

ULTRAPETROL BAHAMAS LTD  
Form 6-K  
November 10, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16 UNDER THE  
SECURITIES EXCHANGE ACT OF 1934

For the month of November 2010  
Commission File Number: 001-33068

ULTRAPETROL (BAHAMAS) LIMITED  
(Translation of registrant's name into English)

Ocean Centre, Montagu Foreshore  
East Bay St.  
Nassau, Bahamas  
P.O. Box SS-19084  
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports  
under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as  
permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to  
provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule  
101(b)7: \_\_\_\_

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a  
report or other document that the registrant foreign private issuer must furnish and make public under the laws of the  
jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or  
under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or  
other document is not a press release, is not required to be and has not been distributed to the registrant's security  
holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other  
Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS FORM 6-K REPORT

Set forth herein are a copy of the Company's report for the nine months ended September 30, 2010, containing certain unaudited financial information and a Management's Discussion and Analysis of Financial Condition and Results of Operations.

## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Our disclosure and analysis in this report concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "projects," "forecasts," "will," "may," "should," and similar expressions are forward-looking statements. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flow, working capital, and capital expenditures, they are subject to risks and uncertainties. These forward-looking statements represent our estimates and assumptions only as of the date of this report and are not intended to give any assurance as to future results. As a result, you should not place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors, except as required by applicable securities laws. Factors that might cause future results to differ include, but are not limited to, the following:

- future operating or financial results;
- pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking and insurance costs;
- general market conditions and trends, including charter rates, vessel values, and factors affecting vessel supply and demand;
- our ability to obtain additional financing;
- our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
- our expectations about the availability of vessels to purchase, the time that it may take to construct new vessels, or vessels' useful lives;
- our dependence upon the abilities and efforts of our management team;
- changes in governmental rules and regulations or actions taken by regulatory authorities including but not limited to the renewal or extension of cabotage permits of foreign flagged vessels;
- adverse weather conditions that can affect production of some of the goods we transport and navigability of the river system on which we transport them;
- the highly competitive nature of the ocean-going transportation industry;
- the loss of one or more key customers;
- fluctuations in foreign exchange rates against the U.S. dollar; and
- potential liability from future litigation.



ULTRAPETROL (BAHAMAS) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Ultrapetrol (Bahamas) Limited (the "Company") and subsidiaries for the nine months ended September 30, 2010 and 2009 included elsewhere in this report.

Our Company

We are an industrial shipping company serving the marine transportation needs of clients in the geographic markets on which we focus. We serve the shipping markets for grain, forest products, minerals, crude oil, petroleum, and refined petroleum products, the general cargo and container trade, as well as the offshore oil platform supply market through our operations in the following three segments of the marine transportation industry.

Our River Business, with 595 barges and 30 pushboats, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargoes through the Hidrovia Region of South America, a large area with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers that flow through Argentina, Brazil, Bolivia, Paraguay and Uruguay to ports serviced by ocean export vessels. These countries are estimated to account for approximately 52% of world soybean production in 2010, as compared to 30% in 1995.

Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the coastal waters of Brazil and the North Sea. Our Offshore Supply Business fleet consists of six Platform Supply Vessels, or PSVs, currently in operation and six under construction, four of which were contracted with a shipyard in India while the remaining two were contracted with a shipyard in China. Deliveries for our vessels being built in India are expected to commence in the first half of 2011 and those being built in China are expected to commence in December 2010.

Our Ocean Business operates seven ocean-going vessels, including four Product Tankers that we use in the South American coastal trade where we have preferential rights and customer relationships, one container feeder vessel, one 43,000 dwt petroleum product tank barge, and one oceangoing pushboat. Our Ocean Business fleet has an aggregate carrying capacity of approximately 110,000 deadweight tons.

We are focused on growing our businesses with an efficient and versatile fleet that will allow us to provide an array of transportation services to customers in several different industries. Our business strategy is to leverage our expertise and strong customer relationships to grow the volume, efficiency, and market share in a targeted manner.

Developments in three months ended September 30, 2010

On July 7, 2010, we entered into a cleared Forward Freight Agreements ("FFA") contract whereby a subsidiary of ours contracted via BNP Paribas Commodity Futures Ltd. ("BNP") with London Clearing House ("LCH") to pay LCH the average time charter rate for the 4 Capesize Time Charter Routes ("C4TC") for a total of 45 days (15 days per month between January and March 2011, both inclusive) in exchange for a fixed rate of \$24,125 (twenty four thousand one hundred and twenty five U.S. dollars) per day.

On July 30, 2010, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 14 days in August 2010 in exchange for a fixed rate of \$21,900 (twenty one thousand nine hundred U.S. dollars) per day.

On August 2, 2010, we entered into two cleared FFA contracts whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 15 days in August 2010 in exchange for a fixed rate of \$18,750 (eighteen thousand seven hundred and fifty U.S. dollars) per day.

On August 3, 2010, the Securities and Exchange Commission confirmed that the Registration statement for the 2,977,690 shares owned by Solimar Holdings Ltd. ("Solimar") was withdrawn as of July 22, 2010. The withdrawal was a consequence of a transaction concluded on July 15, 2010, through which Hazels (Bahamas) Investments Inc., an original shareholder (each party in the transaction was a shareholder in Ultrapetrol prior to its Initial Public Offering) acquired 2,977,690 shares representing a 100% of the holdings that Solimar had in Ultrapetrol.

On August 4, 2010, we entered into a Memorandum of Agreement ("MOA") whereby we agreed to sell our Capesize vessel, Princess Katherine, for \$10.5 million. On September 15, 2010, we delivered her to its buyers in accordance with the MOA.

On August 11, 2010, we entered into two cleared FFA contracts whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 28 days in September 2010 in exchange for a fixed weighed average time charter rate of \$33,411 (thirty three thousand four hundred and eleven U.S. dollars) per day,

On September 28, 2010, we entered into an MOA whereby we agreed to acquire a 2002-built, 1,054 TEUs container feeder vessel, M.V. Sinar Bontang (to be renamed M.V. Argentino), for a total purchase price of \$13.8 million. This transaction contemplates delivery of the vessel and concurrent payment of the balance of the purchase price in the fourth quarter of 2010.

On September 29, 2010, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 7 days in October 2010 in exchange for a fixed rate of \$31,000 (thirty one thousand U.S. dollars) per day.

#### Recent Developments

Between October 5 and 6, 2010, we entered into two cleared FFA contracts whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 15 days in October 2010 in exchange for a weighed average fixed rate of \$35,967 (thirty five thousand nine hundred and sixty seven U.S. dollars) per day.

On October 8, 2010, we amended the \$10.0 million Credit Agreement between us and Banco BICE. In connection with this amendment the Credit Agreement was extended for one year, its margin was increased to 3.4% p.a. over LIBOR and certain other changes were agreed to its guarantees and covenants and the available amount was increased to \$15.0 million.

On November 9, 2010, we entered into a cleared FFA contract whereby a subsidiary of ours contracted via BNP with LCH to charge LCH the average time charter rate for the C4TC for a total of 10 days in December 2010 in exchange for a fixed rate of \$32,300 (thirty two thousand three hundred U.S. dollars) per day.

## Factors Affecting Our Results of Operations

We organize our business and evaluate performance by the following business segments: the River Business, the Offshore Supply Business and the Ocean Business. The accounting policies of the reportable segments are the same as those for the unaudited condensed consolidated financial statements. We do not have significant inter-segment transactions.

### Revenues

In our River Business, we contract for the carriage of cargoes, in the majority of cases, under contracts of affreightment, or COAs. Most of these COAs currently provide for adjustments to the freight rate based on changes in the price of fuel.

In our Offshore Supply Business, we contract substantially all of our capacity under time charters to our charterers.

In our Ocean Business, we contract our cargo vessels either on a time charter basis or COA basis. Some of the differences between time charters and COAs are summarized below. In addition we operate our container feeder vessel M.V. Asturiano under a liner service where our clients pay a specified sum per container carried in accordance with the container type, the cargo kind and the services involved.

#### Time Charter

- We derive revenue from a daily rate paid for the use of the vessel, and
- the charterer pays for all voyage expenses, including fuel and port charges.

#### Contract of Affreightment (COA)

- We derive revenue from a rate based on tonnage shipped expressed in dollars per metric ton of cargo, and
- we pay for all voyage expenses, including fuel and port charges.

Our ships on time charters generate both lower revenues and lower expenses for us than those under COAs. At comparable price levels a time charter and a COA result in approximately the same operating income, although the operating margin as a percentage of revenues may differ significantly.

Time charter revenues accounted for 45% of the total revenues from our businesses for the first nine months of 2010, and COA revenues accounted for 55%. With respect to COA revenues, 82% were in respect of repetitive voyages for our regular customers and 18% were in respect of single voyages for occasional customers.

In our River Business, demand for our services is mostly driven by agricultural, mining and petroleum related activities in the Hidrovia Region. Droughts and other adverse weather conditions, such as floods, could result in a decline in production of the agricultural products we transport, which would likely result in a reduction in demand for our services. Further, most of the operations in our River Business occur on the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers.



On our Offshore Supply Business, we currently have all six of our PSVs operating under long-term contracts with Petrobras in Brazil.

In our Ocean Business, we employed a significant part of our ocean fleet on time charter to different customers during the nine months ended September 30, 2010. During the nine months ended September 30, 2010, the average time charter rate of the Baltic Capesize Index (BCI) was \$32,777 (thirty two thousand seven hundred and seventy seven U.S. dollars) per day, a decrease of 15.0% from an average of \$38,553 (thirty eight thousand five hundred and fifty three U.S. dollars) per day in the nine months ended September 30, 2009. Our liner service had started its seventh voyage by September 30, 2010.

#### Expenses

Our operating expenses generally include the cost of all vessel management, crewing, spares and stores, insurance, lubricants, repairs and maintenance. Generally, the most significant of these expenses are repairs and maintenance, wages paid to marine personnel, and marine insurance costs. However there are significant differences in the manner in which these expenses are recognized in the different segments in which we operate.

In addition to the vessel operating expenses, our other primary operating expenses include general and administrative expenses related to ship management and administrative functions.

In our River Business, our voyage expenses include port expenses and bunkers as well as charter hire paid to third parties.

In our Offshore Supply Business, voyage expenses include brokerage commissions paid by us to third parties which provide brokerage services, and bunker costs incurred when our vessels are repositioned either between employments or from the construction yard, to and from repairs or other instances where bunker fuel costs are paid by us.

In our Ocean Business, our voyage expenses include bunker consumption and port expenses, when the vessels are contracted under COA's, as well as in the case of our container service while it includes hire expenses paid to third parties on account of Time Chartered vessels.

Through our River Business, we own a floating drydock and a repair facility for our river fleet at Pueblo Esther, Argentina, a new shipyard for building barges and other vessels in Punta Alvear, Argentina, land for the construction of two terminals in Argentina and 50% joint venture participations in two grain loading terminals in Paraguay. UABL also rents offices in Asuncion, Paraguay and Buenos Aires, Argentina and a repair and shipbuilding facility in Ramallo, Argentina.

Through UP Offshore, we hold a lease for office space in Rio de Janeiro, Brazil. In addition, through Ravenscroft, we own a building located at 3251 Ponce de Leon Boulevard, Coral Gables, Florida, United States. We also hold a sublease to an office in Buenos Aires, Argentina, and rent an office in Aberdeen, Scotland.

#### Foreign Currency Transactions

During the first nine months of 2010, the majority of our revenues were denominated in U.S. dollars. However, 44% of our total revenues were denominated in U.S. dollars but collected in Argentine pesos, Brazilian reais and Paraguayan guaranies. During the nine months ended September 30, 2010, the majority of our expenses were denominated in U.S. dollars while 21% of our total out of pocket operating expenses were paid in Argentine pesos, Brazilian reais and Paraguayan guaranies.

Our operating results, which we report in U.S. dollars, may be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies. For accounting purposes, we use U.S. dollars as our functional currency. Therefore, revenue and expense accounts are translated into U.S. dollars at the average exchange rate prevailing on the month of each transaction.

#### Inflation, Rates of Exchange Variation and Fuel Price Increases

Inflationary pressures in the countries in which we operate may not be compensated by equivalent adjustments in the rate of exchange between the U.S. dollar and the local currencies. Additionally, revaluations of the local currencies against the U.S. dollar, even in the absence of inflation, have an incremental effect on the portion of our operating expenses incurred in those local currencies measured in U.S. dollars. Please see Foreign Currency Transactions.

Most of our contracts in the River Business include fuel price adjustment clauses. We may however experience temporary positive or negative misalignments between the adjustment of fuel in our freight contracts and our fuel purchase agreements because one may adjust prices on a monthly basis while the other adjusts prices weekly or because our consumption patterns may differ from those used to adjust our freights.

In the Offshore Supply Business, the fuel price variation risk during the vessels' employment is generally borne by the charterers, since the charterers are generally responsible for the supply and cost of fuel.

In our Ocean Business, inflationary pressures on bunker (fuel) costs are not expected to have a material effect on the results of those vessels which are time chartered to third parties since it is the charterers' responsibility to pay for fuel. When our ocean vessels are employed under COAs including the ships employed in our liner container service, however, freight rates for voyage charters are fixed on a per ton basis including bunker fuel for our account which is calculated for the voyage at an assumed cost. A rise or fall in bunker prices may have a temporary negative or positive effect on results as the case may be as the actual cost of fuel purchased for the performance of a particular voyage or COA may be higher or lower than the price considered when calculating the freight for that particular voyage. Generally, in the long term, freight rates in the market should be sensitive to variation in the price of fuel. However, a sharp rise in bunker prices may have a temporary negative effect on results since freights generally adjust only after prices have settled at a higher level. The operation of our containerships involves some degree of fuel price fluctuation risk since we have to pay for the cost of bunkers and our tariffs may not be adjusted accordingly in the near term.

