

Navios Maritime Holdings Inc.

Form 20-F

April 06, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

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

**For the fiscal year ended December 31, 2010**

**OR**

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

**OR**

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

**Date of event requiring shell company report**

**For the transition period from            to**

**Commission file number  
001-33311**

**Navios Maritime Holdings Inc.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's Name into English)

**Republic of Marshall Islands**

(Jurisdiction of incorporation or organization)

**85 Akti Miaouli Street**

**Piraeus, Greece 185 38**

(Address of principal executive offices)

**Kenneth R. Koch, Esq., Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Tel: (212) 935-3000,**

**Fax: (212) 983-3115, The Chrysler Center, 666 Third Avenue, New York, New York 10017**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of each class**

**Name of each exchange on which registered**

Common Stock, par value \$.0001 per share

New York Stock Exchange LLC

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

101,563,766 as of December 31, 2010.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**FORWARD-LOOKING STATEMENTS**

*This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.*

Navios Maritime Holdings Inc. desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words may, could, should, would, expect, plan, anticipate, intend, forecast, believe, estimate, potential, continue and similar expressions identify forward-looking statements.

Please note in this Annual Report, we, us, our, the Company and Navios Holdings all refer to Navios Maritime Holdings Inc. and its subsidiaries.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records, and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the drybulk shipping industry, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

Navios Holdings' selected historical financial information and operating results for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are derived from the audited consolidated financial statements of Navios Holdings. The consolidated statement of operations data for the years ended December 31, 2010, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010 and 2009 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statement of operations data for the years ended December 31, 2007 and 2006, and the balance sheet data as of December 31, 2008, 2007 and 2006, have been derived from our audited financial statements which are not included in this document. The selected consolidated financial data should be read in conjunction with Item 5. Operating and Financial Review and Prospects, the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report.





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	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
	(Expressed in thousands of U.S. dollars except share and per share data)				
<b>Statement of Income Data</b>					
Revenue	\$ 679,918	\$ 598,676	\$ 1,246,062	\$ 758,420	\$ 205,375
Time charter, voyage and logistic business expenses	(336,558)	(353,838)	(1,066,239)	(557,573)	(84,225)
Direct vessel expenses	(47,109)	(31,454)	(26,621)	(27,892)	(19,863)
General and administrative expenses	(58,604)	(43,897)	(37,047)	(23,058)	(15,057)
Depreciation and amortization	(101,793)	(73,885)	(57,062)	(31,900)	(37,129)
Provision for losses on accounts receivable	(4,660)	(2,237)	(2,668)		(6,242)
Interest income from investments in finance leases	877	1,330	2,185	3,507	
Interest income	3,642	1,699	7,753	10,819	3,832
Interest expense and finance cost, net	(106,022)	(63,618)	(49,128)	(51,089)	(47,429)
Gain on derivatives	4,064	375	8,092	25,100	20,322
Gain on sale of assets/partial sale of subsidiary	55,432	20,785	27,817	167,511	
Gain on change in control	17,742				
Other income	9,472	6,749	948	445	1,283
Other expense	(11,303)	(20,508)	(7,386)	(767)	(472)
<b>Income before equity in net earnings of affiliated companies</b>	<b>\$ 105,098</b>	<b>\$ 40,177</b>	<b>\$ 46,706</b>	<b>\$ 273,523</b>	<b>\$ 20,395</b>
Equity in net earnings of affiliated companies	40,585	29,222	17,431	1,929	674
<b>Income before taxes</b>	<b>\$ 145,683</b>	<b>\$ 69,399</b>	<b>\$ 64,137</b>	<b>\$ 275,452</b>	<b>\$ 21,069</b>
Income tax (expense)/benefit	(414)	1,565	56,113	(4,451)	
<b>Net income</b>	<b>\$ 145,269</b>	<b>\$ 70,964</b>	<b>\$ 120,250</b>	<b>\$ 271,001</b>	<b>\$ 21,069</b>
Less: Net loss/(income) attributable to the noncontrolling interest	488	(3,030)	(1,723)		
<b>Net income attributable to Navios Holdings common stockholders</b>	<b>\$ 145,757</b>	<b>\$ 67,934</b>	<b>\$ 118,527</b>	<b>\$ 271,001</b>	<b>\$ 21,069</b>

Less:

