AUTOMATIC DATA PROCESSING INC
Form 10-Q
May 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

OR

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

For the Transition Period From to

Commission File Number 1-5397

AUTOMATIC DATA PROCESSING, INC.
(Exact name of registrant as specified in its charter)

Delaware	**22-1467904**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One ADP Boulevard, Roseland, New Jersey	**07068**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (973) 974-5000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]   Accelerated filer [ ]   Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]   No [X]

The number of shares outstanding of the registrant's common stock as of April 30, 2007 was 553,238,164.

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Earnings
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
REVENUES:				
Revenues, other than interest on funds held for Employer Services' clients and PEO revenues	$ 1,741.9	$ 1,563.2	$ 4,729.5	$ 4,211.7
Interest on funds held for Employer Services' clients	198.3	166.2	475.3	393.5
PEO revenues (A)	249.1	197.6	649.5	516.9
TOTAL REVENUES	2,189.3	1,927.0	5,854.3	5,122.1
EXPENSES:				
Costs of revenues				
Operating expenses	899.4	781.8	2,536.8	2,160.5
Systems development and programming costs	122.2	120.5	355.7	343.2
Depreciation and amortization	54.0	42.3	155.8	122.9
TOTAL COST OF REVENUES	1,075.6	944.6	3,048.3	2,626.6
Selling, general and administrative expenses	554.1	495.3	1,570.5	1,376.4
Interest expense	7.0	7.0	74.8	51.3
Other income, net	(25.2)	(23.0)	(175.4)	(78.6)
TOTAL EXPENSES	1,611.5	1,423.9	4,518.2	3,975.7
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	577.8	503.1	1,336.1	1,146.4
Provision for income taxes	213.5	188.5	495.7	430.1
NET EARNINGS FROM CONTINUING OPERATIONS	$ 364.3	$ 314.6	$ 840.4	$ 716.3
Earnings from discontinued operations, net of provision for income taxes of $51.4 and $35.0 for the three months ended March 31, 2007 and 2006, respectively, and $96.9 and $84.5 for the nine months ended March 31, 2007 and 2006, respectively	24.6	56.0	103.6	134.0
NET EARNINGS	$ 388.9	$ 370.6	$ 944.0	$ 850.3
Basic Earnings Per Share from Continuing Operations	$ 0.66	$ 0.54	$ 1.52	$ 1.24
Basic Earnings Per Share from Discontinued Operations	0.04	0.10	0.19	0.23
BASIC EARNINGS PER SHARE	$ 0.70	$ 0.64	$ 1.71	$ 1.47

Diluted Earnings Per Share from Continuing Operations	$	0.65	$	0.54	$	1.51	$	1.23
Diluted Earnings Per Share from Discontinued Operations		0.04		0.10		0.19		0.23
DILUTED EARNINGS PER SHARE	$	0.70	$	0.64	$	1.69	$	1.46
Basic weighted average shares outstanding		552.1		577.5		551.6		577.0
Diluted weighted average shares outstanding		558.7		582.8		558.5		582.7
Dividends declared per common share	$	0.2300	$	0.1850	$	0.6450	$	0.5250

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs of $2,417.8 and $1,957.6 for the three months ended March 31, 2007 and 2006, respectively, and $6,763.1 and $5,167.5 for the nine months ended March 31, 2007 and 2006, respectively.

See notes to the consolidated financial statements

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

Assets	March 31, 2007	June 30, 2006
Current assets:		
Cash and cash equivalents	$ 2,473.5	$ 1,867.3
Short-term marketable securities	207.8	327.5
Accounts receivable, net	915.0	765.0
Other current assets	455.5	400.4
Assets of discontinued operations	4.6	2,122.0
Total current assets	4,056.4	5,482.2
Long-term marketable securities	105.9	333.7
Long-term receivables, net	205.1	215.4
Property, plant and equipment, net	710.1	701.5
Other assets	840.1	772.3
Goodwill	2,317.5	1,985.8
Intangible assets, net	717.0	515.3
Total assets before funds held for clients	8,952.1	10,006.2
Funds held for clients	23,970.8	17,483.9
Total assets	$ 32,922.9	$ 27,490.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 105.9	$ 127.2
Accrued expenses and other current liabilities	1,413.5	1,373.9
Income taxes payable	220.3	202.2
Liabilities of discontinued operations	25.6	967.5
Total current liabilities	1,765.3	2,670.8
Long-term debt	43.6	74.3
Other liabilities	396.6	361.6
Deferred income taxes	190.5	103.0
Deferred revenues	479.9	481.4
Total liabilities before client funds obligations	2,875.9	3,691.1
Client funds obligations	24,058.3	17,787.4
Total liabilities	26,934.2	21,478.5
Stockholders' equity:		
Preferred stock, $1.00 par value: Authorized 0.3 shares; issued, none	-	-
Common stock, $0.10 par value: Authorized 1,000.0 shares; issued 638.7 shares	63.9	63.9
Capital in excess of par value	315.7	157.4
Retained earnings	9,220.2	9,111.4
Treasury stock - at cost: 83.7 and 77.3 shares, respectively	(3,636.5)	(3,194.8)

Accumulated other comprehensive income (loss)	25.4	(126.3)
Total stockholders’ equity	5,988.7	6,011.6
Total liabilities and stockholders’ equity	$ 32,922.9	$ 27,490.1

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
Cash Flows from Operating Activities:		
Net earnings	$ 944.0	$ 850.3
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Gain on sale of cost-based investment	(38.6)	-
Depreciation and amortization	214.4	181.9
Deferred income taxes	(16.1)	(61.7)
Stock-based compensation expense	103.9	106.6
Pension expense	30.4	23.5
Net realized (gain) loss from the sales of marketable securities	(17.3)	16.8
Amortization of premiums and discounts on available-for-sale securities	31.3	60.8
Gain on sale of business	(24.4)	-
Impairment of assets of discontinued operations businesses	-	18.6
Other	27.1	35.8
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses:		
Increase in receivables and other assets	(207.4)	(46.6)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(9.0)	(11.5)
Operating activities of discontinued operations	73.7	299.6
Net cash flows provided by operating activities	1,112.0	1,474.1
Cash Flows from Investing Activities:		
Purchases of marketable securities	(3,347.7)	(4,164.9)
Proceeds from the sales and maturities of marketable securities	3,513.6	3,325.6
Net purchases of client funds securities	(6,065.1)	(3,787.7)
Change in client funds obligations	6,225.4	4,756.6
Capital expenditures	(122.6)	(189.6)
Additions to intangibles	(138.4)	(73.4)
Proceeds from the sale of investment	38.6	-
Proceeds from the sale of business, net of cash divested	17.2	6.2
Acquisitions of businesses, net of cash acquired	(433.0)	(335.5)
Dividend received from Broadridge Financial Solutions, Inc.	690.0	-
Cash retained by Broadridge Financial Solutions, Inc.	(29.9)	-
Other	16.3	12.9
Investing activities of discontinued operations	(28.2)	(56.1)
Net cash flows provided by (used in) investing activities	336.2	(505.9)
Cash Flows from Financing Activities:		
Proceeds from issuance of notes	0.4	0.4
Payments of debt	(1.6)	(0.5)
Repurchases of common stock	(906.3)	(545.2)
Proceeds from stock purchase plan and exercises of stock options	224.5	175.9

Dividends paid		(334.0)		(286.9)
Financing activities of discontinued operations		134.1		55.0
Net cash flows used in financing activities		(882.9)		(601.3)
Effect of exchange rate changes on cash and cash equivalents		7.5		(5.1)
Net change in cash and cash equivalents		572.8		361.8
Cash and cash equivalents, beginning of period		1,900.7		975.4
Cash and cash equivalents, end of period	$	2,473.5	$	1,337.2
Less cash and cash equivalents of discontinued operations, end of period		-		217.5
Cash and cash equivalents of continuing operations, end of period	$	2,473.5	$	1,119.7

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
(Tabular dollars in millions, except per share amounts)
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. Adjustments are of a normal recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes of Automatic Data Processing, Inc. and Subsidiaries ("ADP" or the "Company") as of and for the year ended June 30, 2006. The results of operations for the three and nine months ended March 31, 2007 may not be indicative of the results to be expected for the fiscal year ending June 30, 2007.

Note 2. Discontinued Operations

On March 30, 2007 the Company completed the tax free spin-off of its former Brokerage Services Group business, comprised of Brokerage Services and Securities Clearing and Outsourcing Services, into an independent publicly traded company called Broadridge Financial Solutions, Inc. ("Broadridge"). As a result of the spin-off, ADP stockholders of record on March 23, 2007 (the "record date") received one share of Broadridge common stock, with a par value $0.01 per share, for every four shares of ADP common stock held by them on the record date and cash for any fractional shares of Broadridge common stock. ADP distributed approximately 138.8 million shares of Broadridge common stock in the distribution. The spin-off was made without the payment of any consideration or the exchange of any shares by ADP stockholders.

The Company has classified the results of operations of Broadridge as discontinued operations for all periods presented. Additionally, the Company recorded a decrease to retained earnings of $1.2 billion for the non-cash reduction in net assets of Broadridge related to the spin-off, offset by an increase to retained earnings of $690.0 million related to the cash dividend received from Broadridge as part of the spin-off. The spin-off and the transitional and on-going relationships between ADP and Broadridge are governed by a Separation and Distribution Agreement entered into between ADP and Broadridge, and certain other ancillary agreements.