### Forward Freight Agreements (FFAs)

We enter into Forward Freight Agreements (FFAs) for trading purposes or to utilize them as hedges to reduce our exposure to changes in the rates earned by some of our vessels in the normal course of our Ocean Business. When using FFAs as hedges, we aim at managing the financial risk associated with fluctuating market conditions. FFAs generally cover periods ranging from one month to one year and involve contracts to provide a fixed number of theoretical days of voyages at fixed rates. FFAs have been executed through LCH, London Clearing House, with whom we started to trade during May 2007 (but may also be agreed through other clearing houses) and "Over the Counter" (OTC) in which case each party is generally accepting the signature of the other party as sufficient guarantee of its obligations under the contract.

OTC FFAs are not cleared through a clearing house; they have no margin account requirements and bear a higher counterparty risk than cleared FFAs. If the counterparty to an OTC FFA fails to meet its obligation under the FFA, we could suffer losses on the contract which could adversely affect our financial condition and results of operations. As of September 30, 2010, Bunge S.A. was our only counterpart through OTC FFAs.

Because LCH or other clearing houses require the posting of collateral, the use of a clearing house reduces the Company's exposure to counterparty credit risk at the expense of a higher liquidity risk. We are exposed to market risk in relation to our positions in FFAs and could suffer substantial losses from these activities in the event our expectations prove to be incorrect. As of September 30, 2010, we were committed to FFAs with a fair value of \$4.6 million recorded as an asset and \$0.2 million recorded as a liability. All of the FFAs recorded as an asset were held through OTC FFA contracts. These contracts settle between October 2010 and March 2011 and do not qualify as hedge for accounting purposes.

The fair value of FFAs is the estimated amount that we would receive or pay in order to terminate these FFA contracts as of September 30, 2010.

During the nine-month period ended September 30, 2010 and 2009, the Company recognized net cash settlements for its FFA positions of \$12.0 million and \$25.8 million, respectively.

As of November 8, 2010, the asset related to the fair market value of the outstanding FFA positions was \$2.7 million. However, this amount is likely to vary significantly as a result of changes in market conditions, changes in the outstanding portions due to new trades, and the simple passage of time.

Although the counterparties to our FFAs have met their obligations as they fell due under their respective FFAs to date and we have received no indication that any of them will not continue to do so, there can be no guarantee that they will continue to meet their obligations in the future.

### Interest rate derivatives

On May 7, 2010, through UABL Limited, our holding subsidiary in the River Business, we entered into an interest rate collar transaction (the "Collar") with International Finance Corporation ("IFC"), through which we expect to hedge our exposure to interest rate volatility under our financings with IFC and the OPEC Fund for International Development ("OFID"), from June 2010 to June 2016. The initial notional amount is \$75.0 million (subsequently adjusted in accordance with the amortization schedule under these financings), with UABL Limited being the USD Floor Rate seller at a floor strike rate of 1.69% p.a., and IFC being the USD Cap Rate seller at a cap strike rate of 5.00% p.a.

The fair market value of the Collar is the estimated amount that we would receive or pay in order to terminate such contract as of September 30, 2010. As of such date, the fair market value of the Collar was a liability of \$1.9 million of which, \$0.8 million were recorded as current liability, \$1.4 million as non-current liability and \$0.3 million as non-current asset.

### Seasonality

Each of our businesses has seasonal aspects, which affect their revenues on a quarterly basis. The high season for our River Business is generally between the months of March and September, in connection with the South American harvest and higher river levels. However, growth in the soy pellet manufacturing new technologies allowing for storage of soya beans (like polyethylene silo bags), minerals and forest industries may help offset some of this seasonality. The Offshore Supply Business operates year-round, particularly off the coast of Brazil, although weather conditions in the North Sea may reduce activity from December to February. In the Ocean Business, demand for liquids transportation in the South American cabotage is stable throughout the year. In addition, the activity of our liner service is lower between December and February each year.

## Legal Proceedings

### UABL – Ciudad del Este Customs Authority

On September 21, 2005, the local Customs Authority of Ciudad del Este, Paraguay issued a finding that certain UABL entities owe taxes to that authority in the amount of \$2.2 million, together with a fine for non-payment of the taxes in the same amount, in respect of certain operations of our River Business for the prior three-year period. This matter was referred to the Central Customs Authority of Paraguay, or the Paraguay Customs Authority. We believed that this finding was erroneous and UABL has formally replied to the Paraguay Customs Authority contesting all of the allegations upon which the finding was based. After review of the entire operations for the claimed period, the Paraguayan Central Tax Authorities, asserting their jurisdiction over the matter, confirmed that the UABL entities did pay their taxes on the claimed period, but held a dissenting view on a third issue (the tax base used by the UABL entities to calculate the applicable withholding tax). The primary case was appealed by the UABL entities before the Tax and Administrative Court, and when summoned, the Paraguayan Tax Authorities filed an admission, upon which the Court on November 24, 2006, confirmed that the UABL entities were not liable for the first two issues. Nevertheless, the third issue continued, and through a resolution which was provided to UABL on October 13, 2006, the Paraguayan Undersecretary for Taxation has confirmed that, in his opinion, UABL was liable for a total of approximately \$0.5 million and has applied a fine of 100% of this amount. UABL entered a plea with the respective court contending the interpretation on the third issue where it claims to be equally not liable. On October 19, 2007, we presented a report by an expert which is highly favourable for our position. On March 26, 2009, the Tax and Administrative Court decided that UABL was not liable for the third issue under discussion (the tax base used by UABL's entities to calculate the applicable withholding tax). On April 2, 2009, the Paraguayan Tax Authorities appealed the Tax and Administrative Courts decision to the Supreme Court. On September 22, 2010, the Paraguayan Supreme Court revoked the March 26, 2009, ruling of the Tax and Administrative Court and confirmed the decision of the Paraguayan undersecretary for taxation which condemned UABL Paraguay S.A. to pay –at today's exchange rate- \$605,000 non-withheld taxes, \$685,000 in fines and \$1,251,000 in accrued due interest. We appealed the decision of the Supreme Court, seeking to clarify its ruling based on the Bona Fide basis of the UABL arguments recognized by the Court expressly in its ruling and on this appeal sought to eliminate fines and interest. Finally, in a signed agreement with the Tax Authorities on October 14, 2010, UABL paid \$1,294,000 in full and final settlement of the claim and agreed to drop its appeal to the Supreme Court. In parallel with this ruling the Office of the Treasury Attorney has initiated an action in respect of the other two issues concerned in this litigation (which had been terminated on November 24, 2006, with the admission of Central Tax Authorities that no taxes were due for these two issues and the consequent dropping of the action by the plaintiffs) to review certain formal aspects of the case on the grounds that the Paraguay Customs Department did not represent the interests of Paraguay. We have been advised by UABL's counsel in the case that there is only a remote possibility that a judicial court would find UABL liable for any of these taxes or fines.

### UABL International S.A. – Bolivian Tax Authority

On November 3, 2006 and April 25, 2007, the Bolivian Tax Authority ("Departamento de Inteligencia Fiscal de la Gerencia Nacional de Fiscalización") issued a notice in the Bolivian press advising that UABL International S.A. (a Panamanian subsidiary of the Company) would owe taxes to that authority. On June 18, 2007, our legal counsel in Bolivia submitted points of defense to the Bolivian tax authorities. On August 27, 2007 the Bolivian tax authorities gave notice of a resolution determining the taxes (value added tax, transaction tax and income tax) that UABL International S.A. would owe to them in the amount of approximately \$5.8 million (including interest and fines). On October 10, 2007, our legal counsel in Bolivia gave notice to the Bolivian tax authorities of the lawsuit commenced by UABL International S.A. to refute the resolution above mentioned. On August 1, 2008, UABL International S.A. was served with a notice informing that the Bolivian Tax Authorities had replied to the lawsuit started by us. On August 22, 2008 a hearing and judicial inspection took place at Puerto Quijano, Bolivia. On August 30, 2008 both parties

submitted their arguments to the judge, completing this part of the case. On August 12, 2009, UABL International S.A. was served with a judgment of a Bolivian court ruling on certain taxes allegedly due by UABL International S.A. On August 22, 2009, UABL International S.A. submitted an appeal to the lower court judgment to which Bolivian tax authorities have contested. The parties now await the decision by the court of appeal. On the other hand, on June 26, 2008, the same Bolivian court ordered a preemptive embargo against all barges owned by UABL International S.A. that may be registered in the International Bolivian Registry of Ships, or RIBB. According to Company's local counsel this preemptive embargo under Bolivian law has no effect over the Company's right to use its assets nor does it have any implication over the final decision of the court, the substance of the matter and in this case it is ineffective since UABL International S.A. does not have any assets owned by it registered in the RIBB. Moreover, UABL International S.A. had challenged the judge's decision to place the embargo, which has been under revision by a higher Court since the lower court reconfirmed the embargo on November 15, 2008. The shares of UABL International S.A. have ceased to belong to our Company and we have been advised by our local counsel that there is only a remote possibility that we would finally be found liable for any of these taxes or fines and / or that these proceedings will have financial material adverse impact on the financial position or results of the Company.



UABL Paraguay S.A. – Paraguayan Customs Asuncion

On April 7, 2009 the Paraguayan Customs in Asuncion commenced administrative proceedings against UABL Paraguay S.A. alleging infringement of Customs regulations due to lack of submission of import clearance documents in Paraguay for bunkers purchased between January 9, 2007, and December 23, 2008, from YPF-Repsol S.A. in Argentina. Since those bunkers were purchased for consumption onboard pushboats, UABL Paraguay S.A. submitted a defense on April 23, 2009, requesting the closing of those proceedings based on the non-infringement of Customs regulations, however the proceedings were not closed. On August 21, 2009, as part of the evidence to be rendered in the Customs proceedings UABL Paraguay S.A. submitted a technical report of the Paraguayan Coast Guard stating that all parcels of bunkers purchased by UABL Paraguay S.A. from YPF-Repsol S.A. were consumed onboard the push boats. We have been advised that the Paraguayan Customs in Ciudad del Este also commenced administrative proceedings against UABL Paraguay S.A. for the same reasons as the Customs in Asuncion, however those proceedings have been suspended. Customs Authorities have appraised the bunkers and determined the corresponding import tax and fine in the amount of \$2.0 million. On March 22, 2010 the Customs in Asuncion issued their ruling on the matter imposing a fine of Gs. 54.723.820 (approximately \$ 11,700), and UABL Paraguay S.A. will be paying the fine with the aim to end these proceedings. In parallel with this ruling the denouncing parties in Ciudad del Este have submitted remedies against the decision of Customs in Asuncion arguing that such ruling was taken without bringing both dossiers together. Our local counsel has recently advised that the Director of Customs in Asunción decided to render null the ruling dated March 22, 2010 and ordered evidence to be filed in respect of years 2003 to 2006 before issuing the final ruling. In a similar manner, on September 20, 2010 the Paraguayan Customs in Asuncion received a complaint against UABL Paraguay S.A. alleging infringement of Customs regulations due to lack of submission of import clearance documents in Paraguay for bunkers purchased during 2009 and 2010, from YPF-Repsol S.A. in Argentina.

Our local counsel is of the opinion that remedies will be rejected and therefore that there is only a remote possibility that UABL Paraguay S.A. will finally be found liable for any such taxes or fines and / or that these proceedings will have financial material adverse impact on the financial position or results of the Company.

Oceanpar S.A. & UABL Paraguay S.A. – Paraguayan Ministry of Public Works

On July 22, 2009, we learned of an ongoing investigation in connection with the registration of barges and pushboats in Paraguay. We have found out that in April 2009, the Paraguayan Ministry of Public Works and Communications and the National Merchant Marine of Paraguay, submitted a complaint before the Public Prosecutor Eduardo Cazenave alleging that Oceanpar S.A. and UABL Paraguay S.A. would have used improper documents to get authorizations to flag 30 barges and to lease 252 barges respectively. Without recognition of any liability and just in order to simplify the process, it was decided to enter a plea for permanent suspension of the investigation subject to certain conditions being fulfilled. On October 5, 2009, the proceedings were suspended by the Court subject to complying with certain obligations within one year, including regularizing before the National Merchant Marine of Paraguay some administrative documentation corresponding to the vessels under investigation. Although the Court agreed to our plea and decided to suspend the proceedings, on October 9, 2009, we submitted a request to the Court in order to clarify its resolution since some statements did not correspond with ours. On October 12, 2009, the Court issued the clarification resolution. In the opinion of our local counsel the clarification issued by the Court was favorable. The file was sent to the Enforcing Court, and the judge preliminary ruled that Oceanpar S.A. and UABL Paraguay S.A. had complied with the conditions imposed by the Ruling Court including the regularization of the documentation of the barges with the National Merchant Marine of Paraguay. The proceedings remained open until October 2010 for the ruling court to review if all conditions had been complied with and issue its final ruling. On October 11, 2010, the ruling court issued its final decision declaring the dismissal and extinction of the action. Once the ruling is notified to all interested parties, the case will be closed and concluded.

Various other legal proceedings involving us may arise from time to time in the ordinary course of business. However, we are not presently involved in any other legal proceedings that, if adversely determined, would have a material adverse effect on us.

## Results of Operations

Nine months ended September 30, 2010, compared to nine months ended September 30, 2009.