**Incremental fair value of securities offered to induce warrants exercise**

**(4,195)**

**Income available to Navios Holdings common shareholders**

**\$ 145,757**

**\$ 67,934**

**\$ 118,527**

**\$ 266,806**

**\$ 21,069**

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	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
	(Expressed in thousands of U.S. dollars except share and per share data)				
<b>Weighted average number of shares, basic</b>	<b>100,518,880</b>	<b>99,924,587</b>	<b>104,343,083</b>	<b>92,820,943</b>	<b>54,894,402</b>
<b>Basic earnings per share attributable to Navios Holdings common stockholders</b>	<b>\$ 1.43</b>	<b>\$ 0.68</b>	<b>\$ 1.14</b>	<b>\$ 2.87</b>	<b>\$ 0.38</b>
<b>Weighted average number of shares, diluted</b>	<b>116,182,356</b>	<b>105,194,659</b>	<b>107,344,748</b>	<b>99,429,533</b>	<b>55,529,688</b>
<b>Diluted earnings per share attributable to Navios Holdings common stockholders</b>	<b>\$ 1.24</b>	<b>\$ 0.65</b>	<b>\$ 1.10</b>	<b>\$ 2.68</b>	<b>\$ 0.38</b>
<b>Balance Sheet Data (at period end)</b>					
Current assets, including cash	\$ 349,965	\$ 427,680	\$ 505,409	\$ 848,245	\$ 195,869
Total assets	3,676,767	2,935,182	2,253,624	1,971,004	944,783
Current liabilities, including current portion of long-term debt	201,603	196,080	271,532	450,491	108,979
Total long-term debt, including current portion	2,075,910	1,622,706	887,715	614,049	568,062
Navios Holdings stockholders equity	1,059,583	925,480	805,820	769,204	274,216
	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
	(Expressed in thousands of U.S. dollars except per share data)				
<b>Other Financial Data</b>					
Net cash provided by/(used in) operating activities	\$ 182,490	\$ 216,451	\$ (28,388)	\$ 128,075	\$ 56,432

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Net cash used in investing activities	(129,769)	(802,538)	(452,637)	(16,451)	(111,463)
Net cash (used in)/provided by financing activities	(19,244)	626,396	187,082	216,285	116,952
Book value per common share	10.43	9.17	8.02	7.23	4.42
Cash dividends per common share	0.24	0.27	0.38	0.24	0.25
Cash dividends per preferred share	289.0	52.35			
Cash paid for common stock dividend declared	24,107	27,154	28,588	26,023	15,382
Cash paid for preferred stock dividend declared	2,930	429			
Adjusted EBITDA (1)	\$ 356,126	\$ 206,801	\$ 165,478	\$ 349,875	\$ 103,177
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(1) EBITDA represents net income before interest, taxes, depreciation and amortization. Adjusted EBITDA in this document represents EBITDA before stock based compensation. EBITDA and Adjusted EBITDA do not represent and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. GAAP, and our calculation of EBITDA and Adjusted EBITDA may not be comparable to that reported by other companies due to differences in methods of calculation. EBITDA and Adjusted EBITDA are included in this document because they are a basis upon which the Company assesses its liquidity position and because it is used by certain investors to measure the Company's ability to service and/or incur indebtedness, pay capital expenditures, meet working capital requirements and pay dividends. The following table reconciles net cash from operating activities, as reflected in the consolidated statements of cash flows, to Adjusted EBITDA:

**Adjusted EBITDA Reconciliation from Cash from Operations**

	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2006</b>
	<b>(Expressed in thousands of U.S. dollars except per share data)</b>				
Net cash provided by/(used in) operating activities	\$ 182,490	\$ 216,451	\$ (28,388)	\$ 128,075	\$ 56,432
Net (increase)/decrease in operating assets	(7,051)	(30,399)	(87,797)	177,755	33,065
Net increase/(decrease) in operating liabilities	20,578	(56,498)	226,145	(176,510)	(31,086)
Payments for drydock and special survey costs	9,337	3,522	3,653	2,426	2,480
Net interest cost	90,628	55,237	39,298	38,414	35,593
Provision for losses on accounts receivable	(4,660)	(2,237)	(2,668)		(6,024)
Gain on sale of assets/partial sale of subsidiary	55,432	20,785	27,817	167,511	
Unrealized gain/(loss) on FFA derivatives, warrants and interest rate swaps	(12,882)	9,311	(15,376)	10,953	12,625
Earnings in affiliates and joint ventures, net of dividends received	5,844	1,355	4,517	1,251	92
Unrealized losses on available for sale securities		(13,778)			
Non-cash compensation received		6,082			
Gain on change in control	17,742				
Repurchase of convertible bond	3,799				
Consultancy fees	(5,619)				
Noncontrolling interest	488	(3,030)	(1,723)		
<b>Adjusted EBITDA</b>	<b>\$ 356,126</b>	<b>\$ 206,801</b>	<b>\$ 165,478</b>	<b>\$ 349,875</b>	<b>\$ 103,177</b>