Incremental costs associated with the spin-off of $25.0 million and $35.5 million for the three and nine months ended March 31, 2007, respectively, are included in earnings from discontinued operations on the Statements of Consolidated Earnings and are principally related to professional services. ADP expects to incur total incremental costs associated with the spin-off of approximately $40.0 million during fiscal 2007.

On January 23, 2007, the Company completed the sale of Sandy Corporation, a business within the Dealer Services segment, which specializes in sales and marketing training, for approximately $4.0 million in cash and the assumption of certain liabilities by the buyer, plus an additional earn-out payment if certain revenue targets are achieved. The Company reported a gain of $11.2 million, or $6.9 million after tax within earnings from discontinued operations on the Statements of Consolidated Earnings. The Company has classified the results of operations of this business as discontinued operations for all periods presented.

On April 13, 2006, the Company completed the sale of its Claims Services business to Solera, Inc. for $975.0 million in cash and reported a gain of $560.9 million, or $452.8 million after tax, during the fiscal year ended June 30, 2006. During the nine months ended March 31, 2007, the Company received an additional payment of $13.2 million, or $12.6 million after tax, from Solera, Inc., which represented the final purchase price adjustment for the sale of the Claims Services business. The Company reported the gain and the final purchase price adjustment within earnings from discontinued operations on the Statements of Consolidated Earnings. The Claims Services business was a separate operating segment of the Company and was reported in the “Other” segment. In connection with the disposal of this business, the Company has classified the results of operations of this business as discontinued operations for all periods presented.

On January 20, 2006, the Company completed the sale of its Brokerage Services’ financial print business for $7.5 million in cash. The Company classified the results of operations of this business as discontinued operations during the fiscal year ended June 30, 2006. In connection with the plan to dispose of the financial print business, the Company recorded an impairment charge of $18.6 million in order to reflect the assets of this business at fair value during the three months ended December 31, 2005 in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This impairment charge is included in the earnings from discontinued operations on the Statements of Consolidated Earnings.

Operating results of these discontinued operations were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Revenues	$ 558.5	$ 625.6	$ 1,444.9	$ 1,652.1
Earnings from discontinued operations before income taxes	64.8	91.0	176.1	218.5
Provision for income taxes	47.1	35.0	92.0	84.5
Net earnings from discontinued operations before gain on disposal of discontinued operations	17.7	56.0	84.1	134.0
Gain on disposal of discontinued operations, net of provision for income taxes of $4.3 for the three months ended March 31, 2007 and $4.9 for the nine months ended March 31, 2007	6.9	-	19.5	-
Net earnings from discontinued operations	$ 24.6	$ 56.0	$ 103.6	$ 134.0

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The following are the major classes of assets and liabilities related to the discontinued operations as of March 31, 2007 and June 30, 2006.

	March 31, 2007	June 30, 2006
Assets:		
Cash	$ -	$ 33.4
Short-term marketable securities	-	40.3
Accounts receivable, net	4.6	437.3
Securities clearing receivables	-	836.8
Property, plant and equipment, net	-	80.9
Goodwill	-	480.4
Intangible assets, net	-	102.7
Other assets	-	110.2
Total	$ 4.6	$ 2,122.0
Liabilities:		
Accounts payable	$ -	$ 80.1
Accrued expenses	4.8	210.1
Securities clearing payables	-	613.6
Income taxes payable	20.8	18.1
Deferred revenue	-	45.6
Total	$ 25.6	$ 967.5

Note 3. Cost of Revenues

The Company has revised the format of our Statements of Consolidated Earnings to include a separate line item for cost of revenues. The Company's costs and expenses applicable to revenues ("cost of revenues") represent the total of operating expenses and systems development and programming costs as presented on the Statements of Consolidated Earnings, as well as the portion of depreciation and amortization that relates to our services and products.

The Company previously reported that depreciation and amortization from continuing operations totaled $61.9 million and $181.9 million for the three and nine months ended March 31, 2006, respectively. The portion of depreciation and amortization that relates to our services and products equals $42.3 million and $122.9 million for the three and nine months ended March 31, 2006, respectively, and is included in cost of revenues. The portion of depreciation and amortization that does not relate to our services and products of $19.6 million and $59.0 million for the three and nine months ended March 31, 2006, respectively, was reclassified to selling, general and administrative expenses on the Statements of Consolidated Earnings.

The following table provides the cost of revenues from continuing operations for the three fiscal years ended June 30, 2006:

Years ending June 30,	2006	2005	2004
Operating expenses	$ 2,997.9	$ 2,621.4	$ 2,271.5
Systems development and programming costs	472.6	426.9	402.8
Depreciation and amortization	166.0	156.1	159.6

Cost of revenues	$	3,636.5	$	3,204.4	$	2,833.9

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Note 4. New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 provides companies with an option to measure selected financial assets and liabilities at fair value. The Company is currently evaluating the effect that the adoption of SFAS No. 159 will have, if any, on its consolidated results of operations and financial condition.

In September 2006, the staff of the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure using both the rollover approach and the iron curtain approach. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company plans to include the effect of adopting SAB 108 in its Annual Report on Form 10-K for the year ending June 30, 2007 and currently estimates the adoption of SAB 108 to result in an increase to retained earnings of $40.0 million, net of tax, which will be primarily due to a reduction in certain accrued expenses.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). This statement would require a company to (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status, (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and (c) recognize changes in the funded status of a defined benefit plan in the year in which the changes occur (reported in comprehensive income). The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the first fiscal year ending after December 15, 2006. The Company plans to include the effect of adopting SFAS No. 158 in its Annual Report on Form 10-K for the year ending June 30, 2007. Based on the unrecognized actuarial losses of ADP's pension plans in its June 30, 2006 Annual Report on Form 10-K, we expect to reclassify $116 million, net of tax, from other assets to accumulated other comprehensive income on the Consolidated Balance Sheets upon the adoption of SFAS No. 158, which will result in a reduction of stockholders' equity. The Company will reevaluate this estimate upon adoption of SFAS No. 158, based upon its June 30, 2007 plan measurement date, which will likely impact the above-described amount. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not believe that the adoption of SFAS No. 158 will have a material impact on the consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company believes that the adoption of SFAS No. 157 will not have a material effect on its consolidated results of operations, cash flows or financial condition.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 applies to all tax positions accounted for under SFAS No. 109, "Accounting for Income Taxes" and defines the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained by the taxing authority as of the reporting date. If a tax position is not considered "more-likely-than-not" to be sustained then no benefits of the position are to be recognized. FIN 48 requires additional annual disclosures and is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company expects to adopt FIN 48 on July 1, 2007 and is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition.

Note 5. Acquisitions

The Company acquired 100% interest in nine businesses during the nine months ended March 31, 2007 for approximately $432.1 million, net of cash acquired and subject to post-closing purchase price adjustments. The Company has allocated the purchase price of these acquisitions based upon preliminary estimates and assumptions. Accordingly, these allocations are subject to revision when the Company receives final information, including appraisals and other analyses. These acquisitions resulted in approximately $304.5 million of goodwill. Intangible assets acquired, which totaled approximately $154.5 million, consisted primarily of customer contracts and lists, as well as software, that are being amortized over a weighted average life of approximately 10 years. The acquisitions were not material, either individually or in the aggregate, to the Company’s operations, financial position or cash flows. The Company also made $0.9 million of contingent payments relating to previously consummated acquisitions.

Note 6. Earnings Per Share (“EPS”)

	For the three months ended March 31,						
	2007			2006			
	Net Earnings from Continuing Operations	Weighted Average Shares	EPS from Continuing Operations	Net Earnings from Continuing Operations		Weighted Average Shares	EPS from Continuing Operations
Basic	$ 364.3	552.1	$ 0.66	$ 314.6		577.5	$ 0.54
Effect of zero coupon subordinated notes	0.3	0.9		0.2		1.1	
Effect of employee					(70,476)		
Accumulated other comprehensive income (loss)	(1,774)	(2,578)					
Total Ultrapetrol (Bahamas) Limited stockholders' equity	412,479	399,751					
Noncontrolling interest	-	6,748					
Total equity	412,479	406,499					
Total liabilities and equity	$ 938,372	$ 1,010,318					

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 30, 2013	2012
REVENUES	$312,262	$226,829
OPERATING EXPENSES		
Voyage and manufacturing expenses	(117,310)	(87,132)
Running costs	(104,993)	(93,913)
Depreciation and amortization	(31,176)	(32,269)
Administrative and commercial expenses	(28,369)	(23,451)
Other operating income, net	2,818	7,587
	(279,030)	(229,178)
Operating profit (loss)	33,232	(2,349)
OTHER INCOME (EXPENSES), NET		
Financial expense	(24,640)	(26,925)
Financial loss on extinguishment of debt	(5,518)	-
Foreign currency exchange gains (losses), net	16,923	(2,821)
Financial income	89	55
Loss on derivatives, net	(218)	-
Investments in affiliates	(209)	(988)
Other, net	63	(475)
Total other income (expenses), net	(13,510)	(31,154)
Income (loss) before income tax	19,722	(33,503)
Income tax (expenses) benefit	(4,538)	2,033
Net income (loss)	15,184	(31,470)
Net income attributable to noncontrolling interest	553	635
Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	$14,631	$(32,105)
INCOME (LOSS) PER SHARE OF ULTRAPETROL (BAHAMAS) LIMITED - BASIC AND DILUTED	$0.10	$(1.09)
Basic weighted average number of shares	140,090,112	29,568,622
Diluted weighted average number of shares	140,303,260	29,568,622