The following table sets forth certain unaudited historical statements of operations data for the periods indicated above derived from our unaudited condensed consolidated statements of income expressed in thousands of dollars(1):

(\$000's)	Three Months Ended September 30,		Nine Months Ended September 30,		Percent Change
	2010	2009	2010	2009	
<b>Revenues</b>					
Attributable to River Business	\$ 31,365	\$ 20,400	\$ 89,899	\$ 63,525	42%
Attributable to Offshore Supply Business	13,737	7,328	39,385	25,784	53%
Attributable to Ocean Business	13,507	30,744	44,162	81,860	-46%
<b>Total revenues</b>	<b>58,609</b>	<b>58,472</b>	<b>173,446</b>	<b>171,169</b>	<b>1%</b>
<b>Voyage expenses</b>					
Attributable to River Business	(11,868)	(9,723)	(33,496)	(28,724)	17%
Attributable to Offshore Supply Business	(984)	(1,941)	(2,764)	(2,660)	4%
Attributable to Ocean Business	(3,457)	(6,772)	(8,280)	(14,603)	-43%
<b>Total voyage expenses</b>	<b>(16,309)</b>	<b>(18,436)</b>	<b>(44,540)</b>	<b>(45,987)</b>	<b>-3%</b>
<b>Running costs</b>					
Attributable to River Business	(9,639)	(7,418)	(24,469)	(22,786)	7%
Attributable to Offshore Supply Business	(6,149)	(4,350)	(18,361)	(12,120)	51%
Attributable to Ocean Business	(7,608)	(7,917)	(21,889)	(24,036)	-9%
<b>Total running costs</b>	<b>(23,396)</b>	<b>(19,685)</b>	<b>(64,719)</b>	<b>(58,942)</b>	<b>10%</b>
Amortization of dry dock & intangible assets	(1,346)	(880)	(3,259)	(3,105)	5%
Depreciation of vessels and equipment	(7,225)	(9,485)	(22,256)	(27,548)	-19%
Administrative and commercial expenses	(7,257)	(6,300)	(20,192)	(17,916)	13%
Other operating (loss) income	(216)	132	297	1,093	-73%
<b>Operating profit</b>	<b>2,860</b>	<b>3,818</b>	<b>18,777</b>	<b>18,764</b>	<b>0%</b>
<b>Financial expense and other financial expenses</b>					
Financial income	89	69	292	287	2%
Gains on derivative instruments, net	901	126	10,270	241	4161%
Investment in affiliates	(86)	17	(241)	37	-
Other, net	(225)	(198)	(676)	(600)	13%

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Total other expenses	(5,285)	(5,359)	(11,287)	(16,394)	-31%
(Loss) income from continuing operations before income tax	(2,425)	(1,541)	7,490	2,370	216%
Income taxes expenses	(4,498)	(2,432)	(5,140)	(4,728)	9%
Net (loss) income attributable to non-controlling interest	55	(199)	328	26	1162%
Net (loss) income from continuing operations attributable to Ultrapetrol (Bahamas) Ltd.	\$ (6,978)	\$ (3,774)	\$ 2,022	\$ (2,384)	
Loss from discontinued operation (1)	-	(406)	(515)	(1,268)	-59%
Net (loss) income attributable to Ultrapetrol (Bahamas) Ltd.	\$ (6,978)	\$ (4,180)	\$ 1,507	\$ (3,652)	

(1) Operations of our Passenger Business are presented as discontinued operations on a net of tax basis.

Revenue . Total revenues from our River Business increased by 54% from \$20.4 million in the three months ended September 30, 2009, to \$31.4 million in the same period of 2010. This \$11.0 million increase results mainly from a 21.5% increase in net tons transported on account of a larger crop in Paraguay in 2010, coupled with an increase in freight revenues of \$1.0 million as a result of the fuel adjustment formula in our contracts of affreightments, coupled with an increase of \$1.7 million in other river services revenue.

Total revenues from our River Business increased by 42% from \$63.5 million in the nine months ended September 30, 2009, to \$89.9 million in the same period of 2010. This \$26.4 million increase results mainly from a 21.3% increase in net tons transported on account of a larger crop in Paraguay in 2010, coupled with an increase in freight revenues of \$5.3 million as a result of the fuel adjustment formula in our contracts of affreightments; partially offset by a \$2.2 million decrease in other river services revenue.

Total revenues from our Offshore Supply Business increased by 88% from \$7.3 million in the three months ended September 30, 2009, to \$13.7 million in the same period of 2010. This \$6.4 million increase is primarily attributable to the \$1.4 million generated by the entry into operation of our UP Rubi with Petrobras which was delivered on August 7, 2009, to an increase in revenues of \$2.4 million of our vessels UP Safira and UP Esmeralda, which were repositioned from the North Sea into Brazil at higher rates under long term charters with Petrobras between December 2009 and January 2010; to a \$0.8 million generated by the operation of our UP Agua-Marinha, UP Topazio, and UP Diamante under their new long-term Time Charters with Petrobras in Brazil and to a \$1.8 million increase in revenues of our UP Topazio due to her full operation in Brazil during the third quarter 2010 as opposed to a lesser number of operating days in the third quarter of 2009 due to her repositioning to Brazil from the North Sea.

Total revenues from our Offshore Supply Business increased by 53% from \$25.8 million in the nine month period ended September 30, 2009, to \$39.4 million in the same period of 2010. This \$13.6 million increase is primarily attributable to the \$6.3 million generated by the entry into operation of our UP Rubi with Petrobras which was under construction during the first half of 2009 and delivered in August 7, 2009, to an increase in revenues of \$2.7 million of our vessel UP Safira, which entered a long term charter with Petrobras in February 2010 after repositioning from the North Sea and to the additional \$2.3 million generated by the operation of our UP Agua-Marinha and UP Diamante under their renewed long-term Time Charters with Petrobras in Brazil, coupled with a \$2.2 million increase in revenues of our UP Topazio due to her operation in Brazil during the full third quarter of 2010, as opposed to a lesser number of operating days in the third quarter of 2009 due to her repositioning to Brazil.

Total revenues from our Ocean Business decreased \$17.2 million, from \$30.7 million in the three months ended September 30, 2009, to \$13.5 million in the same period of 2010, or a decrease of 56%. This decrease is mainly attributable to the sale of our Princess Susana on December 10, 2009, the sale of our Princess Nadia on January 28, 2010, the sale of our Princess Marisol on April 23, 2010, to a decrease in net settlements of the FFA positions accounted for as cash flow hedges of \$7.9 million, to the partial operation of our Princess Katherine which was sold on September 15, 2010, and to a decrease in revenues of our Princess Katherine on account of lower average Time Charter market rates in the three months ended September 30, 2010, of approximately \$26,300 per day as opposed to approximately \$45,300 per day for the same period of 2009, partially offset by the entry into operation on May 21, 2010, of our new container feeder vessel M.V. Asturiano.

Total revenues from our Ocean Business decreased \$37.7 million, from \$81.9 million in the nine months ended September 30, 2009, to \$44.2 million in the same period of 2010, or a decrease of 46%. This decrease is mainly attributable to a decrease in net settlements of the FFA positions accounted for as cash flow hedges of \$22.4 million, the sale of our Princess Susana on December 10, 2009, the sale of our Princess Nadia on January 28, 2010, the partial operation of our Princess Marisol and our Princess Katherine which were sold on April 23, 2010 and September 15, 2010 respectively, and to lower average Time Charter rates of the BCI in the nine months ended September 30, 2010 of \$32,777 per day as opposed to \$38,553 per day for the same period of 2009; partially offset by the entry into

operation of the new container feeder vessel M.V. Asturiano on May 21, 2010, and the bareboat chartered vessel Mediator I in April 2009.

Voyage expenses. In the three months ended September 30, 2010, voyage expenses of our River Business were \$11.9 million, as compared to \$9.7 million for the same period of 2009, an increase of \$2.2 million, or 23%. This increase is mainly attributable to higher fuel consumption consistent with the 21.5% increase in net tons transported, coupled with an increase in fuel expenses due to higher fuel prices. Other port expenses also increased by 34% or \$1.1 million mainly due to the increase in cargo carried.

In the nine months ended September 30, 2010, voyage expenses of our River Business were \$33.5 million, as compared to \$28.7 million for the same period of 2009, an increase of \$4.8 million, or 17%. This increase is mainly attributable to higher fuel consumption consistent with the 21.3% increase in net tons transported, coupled with an increase in fuel expenses due to higher fuel prices.

In the three months ended September 30, 2010, voyage expenses of our Offshore Supply Business were \$1.0 million, as compared to \$1.9 million in the same period of 2009. This decrease of \$0.9 million, or 47%, is primarily attributable to the \$1.5 million expenses related to the contractual penalty associated with the late delivery of our UP Rubi to Petrobras in the third quarter of 2009 partially offset by an increase in brokerage commissions expenses of our UP Esmeralda and UP Safira due to higher revenues deriving from their long term Time Charter with Petrobras in Brazil.

In the nine months ended September 30, 2010, voyage expenses of our Offshore Supply Business were \$2.8 million, as compared to \$2.7 million in the same period of 2009. This increase of \$0.1 million, or 4%, is primarily attributable to the \$0.2 million due to the positioning expenses of our UP Esmeralda and UP Safira from the North Sea to Brazil between December 2009 and January 2010; and to an increase of \$0.7 million in brokerage commissions of our UP Esmeralda and UP Safira due to higher revenues deriving from their long term Time Charter with Petrobras in Brazil; partially offset by a \$1.5 million expenses related to the contractual penalty associated with the late delivery of our UP Rubi to Petrobras in the third quarter of 2009.

In the three months ended September 30, 2010, voyage expenses of our Ocean Business were \$3.5 million, as compared to \$6.8 million for the same period of 2009, a decrease of \$3.3 million, or 49%. This decrease is primarily attributable to a \$3.2 million decrease in voyage expenses of our Princess Susana, Princess Nadia and Princess Marisol, which were sold in December 2009, January 2010 and April 2010 respectively; and to the operation under Time Charter of our Princess Katherine during the third quarter of 2010 as opposed to COA during the third quarter of 2009. Partially offsetting this decrease are the voyage expenses deriving from the operation of our containership M.V.Asturiano, which commenced in May 2010.

In the nine months ended September 30, 2010, voyage expenses of our Ocean Business were \$8.3 million, as compared to \$14.6 million for the same period of 2009, a decrease of \$6.3 million, or 43%. This decrease is primarily attributable to an \$8.1 million decrease in voyage expenses of our Princess Susana, Princess Nadia and Princess Marisol which were sold in December 2009, January 2010 and April 2010; partially offset by a \$2.3 million increase in voyage expenses due to the entry into operation of our container feeder vessel M.V Asturiano in May 2010, and a \$0.4 million increase in the bareboat hire expense of Mediator I which was delivered to us under a bareboat charter in April 2009.

Running costs. In the three months ended September 30, 2010, running costs of our River Business were \$9.6 million, as compared to \$7.4 million in the same period of 2009, an increase of \$2.2 million, or 30%. This increase in costs is mainly attributable to an increase in pushboat and barge running costs due to a higher number of vessels in operation consistent with the increase in the cargo carried during such period, coupled with a decrease in operational supplies during the third quarter 2009 due to decrease in operation as a consequence of the drought which affected the Hidrovia region.

In the nine months ended September 30, 2010, running costs of our River Business were \$24.5 million, as compared to \$22.8 million in the same period of 2009, an increase of \$1.7 million, or 7%. This increase in costs is mainly attributable to a higher number of pushboats in operation consistent with the increase in net tons transported during the period, coupled with a decrease in operational supplies during the third quarter 2009 due to decrease in operation as a consequence of the drought which affected the Hidrovia region.

In the three months ended September 30, 2010, running costs of our Offshore Supply Business were \$6.1 million, as compared to \$4.4 million in the same period of 2009, an increase of \$1.7 million, or 39%. This increase in running costs is mainly attributable to a \$0.3 million increase in running costs of our UP Topazio due to its operation during the third quarter of 2010 as compared to her partial operation in the same period of 2009, due to its repositioning from the North Sea to Brazil; to a \$0.8 million general increase in crew and maintenance costs associated with a larger number of vessels operating in Brazil coupled with an increase of \$0.7 million corresponding to the full quarter of operation of our UP Rubi which was delivered on August 7, 2009.

In the nine months ended September 30, 2010, running costs of our Offshore Supply Business were \$18.4 million, as compared to \$12.1 million in the same period of 2009, an increase of \$6.3 million, or 52%. This increase in running costs is mainly attributable to a \$3.6 million general increase in crew and maintenance costs associated with a higher number of vessels operating in Brazil coupled with an increase of \$2.6 million corresponding to the nine-month

operation of our UP Rubi in 2010 which was delivered on August 7, 2009.

In the three months ended September 30, 2010, running costs of our Ocean Business were \$7.6 million, as compared to \$7.9 million in the same period of 2009, a decrease of \$0.3 million, or 4%. This variation results mainly from a decrease of \$2.8 million in running costs of our Capesize vessels Princess Susana, Princess Nadia and Princess Marisol which were sold in December 2009, January 2010 and April 2010 respectively; partially offset by a \$1.2 million increase in costs of our Product tanker fleet mainly driven by an increase in crew and maintenance costs, and by \$1.3 million increase in running costs due to the operation of our new container feeder vessel, M.V. Asturiano.

