/2016		
	8,479	10,021(4)		17.88	2/20/2017		
	18,750	56,250(11)		17.77	12/14/2017		
		24,000(5)		13.00	2/20/2018		
		15,000(6)		13.00	2/20/2018		
		10,000(12)		12.40	4/1/2018		
						1,875(7)	16,406
						3,466(8)	30,328
						18,750(13)	164,063
						8,000(5)	70,000
						5,000(9)	43,750
						3,000(14)	26,250
Len M. Hedge	75,000			4.18	2/26/2012		
	81,000			6.15	4/23/2013		
	61,000(2)			18.73	3/12/2014		
	120,000(2)			7.35	2/22/2015		
	35,947	14,803(3)		8.38	2/24/2016		
	20,625	24,375(4)		17.88	2/20/2017		
	21,250	63,750(11)		17.77	12/14/2017		
		39,000(5)		13.00	2/20/2018		
		20,000(6)		13.00	2/20/2018		
						5,329(7)	46,629
						8,438(8)	73,833
						22,500(13)	196,875
						13,000(5)	113,750
						8,000(9)	70,000

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	Option Awards					Stock Awards	
Name	Number of securities underlying unexercised options (#) Exercisable(1)	Number of securities underlying unexercised options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(18)
Emory Wright	2,813			6.15	4/23/2013		
	2			7.35	2/22/2015		
	19,125	7,875(3)		8.38	2/24/2016		
	8,479	10,021(4)		17.88	2/20/2017		
	17,500	52,500(11)		17.77	12/14/2017		
		18,000(5)		13.00	2/20/2018		
		13,020(6)		13.00	2/20/2018		
		11,000(12)		12.40	4/1/2018		
						2,813(7)	24,614
						3,466(8)	30,328
						17,250(13)	150,938
						6,000(5)	52,500
						4,335(9)	37,931
						3,500(14)	30,625
Roger E. George	54,500(2)			18.73	3/12/2014		
	16,771(2)			7.35	2/22/2015		
	15,938	13,125		8.38	2/24/2016		
	20,625	24,375		17.88	2/20/2017		
		34,500		13.00	2/20/2018		
		32,000		13.00	2/20/2018		
						4,375(7)	38,281
						8,438(8)	73,833
						11,000(5)	96,250
						11,000(9)	96,250
Former Executive							
Sonia Clark	67,085	26,250(15)		6.98	9/25/2016		
	13,750	16,250(16)		13.00	2/20/2018		
Afsaneh Azadeh(17)		34,000(5)		13.00	2/20/2018		

(1) Unless otherwise noted, stock options vest at a rate of 25% of the total number of shares subject to the option on the first year anniversary of the date of grant with 1/48th of the total number of shares subject to the option vesting monthly thereafter.

(2) On October 6, 2005, the Compensation Committee approved the acceleration of vesting of all unvested stock options with exercise prices greater than $7.10. The fair market value of Align's common stock on the date of the acceleration was $6.41 as quoted on the Nasdaq Global Market. The Compensation Committee required that, as a condition to the acceleration of options held by executive officers, each officer agree to refrain from selling common stock acquired upon exercise of accelerated options until the date on which exercise would have been permitted under the options' pre-acceleration terms or, if earlier, the executive officer's last day of employment or upon a "change of control".

(3) 25% of the shares subject to this option vested on 2/24/2007 with 1/48th vesting monthly thereafter for full vesting on 2/24/2010.

(4) 25% of the shares subject to this option vested on 2/20/2008 with 1/48th vesting monthly thereafter for full vesting on 2/20/2011.

(5) 1/3 of the shares subject to this equity award vest on 02/20/2010 with 2/3 of the shares subject to this equity award vesting on 2/20/2011.

(6)

25% of the shares subject to this option vest on 2/20/2009 with 1/48th vesting monthly thereafter for full vesting on 2/20/2012.

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(7)
Restricted stock units vest at a rate of 25% of the total number of shares subject to the restricted stock unit on the first year anniversary of the date of grant and 1/16th of the total number of shares subject to the restricted stock unit vesting quarterly thereafter, on 2/24/2007, 5/24/2007, 8/24/2007, 11/24/2007, 2/24/2008, 5/24/2008, 8/24/2008, 11/24/2008, 2/24/2009, 5/24/2009, 8/24/2009, 11/24/2009 and 2/24/2010.

