

# OSG moving closer to the end of its restructuring voyage

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from New York

Overseas Shipholding Group (OSG), viewed by many as the icon of US based shipping companies, has moved closer to the conclusion of its restructuring voyage, which began nearly two years ago in November 2012.



At that time, OSG had filed for protection under Chapter 11 where operations continue during a re-organisation period, following a crisis brought on by a restatement of previous tax liabilities, with the possibility of a large potential call on cash. The restatement called previous financial filings into question, setting off alarm bells with lenders. OSG's failure to gain Federal guarantees on debt, for U.S. built tankers, in MARAD's Title XI program, was also regarded ominously in the finance markets, besides shutting the door on long term low interest debt.

Unlike some of the other high profile shipping bankruptcies, OSG's cash was not drained at the time of its filing, which avoided the need for extensive Debtor in Possession (DIP) financing. Much of the financing was "unsecured", in other words not tied to mortgages on specific vessels, another difference from other shipping bankruptcies. OSG had been considered a strong credit. At the time of the filing, the largest creditors included a DNB-led bank syndicate owed nearly \$1.5bn on unsecured basis; around \$300m in 8.125% bonds due in 2018, also unsecured. Some \$267m of secured debt, led by Danish Ship Finance, was outstanding, along with \$312m due to the Chinese Export Import Bank. Additionally, some \$216m of additional unsecured notes with maturities in 2013 and 2024 was outstanding.

In contrast to the recent "pre-pack" bankruptcy filings, where everything is agreed in advance, OSG's was messy and dragged out. During early 2014, negotiations heated up. A plan filed in April, representing an amalgamation of proposals by debtors and equity interests, forming the basis for the Reorganisation Plan that was approved in mid July by the Delaware bankruptcy court.

The flow of "news", consisting of a succession of agreements among different factions, has been disjointed, but now reveals a positive result, nearly concluded. Shipping bankruptcies usually include sideshows; the highlight here has been an ongoing lawsuit against Proskauer Rose, OSG's former legal counsel, regarding its

advice, or alleged lack thereof, on certain tax related matters. Along the way, the liability for back taxes was reduced after negotiations with the US tax authorities.

In the latest news, the appeals period for the Reorganisation Plan has expired, and closings have taken place on \$1.35bn of refinancing, spread over four facilities, that will pay off senior lenders and also provide short-term liquidity for day to day operations. At closing, drawdowns of \$603m were made under a US term loan (Libor plus 425 basis points) and \$628m under a foreign flag term loan (Libor plus 475 basis points). Both loans are secured, ie tied to specific vessel assets, with mandatory quarterly principal repayments, mature five years out, in August 2019.

Repayment could be sped up if leverage exceeds certain levels. Two additional facilities, a \$75m asset based revolving credit for US flag ships and a \$50m revolving credit for international vessels, were undrawn. Unsecured notes of \$300m (8.125% notes due 2018) and \$146m (7.5% due 2021 or 2024) are being re-instated. The rating agency Moody's has rated these issues as "Caa1", well below the investment grade cut-off. Moody's explains that, "The unsecured note obligations of OSG do not benefit from upstream guarantees and are structurally subordinated to the \$1.35bn of new secured bank credit facilities that will comprise the majority of the company's debt capital."

Previous equity has been extinguished, but equity holders, including management, directors and hedge funds, notably the well known tanker investor Caxton Corporation, have already been able to buy into the new OSG on a private basis. Two classes of stock will be listed, with the Class B stock slated to trade on the NYSE. The Class A stock, and long tenured warrants to purchase shares of A or B, will be listed over the counter.

An interesting wrinkle not present in other shipping bankruptcies is the Jones Act angle. At least 75% of the shareholding in Jones Act qualified companies must be in the hands of US citizens. The value of OSG's US component in coastal trades, which is fundamentally separate from the foreign flag component, has increased greatly since the time of the originally bankruptcy filing, benefiting from the strong Jones Act market.

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