In the nine months ended September 30, 2010, running costs of our Ocean Business were \$21.9 million, as compared to \$24.0 million in the same period of 2009, a decrease of \$2.1 million, or 9%. This variation results mainly from a decrease of \$6.8 million in running costs of our Capesize vessels Princess Susana, Princess Nadia and Princess Marisol which were sold in December 2009, January and April 2010 respectively; partially offset by a \$0.9 million increase in costs of our Mediator I which did not operate in the first quarter of 2009, by \$1.7 million increase in crew and maintenance costs of our Product tanker fleet and our Capesize vessel Princess Katherine and by a \$2.1 million increase in running costs of the M.V. Asturiano which was not in operation in 2009.



Amortization of dry dock and intangible assets. Amortization of drydocking and intangible assets in the three months ended September 30, 2010, were \$1.3 million, as compared to \$0.9 million for the same period of 2009, an increase of \$0.4 million, or 44%. This increase is primarily attributable to the amortization of the drydock of our UP Diamante, which commenced on January 2010, to the amortization of new dry docks underwent by our PSVs UP Esmeralda and UP Safira during June and July 2010, and to an increase in drydock expenses in our River fleet.

Amortization of dry dock and intangible assets in the nine months ended September 30, 2010, were \$3.3 million, as compared to \$3.1 million for the same period of 2009, an increase of \$0.2 million, or 6%. This increase is primarily attributable to a \$0.3 million increased level of amortization of drydock of our River fleet; to the accounting of the amortization of the drydock of our UP Diamante, which commenced on January 2010, and to the amortization of new dry docks underwent by our PSVs UP Esmeralda and UP Safira; partially offset by a reduced level of amortization of drydock of \$0.5 million on the recently sold Capesize vessels Princess Susana and Princess Nadia.

Depreciation of vessels and equipment. Depreciation decreased by \$2.3 million, or 24.2%, to \$7.2 million in the three months ended September 30, 2010, as compared to \$9.5 million in the same period of 2009. This decrease is primarily attributable to a \$3.6 million lower depreciation of our vessel Princess Marisol, coupled with her, Princess Susana's and Princess Nadia's sale in April 2010, December 2009 and January 2010 respectively; partially offset by a \$0.4 million increase in depreciation associated to the start of operation of our new shipyard at Punta Alvear, by a \$0.1 million increase related to the start of operations of our UP Rubi in August 2009, a \$0.2 million increase due to the operation of our container feeder vessel M.V. Asturiano delivered on April 16, 2010, and a \$0.4 million increase in our dry barge depreciation.

Depreciation of vessels and equipment decreased by \$5.2 million, or 19%, to \$22.3 million in the nine months ended September 30, 2010, as compared to \$27.5 million in the same period of 2009. This decrease is primarily attributable to a \$7.8 million lower depreciation of our vessel Princess Marisol, coupled with the sale of our Capesize vessels Princess Susana and Princess Nadia which translated into a \$1.5 million decrease in depreciation; partially offset by a \$1.3 million increase in depreciation associated to the start of operation of our new shipyard at Punta Alvear, by a \$0.7 million increase related to the start of operations of our UP Rubi in August 2009, a \$0.3 million increase due to the start of operations of our container feeder vessel M.V. Asturiano delivered on April 16, 2010, a \$0.2 million increase in the depreciation of our Oil/Product Tanker Amadeo, and a \$0.8 million increase in our dry barge depreciation on our River Business.

Administrative and commercial expenses. Administrative and commercial expenses were \$7.3 million in the three months ended September 30, 2010, as compared to \$6.3 million in the same period of 2009, resulting in an increase of \$1.0 million or 16%. This increase is mainly associated with \$0.5 million increase in taxes and fees on our River and Ocean segments, coupled with a \$0.6 million increase salaries expenses.

Administrative and commercial expenses were \$20.2 million in the nine months ended September 30, 2010, as compared to \$17.9 million in the same period of 2009, resulting in an increase of \$2.3 million or 13%. This increase is mainly associated with \$0.5 million increase in legal and other fees and \$1.2 million increase in taxes and office expenses, coupled with a \$0.8 million increase in wages.

Other operating income. For the three months ended September 30, 2010, Other operating income was \$(0.2) million as compared to \$0.1 million for the same period in 2009, a decrease of \$0.3 million. This decrease is mainly attributable to the insurance proceeds received during the third quarter of 2009 in connection with the damage suffered by one of our engines in the River Business, whereas during the same period of 2010 no income was recorded.

Other operating income was \$0.3 million in the nine months ended September 30, 2010, as compared to other operating income of \$1.1 million in the same period of 2009. This decrease of \$0.8 million is mainly explained by an

income of \$1.2 million related to delay and loss of hire insurance of our Princess Susana that took place in the first half of 2009; partially offset by a \$0.6 million increase resulting from the insurance proceeds which compensated for time lost of our UP Esmeralda during 2010.

Operating profit. Operating profit for the three months ended September 30, 2010, was \$2.9 million, a decrease of \$0.9 million, or 24%, from \$3.8 million for the same period of 2009. This decrease is mainly attributable to a \$10.3 million decrease in our Ocean Business operating profit from a \$8.2 million operating income in the third quarter 2009 to a \$2.1 million operating loss for the same period of 2010; partially offset by an increase of \$4.4 million in River Business operating profit from a loss of \$2.2 million in the third quarter of 2009 to a profit of \$2.2 million in the same period of 2010, and to a \$4.9 million increase in Offshore Supply Business operating profit from \$2.2 million operating loss in the third quarter of 2009 to \$2.7 million in the same period of 2010.

Operating profit for the nine months ended September 30, 2010, was \$18.8 million, unchanged from \$18.8 million for the same period of 2009 and mainly attributable to a \$21.8 million decrease in our Ocean Business operating profit from a \$22.0 million operating income in the first nine months of 2009 to a \$0.2 million operating profit for the same period of 2010; fully offset by a \$16.1 million increase in our River Business operating profit from a \$5.4 million loss in the first nine months of 2009 to a \$10.7 million operating profit in the same period of 2010, and a \$5.7 million increase in Offshore Supply Business operating profit from \$2.2 million in the first nine months of 2009 to \$7.9 million in the same period of 2010.

Financial expense and other financial expenses. Financial expense and other financial expenses increased to \$6.0 million in the three months ended September 30, 2010, as compared to \$5.4 million in the same period of 2009, a \$0.6 million increase. This increase is mainly attributable to an increase in average debt outstanding, coupled with an increase in amortized debt costs and with an increase in interest expenses due to the discontinuation of interest capitalization upon start of operations at our Punta Alvear Yard, partially offset by a decrease in interest rates and an increase in the gain attributable to currency translation effect.

Financial expense and other financial expenses increased to \$20.9 million in the nine months ended September 30, 2010, as compared to \$16.4 million in the same period of 2009, a \$4.5 million increase. This increase is mainly attributable to exchange rate fluctuations of foreign currencies against the U.S. dollar in the first nine months of 2010 as compared to the same period of 2009 coupled with an increase in amortized debt costs, and an increase in interest expenses due to the discontinuation of interest capitalization upon start of operations at our Punta Alvear Yard, partially offset by a decrease in interest rates.

Financial income. Financial income in the three months ended September 30, 2010, remained unchanged at \$0.1 million when compared to the same period of 2009.

Financial income in the nine months ended September 30, 2010, remained unchanged at \$0.3 million when compared to the same period of 2009.

Gains on derivatives. Gain on derivative instruments increased to \$0.9 million in the three months ended September 30, 2010, from \$0.1 million in the same period of 2009. This increase is primarily attributable to changes in the fair value of our FFAs which did not qualify as cash flow hedges for accounting purposes in the third quarter of 2010 as opposed to the third quarter of 2009, in which all FFA's qualified as hedge accounting.

Gain on derivative instruments increased to \$10.3 million in the nine months ended September 30, 2010, from \$0.2 million in the same period of 2009. This increase was primarily attributable to a \$9.0 million gain on FFAs related to the closing-out of the positions used to cover our Capesize vessel Princess Marisol.

Income taxes expenses. The income tax expense for the three months ended September 30, 2010, was \$4.5 million, compared to an expense of \$2.4 million in the same period of 2009. This \$2.1 million increase of the income tax expense is mainly attributable to the deferred tax provision for unrealized exchange differences in our Brazilian subsidiary due to the revaluation of the Brazilian real , coupled with the income tax expense of our Offshore Supply Business deriving from the operation of our six PSVs in the Brazilian market in the third quarter of 2010 as opposed to four and a half vessels, on average, during the third quarter 2009, and the income tax expense of our River Business operations which includes a one time payment of \$1.3 million made to the tax authorities of Paraguay in full settlement of a claim pertaining to years 2002 to 2004 .

The income tax expense for the nine months ended September 30, 2010, was \$5.1 million, compared to an expense of \$4.7 million in the same period of 2009. This \$0.4 million increase of the income tax expense is mainly attributable to the increase in the income tax expense of our Offshore Business deriving from the entry into operation of six PSV's in the Brazilian market as opposed to only four and a half, on average, during the first nine months 2009, and the income tax expense of our River Business operations which includes a one time payment of \$1.3 million made to the tax authorities of Paraguay in full settlement of a claim pertaining to years 2002 to 2004; partially offset by a lower provision of the the deferred tax for unrealized exchange differences in our Brazilian subsidiary due to the lower revaluation of the Brazilian real during the nine months of 2010 as compared to the same period of 2009.



## Liquidity and Capital Resources

We are a holding company and operate in a capital-intensive industry requiring substantial ongoing investments in revenue producing assets. Our subsidiaries have historically funded their vessel acquisitions through a combination of bank debt, shareholder loans, cash flow from operations and equity contributions.

The ability of our subsidiaries to make distributions to us may be subject to, among other things, restrictions under our credit facilities and applicable laws of the jurisdictions of their incorporation or organization.

As of September 30, 2010, we had aggregate indebtedness of \$397.3 million, consisting of \$180.0 million aggregate principal amount of our Senior Notes due 2014, indebtedness of our subsidiary UP Offshore Apoio Maritimo Ltda. of \$27.2 million under a senior loan facility with DVB Bank AG ("DVB") of \$8.9 million and \$18.3 million under a loan facility with BNDES, indebtedness of our subsidiary UP Offshore (Bahamas) Ltd. of \$61.1 million under two senior loan facilities with DVB, indebtedness of our subsidiary Ingatestone Holdings Inc. of \$24.2 million under a senior loan facility with DVB and Natixis as co-lenders, indebtedness of our subsidiary Stanyan Shipping Inc. of \$10.4 million under a senior loan facility with Natixis, indebtedness of our subsidiary Hallandale Commercial Corp. of \$9.4 million under a senior loan facility with Nordea Bank, indebtedness of the Company of \$10.0 million under a revolving credit line with Banco BICE, indebtedness of our subsidiaries UABL Barges (Panama) Inc., Marine Financial Investment Corp., Eastham Barges Inc. and UABL Paraguay S.A. of \$60.0 million in the aggregate under two senior loan facilities with International Finance Corporation, indebtedness of our subsidiary UABL Paraguay S.A. of \$15.0 million under a senior loan facility with the OPEC Fund for International Development, and total accrued interest of \$6.7 million.

As of September 30, 2010, we had cash and cash equivalents on hand of \$37.4 million.

## Operating Activities

In the nine months ended September 30, 2010, we generated \$19.2 million in cash flow from continuing operations compared to \$25.8 million in the same period of 2009. Net income attributable to Ultrapetrol (Bahamas) Limited for the nine months ended September 30, 2010 was \$1.5 million as compared to a net loss of \$(3.7) million in the nine months ended September 30, 2009, an increase of \$5.2 million.

Total cash flow from operating activities decreased by \$9.0 million to \$17.2 million in the first three quarters of 2010 from \$26.2 million in that same period of 2009. This decrease in cash flow from operations is mainly attributable to a decline of \$21.8 million in our Ocean Business Gross Profit Contribution (defined as hire or freight revenues minus voyage expenses and running costs, or "GPC") from \$22.0 million in the nine months ended September 30, 2009 to \$0.2 million for the same period in 2010. Our River Business GPC increased by \$16.1 million when compared to the same period of 2009. The GPC of our Offshore Supply Business increased by \$5.7 million from \$2.2 million in the nine month ended September 30, 2009 to \$7.9 million in the nine months of 2010. Another contributing factor to the decrease in cash flow from operations is a \$4.6 million increase in dry docking expenditures in our Ocean and Offshore Supply businesses.

## Investing Activities

During the nine months ended September 30, 2010, we disbursed \$2.4 million in the construction of our new pushboat Zonda I, \$3.2 million in the reengining of our pushboat Pampero I, \$14.9 million in the construction of new barges at Punta Alvear, \$11.6 million in our barge re-bottoming program, \$2.0 million in equipment and software for our Punta Alvear Yard and \$12.7 million in the re-engining and re-powering program, in our River Business; \$1.2 million in construction supervision and capitalized interest on our PSVs being built in India and China, on our Offshore Supply

Business; and \$12.4 million on the acquisition of the Frisian Commander, renamed M.V. Asturiano, together with \$0.9 million invested in the purchase of containers to be used in their operation and \$2.8 million paid on account of the 20% advance of the total purchase price of M.V. Sinar Bontang (renamed M.V. Argentino), and \$1.3 million in improvements to our ocean barge Parana Petrol in our Ocean Business.

#### Financing Activities

Cash flow used in Financing Activities decreased \$14.1 million from \$23.3 million in the nine months ended September 30, 2009, to \$9.2 million in the same period of 2010. This decrease of \$14.1 million is mainly attributable to a \$22.9 million decrease in early repayments of our long-term financial debt, a decrease of \$2.1 million in scheduled repayments of long-term financial debt, partially offset by a \$10.4 million decrease in proceeds from our long-term financial debt.