(8)
Restricted stock units vest at a rate of 25% of the total number of shares subject to the restricted stock unit on the first year anniversary of the date of grant and 1/16th of the total number of shares subject to the restricted stock unit vesting quarterly thereafter, on, 02/20/2008, 05/20/2008, 08/20/2008, 11/20/2008, 02/20/2009, 05/20/2009, 08/20/2009, 11/20/2009, and 02/20/2010, 05/20/2010, 08/20/2010, 11/20/2010 and 02/20/2011

(9)
Restricted stock units vest at a rate of 25% of the total number of shares subject to the restricted stock unit on the first year, second year, third year and fourth year anniversary of the date of grant for vesting on 02/20/2009, 02/20/2010, 02/20/2011 and 02/20/2012.

(10)
25% of the shares subject to this option vested on 8/1/2006 with 1/48th vesting monthly thereafter for full vesting on 8/1/2009.

(11)
25% of the shares subject to this option will vest on 12/14/2008 with 1/48th vesting monthly thereafter for full vesting on 12/14/2011.

(12)
25% of the shares subject to this option vest on 4/01/2009 with 1/48th vesting monthly thereafter for full vesting on 4/1/2012.

(13)
Restricted stock units vest at a rate of 25% of the total number of shares subject to the restricted stock unit on the first year, second year, third year and fourth year anniversary of the date of grant for vesting on 12/14/2008, 12/14/2009, 12/14/2010 and 12/14/2011.

(14)
Restricted stock units vest at a rate of 25% of the total number of shares subject to the restricted stock unit on the firs year, second year, third year and fourth year anniversary of the date of grant for vesting on 04/01/2009, 04/01/2010, 04/01/2011 and 04/01/2012

(15)
Pursuant to the Employment Agreement between Ms. Clark and Align, 35,000 shares subject to this option (which is an amount equal to 12 months of vesting) accelerated upon Ms. Clark's termination of employment.

(16)
Pursuant to the Employment Agreement between Ms. Clark and Align, 13,750 shares subject to this option (which is an amount equal to 12 months of vesting) accelerated upon Ms. Clark's termination of employment.

(17)
Pursuant to the Employment Agreement between Ms. Azadeh and Align, 48,228 shares subject to outstanding options and 9,375 shares subject to outstanding RSUs (which represent amounts under then existing option and RSU grants equal to 12 months of vesting) accelerated upon Ms. Azadeh's termination of employment. None of these shares remained outstanding as of December 31, 2008.

(18)
Based on the closing price of Align's common stock on December 31, 2008, which was $8.75 per share.

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OPTION EXERCISES AND STOCK VESTED DURING FISCAL YEAR ENDED 2008

The following table provides information concerning each exercise of stock options, and each vesting of restricted stock units, for each NEO during the fiscal year ended December 31, 2008.

Option Exercises and Stock Vested Table for Fiscal Year Ended 2008

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized Upon Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)(2)**	**Value Realized on Vesting ($)**
Current Executives				
Thomas M. Prescott			31,250	364,819
Kenneth B. Arola			10,445	98,219
Len M. Hedge			18,324	185,506
Emory Wright			10,695	102,830
Roger E. George			10,062	117,959
Former Executives				
Afsaneh Azadeh			9,375	93,844
Sonia Clark	46,665	282,981	10,000	94,758

(1) Value realized represents the fair market value of the underlying securities at the time of exercise less the exercise price of the options.

(2) The amount represents the gross amount of shares vested under an RSU award. However, because RSUs are taxable to the individuals when they vest, the number of shares we issue to each of our named executive officers is net of applicable withholding taxes which are paid by us on their behalf.

POTENTIAL PAYMENT UPON TERMINATION OR CHANGE OF CONTROL

Current Named Executive Officers (Other than the CEO)

We enter into employment agreements with each of our executive officers. Each employment agreement with our NEOs (other than the CEO) contains substantially the same terms and conditions. Each employment agreement sets forth the base salary, bonus opportunity, stock options, benefits and the responsibilities of each position in effect at the time of execution of the agreement. In addition, each agreement requires Align to provide compensation to these officers in the event of termination of employment or a change of control of Align. The compensation due in the event of the termination of each employment agreement varies depending on the nature of the termination. What is meant by the terms "cause", "good reason" and "change of control" is described more fully at the end of this section under the heading "Employment Agreement Definitions".