**B. Capitalization and Indebtedness**

Not applicable.

***C. Reasons for the Offer and Use of Proceeds***

Not applicable.

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***D. Risk Factors***

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. You should carefully consider each of the following risks together with the other information incorporated into this Annual Report when evaluating the Company's business and its prospect. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the Company's business operations. If any of the following risks relating to our business and operations actually occur, our business, financial condition and results of operations could be materially and adversely affected and in that case, the trading price of our common stock could decline, and you could lose all or part of your investment.

**Risks Associated with the Shipping Industry and Our Operations**

**The cyclical nature of the international drybulk shipping industry may lead to decreases in charter rates and lower vessel values, which could adversely affect our results of operations and financial condition.**

The shipping business, including the dry cargo market, is cyclical in varying degrees, experiencing severe fluctuations in charter rates, profitability and, consequently, vessel values. For example, during the period from January 4, 2005 to December 31, 2010, the Baltic Exchange's Panamax time charter average daily rates experienced a low of \$3,537 and a high of \$94,977. Additionally, during the period from January 1, 2010 to December 31, 2010, the Baltic Exchange's Capesize time charter average daily rates experienced a low of \$12,073 and a high of \$59,324 and the Baltic Exchange Dry Index experienced a low of 1,700 points and a high of 4,209 points. Navios Holdings anticipates that the future demand for its drybulk carriers and drybulk charter rates will be dependent upon demand for imported commodities, economic growth in the emerging markets, including the Asia Pacific region, India, Brazil and Russia, and in the rest of the world, seasonal and regional changes in demand and changes to the capacity of the world fleet. Recent adverse economic, political, social or other developments have decreased demand and prospects for growth in the shipping industry and thereby could reduce revenue significantly. A decline in demand for commodities transported in drybulk carriers or an increase in supply of drybulk vessels could cause a further decline in charter rates, which could materially adversely affect our results of operations and financial condition. If we sell a vessel at a time when the market value of our vessels has fallen, the sale may be at less than the vessel's carrying amount, resulting in a loss.

The demand for vessels has generally been influenced by, among other factors:

global and regional economic conditions;

developments in international trade;

changes in seaborne and other transportation patterns, such as port congestion and canal closures;

weather and crop yields;

armed conflicts, acts of piracy and terrorist activities;

political developments; and

embargoes and strikes.

The supply of vessel capacity has generally been influenced by, among other factors:

the number of vessels that are in or out of service;

the scrapping rate of older vessels;

port and canal traffic and congestion;

the number of newbuilding deliveries; and

vessel casualties.

**The economic slowdown in the Asia Pacific region has markedly reduced demand for shipping services and has decreased shipping rates, which could adversely affect our results of operations and financial condition.**

Currently, China, India, Japan, other Pacific Asian economies and India are the main driving force behind the development in seaborne drybulk trades and the demand for drybulk carriers. Reduced demand from such economies has driven decreased rates and vessel values. A further negative change in economic conditions in any Asian Pacific country, but particularly in China or Japan, as well as India, may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects, by reducing demand and the resultant charter rates. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. Furthermore, the economic uncertainty in the United States, the European Union, and other countries may deepen the economic slowdown in China, among others.



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The March 2011 natural disaster in Japan and its currently uncertain resultant effects may also have a significant impact on the regional and world economies. With the third largest economy in the world, an extended period of recovery for Japan and its economy could decrease oil and dry bulk imports to that country. Our financial condition and results of operations, as well as our future prospects, would likely be adversely affected by an economic downturn in any of these countries as such downturn would likely translate into reduced demand for shipping services and lower shipping rates industry-wide. As a result, our operating results would be further materially affected.