## Future Capital Requirements

Our near-term cash requirements are related primarily to funding operations, constructing new vessels, potentially acquiring other assets including second-hand ocean vessels, repairing some of our barges, funding the construction of barges in our new shipyard at Punta Alvear, and replacing the engines in our line pushboats with new engines that burn less expensive heavy fuel oil. We currently estimate that the construction of new vessels that are currently on order in India will require additional funds of approximately \$39.6 million, a portion of which will be financed with part of the undrawn proceeds committed under the DVB / Natixis loan facility. We estimate that the cost of new barge construction for the next twelve months at our new yard will be approximately \$20.5 million and in the next twelve months the cost of the engines corresponding to the re-engining program of our line pushboats will be in the order of \$2.5 million. Additionally, we estimate that funds to be paid in connection with the construction of our PSVs in China will amount to \$10.5 million. We will have to pay \$11.0 million on the balance of the purchase price of the container feeder vessel M.V. Argentino. We may order additional vessels and or incur other capital expenditures which are not discussed above or contemplated at this time. The funds will be disbursed at various times over the next few years and, accordingly, are subject to significant uncertainty. The financing facilities that we have in place to cover these disbursements may not be available at the time of the respective disbursements. We may in the future incur indebtedness to fund some of our other initiatives, which we are currently funding through our cash flow from operations. We cannot provide assurance that our actual cash requirements will not be greater than we currently expect. If we cannot generate sufficient cash flow from operations, we may obtain additional sources of funding through capital market transactions, although it is possible these sources will not be available to us.

## Supplemental Information

The following tables reconcile our EBITDA as defined in the Notes due 2014 and our Adjusted Consolidated EBITDA to our cash flow for the nine months ended September 30, 2010 and 2009.

(\$000)	Nine Months Ended September 30,	
	2010	2009
Total cash flows from operating activities	17,202	26,184
Total cash flows (used in) investing activities	(23,805)	(66,917)
Total cash flows (used in) financing activities	(9,190)	(23,272)
Net cash provided by operating activities from continuing operations	19,161	25,769
Net cash (used in) provided by operating activities from discontinued operations	(1,959)	415
Total cash flows from operating activities	17,202	26,184
Plus		
Adjustments from continuing operations		
Increase / decrease in operating assets and liabilities	(6,936)	2,407
Expenditure for dry docking	7,643	3,006
Income taxes	5,140	4,728
Financial expenses	19,122	17,758
(Gain) on disposal of assets	724	-
Net (loss) income attributable to non-controlling interest	(328)	(26)
Adjustment attributable to UP Offshore declassification (1)	(15,933)	-
Gains on derivatives, net	10,270	-
Other adjustments	(2,997)	(2,836)
Adjustments from discontinued operations		
Increase / decrease in operating assets and liabilities	1,444	(1,683)
Financial expenses	5	8
EBITDA as defined in the Notes due 2014 from continuing operations	35,866	50,806
EBITDA as defined in the Notes due 2014 from discontinued operations	(510)	(1,260)
Consolidated EBITDA as defined in the Notes due 2014	35,356	49,546
Plus		
Adjustment attributable to UP Offshore declassification	\$ 15,933	-
Non-cash gain on FFAs	-	(51)
Adjusted Consolidated EBITDA	\$ 51,289	\$ 49,495

(1) From October 29, 2009, our Board of Directors, declassified UP Offshore (Bahamas) Limited as a restricted subsidiary under the terms of the Indenture.





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The following tables reconcile our Adjusted Consolidated EBITDA to our segment operating profit for the nine months ended September 30, 2010 and 2009, on a consolidated and a per segment basis:

(\$000)	Nine Months Ended September 30, 2010			
	River	Offshore Supply	Ocean	TOTAL
Segment operating profit	\$ 10,685	\$ 7,908	\$ 184	\$ 18,777
Depreciation and amortization	12,602	5,256	7,657	25,515
Investment in affiliates / Net income attributable to non-controlling interest in subsidiaries	(220 )	(328 )	(21 )	(569 )
Gains on derivatives, net	-	-	10,270	10,270
Other net	(762 )	3	83	(676 )
<b>Segment Adjusted EBITDA</b>	<b>\$ 22,305</b>	<b>\$ 12,839</b>	<b>\$ 18,173</b>	<b>\$ 53,317</b>
Items not included in Segment Adjusted EBITDA				
Financial income				292
Other financial expenses				(1,810 )
<b>Adjusted Consolidated EBITDA from continuing operations</b>				<b>\$ 51,799</b>
<b>Adjusted Consolidated EBITDA from discontinued operations</b>				<b>\$ (510 )</b>
<b>Adjusted Consolidated EBITDA</b>				<b>\$ 51,289</b>

(\$000)	Nine Months Ended September 30, 2009			
	River	Offshore Supply	Ocean	TOTAL
Segment operating (loss) profit	\$ (5,372 )	\$ 2,168	\$ 21,968	\$ 18,764
Depreciation and amortization	10,212	4,245	16,196	30,653
Investment in affiliates / Net loss attributable to non-controlling interest in subsidiaries	22	(26 )	15	11
Gains on derivatives, net	-	241	-	241
Other net	(666 )	1	65	(600 )
<b>Segment Adjusted EBITDA</b>	<b>\$ 4,196</b>	<b>\$ 6,629</b>	<b>\$ 38,244</b>	<b>\$ 49,069</b>

Items not included in Segment	
Adjusted EBITDA	
Financial income	287
Other financial expenses	1,399
Adjusted Consolidated EBITDA	
from continuing operations	\$ 50,755
Adjusted Consolidated EBITDA	
from discontinued operations	\$ (1,260 )
Adjusted Consolidated EBITDA	
	\$ 49,495

The use of the terms "EBITDA as defined in the Notes due 2014" and "Adjusted Consolidated EBITDA" in the current filing rather than EBITDA as has been used in previous filings, is responsive to the US Securities and Exchange Commission Release No. 34-47226 wherefrom if the measurement being used excludes "non-cash charges" or other similar concepts other than strictly interest, taxes, depreciation and amortization, or were otherwise to depart from the definition of EBITDA as included in the aforementioned release, it should be called "EBITDA as defined in the Notes due 2014" and "Adjusted Consolidated EBITDA" rather than EBITDA.

EBITDA as defined in the Notes due 2014 consists of net income (loss) prior to deductions for interest expense and other financial gains and losses related to the financing of the Company, income taxes, depreciation of vessels and equipment and amortization of drydock expense, intangible assets, financial gain (loss) on extinguishment of debt, premium paid for redemption of preferred shares and certain non-cash charges (including for instance losses on write-downs of vessels). The calculation of EBITDA as defined in the Notes due 2014 excludes from all items those amounts corresponding to Unrestricted Subsidiaries under the Indenture governing the Company's 9% First Preferred Ship Mortgage Notes due 2014 (the "Indenture") from the time of designation as such. We have provided EBITDA as defined in the Notes due 2014 in this report because we use it to, and believe it provides useful information to investors to evaluate our ability to incur and service indebtedness and it is a required disclosure to comply with a covenant contained in such Indenture. Adjusted Consolidated EBITDA in this filing represents EBITDA as defined in the Notes due 2014 plus EBITDA corresponding to unrestricted subsidiaries designated as such under the terms of the Indenture and other adjustments related to our FFAs. We do not intend for EBITDA as defined in the Notes due 2014 nor Adjusted Consolidated EBITDA to represent cash flows from operations, as defined by GAAP (on the date of calculation) and it should not be considered as an alternative to measure our liquidity. This definition of EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA may not be comparable to similarly titled measures disclosed by other companies. Generally, funds represented by EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA are available for management's discretionary use. Both EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported. These limitations include, among others, the following:

- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments,
- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not reflect changes in, or cash requirements for, our working capital needs,
- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not include income taxes, which are a necessary and ongoing cost of our operations,
- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts,
- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not reflect the amortization of dry docking, or the cash requirements necessary to fund the required dry docks of our vessels,
- Although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA do not, therefore, reflect any cash requirements for such replacements, and

- EBITDA as defined in the Notes due 2014 and Adjusted Consolidated EBITDA can be affected by the lease rather than purchase of fixed assets.

ULTRAPETROL (BAHAMAS) LIMITED AND  
SUBSIDIARIES

Condensed Consolidated Financial Statements  
at September 30, 2010

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Stated in thousands of U.S. dollars, except par value and share amounts)

	At September 30, 2010 (Unaudited)	At December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 37,408	\$ 53,201
Restricted cash	1,661	1,658
Accounts receivable, net of allowance for doubtful accounts of \$584 and \$411 in 2010 and 2009, respectively	24,920	16,402
Operating supplies	3,875	3,743
Prepaid expenses	5,388	4,210
Receivables from derivative instruments	4,589	16,885
Other receivables	18,128	15,547
Other current assets	666	2,684
<b>Total current assets</b>	<b>96,635</b>	<b>114,330</b>
<b>NONCURRENT ASSETS</b>		
Other receivables	14,497	16,256
Restricted cash	1,181	1,181
Vessels and equipment, net	583,568	571,478
Dry dock	6,317	5,281
Investment in affiliates	1,546	1,787
Intangible assets	1,194	1,456
Goodwill	5,015	5,015
Other noncurrent assets	7,852	8,390
Deferred income tax assets	8,120	7,760
<b>Total noncurrent assets</b>	<b>629,290</b>	<b>618,604</b>
<b>Total assets</b>	<b>\$ 725,925</b>	<b>\$ 732,934</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 21,304	\$ 13,707
Accrued interest	6,670	2,008
Current portion of long-term financial debt	21,097	21,286
Other current liabilities	8,247	8,977
<b>Total current liabilities</b>	<b>57,318</b>	<b>45,978</b>
<b>NONCURRENT LIABILITIES</b>		



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Long-term financial debt	376,174	384,245
Deferred income tax liabilities	15,241	13,033
Other noncurrent liabilities	2,817	1,095
Total noncurrent liabilities	394,232	398,373
Total liabilities	451,550	444,351
<b>EQUITY</b>		
Common stock, \$.01 par value: 100,000,000 authorized shares;		
29,943,653 shares outstanding	338	338
Additional paid-in capital	271,008	269,958
Treasury stock 3,923,094 shares at cost	(19,488 )	(19,488 )
Accumulated earnings	18,864	17,357
Accumulated other comprehensive income (loss)	(1,555 )	15,538
Total Ultrapetrol (Bahamas) Limited stockholders equity	269,167	283,703
Noncontrolling interests	5,208	4,880
Total equity	274,375	288,583
Total liabilities and equity	\$ 725,925	\$ 732,934

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Stated in thousands of U.S. dollars, except share and per share data)

	For the nine-month periods ended September	
	2010	2009
REVENUES	\$ 173,446	\$ 171,169
OPERATING EXPENSES		
Voyage expenses	(44,540 )	(45,987 )
Running costs	(64,719 )	(58,942 )
Amortization of dry docking	(2,997 )	(2,562 )
Depreciation of vessels and equipment	(22,256 )	(27,548 )
Amortization of intangible assets	(262 )	(543 )
Administrative and commercial expenses	(20,192 )	(17,916 )
Other operating income, net	297	1,093
	(154,669 )	(152,405 )
Operating profit	18,777	18,764
OTHER INCOME (EXPENSES)		
Financial expense	(19,122 )	(17,758 )
Other financial (expense) income	(1,810 )	1,399
Financial income	292	287
Gains on derivatives, net	10,270	241
Investment in affiliates	(241 )	37
Other, net	(676 )	(600 )
Total other (expenses)	(11,287 )	(16,394 )
Income from continuing operations before income taxes	7,490	2,370
Income taxes	(5,140 )	(4,728 )
Income (loss) from continuing operations	2,350	(2,358 )
Loss from discontinued operations	(515 )	(1,268 )
Net income (loss)	1,835	(3,626 )
Net income attributable to noncontrolling interests	328	26
Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	\$ 1,507	\$ (3,652 )

Amounts attributable to Ultrapetrol (Bahamas) Limited:

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Income (loss) from continuing operations	\$ 2,022	\$ (2,384 )
Loss from discontinued operations	(515 )	(1,268 )
Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	\$ 1,507	\$ (3,652 )

INCOME (LOSS) PER SHARE OF ULTRAPETROL  
(BAHAMAS) LIMITED - BASIC AND DILUTED:

From continuing operations	\$ 0.07	\$ (0.08 )
From discontinued operations	(0.02 )	(0.04 )
	\$ 0.05	\$ (0.12 )

Basic weighted average number of shares	29,519,936	29,404,285
Diluted weighted average number of shares	29,595,067	29,404,285

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Stated in thousands of U.S. dollars, except share data)

Balance	Ultrapetrol (Bahamas) Limited stockholders' equity							Noncontrolling interest in subsidiaries	Total equity
	Shares amount	Common stock	Additional paid-in capital	Treasury stock	Accumulated earnings	Accumulated other comprehensive income (loss)			
December 31, 2008	29,519,936	\$ 334	\$ 268,425	\$(19,488)	\$ 57,195	\$ 65,423	\$ 4,970	\$ 376,859	
Compensation related to options and restricted stock granted	-	-	1,334	-	-	-	-	1,334	
Comprehensive loss:									
- Net (loss) income	-	-	-	-	(3,652 )	-	26	(3,626 )	
- Effect of derivative financial instruments	-	-	-	-	-	(36,066 )	-	(36,066 )	
T o t a l comprehensive loss								(39,692 )	
September 30, 2009	29,519,936	\$ 334	\$ 269,759	\$(19,488)	\$ 53,543	\$ 29,357	\$ 4,996	\$ 338,501	
December 31, 2009	29,943,653	\$ 338	\$ 269,958	\$(19,488)	\$ 17,357	\$ 15,538	\$ 4,880	\$ 288,583	
Compensation related to restricted stock granted	-	-	1,050	-	-	-	-	1,050	
Comprehensive loss:									
- Net income	-	-	-	-	1,507	-	328	1,835	