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The following table describes the potential payments upon termination or a change of control for each of our NEOs (other than the CEO):

Name	Type of Payment	Payments Upon Involuntary or Good Reason Termination Unrelated to Change of Control	Payments Upon Involuntary or Good Reason Termination Related to a Change of Control	Change of Control Only
Kenneth B. Arola	Severance Payment	$ 605,000	$ 605,000	
	Equity			
	Stock Options	$ 47,476	$ 47,785	$ 47,476
	Restricted Stock Units	$ 98,790	$ 350,796	$ 98,790
	Health and Welfare Benefits	$ 9,976	$ 9,976	
	Total	**$ 761,242**	**$ 1,013,557**	**$ 146,266**
Len M. Hedge	Severance Payment	$ 865,352	$ 865,352	
	Equity			
	Stock Options	$ 4,694	$ 5,477	$ 4,694
	Restricted Stock Units	$ 153,234	$ 501,086	$ 153,234
	Health and Welfare Benefits	$ 22,629	$ 22,629	
	Total	**$ 945,909**	**$ 1,394,544**	**$ 157,928**
Emory Wright	Severance Payment	$ 561,000	$ 561,000	
	Equity			
	Stock Options	$ 2,497	$ 2,913	$ 2,497
	Restricted Stock Units	$ 100,616	$ 326,935	$ 100,616
	Health and Welfare Benefits	$ 22,629	$ 22,629	
	Total	**$ 686,742**	**$ 913,477**	**$ 103,113**
Roger E. George	Severance Payment	$ 764,913	$ 764,913	
	Equity			
	Stock Options	$ 6,660	$ 4,856	$ 4,162
	Restricted Stock Units	$ 237,339	$ 304,614	$ 87,500
	Health and Welfare Benefits	$ 22,629	$ 22,629	
	Total	**$ 1,031,541**	**$ 1,097,012**	**$ 91,662**

All amounts are estimated based on an assumed triggering date of December 31, 2008 and the closing sales price of our common stock on the Nasdaq Global Market on December 31, 2008 of $8.75, which was the last trading day of the year.

Termination Unrelated to a Change of Control. A termination unrelated to a change of control is a termination that occurs either before or 12 months after the change of control date. Each employment agreement with our NEOs (other than the CEO) provides that in the event the executive's employment is terminated without cause or if the executive resigns for good reason, such executive will:

(a) immediately vest in an additional number of shares under all outstanding equity awards as if he had performed 12 additional months of service; and

(b) such executive is entitled to receive a lump sum payment equal to:

(i) his then current annual base salary;

(ii) the then current year's target bonus, prorated for the number of days such executive has been employed during the year; and

(iii) the greater of the then current year's target bonus or the prior year's actual bonus.

Each employment agreement also provides that Align will pay the NEO's monthly premium under COBRA until the earliest of 12 months following the termination of employment if terminated without

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cause or resignation for good reason or the date upon which the executive commences new employment.

As of December 31, 2008, the following number of shares subject to option awards and their respective exercise price that would be subject to acceleration upon (A) termination without cause or good reason not related to a change of control or (B) immediately upon a change of control were "underwater" and held no immediate value.

	Arola	Hedge	Wright	George
Number of Options	4,625	11,250	4,625	11,250
Exercise Price	$ 17.88	$ 17.88	$ 17.88	$ 17.88
Number of Options	18,750	21,250	17,500	14,666
Exercise Price	$ 17.77	$ 17.77	$ 17.77	$ 13.00
Number of Options	6,875	9,166	5,967	
Exercise Price	$ 13.00	$ 13.00	$ 13.00	
Number of Options	4,166		4,583	
Exercise Price	$ 12.40		$ 12.40	

A Termination Related to a Change of Control. A termination related to a change of control is a termination that occurs within 12 months from the change of control date. Each employment agreement with our NEOs (other than the CEO) provides that, if, within 12 months of a change of control either the executive's employment is terminated without cause or the executive resigns for good reason then the executive will:

(a) immediately vest in all outstanding equity awards; and

(b) be entitled to a payment (payable in a lump sum) equal to:

(i) his then current annual base salary;

(ii) the then current year's target bonus prorated for the number of days the executive has been employed during the year, and

(iii) the greater of the then current year's target bonus or the prior year's actual bonus.