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 COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Stated in thousands of U.S. dollars)

	For the nine-month periods ended September 30,	
	2013	2012
Net income (loss)	$15,184	$(31,470)
Other comprehensive income (loss):		
Reclassification of net derivative loss to loss on derivatives, net	216	-
Reclassification of net foreign currency derivative gains to depreciation and amortization	(7)	(6)
Reclassification of net derivative losses on cash flow hedges to financial expense	798	661
Derivative (losses) on cash flow hedges	(157)	(1,107)
	850	(452)
Income tax expense	-	-
	850	(452)
Comprehensive income (loss)	16,034	(31,922)
Comprehensive income attributable to noncontrolling interest	587	627
Comprehensive income (loss) attributable to Ultrapetrol (Bahamas) Limited	$15,447	$(32,549)

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 EQUITY (UNAUDITED)

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

	Ultrapetrol (Bahamas) Limited stockholders' equity							
Balance	Shares amount	Common stock	Additional paid-in capital	Treasury stock	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total equity
December 31, 2011	30,011,628	$339	$272,302	$(19,488)	$(6,819)	$(2,037)	$5,874	$250,171
Compensation related to restricted stock granted	-	-	871	-	-	-	-	871
Net loss	-	-	-	-	(32,105)	-	635	(31,470)
Other comprehensive loss	-	-	-	-	-	(444)	(8)	(452)
September 30, 2012	30,011,628	$339	$273,173	$(19,488)	$(38,924)	$(2,481)	$6,501	$219,120
December 31, 2012	140,419,487	$1,443	$490,850	$(19,488)	$(70,476)	$(2,578)	$6,748	$406,499
Compensation related to stock awards granted	-	-	196	-	-	-	-	196
Purchase of subsidiary shares from noncontrolling interests	-	-	(2,903)	-	-	(12)	(7,335)	(10,250)
Net income	-	-	-	-	14,631	-	553	15,184
Other comprehensive income	-	-	-	-	-	816	34	850
September 30, 2013	140,419,487	$1,443	$488,143	$(19,488)	$(55,845)	$(1,774)	$-	$412,479

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 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 15,184	$ (31,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of vessels and equipment	28,783	28,807
Amortization of dry docking	2,263	3,331
Expenditure for dry docking	(6,615)	(4,377)
Debt issuance expense amortization	1,697	2,092
Financial loss on extinguishment of debt	5,518	-
Net losses from investments in affiliates	209	988
Allowance for doubtful accounts	1,730	-
Share - based compensation	196	871
Gain on sale of assets	-	(3,557)
Other	347	849
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(18,145)	(14,298)
Other receivables, operating supplies and inventories and prepaid expenses	(13,300)	(9,074)
Other	28	(1,298)
Increase (decrease) in liabilities:		
Accounts payable	(965)	6,539
Customer advances	1,366	17,835
Other payables	872	5,245
Net cash provided by operating activities	19,168	2,483
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of vessels and equipment ($7,521 in 2013 and $4,753 in 2012 for barges built, sold and leased-back)	(24,129)	(40,720)
Proceeds from disposal of assets, net ($9,300 in 2013 and $2,790 in 2012 for barges sold and leased-back)	9,300	8,352
Other investing activities	-	(175)
Net cash (used in) investing activities	(14,829)	(32,543)
CASH FLOWS FROM FINANCING ACTIVITIES		
Scheduled repayments of long-term financial debt	(22,088)	(14,139)
Early repayment of long-term financial debt	(31,200)	(1,849)
Prepayment of 2017 Senior Convertible Notes	(80,000)	-
Prepayment of 2014 Senior Notes	(180,000)	-

Short-term credit facility repayments	(8,275)	-
Proceeds from 2021 Senior Notes, net of issuance costs	192,618	-
Proceeds from long-term financial debt	41,400	22,000
Purchase of subsidiary shares from noncontrolling interest	(10,250)	-
Other financing activities, net	(5,617)	4,820
Net cash (used in) provided by financing activities	(103,412)	10,832
Net (decrease) in cash and cash equivalents	(99,073)	(19,228)
Cash and cash equivalents at the beginning of year	222,215	34,096
Cash and cash equivalents at the end of the period	$123,142	$14,868

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

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

(Information pertaining to the nine-month periods ended September 30, 2013 and 2012 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 push boats 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. The Company also has a shipyard that should promote organic growth and from time to time make external sales. 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 coastal waters of Brazil and the North Sea. In our Ocean Business, we are an owner and operator of oceangoing vessels that transport petroleum products and a container line service in the Argentine cabotage trade.

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, 2012, has been derived from the audited financial statements 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.

These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's Annual Report on Form 20-F for the year ended December 31, 2012.

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 U.S. dollar as its functional currency. Receivables and payables denominated in foreign currencies are translated into U.S. 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.

During the nine-month period ended September 30, 2013, the Company performed through its subsidiaries several transactions at different exchanges rates between local currencies and U.S. dollars. Pursuant to ASC 830, these transactions when measured at the particular applicable exchange rate at which they were settled resulting in foreign currency exchange gains amounting to $21,200 which were included in "Foreign currency exchange gains (losses), net" in the unaudited condensed consolidated statement of operations.

b) Income (Loss) per share attributable to Ultrapetrol (Bahamas) Limited

Basic income (loss) per share attributable to Ultrapetrol (Bahamas) Limited is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the relevant periods net of shares held in treasury. Diluted income (loss) per share attributable to Ultrapetrol (Bahamas) Limited 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 and if-converted methods, 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 conversion of all outstanding convertible notes.

For the nine-month period ended September 30, 2012, the Company had a net loss and therefore the effect of potentially dilutive securities was antidilutive.

The following outstanding equity awards are not included in the diluted net income (loss) per share attributable to Ultrapetrol (Bahamas) Limited calculation because they would have had an antidilutive effect:

	For the nine month periods ended September 30, (unaudited)	
	2013	2012
Stock options	348,750	348,750
Restricted stock	-	680,000
Convertible debt	-	13,051,000
Total	348,750	14,079,750

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

	For the nine month periods ended September 30, (unaudited)	
	2013	2012

Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	$	14,631	$	(32,105)
Basic weighted average number of shares		140,090,112		29,568,622
Effect on dilutive shares-- Options and restricted stock		213,148		-
Diluted weighted average number of shares		140,303,260		29,568,622
Basic and diluted income (loss) per share attributable to Ultrapetrol (Bahamas) Limited	$	0.10	$	(1.09)

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c) Comprehensive income (loss)

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

	At September 30, 2013 (unaudited)	At December 31, 2012
Unrealized net losses on interest rate collar	$ (1,470)	$ (1,958)
Unrealized net losses on interest rate swap	(434)	(803)
Unrealized net gains on EURO hedge	130	137
Accumulated other comprehensive income (loss)	(1,774)	(2,624)
Amounts attributable to noncontrolling interest	-	(46)
Amounts attributable to Ultrapetrol (Bahamas) Limited	$ (1,774)	$ (2,578)

3. REDEMPTION OF NOTES

a) Redemption of 9% First Preferred Ship Mortgage Notes due 2014 (the "2014 Senior Notes")

On November 24, 2004 the Company completed a debt offering of $180,000 of 9% First Preferred Ship Mortgage Notes due 2014 (the "2014 Senior Notes"), through a private placement to institutional investors eligible for resale under Rule 144A and Regulation S.

In the first quarter of 2005 the SEC declared effective an exchange offer filed by the Company to register substantially identical senior notes to be exchanged for the 2014 Senior Notes pursuant to a registration rights agreement, to allow the 2014 Senior Notes be eligible for trading in the public markets.

On June 10, 2013, the Company communicated to the Trustee its decision to redeem all of its 2014 Senior Notes amounting $180,000 at a redemption price of 100% plus accrued interest to the redemption date, which was July 10, 2013, in accordance with the provisions of the 2014 Senior Notes Indenture.

On July 10, 2013, the Company repaid $180,000 plus accrued interest to that date of its 2014 Senior Notes, and during the nine-month period ended September 30, 2013 the Company recorded a financial loss on extinguishment of debt of $1,733, which was included in the accompanying unaudited condensed consolidated statement of operations.

b) Redemption of 7.25% Convertible Senior Notes due 2017 (the "2017 Senior Convertible Notes")

On December 23, 2010, the Company completed the sale of $80,000 aggregate principal amount of its 7.25% Convertible Senior Notes due 2017 (the "2017 Senior Convertible Notes") through a private placement to institutional investors eligible for resale under Rule 144A and Regulation S. The Convertible Notes were senior and unsecured obligations of the Company. Interest on the 2017 Senior Convertible Notes was payable semi-annually on January 15 and July 15 of each year. Unless earlier converted, redeemed or repurchased, the 2017 Senior Convertible Notes were due on January 15, 2017.