- Effect of derivative financial instruments	-	-	-	-	-	(17,093 )	-	(17,093 )
T o t a l comprehensive loss								(15,258 )
September 30, 2010	29,943,653	\$338	\$271,008	\$(19,488)	\$18,864	\$(1,555 )	\$5,208	\$274,375

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements and should be read in conjunction herewith.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Stated in thousands of U.S. dollars)

	For the nine-month periods ended September	
	2010	30, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,835	\$ (3,626 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss from discontinued operations	515	1,268
Depreciation of vessels and equipment	22,256	27,548
Amortization of dry docking	2,997	2,562
Expenditure for dry docking	(7,643 )	(3,006 )
Gains on derivatives, net	(10,270 )	(241 )
Amortization of intangible assets	262	543
(Gain) loss on sale of vessels, net	(724 )	-
Share-based compensation	1,050	1,334
Debt issuance expense amortization	1,328	1,210
Net loss (gain) from investment in affiliates	241	(37 )
Allowance for doubtful accounts	378	329
Cash settlements of FFAs	-	292
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(8,896 )	(3,124 )
Receivables from related parties	289	22
Other receivables, operating supplies and prepaid expenses	(752 )	(2,573 )
Other	1,543	1,705
Increase (decrease) in liabilities:		
Accounts payable	7,430	(8,686 )
Payable to related parties	(42 )	150
Other	7,364	10,099
Net cash provided by operating activities from continuing operations	19,161	25,769
Net cash (used in) provided by operating activities from discontinued operations	(1,959 )	415
Total cash flows provided by operating activities	17,202	26,184
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		

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Purchase of vessels and equipment	(68,214 )	(69,071 )
Cash settlements of FFAs	5,834	-
Proceeds from disposal of assets, net	36,584	-
Other	41	2,154
Net cash (used in) investing activities from continuing operations	(25,755 )	(66,917 )
Net cash provided by investing activities from discontinued operations	1,950	-
Total cash flows (used in) investing activities	(23,805 )	(66,917 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Scheduled repayments of long-term financial debt	(8,400 )	(10,480 )
Early repayments of long-term financial debt	-	(22,894 )
Proceeds from long-term financial debt	-	10,350
Other	(790 )	(248 )
Net cash (used in) financing activities from continuing operations	(9,190 )	(23,272 )
Net (decrease) in cash and cash equivalents	(15,793 )	(64,005 )
Cash and cash equivalents at the beginning of year (including \$304 and \$2,546 related to discontinued operations)	\$ 53,201	\$ 105,859
Cash and cash equivalents at the end of period (including \$294 and \$390 related to discontinued operations)	\$ 37,408	\$ 41,854

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements and should be read in conjunction herewith.

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Stated in thousands of U.S. dollars, except per share data and otherwise indicated)

(Information pertaining to the nine-month periods ended September 30, 2010 and 2009 is unaudited)

1. NATURE OF OPERATIONS AND CORPORATE ORGANIZATION

Nature of operations

Ultrapetrol (Bahamas) Limited ("Ultrapetrol Bahamas", "Ultrapetrol", "the Company", "us" or "we") is a company organized and registered as a Bahamas Corporation since December 1997.

We are a shipping transportation company serving the marine transportation needs of our clients in the markets on which we focus. We serve the shipping markets for containers, grain, soybean, forest products, minerals, crude oil, petroleum, and refined petroleum products, as well as the offshore oil platform supply market, through our operations in the following three segments of the marine transportation industry. In our River Business we are an owner and operator of river barges and pushboats in the Hidrovia region of South America, a region of navigable waters on the Parana, Paraguay and Uruguay Rivers and part of the River Plate, which flow through Brazil, Bolivia, Uruguay, Paraguay and Argentina. In our Offshore Supply Business we own and operate vessels that provide logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. In our Ocean Business, we are an owner and operator of oceangoing vessels that transport petroleum products and containers.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation and principles of consolidation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. The consolidated balance sheet at December 31, 2009, has been derived from the audited financial statement at that date. The unaudited condensed consolidated financial statements do not include all of the information and footnotes required by US GAAP for complete financial statements. All adjustments which, in the opinion of the management of the Company, are considered necessary for a fair presentation of the results of operations for the periods shown are of a normal, recurring nature and have been reflected in the unaudited condensed consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of the results expected for the full fiscal year or for any future period.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries, both majority and wholly owned. Significant intercompany accounts and transactions have been eliminated in this consolidation. Investments in 50% or less owned affiliates, in which the Company exercises significant influence, are



accounted for by the equity method.

The Company uses the US dollar as its functional currency. Receivables and payables denominated in foreign currencies are translated into US dollars at the rate of exchange at the balance sheet date, while revenues and expenses are translated using the average exchange rate for each month. Certain subsidiaries enter into transactions denominated in currencies other than their functional currency. Changes in currency exchange rates between the functional currency and the currency in which a transaction is denominated are included in the unaudited condensed consolidated statement of operations in the period in which the currency exchange rate changes.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## b) Earnings per share:

Basic net (loss) income per share is computed by dividing the net (loss) income by the weighted average number of common shares outstanding during the relevant periods net of shares held in treasury. Diluted (loss) income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares result in the issuance of such shares. In determining dilutive shares for this purpose the Company assumes, through the application of the treasury stock method, all restricted stock grants have vested, all common shares have been issued pursuant to the exercise of all outstanding stock options and all common shares have been issued pursuant to the issuance of all outstanding warrants.

For the nine-month periods ended September 30, 2010 and 2009, the Company excluded from the computation of diluted net income (loss) per share of Ultrapetrol (Bahamas) Limited 495,134 and 610,185 share awards, respectively, as the effect of their inclusion in the computation would have been antidilutive.

The following table sets forth the computation of basic and diluted net income (loss) per share of Ultrapetrol (Bahamas) Limited:

	For the nine-month periods ended September 30,	
	2010	2009
Income (loss) from continuing operations	\$ 2,022	\$ (2,384 )
(Loss) from discontinued operations	(515 )	(1,268 )
Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	\$ 1,507	\$ (3,652 )
Basic weighted average number of shares	29,519,936	29,404,285
Effect on dilutive shares of restricted stock	75,131	-
Diluted weighted average number of shares	29,595,067	29,404,285
Basic and diluted net income (loss) per share of Ultrapetrol (Bahamas) Limited:		
From continuing operations	\$ 0.07	\$ (0.08 )
From discontinued operations	(0.02 )	(0.04 )
	\$ 0.05	\$ (0.12 )

## c) Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity arising from non-owner sources. Comprehensive income (loss) is reflected in the unaudited condensed consolidated statement of changes in shareholders' equity.



## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

The components of accumulated other comprehensive income (loss) in the unaudited condensed consolidated balance sheets were as follows:

	At September 30, 2010	At December 31, 2009
Unrealized gain on FFA	\$ -	\$ 15,376
Unrealized gain on EURO hedge	155	162
Unrealized (loss) on interest rate collar	(1,710 )	-
Unrealized (loss) gain on derivative financial instruments	\$ (1,555 )	\$ 15,538

The components of the change in the accumulated unrealized (losses) on derivative financial instruments were as follows:

	For the nine-months period ended September 30,	
	2010	2009
Reclassification adjustments for amounts included in net income (loss):		
- Revenues	\$ (6,193 )	\$ (28,602 )
- Voyage expenses	-	490
- Depreciation of vessels and equipment	(7 )	(7 )
- Financial expense	210	-
- Gains on derivatives, net	(10,710 )	-
Change in unrealized impact on:		
- FFA	1,527	(7,947 )
- Interest rate collar	(1,920 )	-
	\$ (17,093 )	\$ (36,066 )

### 3. VESSELS AND EQUIPMENT, NET

The capitalized cost of the vessels and equipment, and the related accumulated depreciation at September 30, 2010 and December 31, 2009 were as follows:

	At September 30, 2010	At December 31, 2009
Ocean-going vessels	\$ 112,512	\$ 165,111

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River barges and pushboats	312,476	267,333
PSVs	144,266	143,565
Advances for PSV construction	99,096	97,874
Furniture and equipment	8,719	7,293
Building, land, operating base and shipyard	48,666	45,121
Advances to vendors	626	3,198
Total original book value	726,361	729,495
Accumulated depreciation	(142,793 )	(158,017 )
Net book value	\$ 583,568	\$ 571,478

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

As of September 30, 2010, the net book value of the assets pledged as a guarantee of our long term financial debt was \$294,000.

- Ocean Business

On December 18, 2009, we entered into a memorandum of agreement (MOA) to sell our Suezmax OBO vessel, Princess Nadia, for a total sale price of \$14,112 net of commissions. She was delivered to her new owners on January 28, 2010, at which time Ultrapetrol recognized a gain on sale of vessel of \$2,636.

On February 17, 2010 the Company signed an MOA to sell its vessel Princess Marisol for a total purchase price of \$13,500, which was reduced to \$12,544 net of commissions on April 22, 2010. The vessel was delivered to her new owners on April 23, 2010. For the nine-month period ended September 30, 2010, the Company recognized a loss on sale of vessel of \$2,950.

On August 4, 2010 we entered into an MOA whereby we agreed to sell our Capesize vessel, Princess Katherine, for \$9,928 net of commissions. The Capesize vessel was delivered to her new owner on September 14, 2010 at which time the Company recorded a gain on sale of vessel of \$1,038.

As a result of these transactions, FFA positions with notional amounts totaling \$19,400 were no longer probable of occurring and thus no longer qualified as effective cash flow hedges. The gain related to these positions reported in other comprehensive income was reclassified into gains on derivatives, net for the nine-month period ended September 30, 2010.

On February 26, 2010, we entered into an MOA whereby we agreed to acquire a 2003-built container feeder vessel, the Frisian Commander (renamed Asturiano), for a total purchase price of \$12,400, out of which \$11,160 was funded with the proceeds of the sale of the Princess Nadia. The container feeder vessel has a rated carrying capacity of 1,118 Twenty-foot Equivalent Units (TEUs). The Company took delivery of the container feeder vessel on April 16, 2010.

On September 28, 2010 we entered into an MOA whereby we agreed to acquire a 2002-built container feeder vessel, the M.V. Sinar Bontang (renamed M.V. Argentino), for a total purchase price of \$13,800, and the required twenty percent deposit has been paid. The container feeder vessel has a rated carrying capacity of 1,054 TEUs.

- Offshore Supply Business

On December 21, 2007, UP Offshore (Bahamas) Ltd. (our holding company in the Offshore Supply Business) signed two contracts with a shipyard in China to construct two PSVs, with deliveries in 2010 and 2011. The price for each new PSV to be constructed in China is \$26,400 to be paid in five installments of 20% of the contract price each, prior to delivery. As of September 30, 2010, UP Offshore (Bahamas) Ltd. had paid installments on these contracts amounting \$42,480 which are recorded as Advances for PSV construction.

On February 21 and June 13, 2007, UP Offshore (Bahamas) Ltd. (our holding company in the Offshore Supply Business) signed shipbuilding contracts with a shipyard in India for construction of four PSVs with a combined cost of \$88,052 to be paid in five installments of 20%, with contracted deliveries in 2010 and 2011. As of September 30, 2010, UP Offshore (Bahamas) Ltd. had paid installments on these contracts totaling \$48,428, which are recorded as

Advances for PSV construction.

As of September 30, 2010, the Company had remaining commitments of \$49,944 on non-cancelable contracts for the construction of the aforementioned PSVs which are scheduled for delivery in 2010 and 2011.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## 4. LONG-TERM FINANCIAL DEBT

Balances of long-term financial debt at September 30, 2010 and December 31, 2009:

Borrower	Financial institution / Other	Due-year	Nominal value		Total
			Current	Noncurrent	
Ultrapetrol (Bahamas) Ltd.	Private Investors (Notes)	2014	\$ -	\$ 180,000	\$ 180,000
UP Offshore Apoio Maritimo Ltda.	DVB AG	Through 2016	900	7,975	8,875
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2016	4,300	39,325	43,625
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2017	2,000	15,500	17,500
Ingatestone Holdings Inc.	DVB AG + Natixis	Through 2019	115	24,035	24,150
UP Offshore Apoio Maritimo Ltda.	BNDES	Through 2027	1,110	17,205	18,315
Sstanyan Shipping Inc.	Natixis	Through 2017	908	9,530	10,438
Ultrapetrol (Bahamas) Ltd. Hallandale Commercial Corp.	BICE	2010	10,000	-	10,000
UABL Paraguay S.A.	Nordea	Through 2013	1,764	7,604	9,368
UABL Paraguay S.A.	IFC	Through 2020	-	25,000	25,000
UABL Paraguay S.A.	OFID	Through 2020	-	15,000	15,000
UABL Barges and others	IFC	Through 2020	-	35,000	35,000
At September 30, 2010			\$ 21,097	\$ 376,174	\$ 397,271
At December 31, 2009			\$ 21,286	\$ 384,245	\$ 405,531

## Revolving non-secured credit facility with Banco BICE

On October 12, 2007, Ultrapetrol (Bahamas) Ltd. entered into a three-year, \$10,000, revolving non-secured credit facility with Banco BICE which must be renewed quarterly. Our obligations under this credit facility are guaranteed by three of our subsidiaries. This loan bears interest at LIBOR plus 1.625% per annum.