Each employment agreement also provides that Align will pay the NEO's monthly premium under COBRA until the earliest of 12 months following the termination of employment if terminated without cause or resignation for good reason or the date upon which the executive commences new employment. As of December 31, 2008, the following number of shares subject to option awards and their respective exercise price that would be subject to acceleration upon termination without cause or good reason related to a change of control were "underwater" and held no immediate value.

	Arola	Hedge	Wright	George
Number of Options	10,021	24,375	10,021	24,375
Exercise Price	$ 17.88	$ 17.88	$ 17.88	$ 17.88
Number of Options	56,250	63,750	52,500	66,500
Exercise Price	$ 17.77	$ 17.77	$ 17.77	$ 13.00
Number of Options	39,000	59,000	31,020	
Exercise Price	$ 13.00	$ 13.00	$ 13.00	
Number of Options	10,000		11,000	
Exercise Price	$ 12.40		$ 12.40	

Change of Control Only. Each employment agreement with our NEOs (other than the CEO) provides that in the event of a change of control the executive will immediately vest in an additional number of shares under all outstanding equity awards as if he had performed 12 additional months of service.

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Conditions to Payment. Prior to receiving any payments upon termination of employment, the executive officer must execute a general release of all known and unknown claims that such officer may have against Align and agree not to prosecute any legal action or other proceedings based upon any of such claims. In addition, each executive has agreed, for a period of one year following termination, not to solicit employees of Align and has further agreed to be bound by the terms of a confidentiality agreement with Align.

Chief Executive Officer

Mr. Prescott serves as our President and Chief Executive Officer pursuant to an employment agreement originally entered into in March 2002, as amended and restated in April 2005. Mr. Prescott's employment agreement was further amended and restated in March 2007 to include new language intended to avoid the imposition of taxes pursuant to Section 409A of the Internal Revenue Code on certain payments to Mr. Prescott. The employment agreement provides that Mr. Prescott is entitled to an annual target bonus of 100% of his base salary based upon the attainment of performance objectives agreed upon in each fiscal year and established by the Board.

The following table describes the potential payments upon termination or a change of control for our Chief Executive Officer. Note that all amounts are estimated based on an assumed triggering date of December 31, 2008 and the closing sales price of our common stock on the Nasdaq Global Market on December 31, 2008 of $8.75, which was the last trading day of the year.

Name	Type of Payment	Payments Upon Involuntary or Good Reason Termination Unrelated to Change of Control	Payments Upon Involuntary or Good Reason Termination Related to a Change of Control	Change of Control Only
Thomas M. Prescott	Severance Payment	$ 2,399,520	$ 2,399,520	
	Equity			
	Stock Options		$ 14,569	$ 14,569
	Restricted Stock Units		$ 1,134,770	$ 1,134,770
	Health and Welfare Benefits	$ 33,944	$ 33,944	
	Total	**$ 2,433,464**	**$ 3,582,803**	**$ 1,149,339**

Termination Unrelated to a Change of Control. A termination unrelated to a change of control is a termination that occurs either before or 12 months after the change of control date. In the event Mr. Prescott is terminated without cause or resigns for good reason, Mr. Prescott is entitled to a payment (payable in a lump sum) equal to:

(a) twice his then current annual base salary;

(b) the then current year's target bonus, prorated for the number of days Mr. Prescott has been employed during the year; and

(c) the greater of 150% of the then current year's target bonus or the prior year's actual bonus.

As of December 31, 2008, 65,000 options and 270,000 options granted to Mr. Prescott at an exercise price of $17.88 and $13.00 per share, respectively, which would be subject to acceleration upon a change of control were "underwater" and held no immediate value.

Mr. Prescott's employment agreement also provides that Align will pay his monthly premium under COBRA until the earliest of 18 months following the termination of employment if terminated without cause or resignation for good reason or the date upon which Mr. Prescott commences new employment.

Termination Related to a Change of Control. A termination related to a change of control is a termination that occurs within 12 months from the change of control date. If within 12 months of a

change of control either Mr. Prescott's employment is terminated without cause or Mr. Prescott resigns for good reason, he would immediately vest in all outstanding equity awards and receive a payment (payable in a lump sum) equal to:

(a) twice his then current annual salary;

(b) the then current year's target bonus, prorated for the number of days Mr. Prescott has been employed during the year; and

(c) the greater of 150% of the then current year's target bonus or the prior year's actual bonus.