Upon a fundamental change occurring, as defined in the 2017 Senior Convertible Notes Indenture, each holder of the 2017 Senior Convertible Notes, shall have the right to require the Company to repurchase the 2017 Senior Convertible Notes in cash at a price equal to 100% of the principal amount of the 2017 Senior Convertible Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

As a result of the successful completion of the transaction with Sparrow in December 2012, a fundamental change (as defined in the Indenture) occurred on December 12, 2012, and each holder of the 2017 Senior Convertible Notes had the repurchase right described above.

On December 21, 2012, the Company commenced a tender offer to repurchase up to $80,000 of the 2017 Senior Convertible Notes at par plus accrued and unpaid interest in accordance with the fundamental change repurchase procedure as specified in the 2017 Senior Convertible Notes Indenture. The tender offer began on December 21, 2012 and expired on January 22, 2013.

As of December 31, 2012, the Company included the outstanding principal amount of the 2017 Senior Convertible Notes of $80,000 as current liabilities.

On January 23, 2013, the Company repaid $80,000 of its 2017 Senior Convertible Notes and during the nine-month period ended September 30, 2013, the Company recorded a financial loss on extinguishment of debt of $2,821 which was included in the accompanying unaudited condensed consolidated statement of operations.

4. VESSELS AND EQUIPMENT, NET

The capitalized cost of the vessels and equipment, and the related accumulated depreciation at September 30, 2013 and December 31, 2012 were as follows:

	At September 30, 2013 (unaudited)	At December 31, 2012
Ocean-going vessels	$ 121,597	$ 115,375
River barges and pushboats	412,582	411,820
PSVs	267,785	223,032
Advances for PSV construction	14,896	53,496
Furniture and equipment	12,676	11,822
Building, land, operating base and shipyard	52,162	54,902
Total original book value	881,698	870,447
Accumulated depreciation	(246,684)	(222,928)
Net book value	$ 635,014	$ 647,519

For the nine-month periods ended September 30, 2013 and 2012, depreciation expense was $28,783 and $28,807, respectively.

As of September 30, 2013, the net book value of the assets pledged as a guarantee of our long term financial debt was $375,000.

River Business

During the nine-month period ended September 30, 2013, the Company built, sold and leased back, ten river barges for $9,300 with a lease term of 10 years. Gains of $1,779 related to the sale-lease back were deferred and are being amortized over the minimum lease period.

During the nine-month period ended September 30, 2012, the Company built, sold and leaseback, six river barges for $5,580 with a lease term of 10 years. Gains of $827 related to the sale-leaseback were deferred and are being amortized over the minimum lease period.

During the nine-month period ended September 30, 2012, fourteen river barges had been built in our own shipyard in Punta Alvear, Argentina for a total cost of $14,035.

In February 2012, the Company sold and delivered one river pushboat, for a total sale price of $3,850 and Ultrapetrol recognized a gain on the sale of this vessel of $3,564.

Offshore Supply Business

On February 21 and September 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, with contracted deliveries extended to 2013. The purchase price is to be paid in five installments of 20% of the contract price each, prior to delivery. On May 22, 2012, we took delivery of the first Indian PSV UP Jade and we paid the fifth installment net of a reduction of $1,800 in the contract price in connection with the penalty for its late delivery. On January 30, 2013, we took delivery of the second Indian PSV UP Amber and we paid the fifth installment net of a reduction of $1,800 in the contract price in connection with the penalty for its late delivery. On August 12, 2013, we took delivery of the third Indian PSV UP Pearl and we paid $893 to the yard after allowing for the reduction of $1,800 in the contract price in connection with the penalty for its late delivery as well as certain other sums advanced to the yard.

As of September 30, 2013, UP Offshore (Bahamas) Ltd. had paid installments for the construction of our PSV UP Onyx totaling $13,200, which are recorded as Advances for PSV construction.

Subsequent events

Cancelling of shipbuilding contract for our PSV UP Onyx

On October 22, 2013, we canceled the shipbuilding contract with an Indian shipyard for PSV UP Onyx due to excessive delays in delivering the vessel. The appropriate repayment demands have been made under the refund guarantees issued by certain banks.

Noncontrolling interest acquisition

On July 5, 2013, we entered into a Share Purchase Agreement with Firmapar Corp. (the "Offshore SPA"), the then owner of 5.55% of shares in UP Offshore (Bahamas) Limited, our holding company in the Offshore Supply Business. Through the Offshore SPA we agreed to purchase from Firmapar Corp. the 2,500,119 shares of common stock of UP Offshore (Bahamas) Limited that we did not own. On July 25, 2013, we paid $10,250 to Firmapar in consideration for such shares. As of such date, we own 100% of the common stock of UP Offshore (Bahamas) Limited.

Subsequent events

Purchase of two additional newbuilt PSV in China and option for a third sister PSV

On October 3, 2013, we entered into two Memorandums of Agreement ("MOAs") whereby we agreed to acquire two 5,145 dwt newbuilt Chinese sister PSVs. The purchase price for these vessels under the MOAs is $31,500 each which were subsequently delivered on October 29, 2013. In addition, we exercised our option to acquire a third PSV of identical specifications as the previous two which is delivery from the same Chinese yard during the fourth quarter of 2013 and consequently, on October 30, 2013, we entered into an MOA for the same price as the previous two.

5. LONG-TERM DEBT

Balances of long-term financial debt at September 30, 2013 and December 31, 2012:

			At September 30, 2013 (unaudited)			At December 31, 2012
	Financial institution /		Nominal value			
Borrower	Other	Due-year	Current	Noncurrent	Total	Total
Ultrapetrol (Bahamas) Ltd.	Private Investors	June 2021	$ -	$ 200,000	$ 200,000	$ -
Ultrapetrol (Bahamas) Ltd.	Private Investors	(See Note 3.a)	-	-	-	180,000
UP Offshore Apoio Marítimo Ltda.	DVB AG	Through 2016	900	5,275	6,175	6,850
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2016	4,300	26,425	30,725	42,225
UP Offshore (Bahamas) Ltd.	DVB AG	Through 2017	2,000	9,500	11,500	13,000
UP Offshore (Bahamas) Ltd.	DVB SE + Banco Security	Through 2018	3,333	28,334	31,667	34,166
Ingatestone Holdings Inc.	DVB AG	-	-	8,625	8,625	13,800
Ingatestone Holdings Inc.	Natixis	-	-	-	-	5,175
Ingatestone Holdings Inc.	DVB SE + NIBC	-	-	-	-	20,850
Ingatestone Holdings Inc.	DVB NV + NIBC + ABN Amro	Through 2017	4,470	34,631	39,101	-
UP Offshore Apoio Marítimo Ltda.	BNDES	Through 2027	1,110	13,875	14,985	15,818
Stanyan Shipping Inc.	Natixis	Through 2017	1,108	4,757	5,865	6,546
Hallandale Commercial Corp.	Nordea	-	-	-	-	5,644
UABL Paraguay S.A.	IFC	Through 2020	2,174	19,565	21,739	22,826
UABL Paraguay S.A.	OFID	Through 2020	1,304	11,739	13,043	13,695
UABL Barges and others	IFC	Through 2020	3,044	27,391	30,435	31,957
UABL Paraguay S.A. and Riverpar S.A.	IFC	Through 2021	1,765	12,353	14,118	15,000
	OFID		1,176	8,235	9,411	10,000

UABL Paraguay S.A. and Riverpar S.A.	Through 2021				
At September 30, 2013		$ 26,684	$ 410,705	$ 437,389	
At December 31, 2012		$ 49,031	$ 388,521		$ 437,552

8.875% First Preferred Ship Mortgage Notes due 2021 (the "2021 Senior Notes")

On May 30, 2013, the Company completed the Offering of $200,000 of 8.875% First Preferred Ship Mortgage Notes due 2021 (the "2021 Senior Notes"), through a private placement to institutional investors eligible for resale under Rule 144A and Regulation S. The net proceeds of the offering were used to repay in full on July 10, 2013, the 2014 Senior Notes or $180,000, and for general corporate purpose.

Interest on the 2021 Senior Notes is payable semi-annually on June 15 and December 15 of each year. The 2021 Senior Notes are senior obligations guaranteed by certain of the Company's subsidiaries. The Notes are secured by first preferred ship mortgages on four ocean vessels, 14 pushboats and 335 river barges.

The 2021 Senior Notes are subject to certain covenants, including, among other things, limiting the parent's and subsidiary guarantors' ability to incur additional indebtedness or issue preferred stock, pay dividends to stockholders, make investments or sell assets, under certain conditions.

Upon the occurrence of a change of control event, each holder of the 2021 Senior Notes shall have the right to require the Company to repurchase such notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest.

Although Ultrapetrol (Bahamas) Limited, the parent company, is the issuer of the 2021 Senior Notes, principal and related expenses will be paid through funds obtained from the operations of the Company's subsidiaries.

On May 23, 2013, IFC and OFID waived certain covenants under the loan agreements and corresponding guarantee agreements. The waivers permitted the creation of additional security and the non-compliance with certain release priorities of IFC's and OFID's securities under the loan and guarantee agreements all in connection with and for the purpose of permitting the refinancing of the 2014 Senior Notes and issuance the 2021 Senior Notes. In addition, IFC and OFID issued a release of mortgages and certain other assignments under the loan agreements, in order to meet the additional security and guarantee requirements of the 2021 Senior Notes.