**Continued uncertainty and renewed disruptions in world financial markets and resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our ability to obtain financing, our results of operations, financial condition and cash flows and could cause the market price of our common units to decline.**

The United States and other parts of the world are exhibiting volatile economic trends and were recently in a recession in 2008 and 2009. Despite recent signs of recovery, the outlook for the world economy remains uncertain. General market volatility has resulted from uncertainty about sovereign debt and fears of countries such as Greece and Portugal defaulting on their governments' financial obligations. In addition, continued hostilities in the Middle East, recent tensions in North Africa and the continuing effects of the March 2011 natural disasters in Japan could adversely affect the economies of the United States and those of other countries. The credit markets worldwide and in the United States have experienced significant contraction, de-leveraging and reduced liquidity, and the United States federal and state governments, as well as foreign governments, have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators, self regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

A number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide. Due to the fact that we may cover all or a portion of the cost of vessel acquisition with debt financing, such uncertainty, combined with restrictions imposed by our current debt, may hamper our ability to finance vessel or new business acquisition.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in certain securities markets, among other factors. Major market disruptions and the current uncertainty in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. The current market conditions may last longer than we anticipate. These recent and developing economic and governmental factors may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our common units to decline significantly.

**When our contracts expire, we may not be able to successfully replace them.**

The process for concluding contracts and longer term time charters generally involves a lengthy and intensive screening and vetting process and the submission of competitive bids. In addition to the quality and suitability of the vessel, medium and longer term shipping contracts tend to be awarded based upon a variety of other factors relating to the vessel operator, including:

environmental, health and safety record;

compliance with regulatory industry standards;

reputation for customer service, technical and operating expertise;

shipping experience and quality of ship operations, including cost-effectiveness;

quality, experience and technical capability of crews;

the ability to finance vessels at competitive rates and overall financial stability;

relationships with shipyards and the ability to obtain suitable berths;

construction management experience, including the ability to procure on-time delivery of new vessels according to customer specifications;

willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and

competitiveness of the bid in terms of overall price.

As a result of these factors, when our contracts including our long-term charters expire, we cannot assure you that we will be able to replace them promptly or at all or at rates sufficient to allow us to operate our business profitably, to meet our obligations, including payment of debt service to our lenders, or to pay dividends. Our ability to renew the charter contracts on our vessels on the expiration or termination of our current charters, or, on vessels that we may acquire in the future, the charter rates payable under any replacement charter contracts, will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time and the financial sector, changes in the supply and demand for vessel capacity and changes in the supply and demand for the transportation of commodities as described above.

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However, if we are successful in employing our vessels under longer-term time charters, our vessels will not be available for trading in the spot market during an upturn in the market cycle, when spot trading may be more profitable. If we cannot successfully employ our vessels in profitable charter contracts, our results of operations and operating cash flow could be materially adversely affected.

**We may employ vessels on the spot market and thus expose ourselves to risk of losses based on short-term decreases in shipping rates.**

We periodically employ some of our vessels on a spot basis. The spot charter market is highly competitive and freight rates within this market are highly volatile, while longer-term charter contracts provide income at pre-determined rates over more extended periods of time. We cannot assure you that we will be successful in keeping our vessels fully employed in these short-term markets, or that future spot rates will be sufficient to enable such vessels to be operated profitably. A significant decrease in spot market rates or our inability to fully employ our vessels by taking advantage of the spot market would result in a reduction of the incremental revenue received from spot chartering and adversely affect results of operations, including our profitability and cash flows, with the result that our ability to pay debt service and dividends could be impaired.

**We are subject to certain credit risks with respect to our counterparties on contracts, and the failure of such counterparties to meet their obligations could cause us to suffer losses on such contracts and thereby decrease revenues.**

We charter-out our vessels to other parties, who pay us a daily rate of hire. We also enter into contracts of affreightment, or COAs pursuant to which we agree to carry cargoes, typically for industrial customers, who export or import drybulk cargoes. Additionally, we enter into Forward Freight Agreements, or ( FFAs ), parts of which are traded over-the-counter. We also enter into spot market voyage contracts, where we are paid a rate per ton to carry a specified cargo on a specified route. The FFAs and these contracts and arrangements subject us to counterparty credit risks at various levels. If the counterparties fail to meet their obligations, we could suffer losses on such contracts which could materially adversely affect our financial condition and results of operations. In addition, after a charterer defaults on a time charter, we would have to enter into charters at lower rates. It is also possible that we would be unable to secure a charter at all. If we re-charter the vessel at lower rates or not at all, our financial condition and results of operations could be materially adversely affected.