As of December 31, 2008, 65,000 options and 270,000 options granted to Mr. Prescott at an exercise price of $17.88 and $13.00 per share, respectively, which would be subject to acceleration upon a change of control were "underwater" and held no immediate value.

Mr. Prescott's employment agreement also provides that Align will pay his monthly premium under COBRA until the earliest of 18 months following the termination of employment if terminated without cause or resignation for good reason or the date upon which Mr. Prescott commences new employment.

Change of Control Only. In the event of a change of control, Mr. Prescott will immediately vest in all outstanding equity awards.

Conditions to Payment. Prior to receiving any payments upon termination of employment, Mr. Prescott must execute a general release of all known and unknown claims that he may have against Align and agree not to prosecute any legal action or other proceedings based upon any of such claims. In addition, Mr. Prescott has agreed, for a period of one year following termination, not to solicit employees of Align and has further agreed to be bound by the terms of a confidentiality agreement with Align.

Employment Agreement Definitions

Definition of Cause. In each employment agreement described above, cause means any of the following:

- unauthorized use or disclosure of the confidential information or trade secrets of Align;
- any breach of the employment agreement or the Employee Proprietary Information and Inventions Agreement between the executive and Align;
- conviction of, or a plea of "guilty" or "no contest" to, a felony under the laws of the United States or any state thereof;
- misappropriation of the assets of Align or any act of fraud or embezzlement by the executive, or any act of dishonesty by the executive in connection with the performance of his or her duties for Align that adversely affects its business or affairs;
- intentional misconduct; or
- the executive's failure to satisfactorily perform his or her duties after the executive received written notice of such failure and was provided at least thirty (30) days to cure such failure.

Definition of Good Reason. In each employment agreement described above, good reason means the executive's resignation within ninety (90) days of the occurrence of any one or more of the following events:

the executive's position, authority or responsibilities being significantly reduced;

the executive being asked to relocate his principal place of employment such that the commuting distance from his or her residence prior to the change of control is increased by over thirty-five (35) miles;

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the executive's annual base salary or bonus being reduced; or

the executive's benefits being materially reduced.

Definition of Change of Control. In each employment agreement described above, change of control means any of the following:

a sale of all or substantially all of Align's assets;

the acquisition of more than 50% of the common stock of Align by any person or group of persons;

a reorganization of Align wherein the holders of common stock of Align receive stock in another company (other than a subsidiary of Align), a merger of Align with another company wherein there is a 50% or greater change in the ownership of the common stock of Align as a result of such merger, or any other transaction in which Align (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation; or

in the event that the common stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of more than 50% of the then outstanding common stock, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for more than 50% of the then outstanding common stock.

Post-Employment Benefits for Afsaneh Azadeh and Sonia Clark

The table below shows the benefits to Ms. Azadeh and Ms. Clark received under their employment agreements in connection with their termination of employment.

Severance	**Afsaneh Azadeh**	**Sonia Clark**
Amount equal to 2008 base salary	$ 254,520	$ 266,987
Amount equal to 2008 target bonus pro rated for number of days employed in 2008	$ 91,627	$ 160,192
Amount equal to the greater of the then-2008 target bonus or the prior year's actual bonus	$ 152,712	$ 266,987
Amount equal to 12 months of COBRA	$ 25,808	$ 25,808
Amount for outplacement services		$ 2,600
12 months of accelerated vesting	$ 93,843(1)	$ 54,688(2)
TOTAL	$ 618,510	$ 786,065

(1) Based on the price of our common stock on the date of acceleration of $10.01.

(2) Based on the price of our common stock on the date of acceleration of $8.75.

Other Termination of Employment and Change of Control Arrangements

In addition to the termination of employment and change of control arrangements described above, the Compensation Committee of the Board of Directors has the authority as Plan Administrator of the 2005 Incentive Plan to accelerate the vesting of outstanding options and

restricted stock units immediately upon an acquisition or change in ownership or majority of the Board.