On August 1, 2013 and November 4, 2013, the Company filed a registration statement on Form F-4 with the SEC to register substantially identical senior notes to be exchanged for the 2021 Senior Notes for an amount of $200,000 pursuant to a registration rights agreement, to allow the 2021 Senior Notes be eligible for trading in the public markets.

Subsequent events

$25,000 Add-On Notes issued under our 2021 Senior Notes

On October 2, 2013, we closed the sale of $25,000 in aggregate principal amount of our 2021 Senior Notes (the "Add-On Notes"), which were offered as an add-on to our outstanding $200,000 aggregate principal amount of our 2021 Senior Notes. As a result of the offering of the Add-On Notes, we have outstanding an aggregate principal amount of $225,000 of our 2021 Senior Notes. The Add-On Notes were sold at 104.5% and the gross proceeds to us of the offering totaled $26,125 which were used for general corporate purposes.

Revolving credit facility of up to $40,000

On May 31, 2013, we entered into a loan agreement with DVB Bank SE for a $40,000 reducing, revolving credit facility. The commitment under this revolver decreases quarterly by $1,250 or $5,000 per year. The facility bears interest at LIBOR plus 3% (or lender's cost of funds, if the lenders in their discretion determine that LIBOR is not representative of such costs). A quarterly commitment fee is payable based on the average undrawn amount of the committed amount at a rate of 1.95% per annum.

No drawdowns have been made under the facility to date.

Senior secured term loan facility with DVB Bank AG (DVB AG) and Natixis of up to $93,600

On June 24, 2008 Ingatestone Holdings Inc., as Borrower, and UP Offshore (Bahamas) Ltd., Bayshore Shipping Inc., Gracebay Shipping Inc., Springwater Shipping Inc. and Woodrow Shipping Inc. (all of these our subsidiaries in the Offshore Supply Business) and Ultrapetrol (Bahamas) Limited, as joint and several Guarantors, entered into a senior secured term loan facility of up to $93,600 with DVB AG and Natixis (the "Banks"), as co-lender, to finance the construction and delivery of our PSVs being built in India (UP Jade, UP Amber, UP Pearl and UP Onyx).

At March 31, 2012, the advances under Tranche A of the loan were $34,500 ($17,250 per Bank).

On May 9, 2012, the Borrower, the Guarantors and the Banks signed a third amendment to the loan agreement. In connection with this amendment, all the amounts borrowed by Natixis or $17,250 shall be paid on or before December 31, 2012, further extended to March 28, 2013 and all of the remaining commitments of this term loan facility by Natixis were cancelled.

At December 31, 2012, the outstanding principal balance under this loan agreement was $18,975 ($5,175 for Natixis and $13,800 for DVB AG).

On March 28, 2013 the Company repaid $10,350 ($5,175 to each Bank) related with our PSV UP Amber advances.

During the nine-month period ended September 30, 2013, the Company recorded a financial loss on extinguishment of debt of $345, which was included in the accompanying unaudited condensed consolidated statement of operations.

At September 30, 2013, the outstanding principal balance under this loan agreement was $8,625 related with the advances of the loan to finance the construction of our PSVs UP Pearl and UP Onyx made by DVB AG.

Subsequent events

On October 11, 2013 the Company fully repaid the then outstanding $8,625 with the proceeds of the facility with DVB Bank America, NIBC and ABM Amro. Consequently, at September 30, 2013 we have reclassified $8,625 to long term debt.

Senior secured post delivery term loan facility with DVB Bank SE (DVB SE) and NIBC Bank NV of up to $42,000

On October 22, 2012 Ingatestone Holdings Inc., as Borrower, and UP Offshore (Bahamas) Ltd., Bayshore Shipping Inc., Gracebay Shipping Inc. (all of these our subsidiaries in the Offshore Supply Business) and Ultrapetrol (Bahamas) Limited, as joint and several Guarantors, entered into a senior secured post delivery term loan facility of up to $42,000 with DVB SE and NIBC Bank NV (the "Lenders") for the purpose of partially financing or refinancing our PSVs named UP Jade and UP Amber.

The loan facility was divided into two tranches, each in the aggregate amount of up to $21,000.

The tranche of the loan facility in respect of the refinancing of the PSV UP Jade was drawn down in an amount of $20,850 on October 29, 2012.

On January 24, 2013 the Company terminated this senior secured post delivery term loan facility and prepaid the outstanding balance of $20,850 with borrowings from its senior secured post delivery term loan facility with DVB Bank America, NIBC and ABN Amro, described below.

During the nine-month period ended September 30, 2013, the Company recorded a financial loss on extinguishment of debt of $619, which was included in the accompanying unaudited condensed consolidated statement of operations.

Senior secured post delivery term loan facility with DVB Bank America NV (DVB Bank America), NIBC Bank NV (NIBC) and ABN Amro Capital USA LLC (ABN Amro) of up to $84,000

On January 18, 2013 Ingatestone Holdings Inc., as Borrower, and UP Offshore (Bahamas) Ltd., Bayshore Shipping Inc., Gracebay Shipping Inc, Springwater Shipping Inc and Woodrow Shipping Inc. (all of these our subsidiaries in the Offshore Supply Business) and Ultrapetrol (Bahamas) Limited, as joint and several Guarantors, entered into a senior secured post delivery term loan facility of up to $84,000 with DVB Bank America, NIBC and ABN Amro (the "Lenders") with the purpose of refinancing the advances made for our PSVs named UP Jade, UP Amber, UP Pearl and UP Onyx of the DVB SE and Natixis and DVB SE and NIBC long-term facilities.

The loan facility is divided into four tranches, each in the aggregate amount of up to the lesser of $21,000 and 60% of the fair market value of the PSV to which such tranche relates.

A quarterly commitment fee is payable based on the average undrawn amount of the committed amount at a rate of 1.60% per annum.

The tranche of the loan facility in respect of the refinancing of the PSV UP Jade was drawn down in the amount of $20,850 on January 24, 2013.

Each tranche of the loan facility in respect of the financing of the acquisition of each of the UP Amber, UP Pearl and UP Onyx from the shipyard shall be divided into two advances which shall be made available to the Borrower as follows:

- The first advance of each such tranche shall be made available to the Borrower in the amount of up to $5,000 on the earlier of the delivery date of the ship and October 31, 2013,

- The second advance of each such tranche shall be made available to the Borrower in the amount of up to $16,000 not later than the earlier of the date which is six months after the delivery date of the ship and October 31, 2013, provided that the UP Amber, UP Pearl and UP Onyx have obtained employment of not less than 3 years with a charterer on terms and conditions acceptable to the Lenders.

On March 28, 2013 and June 28, 2013, the Company drew down $5,000 and $15,550, respectively, related with the tranche of the loan to financing the acquisition of our PSV UP Amber.

At September 30, 2013, the outstanding principal balance under this loan agreement was $39,101.

Subsequent events

On October 11, 2013, the Company drew down $20,550 related with the tranche of the loan to financing the acquisition of our PSV UP Pearl.

At the date of the issuance of these unaudited condensed consolidated financial statements, the Company had no remaining availability under this loan agreement.

Senior secured term loan with Nordea Bank Finland PLC (Nordea Bank) of $20,200

On November 30, 2007, Hallandale Commercial Corp. (our wholly owned subsidiary in the Ocean Business and the owner of the Amadeo) as Borrower, Ultrapetrol (Bahamas) Ltd., as Guarantor, and Tuebrook Holdings Inc. (our wholly owned subsidiary in the Ocean Business and the holding company of Hallandale Commercial Corp.), as Pledgor, entered into a $20,200 loan agreement with Nordea Bank for the purpose of providing post delivery financing of the vessel.

On December 28, 2012 the Borrower, the Guarantor, the Pledgor and Nordea Bank amended the loan agreement. In connection with this amendment the margin was increased from 1.50% to 3.00% per annum, the change of control provisions was modified to include Sparrow into the definition, the final maturity date of the loan was changed to April 15, 2013 and Nordea Bank waived the Guarantor compliance requirement with the EBITDA to interest expense ratio until the maturity date.

On April 15, 2013, the Company repaid in full the total outstanding of $5,252 of this senior secured loan.

6. 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.

a) Claims in Paraguay

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 were not liable for the first two issues. The Company has entered a plea with the respective court contending the interpretation on the third issue under consideration where the Company claims to be equally non-liable.

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's 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 year ended December 31, 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 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. UABL submitted a defense in relation to the action commenced by the Office of the Treasury Attorney. Subsequently, the Office of the Treasury Attorney filed a response with regard to our defense. The evidentiary stage of the proceedings has concluded and a decision of the Court is pending. Aside from the mentioned procedures, the Customs Authorities of Paraguay have reopened the proceedings against UABL S.A., UABL Paraguay S.A. and Yataity S.A. in connection with the possible reopening of the case pending a decision of the reopening of the case in court. Counsel notified the Customs to hold the proceedings until such decision of the court is received and also contest any new investigation into the matter on the grounds that the action is time barred. In one of those reopened proceedings the Customs Authorities of Paraguay made a wrong determination of the taxes owe and fines and upon UABL's request through the submission of a remedy such customs authorities issued a final resolution on August 8, 2012 with a revised adjustment, where they found UABL S.A., UABL Paraguay S.A. and Yataity S.A. liable to pay approximately $400 subject to a fine of 100% of that amount. Having ended the administrative proceedings, on August 10, 2012 UABL commenced judicial proceedings to obtain a court judgment to rule off the erroneous decision of the Customs Authorities based on the fact a court judgment to rule off the erroneous decision of the Customs Authorities based on the fact the sum of $400 was duly paid and that no fine should then be imposed. We have been advised by UABL's counsel in the case that there is only a remote possibility that the Paraguayan Courts would find UABL liable for any of these taxes or fines still in dispute or that the final outcome of these proceedings could have a material adverse impact on the consolidated financial position or results of operations of the Company.