We have insured our charter-out contracts through a AA+ rated governmental agency of a European Union member state, which provides that if the charterer goes into payment default, the insurer will reimburse us for the charter payments under the terms of the policy (subject to applicable deductibles and other customary limitations for such insurance).

In January 2011, Korea Line Corporation ( KLC ) filed for receivership, which is a reorganization under South Korean bankruptcy law. Navios Holdings has reviewed the matter in concert with the credit default insurers, as five vessels of its core fleet are chartered out to KLC. The contracts for these vessels have been temporarily suspended and the vessels have been rechartered to third parties for variable charter periods. Upon completion of the suspension period, the contracts with the original charterers will resume at amended terms. The obligations of the insurer are reduced by an amount equal to the mitigation charter hire revenues earned under the contracts with third parties and/or the original charters or the applicable deductibles for any idle periods. The Company has filed claims for all unpaid amounts by KLC in respect of the employment of the five vessels in the KLC corporate rehabilitation proceedings. The disposition of these claims will be determined by the Korean Court at a future date.

**Trading and complementary hedging activities in freight, tonnage and FFAs subject us to trading risks, and we may suffer trading losses which could adversely affect our financial condition and results of operations.**

Due to drybulk shipping market volatility, success in this shipping industry requires constant adjustment of the balance between chartering-out vessels for long periods of time and trading them on a spot basis. A long-term contract to charter a vessel might lock us into a profitable or unprofitable situation depending on the direction of freight rates over the term of the contract. We seek to manage and mitigate that risk through trading and complementary hedging activities in freight, tonnage and FFAs. We are exposed to market risk in relation to our FFAs and could suffer substantial losses from these activities in the event that our expectations are incorrect. We trade FFAs with an objective of both economically hedging the risk on the fleet, specific vessels or freight commitments and taking

advantage of short-term fluctuations in market prices. There can be no assurance that we will be able at all times to successfully protect ourselves from volatility in the shipping market. We may not successfully mitigate our risks, leaving us exposed to unprofitable contracts, and may suffer trading losses resulting from these hedging activities.

In our hedging and trading activities, we focus on short-term trading opportunities in which there are adequate liquidity in order to limit the risk we are taking. There can be no assurance we will be successful in limiting our risk, that significant price spikes will not result in significant losses, even on short-term trades, that liquidity will be available for our positions, or that all trades will be done within our risk management policies. Any such risk could be significant. In addition, the performance of our trading activities can significantly increase the variability of our operating performance in any given period and could materially adversely affect our financial condition. The FFA market has experienced significant volatility in the past few years and, accordingly, recognition of the changes in the fair value of FFAs has caused, and could in the future cause significant volatility in earnings.

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### **We are subject to certain operating risks, including vessel breakdowns or accidents, that could result in a loss of revenue from the affected vessels and which in turn could have an adverse effect on our results of operations or financial condition.**

Our exposure to operating risks of vessel breakdown and accidents mainly arises in the context of our owned vessels. The rest of our core fleet is chartered-in under time charters and, as a result, most operating risks relating to these time chartered vessels remain with their owners. If we pay hire on a chartered-in vessel at a lower rate than the rate of hire it receives from a sub-charterer to whom we have chartered out the vessel, a breakdown or loss of the vessel due to an operating risk suffered by the owner will, in all likelihood, result in our loss of the positive spread between the two rates of hire. Although we maintain insurance policies (subject to deductibles and exclusions) to cover us against the loss of such spread through the sinking or other loss of a chartered-in vessel, we cannot assure you that we will be covered under all circumstances or that such policies will be available in the future on commercially reasonable terms. Breakdowns or accidents involving our vessels and losses relating to chartered vessels which are not covered by insurance would result in a loss of revenue from the affected vessels adversely affecting our financial condition and results of operations.