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PRINCIPAL STOCKHOLDERS

Except as otherwise noted in the footnotes to the following table, the information contained in the table below sets forth the beneficial ownership of our common stock as of March 27, 2009 by:

- each stockholder known by us to own beneficially more than 5% of our common stock;
- each of our executive officers named in the summary compensation table on page 36 of this proxy statement;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined based on the rules of the SEC. The column captioned "Total Shares Beneficially Owned" represents the number of shares of our common stock beneficially owned and the number of shares of our common stock subject to options that are currently exercisable or will become exercisable and restricted stock units that will vest on or before May 26, 2009. The number of shares subject to options that each beneficial owner has the right to acquire and restricted stock units that will vest on or before May 26, 2009 is listed separately under the column "Number of Shares Underlying Options Exercisable and RSUs vesting on or before May 26, 2009." These shares are not deemed exercisable or vested for purposes of computing the percentage of shares beneficially owned by any other person. "Percentage of Outstanding Shares Beneficially Owned" is based upon 66,176,417 shares of our common stock outstanding as of March 27, 2009. The address for those individuals for which an address is not otherwise provided is c/o Align Technology, Inc., 881 Martin Avenue, Santa

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Clara, California 95050. Unless otherwise indicated, we believe the stockholders listed below have sole voting or investment power with respect to all shares, subject to applicable community property laws.

Name and Address	Number of Outstanding Shares Beneficially Owned	Number of Shares Underlying Options Exercisable and RSUs vesting on or before May 26, 2009(1)	Total Shares Beneficially Owned	Percentage of Outstanding Shares Beneficially Owned
Gordon Gund, family members and affiliated entities(2)	7,957,150		7,957,150	12.02%
Kornitzer Capital Management Inc.(3)	6,111,475		6,111,475	9.24%
Bank of New York Mellon Corporation(4)	4,080,809		4,080,809	6.17%
OrbiMed Advisors(5)	4,062,400		4,062,400	6.14%
Healthcor Management L.P.(6)	4,000,000		4,000,000	6.04%
D.F. Dent & Company, Inc.(7)	3,514,182		3,514,182	5.31%
Joseph Lacob(8)	1,175,097	31,000	1,206,097	1.82%
Thomas M. Prescott	167,413	990,837	1,158,250	1.75%
Kenneth B. Arola	9,673	126,308	135,981	*
Len M. Hedge	60,908	441,901	502,809	*
Emory Wright	10,637	68,818	79,455	*
Roger E. George	11,504	129,019	140,523	*
Afsaneh Azadeh	0	0	0	*
Sonia Clark	6,422	0	6,422	*
David Collins	31,000	73,000	104,000	*
C. Raymond Larkin, Jr.	24,660	128,000	152,660	*
George J. Morrow	8,000	79,250	87,250	*
Greg J. Santora	3,000	122,000	125,000	*
Warren S. Thaler	124,004	98,000	222,004	*
All current executive officers and directors as a group (15 persons)	1,647,761	2,563,222	4,210,983	6.36%

* Less than 1%

(1) Except as otherwise set forth in the footnotes below, represents shares of common stock that can be acquired upon the exercise of stock options and vesting of restricted stock units on or before May 26, 2009. This column includes the full amount of restricted stock units that will vest on or before May 26, 2009, although each executive officer will actually receive the number of shares that have vested net of the number of shares necessary to cover any applicable withholding taxes which Align will pay on their behalf.

(2) Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. Includes shares held in trust for immediate family members and shares held by immediate family members. The mailing address for Gordon Gund is P.O. Box 449, Princeton, New Jersey 08542.

(3) Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. The address for Kornitzer Capital Management Inc. is 5420 West 61st Place, Shawnee Mission, KS 66205.

(4)

Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. Includes shares held by direct and indirect subsidiaries. The mailing address for The Bank of New York Mellon Corporation is One Wall Street, 31st Floor, New York, New York 10286.

(5) Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. The mailing address for OrbiMed Advisors LLC is 767 Third Avenue, 30th Floor, New York, NY 10017.

(6) Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. The mailing address for HealthCor Management, L.P. is Carnegie Hall Tower, 152 West 57th Street, 47th Floor, New York, New York 10019.

(7) Based on a filing with the Securities and Exchange Commission on Schedule 13G/A, indicating beneficial ownership as of December 31, 2008. The address for D.F. Dent & Company, Inc. is 2 East Read Street, 6th floor, Baltimore, Maryland 21202.