UABL Paraguay S.A. - Paraguayan Customs Asunción

On April 7, 2009, the Paraguayan Customs in Asunción 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 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 S.A. were consumed onboard the push boats. We were 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 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 submitted remedies against the decision of Customs in Asuncion arguing that such ruling was taken without bringing both dossiers together. Our legal 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 S.A. in Argentina. UABL Paraguay S.A. submitted its defense together with all documents related to the bunker purchases. On September 23, 2013 Customs in Asunción issued a new ruling on the matter imposing the same fine of Gs. 54.723.820 (approximately $12) but the denouncing parties appealed such decision. On October 10, 2013 UABL Paraguay S.A. submitted its reply to the appeal and a decision is now pending.

Our legal 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 consolidated financial position or results of operations of the Company.

Oceanpar S.A. and UABL Paraguay S.A. - Customs investigation in connection with reimportation of barges subject to conversion

Oceanpar S.A. was notified of this investigation on June 17, 2011. The matter under investigation is whether UABL Paraguay S.A. paid all import taxes and duties corresponding to the reimportation of barges submitted to conversion in foreign yards. On June 24, 2011 Oceanpar S.A. and UABL Paraguay S.A. submitted the evidence of all payments effected in 2008 corresponding to the reimportation of these barges. The evidentiary stage of the proceedings was concluded and the Customs issued its ruling on the matter imposing a fine of Gs. 2.791.514.822 (approximately $605). Oceanpar S.A. and UABL Paraguay S.A. made an administrative submission asking for a reconsideration of the decision, which was rejected on June 18, 2013. On July 18, 2013, Oceanpar S.A. and UABL Paraguay S.A. commenced judicial proceedings in order to appeal the said decisions. Our local counsel has advised that there is only a remote possibility that these proceedings will have a material adverse impact on our consolidated financial position or results of operations of the Company.

UABL Paraguay S.A. - Paraguayan Tax Authority

On December 15, 2011, as a result of a previous investigation, the Paraguayan Tax Authorities gave notice that UABL Paraguay S.A. would have improperly used some fiscal credit and suggested some rectifications to be made. The aforementioned tax authorities also informed that UABL Paraguay S.A. may owe taxes due to differences in the rate applied to certain fiscal remittance incomes related to the operation of some barges under leasing. We believe that this finding is erroneous and UABL Paraguay S.A. commenced administrative proceedings on December 23, 2011, in order to refute the said findings and formally replied to all of the allegations upon which the finding was made. A decision of the administrative authorities is now pending. The potential amount in dispute has not been calculated yet but it should not exceed approximately $3,000. The proceedings are purely administrative at this point and if the tax authorities should decide to insist with their opinion the Company intends to contest the same in a judicial court. Our local counsel has advised that there is only a remote chance that these proceedings, when ultimately resolved by a judicial court, will have a material adverse impact on our consolidated financial position or results of operations of the Company.

Obras Terminales y Servicios S.A. - Judicial Administration

On August 16, 2009, Mrs. Maria L. Rodriguez-Mendieta (hereinafter the "Plaintiff") commenced legal proceedings in Ciudad del Este, Paraguay against Obras Terminales y Servicios S.A. (hereinafter "OTS"), UABL Terminals (Paraguay) S.A., a Company in which we indirectly own fifty percent and which own a terminal that we operate under a lease in our River Business, certain directors and representatives in our River Business, and some of Mr.Abadie's successors and assigns. The Plaintiff alleges to be the holder of 50% of the capital stock of OTS that belongs to the Abadie family. OTS is the Company's 50% subsidiary that owns Tres Fronteras terminal. On August 21, 2009, the competent court granted an injunction to intervene OTS by appointing a Judicial Manager who replaced OTS' board of directors, while the appeal of this injunction is still pending such a court decision continues in effect. The Plaintiff is arguing that an extraordinary shareholders meeting of OTS held in 2005 resolved to increase the capital stock and consequently the whole of OTS' shares certificates were substituted prejudicing her rights since her shares certificates were neither cancelled nor substituted by new certificates. The Plaintiff is requesting the Paraguayan court: a) to recognize her capacity of shareholder of OTS in substitution of the Abadie family; b) payment of dividends; c) nullity of some legal acts; and d) removal of OTS' managers. All defendants have submitted their defenses before the competent court, however due to several motions and preceding exceptions, the evidence stage has not been reached yet. We have been advised by local counsel that if the Plaintiff succeeds in her plead, it will only affect the Abadie family without causing any financial material adverse effect on the remaining 50% capital stock of OTS that belongs to UABL Terminals (Paraguay) S.A.

UABL Paraguay S.A. – Paraguayan Customs Authority – Alleged Cargo Manifest Infringement

On October 24, 2013 Paraguayan Customs Authorities served notice to UABL Paraguay S.A. (UABLPY) of the commencement of administrative proceedings for an alleged infringement of Customs regulations. Said proceedings were commenced as a result of a complaint submitted against a shipping agency and three shipping companies, including UABLPY, for an alleged infringement on eleven cargo manifests of gas oil consigned to the Paraguayan State Owned Oil company, Petropar, and Petromar. Only one of those cargo manifests, issued on December 6, 2008, was related to the carriage of 2,915 m3 of gasoil onboard a tank barge operated by UABLPY. On November 1, 2013 UABLPY filed a defense before Customs stating that the cargo of gas oil was carried in full compliance of international trade regulations and was discharged in Paraguay and delivered in total to its consignees in accordance with cargo documentation and Customs regulations. Likewise, in its defense submission, UABLPY requested

Customs to summon consignees, who should have paid all import duties corresponding to such cargo and who would be ultimately responsible for any unpaid import duties. Local counsel has advised that the amount could be in the region of $500. However, the amount involved has not been determined by the Customs and therefore could result in litigation for a larger sum. Our local counsel has further advised that in view of the company's lack of responsibility over the cargo after its discharge, there is only a remote possibility that these proceedings, when ultimately resolved by a court of justice, would have a material adverse impact on the consolidated financial position or results of operations of the Company.

b) Tax claim in Bolivia

On November 3, 2006 and April 25, 2007, the Bolivian Tax Authority ("Departamento de Inteligencia Fiscal de la Gerencia Nacional de Fiscalizacíón") issued a notice in the Bolivian press advising that UABL International S.A. would owe taxes to that authority. On June 18, 2007, 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 $5,800 (including interest and fines). On October 10, 2007, 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 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 to the lower court judgment to which Bolivian tax authorities have contested. The Court of appeal confirmed the judgment of the Lower Court. UABL International S.A. has submitted a cassation appeal (an appeal on points of law) before the Bolivian Supreme Court, who after we ceased to be the owner of UABL International S.A. we understand confirmed the judgment of the Lower Court.

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 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. did not have any assets owned by it registered in the RIBB. The shares of UABL International S.A. have ceased to belong to our Company and we have been advised by legal 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 consolidated financial position or results of operations of the Company.

c) Ultrapetrol S.A. – Argentine Secretary of Industry and Argentine Customs Office

On June 24, 2009, Ultrapetrol S.A. (hereinafter "UPSA") requested to the Argentine Secretary of Industry, an authorization to re-export some unused steel plates that had been temporarily imported for industrialized conversion by means of vessels repairs. The total weight of those steel plates was 473 tons and their import value was approximately $370. The request of UPSA to the Secretary of Industry was based on the cancellations made by some related shipping companies that had formerly requested repair services for their vessels. Such repairs cancellations prevented UPSA to conduct the industrialized conversion of the above referred steel plates. On August 7, 2009, since UPSA commenced negotiations with two shipping companies for repairing some of their vessels, a time extension was requested to the Argentine Secretary of Industry, and alternatively it was also requested to grant the previously requested authorization to re-export the steel plates without industrialized conversion. On January 21, 2010, the competent authority rejected the time extension request and did not resolve the alternative authorization request. On February 25, 2010, UPSA made an administrative submission asking for a reconsideration of the decision, which was rejected on April 27, 2010. On November 4, 2011, UPSA submitted an administrative appeal before the Ministry of Industry, and its decision is still pending. In the event that steel plates cannot be exported, payable import duties and Customs' charges would amount to approximately $900, however in case of payment UPSA would have offsetting-tax credits amounting to approximately $300. We have been advised by local counsel that there is a positive prospect of obtaining the requested authorization for re-exporting the steel plates and we do not expect the resolution of these administrative proceedings to have a material adverse impact on the consolidated financial position or results of operations of the Company.

Ultrapetrol S.A. – Assessment by Argentinean Tax Authority

On October 11, 2013 Ultrapetrol S.A. (UPSA) took notice of a possible administrative proceeding against it by the Argentine Tax Authority in connection with an alleged undue application of a double taxation treaty between Argentina and Spain for fiscal years 2006 to 2010. As a result of the Argentine Tax Authority's initial assessment, a difference amounting to approximately $220 plus interests would be due. This process would continue with administrative proceedings to be open by the Argentine Tax Authority where our local subsidiary will have the opportunity to make defense submissions. We do not expect the resolution of this matter to have a material adverse impact on the consolidated financial position or results of operations of the Company.