### **We are subject to various laws, regulations, and conventions, including environmental laws, that could require significant expenditures both to maintain compliance with such laws and to pay for any uninsured environmental liabilities resulting from a spill or other environmental disaster.**

The shipping business and vessel operation are materially affected by government regulation in the form of international conventions, national, state and local laws, and regulations in force in the jurisdictions in which vessels operate, as well as in the country or countries of their registration. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations, or the impact thereof on the fair market price or useful life of our vessels. Changes in governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations and customer requirements or competition, may require us to make capital and other expenditures. For example, if governmental authorities or independent classification societies that inspect the hull and machinery of commercial ships to assess compliance with minimum criteria as set by national and international regulations enact new standards, we may be required to make significant expenditures for alterations of the addition of new equipment. In order to satisfy any such requirements, we may be required to take any of our vessels out of service for extended periods of time, with corresponding losses of revenues. In the future, market conditions may not justify these expenditures or enable us to operate our vessels profitably, particularly older vessels, during the remainder of their economic lives. This could lead to significant asset write downs.

Additional conventions, laws and regulations may be adopted that could limit our ability to do business, require capital expenditures or otherwise increase our cost of doing business, which may materially adversely affect our operations, as well as the shipping industry generally. For example, in various jurisdictions legislation has been enacted, or is under consideration that would impose more stringent requirements on air pollution and water discharges. For example, the International Maritime Organization (IMO) periodically proposes and adopts amendments to revise the International Convention for the Prevention of Pollution from Ships (MARPOL), such as the recent revision to Annex VI. The revised Annex VI implements a phased reduction of the sulfur content of fuel beginning in 2010 and allows for stricter sulfur limits in designated emission control areas (ECAs). Thus far, ECAs have been formally adopted for the Baltic Sea, the North Sea and the coasts of North America but more ECAs could be added. In addition, the IMO, the U.S. and states within the U.S. have proposed or implemented requirements relating to the management of ballast water to prevent the harmful effects of foreign invasive species.

The operation of vessels is also affected by the requirements set forth in the ISM Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive safety management system that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe vessel operation and describing procedures for dealing with emergencies. Non-compliance with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports. For example, the United States Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in ports in

the United States and European Union. Currently, each of the vessels in our owned fleet is ISM Code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

Our fleet of drybulk vessels, and the fleet of our subsidiaries that includes drybulk and tanker vessels, are subject to several international conventions imposing and limiting pollution liability from vessels, The U.S. however, is not a party to these liability conventions and is instead subject to the oil liability provisions of the Oil Pollution Act, or OPA, discussed below.

An owner of a tanker vessel carrying a cargo of persistent oil as defined by the Civil Liability Convention 1992, or the CLC, is subject under the convention to strict liability for any pollution damage caused in a contracting state by an escape or discharge from her cargo or from her bunker tanks. This liability is subject to a financial limit calculated by reference to the tonnage of the ship, and the right to limit liability may be lost if the spill is caused by the shipowner's intentional or reckless conduct. Liability may also be incurred under the CLC for a bunker spill from the vessel even when she is not carrying such a cargo, but is in ballast.

When a tanker is carrying clean oil products that do not constitute persistent oil covered under the CLC, liability for any pollution damage will generally fall outside the CLC and will depend on other international conventions or domestic laws in the jurisdiction where the spillage occurs. The same principle applies to any pollution from the vessel in a jurisdiction which is not a party

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to the CLC. The CLC applies in over 100 states around the world, but it does not apply in the United States, where the corresponding liability laws are noted for being particularly stringent.

For all vessels, other than oil tankers operations not covered by the CLC, including vessels operated under our fleet, international liability for bunker oil pollution is governed by the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention. In 2001, the IMO adopted the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker oil from all classes of ships not covered by the CLC. The Bunker Convention defines bunker oil as any hydrocarbon mineral oil, including lubricating oil, used or intended to be used for the operation or propulsion of the ship, and any residues of such oil. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime, including liability limits calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended, or the 1976 Convention, discussed below. The Bunker Convention entered into force on November 21, 2008, and in early 2011 it was in effect in 58 states. In other jurisdictions, liability for spills or releases of oil from ships bunkers continues to be determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

The CLC and Bunker Convention also allow vessel owners to limit their liability. The CLC includes its own liability limits, and the Bunker Convention references applicable national and international liability limits including the 1976 Convention, which is the most widely applicable international regime limiting maritime pollution liability. Rights to limit liability under the 1976 Convention are forfeited when a spill is caused by a shipowner's intentional or reckless conduct. Certain states have ratified the IMO's 1996 Protocol to the 1976 Convention. The Protocol provides for substantially higher liability limits to apply in those jurisdictions than the limits set forth in the 1976 Convention. Finally, some jurisdictions, such as the U.S. are not a party to either the 1976 Convention, and, therefore, a shipowner's rights to limit liability for maritime pollution in such jurisdictions may be uncertain.