(8) Includes 1,026,300 shares held by the Joseph S. Lacob Trust and 148,767 shares held by Lacob Children's Trust. Principal address is 2750 Sand Hill Road, Menlo Park, CA 94025.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms that we have received, or written representations from reporting persons, we believe that during the year ended December 31, 2008, all executive officers, directors and greater than 10% stockholders complied with all applicable filing requirements; with the exception of Warren S. Thaler who inadvertently filed one Form 4 late.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Review, approval or ratification of transactions with related persons

Our Board of Directors has adopted a *Code of Business Conduct and Ethics* that is applicable to all directors, officers and employees of Align, including Align's principal executive officer, principal financial officer and controller. The Code provides in writing, that Align discourages its employees from conducting company business with a relative or significant other, or with a business in which an employee, a relative or significant other is associated in any significant role (each a "Related Party"). If, however, such a Related Party transaction is unavoidable, the Code provides that all employees (other than the directors and officers of Align) must fully disclose the nature of the relationship and the transaction to their supervisor, and the Chief Financial Officer must approve in advance the Related Party transaction. If, however:

- you are a director or officer of Align and you desire to enter into a transaction with a Related Party (as defined above); or

- you are an employee (other than a director or officer) and you desire to enter into a transaction with a Related Party that the Chief Financial Officer (in consultation with legal counsel) has deemed to be material to Align and is reportable under the rules and regulations of the Exchange Act,

the nature of the transaction must be fully disclosed to the Audit Committee of the Board of Directors and such interest must be approved by the Audit Committee.

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OTHER MATTERS

We know of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend or, if the Board of Directors has not provided a recommendation, in accordance with their own judgment.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to mark, sign, date, and return the accompanying proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose.

THE BOARD OF DIRECTORS OF
ALIGN TECHNOLOGY, INC.

Dated: April 22, 2009

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MR A SAMPLE
DESIGNATION (IF ANY)

ADD 1

ADD 2

ADD 3

ADD 4

ADD 5

ADD 6

Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 11:59 p.m., Eastern Time, on May 20, 2009.

Vote by Internet

- Log on to the Internet and go to **www.investorvote.com**
- Follow the steps outlined on the secured website.

Vote by telephone

- Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.
- Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

Annual Meeting Proxy Card

C0123456789 12345

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A **Proposals** **The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.**

1. Election of Directors:	For	Withhold		For	Withhold		For	Withhold
01 - David E. Collins	o	o	02 - Joseph Lacob	o	o	03 - C. Raymond Larkin, Jr.	o	o
04 - George J. Morrow	o	o	05 - Thomas M. Prescott	o	o	06 - Greg J. Santora	o	o
07 - Warren S. Thaler	o	o						

		For	Against	Abstain
2.	RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS: Proposal to ratify the appointment of PricewaterhouseCoopers LLP as Align Technology, Inc. s independent registered public accountants for the fiscal year ending December 31, 2009.	o	o	o

3. Upon such other matters as may properly come before or incidental to the conduct of the Annual Meeting of Stockholders, the proxies shall vote in accordance with their own judgment. Align Technology, Inc. is not presently aware of any such matters to be presented for action at the meeting.

B **Non-Voting Items**

Change of Address Please print new address below.

C **Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

C 1234567890 J N T

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<STOCK#> 01156B

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy   Align Technology, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS 2009 ANNUAL MEETING OF STOCKHOLDERS

The undersigned stockholder of Align Technology, Inc. hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and proxy statement for the 2009 Annual Meeting of Stockholders and hereby appoints Thomas M. Prescott and Kenneth B. Arola or either of them acting in the absence of the other, proxies and attorneys-in-fact, with full power to each of substitution, on behalf of and in the name of the undersigned, to represent the undersigned at the 2009 Annual Meeting of Stockholders of Align Technology, Inc. to be held on Thursday, May 21, 2009 at 10:00 am Pacific Daylight Time at Align s corporate headquarters located at 881 Martin Avenue, Santa Clara, California 95050 and at any adjournment(s) or postponement(s) thereof, and to vote all shares of common stock of Align Technology, Inc. on all matters to be considered at the meeting which the undersigned would be entitled to vote if then and there personally present.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR : (1) EACH OF THE LISTED NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS NAMED IN PROPOSAL ONE; (2) THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE 2009 FISCAL YEAR AS SET FORTH INPROPOSAL TWO; AND (3) AS THE PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING(OR ANY ADJOURNMENTS THEREOF) OR MAY OTHERWISE BE ALLOWED TO BE CONSIDERED AT THE MEETING.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE.

If you vote by telephone or the Internet, please DO NOT mail back this proxy card.