7. 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 liabilities as of September 30, 2013 that are measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3
Current liabilities:			
- Interest rate collar (included in other liabilities)	-	547	-
- Interest rate swaps (included in other liabilities)	-	237	-
Noncurrent liabilities:			
- Interest rate collar (included in other liabilities)	-	923	-
- Interest rate swaps (included in other liabilities)	-	469	-

The estimated fair value of the Company's other financial assets and liabilities as of September 30, 2013 were as follows:

	Carrying amount (unaudited)	Estimated fair value (unaudited)
ASSETS		
Cash and cash equivalents	$ 123,142	$ 123,142
Restricted cash (current and noncurrent portion)	10,372	10,372
LIABILITIES		
Long term financial debt (current and non-current portion – Note 5) (1)	$ 437,389	$ 449,889

(1) The fair value of long term financial debt is measured using Level 2 fair value inputs.

The carrying value of cash and cash equivalents and restricted cash approximates 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. It was not practicable to estimate the fair value of the Company's investments in

50% or less owned companies because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. 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.

8. DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

Liabilities arising from outstanding derivative positions are included in the accompanying unaudited condensed consolidated balance sheets as other liabilities, as follows:

	At September 30, 2013 (unaudited)	
	Current other liabilities	Noncurrent other liabilities
Derivatives designated as hedging instruments		
Interest rate collar (cash flow hedge)	$ 547	$ 923
Interest rate swaps (cash flow hedge)	237	469
	$ 784	$ 1,392

	At December 31, 2012	
	Current other liabilities	Noncurrent other liabilities
Derivatives designated as hedging instruments		
Interest rate collar (cash flow hedge)	$ 722	$ 1,235
Interest rate swaps (cash flow hedge)	348	791
	$ 1,070	$ 2,026

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

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 value 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 or received by the Company if the agreement were cancelled at the reporting date, taking into account current and prospective interest rates and creditworthiness of the Company.

As of September 30, 2013, the total notional amount of the interest rate collar is $65,217.

INTEREST RATE SWAP AGREEMENTS

Through our subsidiaries in the Offshore Supply Business, we have entered into various interest rate swap agreements maturing in September 2016, October 2016, and December 2018 that call our subsidiaries to pay fixed interest rates ranging from 0.89% to 3.67% on aggregate initial notional values of $49,500 and receive a variable interest rate based on LIBOR on these notional values. The purpose of these interest rate swap agreements is to hedge our exposure to interest volatility under our financings with DVB Bank SE and Banco Security and DVB Bank SE, NIBC and ABN Amro.

These contracts qualify for hedge accounting and as such changes in its fair value are included in other comprehensive income (loss) in the unaudited condensed consolidated financial statements. The fair value of these agreements equate to the amount that would be paid or received by the Company if the agreement was cancelled at the reporting date, taking into account current and prospective interest rates and creditworthiness of the Company.

As of September 30, 2013, the total notional amount of the interest rate swaps is $45,825.

Subsequent events

On October 9, 2013, through our subsidiaries in the Offshore Supply Business we have entered into three interest rate swap agreements that call our subsidiaries to pay fixed interest rates of 1.22% on an aggregate initial notional value of $18,000 and receive a variable interest rate based on LIBOR on this notional value from October 2014 to October 2016. The purpose of these interest rate swap agreements is to hedge our exposure to interest volatility under our financing with DVB Bank SE, NIBC and ABN Amro in relation with the financing of our PSV UP Pearl.

9. 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.

e) Brazil

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

Income taxes in Brazil include federal income tax and social contribution (which is an additional federal income tax). Income tax is computed at the rate of 15%, plus a surtax of 10% on the amount that exceeds Brazilian reais 240,000 (equivalent to $108 at September 30, 2013) based on pretax income, adjusted for additions and exclusions established by the Brazilian tax legislation. Social contribution is calculated at the rate of 9%, on pretax income, in conformity with the tax law.

UP Offshore Apoio Maritimo Ltda., has foreign currency exchange gains recognized for tax purposes only in the period the 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 US 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 US are characterized as US source shipping income. Such income is subject to 4% US 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 period ended September 30, 2013, our subsidiaries did not derive any US source shipping income. Therefore our subsidiaries are not subject to any U.S. federal income taxes, except our ship management services provided by Ravenscroft.

10. SHARE CAPITAL

Common shares and shareholders

The shares held directly by our Original Shareholders (Los Avellanos and Hazels), amounted to 7,864,085 shares at September 30, 2013, of which 7,713,366 are expressly entitled to seven votes per share (with the other 150,719 shares being one vote) 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 transferred to another Original Shareholder.

If, after the date that is four years following November 13, 2012, Sparrow sells all of its shares to one or more third parties, the multi-vote rights attached to the shares owned by Los Avellanos and Hazels shall terminate upon such sale and be of no further force and effect, and all such shares shall entitle the holder thereof to one vote, unless after the date that is two years following November 13, 2012 and prior to such sale (i) the Company or Sparrow has successfully completed a third party sale at a price such that if all of Sparrow's shares were sold at such a price on the date of such sale, Sparrow would achieve a certain rate of return on its investment in the Company or (ii) the Company's directors nominated by Sparrow have not approved a proposal to cause the Company to make such a sale, at any time when the 180-day daily weighted average price of the Company's common stock was sufficiently high to achieve such rate of return.

At September 30, 2013, the outstanding common shares are 140,419,487 par value $.01 per share.

At September 30, 2013, our shareholders Sparrow, Sparrow CI Sub Ltd. (a wholly owned subsidiary of Sparrow), Los Avellanos and Hazels hold 93,940,000, 16,060,000, 4,735,517 and 3,128,568 shares, respectively, which represent 66.9%, 11.4%, 3.4% and 2.2% of the outstanding shares, respectively. The joint voting power for these shares represents 87.9% of the total voting power and pursuant to a shareholder agreement signed between Sparrow, Los Avellanos and Hazels, Los Avellanos and Hazels agree to vote their shares of common stock in the same manner as Sparrow, except for any matter that requires, but does not obtain, the approval of six directors of the Company.

Los Avellanos and Hazels are controlled by members of the Menendez family, including Felipe Menendez R., our chief executive officer and president, and Ricardo Menendez R., our executive vice president and a director. As such, they have the ability to exert influence over the operations of the Company.

11. 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 (Note 2). 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. 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 Parana, Paraguay and Uruguay Rivers and part of the River Plate in South America, also known as the Hidrovia region. River Business transportation services contributed 47% and 46% of consolidated operating revenues for the nine-month periods ended September 30, 2013 and 2012, respectively.

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

The Company also has a shipyard that should promote organic growth and from time to time make external sales. Third party shipyard sales contributed 14% and 5% of consolidated operating revenues for the nine-month periods ended September 30, 2013 and 2012, respectively.

Offshore Supply Business: We operate our Offshore Supply Business, using PSVs owned by UP Offshore (Bahamas), which nine are employed in the Brazilian market, one in the North Sea and the last one is currently proceeding from the building shipyard. 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. Offshore Supply Business transportation services contributed 22% and 24% of consolidated operating revenues for the nine-month periods ended September 30, 2013 and 2012, respectively.

Ocean Business: In our Ocean Business, we operate eight oceangoing vessels: four product tankers (one of which is on lease to us), two container feeder vessels under a container line service in Argentina cabotage trade, one oceangoing tug and one tank barge under the trade name Ultrapetrol. Our Handy size/small product tanker vessels transport liquid bulk goods such as petroleum and petroleum derivatives on major trade routes around the globe. Ocean Business transportation services contributed 17% and 25% of consolidated operating revenues for the nine-month periods ended September 30, 2013 and 2012, respectively.

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.

	For the nine-month periods ended September 30, (unaudited)	
	2013	2012
Revenues (1)		
– South America	$ 254,333	$ 183,492
– Central America	32,987	15,986
– Europe	11,225	20,293
– North America	1,275	4,536
– Asia	12,442	2,522
	$ 312,262	$ 226,829

(1) Classified by country of domicile of charterers/customers.

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.

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, 2013 (unaudited)	At December 31, 2012
Vessels and equipment, net		
– South America	$ 569,088	$ 564,352
– Europe	24,650	25,474
– Asia	36,938	53,496
– Other	4,338	4,197
	$ 635,014	$ 647,519

For the nine-month period ended September 30, 2013, 81% of the Company's revenues are concentrated in South America and at September 30, 2013, 90% of the Company's vessels and equipment are located in South America.

For the nine-month period ended September 30, 2013, revenues from charterers domiciled in Argentina, Brazil and Paraguay represented 18%, 24% and 28%, of the Company's consolidated revenues, respectively.

For the nine-month period ended September 30, 2012, 81% of the Company's revenues are concentrated in South America and at September 30, 2012, 87% of the Company's vessels and equipment are located in South America.

For the nine-month period ended September 30, 2012 revenues from charterers domiciled in Argentina, Brazil and Paraguay represented 31%, 30% and 11%, of the Company's consolidated revenues, respectively.

As a result, the Company's financial condition and results of operations depend, to a significant extent, on macroeconomic, regulatory and political conditions prevailing in South America.