This revolving non-secured credit facility contains certain customary covenants including: (i) a minimum equity of \$160,000, (ii) a consolidated debt to equity ratio less than 1.5, (iii) a financial expense coverage ratio equal to or greater than 2.5 and, (iv) a ratio of consolidated debt to EBITDA equal to or less than 5.0.



At December 31, 2009, Ultrapetrol Bahamas Ltd. is in compliance with these covenants except for (iii) and (iv). Consequently, on March 5, 2010 and August 5, 2010 Banco BICE waived the compliance for all calculation dates since December 31, 2009, up to and including October 12, 2010 (the maturity date of the credit facility) for these financial covenants.

As of September 30, 2010, we drew down \$10,000 available under this revolving non-secured credit facility which is due on October 7, 2010. See note 13.

5. COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceedings, claims and contingencies arising in the ordinary course of business. When such amounts can be estimated and the contingency is probable, management accrues the corresponding liability. While the ultimate outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management does not believe the costs of such actions will have a material effect on the Company's consolidated financial position or results of operations.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

a) Paraguayan Customs Dispute

i) UABL – Ciudad del Este Customs Authority

On September 21, 2005 the local Customs Authority of Ciudad del Este, Paraguay issued a finding that certain UABL entities owe taxes to that authority in the amount of \$2,200, together with a fine for non-payment of the taxes in the same amount, in respect of certain operations of our River Business for the prior three-year period. This matter was referred to the Central Customs Authority of Paraguay.

After review of the entire case the Paraguayan Central Tax Authorities who have jurisdiction over the matter have confirmed the Company has no liability in respect of two of the three matters at issue, while they held a dissenting view on the third issue. Through a Resolution which was notified to UABL on October 13, 2006 the Paraguayan Undersecretary for Taxation has confirmed that, in his opinion, the Company is liable for a total of approximately \$500 and has applied a fine of 100% of this amount. On November 24, 2006, the court confirmed that UABL is not liable for the first two issues. The Company has entered a plea with the respective court contending the interpretation on the third issue where the Company claims to be equally non-labile.

On March 26, 2009, the Tax and Administrative Court decided that UABL was not liable for the third issue under discussion (the tax base used by UABL's entities to calculate the applicable withholding tax). On April 2, 2009, the Paraguayan Tax Authorities appealed the Tax and Administrative Court decision. On September 22, 2010 the Paraguayan Supreme Court revoked the March 26, 2009, ruling of the Tax and Administrative Court and confirmed the decision of the Paraguayan Undersecretary for Taxation.

For the nine-month period ended September 30, 2010 the Company recorded a charge totaling \$1,294 for the full and final settlement of this claim.

In parallel with this ruling the Office of the Treasury Attorney has initiated an action in respect of the other two issues concerned in this litigation (which had been terminated on November 24, 2006, with the admission of Central Tax Authorities that no taxes were due for these two issues and the consequent dropping of the action by the plaintiffs) to review certain formal aspects of the case on the grounds that the Paraguay Customs Department did not represent the interests of Paraguay. We have been advised by UABL's counsel in the case that there is only a remote possibility that a judicial court would find UABL liable for any of these taxes or fines.

ii) UABL Paraguay S.A. - Paraguayan Customs Asuncion

On April 7, 2009, the Paraguayan Customs in Asuncion commenced administrative proceedings against UABL Paraguay S.A. alleging infringement of Customs regulations (smuggling) due to lack of submission of import clearance documents in Paraguay for some bunkers purchased between January 9, 2007 and December 23, 2008 from YPF-Repsol S.A. in Argentina. Since those bunkers were purchased for consumption on board pushboats, UABL Paraguay S.A. submitted a defense on April 23, 2009, requesting the closing of those proceedings based on the non-infringement of Customs regulations; however the proceedings were not closed. On August 21, 2009, as part of the evidence to be rendered in the Customs proceedings UABL Paraguay S.A. submitted a technical report of the Paraguayan Coast Guard stating that all parcels of bunkers purchased by UABL Paraguay S.A. from YPF-Repsol S.A. were consumed onboard the push boats. We have been advised that the Paraguayan Customs in Ciudad del Este also commenced administrative proceedings against UABL Paraguay S.A. for the same reasons as the Customs in

Asuncion; however those proceedings have been suspended. Customs Authorities have appraised the bunkers and determined the corresponding import tax and fine to be \$2,000. On March 22, 2010 the Customs in Asuncion issued their ruling on the matter imposing a fine of Gs. 54.723.820 (approximately \$12), and UABL Paraguay S.A. will be paying the fine with the aim to end these proceedings. In parallel with this ruling the denouncing parties in Ciudad del Este have submitted remedies against the decision of Customs in

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

Asuncion arguing that such ruling was taken without bringing both dossiers together. Our local counsel has recently advised that the Director of Customs in Asuncion decided to render null the ruling dated March 22, 2010 and ordered evidence to be filed in respect of years 2003 to 2006 before issuing the final ruling. In a similar manner, on September 20, 2010 the Paraguayan Customs in Asuncion received a complaint against UABL Paraguay S.A. alleging infringement of Customs regulations due to lack of submission of import clearance documents in Paraguay for bunkers purchased during 2009 and 2010, from YPF-Repsol S.A. in Argentina.

Our local counsel is of the opinion that remedies will be rejected and therefore that there is only a remote possibility that UABL Paraguay S.A. will finally be found liable for any such taxes or fines and / or that these proceedings will have financial material adverse impact on the financial position or results of the Company.

iii) Oceanpar S.A. & UABL Paraguay S.A. - Paraguayan Ministry of Public Works

On July 22, 2009, we learned of an ongoing investigation in connection with the registration of barges and pushboats in Paraguay. We have learned that in April 2009, the Paraguayan Ministry of Public Works and Communications and the National Merchant Marine of Paraguay, submitted a complaint before the Public Prosecutor alleging that Oceanpar S.A. and UABL Paraguay S.A. used forged documents to obtain authorizations to flag 30 barges and to lease 252 barges, respectively. Without recognition of any liability and in order to simplify the process, it was decided to accept certain of the alleged facts. On October 5, 2009, the proceedings were suspended by the Court subject to complying with certain obligations within 1 year, including to regularize before the National Merchant Marine of Paraguay some administrative documentation corresponding to the vessels under investigation. Although the Court decided to suspend the proceedings, on October 9, 2009, we submitted a request to the court in order to clarify its resolution since some statements did not correspond with ours. On October 12, 2009 the Court issued the clarification resolution. In the opinion of our local counsel the clarification issued by the Court was favorable. The file was sent to the Enforcing Court, and the judge preliminary ruled that Oceanpar S.A. and UABL Paraguay S.A. had complied with the conditions imposed by the ruling court including the regularization of the documentation of the barges with the National Merchant Marine of Paraguay. The proceedings remained open until October 2010 for the ruling court to review if all conditions had been complied with and issue its final ruling. On October 11, 2010 the ruling court issued its final decision declaring the dismissal and extinction of the action. Once the ruling is notified to all interested parties, the case will be closed and concluded.

b) UABL International S.A. - Bolivian Tax Authority

On November 3, 2006 and April 25, 2007, the Bolivian Tax Authority (Departamento de Inteligencia Fiscal de la Gerencia Nacional de Fiscalización) issued a notice informing that UABL International S.A. (a Panamanian subsidiary of the Company in the River Business) would owe taxes to that authority in the amount of \$2,949 (including interest and fines). On June 18, 2007 our legal counsel in Bolivia submitted points of defense to the Bolivian tax authorities.

On August 27, 2007 the Bolivian tax authorities gave notice of a resolution determining the taxes (value added tax, transactions tax and income tax) that UABL International S.A. would owe to them in the amount of approximately \$6,100 (including interest and fines). On October 10, 2007, our legal counsel in Bolivia gave notice to the Bolivian tax authorities of the lawsuit commenced by UABL International S.A. to refute the resolution above mentioned.

On June 26, 2008, the judge ordered a preemptive embargo against all barges owned by UABL International S.A. that may be registered in the International Bolivian Registry of Ships ("RIBB" for its Spanish acronym). Moreover, UABL International S.A. challenged the judge's decision to place the embargo, but our local attorneys have recently advised that although it has not been notified yet the higher court has also reconfirmed the preemptive embargo as the lower court did on November 15, 2008.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

According to Company's local counsel this preemptive embargo under Bolivian law has no effect over the Company's right to use its assets nor does it have any implication over the final decision of the court, the substance of the matter and in this case it is ineffective since no significant assets of UABL International S.A. are registered in the RIBB.

On August 30, 2008 both parties submitted their arguments to the judge, who is in a position to pass sentence. On August 12, 2009 UABL was served with the judgment of the Bolivian court deciding in favor of the Bolivian tax authorities. On August 22, 2009 UABL International S.A. submitted an appeal of the lower court judgment to which Bolivian tax authorities have contested. The parties now await the decision by the court of appeal. The shares of UABL International S.A. have ceased to belong to our Company and we have been advised by our local counsel that there is only a remote possibility that UABL International S.A. would finally be found liable for any of these taxes or fines and / or that these proceedings will have a material adverse impact on the financial position or results of the Company.

## 6. FINANCIAL INSTRUMENTS

The fair value of an asset or liability is the price that would be received to sell an asset or transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value and defines three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived from observable market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The Company's assets and liabilities as of September 30, 2010 that are measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3
Current assets:			
– Freight Forward Agreements	\$ -	\$ 4,589	\$ -
Noncurrent assets:			
– Interest rate collar	-	267	-
Current liabilities:			
– Freight Forward Agreements	-	153	-
– Interest rate collar	-	785	-
Noncurrent liabilities:			
– Interest rate collar	-	1,402	-

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

The estimated fair value of the Company's other financial assets and liabilities as of September 30, 2010 were as follows:

	Carrying amount	Estimated fair value
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37,408	\$ 37,408
Restricted cash (current and non-current portion)	2,842	2,842
<b>LIABILITIES</b>		
Long term financial debt (current and non-current portion – Note 4)	\$ 397,271	\$ 401,051

The carrying value of cash and cash equivalents and restricted cash is fair value. The fair value of long-term financial debt was estimated based upon quoted market prices or by using discounted cash flow analyses based on estimated current rates for similar types of arrangements. Generally, the carrying value of variable interest rate debt, approximates fair value. Considerable judgment was required in developing certain of the estimates of fair value and accordingly the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

#### 7. DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

All of the Company's derivative positions are stated at fair value. Realized and unrealized gains and losses on derivatives not designated as hedges are reported in income as gains (losses) on derivatives, net. Unrealized gains and losses on derivatives designated as cash flow hedges are reported as a component of other comprehensive income (loss) to the extent they are effective, and reclassified into earnings on the same line item associated with the hedged transaction and in the same period the hedged transaction affects earnings. Any ineffective portion of cash flow hedges is recognized immediately in income (loss).

Assets and liabilities arising from outstanding derivative positions are reported as current receivables from derivative instruments, other noncurrent receivables and other liabilities, as follows:

	At September 30, 2010			
	Current receivables from derivative instruments	Other noncurrent receivables	Other current liabilities	Other noncurrent liabilities
Derivatives not designated as hedging instruments				
Freight Forward Agreements	\$ 4,589	\$ -	\$ 153	\$ -



Derivatives designated as hedging instruments				
Interest rate collar	-	267	785	1,402
	\$ 4,589	\$ 267	\$ 938	\$ 1,402

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

	At December 31, 2009	
	Current receivables from derivative instruments	Current other liabilities
Derivatives designated as hedging instruments		
Freight Forward Agreements	\$ 16,885	\$ 1,509
	\$ 16,885	\$ 1,509

At September 30, 2010 and December 31, 2009, the Company does not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. The amounts of collateral to be posted are defined in the terms of respective master agreements executed with a clearing house. At September 30, 2010 and December 31, 2009, the Company maintained the right to reclaim cash collateral of \$2,095 and \$2,071, respectively, which is included in "Other receivables" in the current assets.

The Company evaluates the risk of counterparty default by monitoring the financial condition of the financial institutions and counterparties involved, by primarily conducting business with large, well-established financial institutions and international traders, and diversifying its counterparties. The Company does not currently anticipate nonperformance by any of its counterparties.

## CASH FLOW HEDGE

## FFA

The Company enters into freight forward agreements (FFAs) either via a clearing house or over the counter with an objective to utilize them as hedging instruments that reduce its exposure to changes in the spot market rates earned by certain of its vessels in the normal course of its Ocean Business or to take advantage of short term fluctuations in the market. These FFAs involve a contract to provide a fixed number of theoretical days of voyages at fixed rates. These contracts are net settled each month.

At September 30, 2010 the outstanding FFAs entered by the Company were as follows:

Days	Rate received (\$/day)	Rate paid (\$/day)	Notional amount (in thousands)	Fair value Asset (Liability) (in thousands)	Settlement date
OTC contracts					
92 (1)	83,000	C4TC	\$ 7,636	\$ 4,678	October to December 2010
45 (2)	30,000	C4TC	1,350	(89 )	)

					October to December 2010
					\$ 4,589
<b>Contracts via clearing house</b>					
		29,500			October to December 2010
79 (3)	C4TC	to 33,250	(2,499 )	\$ 27	
45 (2)	24,125	C4TC	1,086	(180 )	January to March 2011
					\$ (153 )

- (1) Corresponds to each calendar month.  
 (2) Corresponds to 15 days per month.  
 (3) Corresponds to 31 days in October and 24 days in each November and December.

During the nine-month periods ended September 30, 2010 and 2009, the Company received net cash settlements for its FFAs positions of \$12,027 and \$25,798, respectively.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

As result of the sale of Princess Marisol and Princess Katherine described in note 3, FFA positions maturing between May and December 2010 with notional amounts totaling \$19,400 were no longer probable of occurring and thus no longer qualified as effective cash flow hedges.