Environmental legislation in the United States merits particular mention as it is in many respects more onerous than international laws, representing a high-water mark of regulation with which ship owners and operators must comply, and of liability likely to be incurred in the event of non-compliance or an incident causing pollution. U.S. federal legislation, including notably the Oil Pollution Act of 1990, or OPA, establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including bunker oil spills from drybulk vessels as well as cargo or bunker oil spills from tankers. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. Under OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or substantial threats of discharges, of oil from their vessels.

In response to the 2010 Deepwater Horizon oil incident in the Gulf of Mexico, the U.S. House of Representatives passed and the U.S. Senate considered but did not pass a bill to strengthen certain requirements of OPA; similar legislation may be introduced in the 112th Congress. While Congressional activity on this topic is expected to continue to focus on offshore facilities rather than on vessels generally, it cannot be known with certainty what form any such new legislative initiatives may take. In addition to potential liability under the federal OPA, vessel owners may in some instances incur liability on an even more stringent basis under state law in the particular state where the spillage occurred.

Outside of the United States, other national laws generally provide for the owner to bear strict liability for pollution, subject to a right to limit liability under applicable national or international regimes for limitation of liability. The most widely applicable international regime limiting maritime pollution liability is the 1976 Convention referred to above. Rights to limit liability under the 1976 Convention are forfeited when a spill is caused by a shipowner's intentional or reckless conduct. Certain states have ratified the IMO's 1996 Protocol to the 1976 Convention. The Protocol provides for substantially higher liability limits to apply in those jurisdictions than the limits set forth in the 1976 Convention. Finally, some jurisdictions are not a party to either the 1976 Convention or the 1996 LLMC Protocol, and, therefore, a shipowner's rights to limit liability for maritime pollution in such jurisdictions may

be uncertain.

In some areas of regulation the EU has introduced new laws without attempting to procure a corresponding amendment of international law. Notably it adopted in 2005 a directive on ship-source pollution, imposing criminal sanctions for pollution not only where this is caused by intent or recklessness (which would be an offence under the International Convention for the Prevention of Pollution from Ships, or MARPOL), but also where it is caused by serious negligence . The directive could therefore result in criminal liability being incurred in circumstances where it would not be incurred under international law. Experience has shown that in the emotive atmosphere often associated with pollution incidents, retributive attitudes towards ship interests have found expression in negligence being alleged by prosecutors and found by courts on grounds which the international maritime community has found hard to understand. Moreover, there is skepticism that the notion of serious negligence is likely to prove any narrower in practice than ordinary negligence. Criminal liability for a pollution incident could not only result in us incurring substantial penalties or fines, but may also, in some jurisdictions, facilitate civil liability claims for greater compensation than would otherwise have been payable.



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We currently maintain, for each of our owned vessels, insurance coverage against pollution liability risks in the amount of \$1.0 billion per incident. The insured risks include penalties and fines as well as civil liabilities and expenses resulting from accidental pollution. However, this insurance coverage is subject to exclusions, deductibles and other terms and conditions. If any liabilities or expenses fall within an exclusion from coverage, or if damages from a catastrophic incident exceed the \$1.0 billion limitation of coverage per incident, our cash flow, profitability and financial position could be adversely impacted.

**Climate change and government laws and regulations related to climate change could negatively impact our financial condition.**

Regarding climate change in particular, we are and will be, directly and indirectly, subject to the effects of climate change and may, directly or indirectly, be affected by government laws and regulations related to climate change. A number of countries have adopted or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. In the U.S., the United States Environmental Protection Agency (U.S. EPA) has declared greenhouse gases to be dangerous pollutants and has issued greenhouse gas reporting requirements for emissions sources in certain industries (which do not include the shipping industry). The U.S. EPA is also considering petitions to regulate greenhouse gas emissions from marine vessels.