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, 2013 (unaudited):

	River Business	Offshore Supply Business	Ocean Business	Total
Revenues	$ 191,247	$ 67,610	$ 53,405	$ 312,262
Running and voyage and manufacturing expenses	144,260	31,913	46,130	222,303
Depreciation and amortization	17,680	8,390	5,106	31,176
Segment operating profit (loss)	16,117	21,299	(4,184)	33,232
Segment assets	430,877	269,406	99,986	800,269
Investments in and receivables from affiliates	4,103	-	230	4,333
Loss from investment in affiliates	(188)	-	(21)	(209)
Additions to long-lived assets	3,971	6,155	6,482	16,608

Reconciliation of total assets of the segments to amount included in the unaudited condensed consolidated balance sheets were as follow:

	At September 30, 2013 (unaudited)
Total assets for reportable segments	$ 800,269
Other assets	14,961
Corporate cash and cash equivalents	123,142
Consolidated total assets	$ 938,372

The following schedule presents segment information about the Company's operations for the nine-month period ended September 30, 2012 (unaudited):

	River Business	Offshore Supply Business	Ocean Business	Total
Revenues	$ 115,000	$ 54,160	$ 57,669	$ 226,829
Running and voyage and manufacturing expenses	103,160	30,692	47,193	181,045
Depreciation and amortization	16,266	8,049	7,954	32,269

Segment operating (loss) profit	(11,389)	12,153	(3,113)	(2,349)
Loss from investment in affiliates	(987)	-	(1)	(988)
Additions to long-lived assets	22,305	13,133	529	35,967

12. SUPPLEMENTAL GUARANTOR INFORMATION

On June 10, 2013, the Company issued $200,000 8.875% First Preferred Ship Mortgage Notes due 2021.

The 2021 Senior Notes are fully and unconditionally guaranteed on a joint and several basis by Company's subsidiaries directly involved in our Ocean and River Business.

The Indenture provides that the 2021 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.

Supplemental condensed consolidating financial information for the Guarantor Subsidiaries for the 2021 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 CONSOLIDATING BALANCE SHEET

AT SEPTEMBER 30, 2013 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Current assets					
Receivables from related parties	$347,814	$50,197	$34,054	$ (432,015)	$ 50
Other current assets	78,303	89,423	72,073	-	239,799
Total current assets	426,117	139,620	106,127	(432,015)	239,849
Noncurrent assets					
Vessels and equipment, net	-	266,511	369,346	(843)	635,014
Investment in affiliates	185,977	-	230	(185,977)	230
Other noncurrent assets	7,139	22,597	33,543	-	63,279
Total noncurrent assets	193,116	289,108	403,119	(186,820)	698,523
Total assets	$619,233	$428,728	$509,246	$ (618,835)	$ 938,372
Current liabilities					
Payables to related parties	$-	$160,245	$273,030	$ (432,015)	$ 1,260
Current portion of long-term financial debt	-	6,420	20,264	-	26,684
Other current liabilities	6,754	52,880	8,807	-	68,441
Total current liabilities	6,754	219,545	302,101	(432,015)	96,385
Noncurrent liabilities					
Due to affiliates	-	-	-	-	-
Long-term financial debt net of current portion	200,000	51,892	158,813	-	410,705
Other noncurrent liabilities	-	262	18,541	-	18,803
Total noncurrent liabilities	200,000	52,154	177,354	-	429,508
Total liabilities	206,754	271,699	479,455	(432,015)	525,893
Equity of Ultrapetrol (Bahamas) Limited	412,479	157,029	29,791	(186,820)	412,479
Noncontrolling interest	-	-	-	-	-
Total equity	412,479	157,029	29,791	(186,820)	412,479
Total liabilities and equity	$619,233	$428,728	$509,246	$ (618,835)	$ 938,372

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET

AT DECEMBER 31, 2012

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Current assets					
Receivables from related parties	$307,343	$122,035	$87,737	$ (517,105)	$ 10
Other current assets	201,491	66,643	38,846	-	306,980
Total current assets	508,834	188,678	126,583	(517,105)	306,990
Noncurrent assets					
Vessels and equipment, net	-	279,653	368,753	(887)	647,519
Investment in affiliates	151,447	-	251	(151,447)	251
Other noncurrent assets	5,171	26,032	33,275	(8,920)	55,558
Total noncurrent assets	156,618	305,685	402,279	(161,254)	703,328
Total assets	$665,452	$494,363	$528,862	$ (678,359)	$ 1,010,318
Current liabilities					
Payable to related parties	$-	$224,281	$272,568	$ (493,088)	$ 3,761
Current portion of long-term financial debt	-	12,064	36,967	-	49,031
2017 Senior Convertible Notes	80,000	-	-	-	80,000
Other current liabilities	5,701	51,781	8,471	-	65,953
Total current liabilities	85,701	288,126	318,006	(493,088)	198,745
Noncurrent liabilities					
Due to affiliates	-	32,937	-	(32,937)	-
Long-term financial debt	180,000	55,102	153,419	-	388,521
Other noncurrent liabilities	-	262	16,291	-	16,553
Total noncurrent liabilities	180,000	88,301	169,710	(32,937)	405,074
Total liabilities	265,701	376,427	487,716	(526,025)	603,819
Equity of Ultrapetrol (Bahamas) Limited	399,751	117,936	41,146	(159,082)	399,751
Noncontrolling interest	-	-	-	6,748	6,748
Total equity	399,751	117,936	41,146	(152,334)	406,499
Total liabilities and equity	$665,452	$494,363	$528,862	$ (678,359)	$ 1,010,318

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ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2013 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Revenues	$-	$240,946	$103,397	$ (32,081)	$ 312,262
Operating expenses	(5,355)	(196,852)	(108,948)	32,125	(279,030)
Operating (loss) profit	(5,355)	44,094	(5,551)	44	33,232
Investment in affiliates	26,379	-	(209)	(26,379)	(209)
Other (expenses) income	(6,393)	(2,838)	(4,070)	-	(13,301)
Income (loss) before income taxes	14,631	41,256	(9,830)	(26,335)	19,722
Income taxes (expense) benefit	-	(2,163)	(2,375)	-	(4,538)
Net income (loss)	14,631	39,093	(12,205)	(26,335)	15,184
Net income attributable to noncontrolling interest	-	-	-	553	553
Net income (loss) attributable to Ultrapetrol (Bahamas) Limited	$14,631	$39,093	$(12,205)	$ (26,888)	$ 14,631

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Revenues	$-	$149,067	$106,708	$ (28,946)	$ 226,829
Operating expenses	(5,030)	(155,060)	(97,990)	28,902	(229,178)
Operating (loss) profit	(5,030)	(5,993)	8,718	(44)	(2,349)
Investment in affiliates	(19,998)	-	(988)	19,998	(988)
Other (expenses) income	(7,077)	(22,572)	(517)	-	(30,166)
(Loss) income before income taxes	(32,105)	(28,565)	7,213	19,954	(33,503)
Income taxes benefit (expense)	-	2,679	(646)	-	2,033
Net (loss) income	(32,105)	(25,886)	6,567	19,954	(31,470)
Net income attributable to noncontrolling interest	-	-	-	635	635
Net (loss) income attributable to Ultrapetrol (Bahamas) Limited	$(32,105)	$(25,886)	$6,567	$ 19,319	$ (32,105)

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2013 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Net income (loss)	$15,184	$39,093	$(11,652)	$ (27,441)	$ 15,184
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	(19,967)	(1,176)	(2,314)	27,441	3,984
Net cash (used in) provided by operating activities	(4,783)	37,917	(13,966)	-	19,168
Intercompany sources	(40,471)	7,802	65,606	(32,937)	-
Non-subsidiary sources	-	(8,306)	(6,523)	-	(14,829)
Net cash (used in) provided by investing activities	(40,471)	(504)	59,083	(32,937)	(14,829)
Intercompany sources	-	(32,937)	-	32,937	-
Non-subsidiary sources	(77,632)	(2,848)	(22,932)	-	(103,412)
Net cash provided by (used in) financing activities	(77,632)	(35,785)	(22,932)	32,937	(103,412)
Net (decrease) increase in cash and cash equivalents	$(122,886)	$1,628	$22,185	$ -	$ (99,073)

ULTRAPETROL (BAHAMAS) LIMITED AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012 (UNAUDITED)

(stated in thousands of U.S. dollars)

	Parent	Combined subsidiary guarantors	Combined subsidiary non guarantors	Consolidating adjustments	Total consolidated amounts
Net (loss) income	$(31,470)	$(25,886)	$7,202	$ 18,684	$ (31,470)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	24,271	52,587	(24,221)	(18,684)	33,953
Net cash (used in) provided by operating activities	(7,199)	26,701	(17,019)	-	2,483
Intercompany sources	3,981	18,267	(23,481)	1,233	-
Non-subsidiary sources	-	(72,726)	40,183	-	(32,543)
Net cash (used in) provided by investing activities	3,981	(54,459)	16,702	1,233	(32,543)
Intercompany sources	-	4,441	(3,208)	(1,233)	-
Non-subsidiary sources	-	10,411	421	-	10,832
Net cash provided by (used in) financing activities	-	14,852	(2,787)	(1,233)	10,832
Net decrease in cash and cash equivalents	$(3,218)	$(12,906)	$(3,104)	-	$ (19,228)