During the nine-month period ended September 30, 2010, the Company recorded an aggregate net unrealized gain of \$141 and a realized gain of \$10,129, in connection with FFA positions, which are reflected in the Company's condensed consolidated statements of operations as Other income (expenses) - gains on derivatives, net.

### INTEREST RATE COLLAR AGREEMENT

On May 7, 2010, through UABL Limited, our holding subsidiary in the River Business, we entered into an interest rate collar transaction with International Finance Corporation (IFC) through which we expect to hedge our exposure to interest volatility under our financings with IFC and OFID from June 2010 to June 2016. The initial notional amount is \$75,000 (subsequently adjusted in accordance with the amortization schedule under these financings), with UABL Limited being the USD Floor Rate seller at a floor strike rate of 1.69%, and IFC being the USD Cap Rate seller at a cap strike rate of 5.00%. This contract qualifies for hedge accounting and as such changes in its fair values are included in other comprehensive income (loss) in the unaudited condensed consolidated financial statements. The fair value of this agreement equates to the amount that would be paid by the Company if the agreement were cancelled at the reporting date, taking into account current interest rates and creditworthiness of the Company.

## 8. INCOME TAXES

The Company operates through its subsidiaries, which are subject to several tax jurisdictions, as follows:

### a) Bahamas

The earnings from shipping operations were derived from sources outside the Bahamas and such earnings were not subject to Bahamian taxes.

### b) Panama

The earnings from shipping operations were derived from sources outside Panama and such earnings were not subject to Panamanian taxes.

### c) Paraguay

Our subsidiaries in Paraguay are subject to Paraguayan corporate income taxes.

### d) Argentina

Our subsidiaries in Argentina are subject to Argentine corporate income taxes.

In Argentina, the tax on minimum presumed income ("TOMPI"), supplements income tax since it applies a minimum tax on the potential income from certain income generating-assets at a 1% tax rate. The Companies' tax obligation in any given year will be the higher of these two tax amounts. However, if in any given tax year TOMPI exceeds income tax, such excess may be computed as payment on account of any excess of income tax over TOMPI that may arise in any of the ten following years.

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

e) Brazil

Our subsidiaries in Brazil are subject to Brazilian corporate income taxes.

UP Offshore Apoio Maritimo Ltda., has foreign currency exchange gains recognized for tax purposes only in the period its debt (including intercompany transactions) is extinguished. A deferred income tax liability is recognized in the period the foreign currency exchange rate changes equal to the future taxable income at the applicable tax rate.

f) Chile

Our subsidiary Corporación de Navegación Mundial S.A. (Cor.Na.Mu.S.A.) is subject to Chilean corporate income taxes.

g) United Kingdom (UK)

Our subsidiary in the Offshore Supply Business, UP Offshore (UK) Limited, is not subject to corporate income tax in the United Kingdom, rather, it qualifies under UK tonnage tax rules and pays a flat rate based on the net tonnage of qualifying PSVs.

h) United States of America (US)

Under the U.S. Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of our vessel owning or chartering subsidiaries attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. is characterized as U.S. source shipping income. Such income is subject to 4% U.S. federal income tax without allowance for deduction, unless our subsidiaries qualify for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

For the nine-month periods ended September 30, 2010 and 2009 our subsidiaries did not derive any U.S. source shipping income. Therefore our subsidiaries are not subject to any U.S. federal income taxes, except the ship management services provided by Ravenscroft.

9. SHARE CAPITAL

Common shares and shareholders

On September 21, 2006, Inversiones Los Avellanos S.A., Hazels (Bahamas) Investments Inc. and Solimar Holdings Ltd. (collectively the "Original Shareholders") signed a second amended and restated shareholders agreement. The shares held directly by our Original Shareholders expressly are entitled to seven votes per share and all other holders of our common stock are entitled to one vote per share. The special voting rights of the Original Shareholders are not transferable, unless to another Original Shareholder.

On July 15, 2010, Solimar Holdings Ltd. sold to Hazels (Bahamas) Investments Inc. 2,977,690 shares of Ultrapetrol common stock. After this transaction and at September 30, 2010 our shareholders Inversiones Los Avellanos S.A. and

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Hazels (Bahamas) Investments Inc. hold 4,735,517 and 3,128,568 shares, respectively, which represent 15.8% and 10.4% of the common stock, respectively, and jointly represents 71.5% of the total voting power.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## 10. BUSINESS AND GEOGRAPHIC SEGMENT INFORMATION

The Company organizes its business and evaluates performance by its operating segments, Ocean, River and Offshore Supply Business. The accounting policies of the reportable segments are the same as those for the unaudited condensed consolidated financial statements. The Company does not have significant intersegment transactions. These segments and their respective operations are as follows:

**River Business:** In our River Business, we own and operate several dry and tanker barges, and push boats. In addition, we use one barge from our ocean fleet, the *Alianza G2*, as a transfer station. The dry barges transport basically agricultural and forestry products, iron ore and other cargoes, while the tanker barges carry petroleum products, vegetable oils and other liquids.

We operate our pushboats and barges on the navigable waters of the Parana, Paraguay and Uruguay Rivers and part of the River Plate in South America, also known as the Hidrovia region.

**Offshore Supply Business:** We operate our Offshore Supply Business, using PSVs owned by UP Offshore (Bahamas), which are all employed in the Brazilian market. PSVs are designed to transport supplies such as containerized equipment, drill casing, pipes and heavy loads on deck, along with fuel, water, drilling fluids and bulk cement in under deck tanks and a variety of other supplies to drilling rigs and platforms.

**Ocean Business:** In our Ocean Business, we operate eight oceangoing vessels: five product tankers (two of which are on lease to us), one container feeder vessel, one oceangoing tug and one tank under the trade name *Ultrapetrol*. Our Capesize and Handy size/small product tanker vessels transport dry and liquid bulk goods. Major products carried include liquid cargo such as petroleum and petroleum derivatives, as well as dry cargo such as iron ore, coal and other bulk cargoes and containers.

All of the Company's operating revenues were derived from its foreign operations. The following represents the Company's revenues attributed by geographical region in which services are provided to customers.

Revenues (1)	For the nine-month periods ended September 30,	
	2010	2009
- South America	\$ 147,072	\$ 97,618
- Europe	17,640	62,024
- Asia	3,863	7,225
- Other	4,871	4,302
	\$ 173,446	\$ 171,169

(1) Classified by country of domicile of charterers.

The Company's vessels are highly mobile and regularly and routinely moved between countries within a geographical region of the world. In addition, these vessels may be redeployed among the geographical regions as changes in market conditions dictate. Because of this mobility, long-lived assets, primarily vessels and equipment cannot be



allocated to any one country.

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

The following represents the Company's vessels and equipment based upon the assets physical location as of the end of each applicable period presented:

	At September 30, 2010	At December 31, 2009
Vessels and equipment, net		
- South America	\$ 478,115	\$ 397,986
- Europe	-	37,398
- Asia	99,097	97,874
- Other	6,356	38,220
	\$ 583,568	\$ 571,478

Revenue by segment consists only of services provided to external customers, as reported in the unaudited condensed consolidated statement of operations. Resources are allocated based on segment profit or loss from operation, before interest and taxes.

Identifiable assets represent those assets used in the operations of each segment.

The following schedule presents segment information about the Company's operations for the nine-month period ended September 30, 2010:

	Ocean Business	Offshore Supply Business	River Business	Total
Revenues	\$ 44,162	\$ 39,385	\$ 89,899	\$ 173,446
Running and voyage expenses	30,169	21,125	57,965	109,259
Depreciation and amortization	7,657	5,256	12,602	25,515
Segment operating profit	184	7,908	10,685	18,777
Segment assets	98,681	240,233	332,795	671,709
Investment in affiliates	286	-	1,260	1,546
(Loss) from investment in affiliates	(21 )	-	(220 )	(241 )
Additions to long-lived assets	17,835	1,923	48,456	68,214

Reconciliation of total assets of the segments to amount included in the unaudited condensed consolidated balance sheet as follows:

	At September 30, 2010
Total assets for reportable segments	\$ 671,709
Other assets	16,808

Corporate cash and cash equivalents	37,408
Consolidated total assets	\$ 725,925

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## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

The following schedule presents segment information about the Company's operations for the nine-month period ended September 30, 2009:

	Ocean Business	Offshore Supply Business	River Business	Total
Revenues	\$ 81,860	\$ 25,784	\$ 63,525	\$ 171,169
Running and voyage expenses	38,639	14,780	51,510	104,929
Depreciation and amortization	16,196	4,245	10,212	30,653
Segment operating profit (loss)	21,968	2,168	(5,372 )	18,764
Income from investment in affiliates	15	-	22	37
Additions to long-lived assets	6,251	32,351	30,469	69,071

## 11. DISCONTINUED OPERATIONS

During 2008, the Company decided to discontinue its operations in the Passenger Business.

For all periods presented the Passenger Business operations have been reported as discontinued operations net of income taxes.

On February 5, 2010, the Blue Monarch passenger vessel was sold and delivered to her new owner for \$1,950, with no impact in earnings.

The impact of discontinued operations on net income (loss) per share of Ultrapetrol (Bahamas) Limited in all periods presented is disclosed in the unaudited condensed consolidated statements of operations.

Discontinued operations, net of income taxes consist of the following:

	For the nine-month periods ended September 30,	
	2010	2009
Running and voyage expenses	\$ (365 )	\$ (1,006 )
Other expenses, net	(150 )	(262 )
Loss from discontinued operations	\$ (515 )	\$ (1,268 )

## 12. SUPPLEMENTAL GUARANTOR INFORMATION

On November 24, 2004, the Company issued \$180 million 9% First Preferred Ship Mortgage Notes due 2014.

The 2014 Senior Notes are fully and unconditionally guaranteed on a joint and several basis by the Company's subsidiaries directly involved in our Ocean and River Business.

The Indenture provides that the 2014 Senior Notes and each of the guarantees granted by Subsidiaries, other than the Mortgage, are governed by, and construed in accordance with, the laws of the state of New York. Each of the mortgaged vessels is registered under either the Panamanian flag, or another jurisdiction with similar procedures. All of the Subsidiary Guarantors are outside of the United States.

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

The Indenture includes certain terms under which a subsidiary may be classified as an Unrestricted Subsidiary. The Board of Directors determined that UP Offshore (Bahamas) Limited (the holding company of our Offshore Supply Business) has met those criteria and on October 29, 2009, the Board of Directors of Ultrapetrol (Bahamas) Limited declared UP Offshore (Bahamas) Limited, as an Unrestricted Subsidiary pursuant to the terms of the Indenture.

Supplemental unaudited condensed combining financial information for the Guarantor Subsidiaries for the 2014 Senior Notes is presented below. This information is prepared in accordance with the Company's accounting policies. This supplemental financial disclosure should be read in conjunction with the unaudited condensed consolidated financial statements.

## ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

## SUPPLEMENTAL CONDENSED COMBINING BALANCE SHEET

AT SEPTEMBER 30, 2010 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
<b>Current assets</b>					
Receivables from related parties	\$ 239,889	\$ 91,300	\$ 26,887	\$ (358,004 )	\$ 72
Other current assets	10,632	32,604	53,327	-	96,563
<b>Total current assets</b>	<b>250,521</b>	<b>123,904</b>	<b>80,214</b>	<b>(358,004 )</b>	<b>96,635</b>
<b>Noncurrent assets</b>					
Vessels and equipment, net	-	173,612	410,973	(1,017 )	583,568
Investment in affiliates	210,002	-	1,546	(210,002 )	1,546
Other noncurrent assets	4,689	13,073	26,414	-	44,176
<b>Total noncurrent assets</b>	<b>214,691</b>	<b>186,685</b>	<b>438,933</b>	<b>(211,019 )</b>	<b>629,290</b>
<b>Total assets</b>	<b>\$ 465,212</b>	<b>\$ 310,589</b>	<b>\$ 519,147</b>	<b>\$ (569,023 )</b>	<b>\$ 725,925</b>
<b>Current liabilities</b>					
Payable to related parties	\$ -	\$ 122,113	\$ 235,908	\$ (358,004 )	\$ 17
Current portion of long-term financial debt	10,000	-	11,097	-	21,097
Other current liabilities	6,045	8,236	21,923	-	36,204
<b>Total current liabilities</b>	<b>16,045</b>	<b>130,349</b>	<b>268,928</b>	<b>(358,004 )</b>	<b>57,318</b>
<b>Noncurrent liabilities</b>					
Long-term financial debt net of current portion	180,000	40,000	156,174	-	376,174
Other noncurrent liabilities	-	1,061	16,997	-	18,058
<b>Total noncurrent liabilities</b>	<b>180,000</b>	<b>41,061</b>	<b>173,171</b>	<b>-</b>	<b>394,232</b>
<b>Total liabilities</b>	<b>196,045</b>	<b>171,410</b>	<b>442,099</b>	<b>(358,004 )</b>	<b>451,550</b>
Equity	269,167	139,179	77,048	(216,227 )	269,167
Noncontrolling interest in subsidiaries	-	-	-	5,208	5,208
<b>Total equity</b>	<b>269,167</b>	<b>139,179</b>	<b>77,048</b>	<b>(211,019 )</b>	<b>274,375</b>
<b>Total liabilities and equity</b>	<b>\$ 465,212</b>	<b>\$ 310,589</b>	<b>\$ 519,147</b>	<b>\$ (569,023 )</b>	<b>\$ 725,925</b>





ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED COMBINING BALANCE SHEET

AT DECEMBER 31, 2009

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Current assets					