The IMO has announced its intention to develop limits on greenhouse gases from international shipping and is working on technical and operational measures to reduce emissions. In addition, while the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which requires adopting countries to implement national programs to reduce greenhouse gas emissions, such standards are currently under consideration by the IMO. The European Union announced in April 2007 that it planned to expand the European Union emissions trading scheme by adding vessels, and a proposal from the European Commission is expected if no global regime for reduction of seaborne emissions has been agreed by the end of 2011. We cannot predict with any degree of certainty what effect, if any, possible climate change and government laws and regulations related to climate change will have on our operations, whether directly or indirectly. While we believe that it is difficult to assess the timing and effect of climate change and pending legislation and regulation related to climate change on our business, we believe that climate change, including the possible increase in severe weather events resulting from climate change, and government laws and regulations related to climate change may affect, directly or indirectly, (i) the cost of the vessels we may acquire in the future, (ii) our ability to continue to operate as we have in the past, (iii) the cost of operating our vessels, and (iv) insurance premiums, deductibles and the availability of coverage. As a result, our financial condition could be negatively impacted by significant climate change and related governmental regulation, and that impact could be material.

**We are subject to vessel security regulations and will incur costs to comply with recently adopted regulations and may be subject to costs to comply with similar regulations which may be adopted in the future in response to terrorism.**

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;

- on-board installation of ship security alert systems;

- the development of vessel security plans; and

compliance with flag state security certification requirements.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels had on board, by July 1, 2004, a valid International Ship Security Certificate, or ISSC, that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented and will continue implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and take measures for the vessels to attain compliance with all applicable security requirements within the prescribed time periods. Although management does not believe these additional requirements will have a material financial impact on our operations, there can be no assurance that there will not be an interruption in operations to bring vessels into compliance with the applicable requirements and any such interruption could cause a decrease in charter revenues. The cost of vessel security measures has also been affected by dramatic escalation in recent years in the frequency and seriousness of acts of piracy against ships, notably off the coast of Somalia, including the Gulf of Aden and Arabian Sea area which could have a significant financial impact on us.

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The cost of vessel security measures has also been affected by dramatic escalation in recent years in the frequency and seriousness of acts of piracy against ships, notably off the coast of Somalia, including the Gulf of Aden and Arabian Sea area. Attacks of this kind have commonly resulted in vessels and their crews being detained for several months, and being released only on payment of large ransoms. Substantial loss of revenue and other costs may be incurred as a result of such detention. So far as practicable we insure against these losses but the risk remains of uninsured losses which could significantly affect our business. Costs are incurred in taking additional security measures in accordance with Best Management Practices to Deter Piracy, notably those contained in the BMP3 industry standard. A number of flag states have signed the 2009 New York Declaration, which expresses commitment to Best Management Practices in relation to piracy and calls for compliance with them as an essential part of compliance with the ISPS Code.

**Acts of piracy on ocean-going vessels have increased recently in frequency and magnitude, which could adversely affect our business.**

The shipping industry has historically been affected by acts of piracy in regions such as the South China Sea and the Gulf of Aden. In 2009 and continuing through 2010, acts of piracy saw a steep rise, particularly off the coast of Somalia in the Gulf of Aden. One of the most significant examples of the increase in piracy came in November 2008 when the M/V Sirius Star, a crude oil tanker which was not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth approximately \$100 million. More recently, in April 2010, the M/V Samho Dream, another crude oil tanker not affiliated with us, was captured off the Somali coast while carrying approximately \$170 million in crude oil. In December 2009, the Navios Apollon, one of Navios Maritime Partners L.P. ( Navios Partners ) vessels, was seized by pirates 800 miles off the coast of Somalia while transporting fertilizer from Tampa, Florida to Rozi, India and was released on February 27, 2010. If these piracy attacks result in regions (in which our vessels are deployed) being characterized by insurers as war risk zones or Joint War Committee (JWC) war and strikes listed areas, premiums payable for such insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in such circumstances. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not on-hire for a certain number of days and it is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and cash flows. Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business and operations.

**Our operations expose us to global political risks, such as wars and political instability that may interfere with the operation of our vessels causing a decrease in revenues from such vessels.**

We are an international company and conduct our operations primarily outside the United States. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered will affect us. In the past, political conflicts, particularly in the Persian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. For example, in October 2002, the vessel Limburg, which was not affiliated with us, was attacked by terrorists in Yemen. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Following the terrorist attack in New York City on September 11, 2001, and the military response of the United States, the likelihood of future acts of terrorism may increase, and our vessels may face higher risks of being attacked in the Middle East region and interruption of operations causing a decrease in revenues. In addition, continuing conflicts and recent developments in North Africa and the Middle East and future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations by causing delays in shipping on certain routes or making shipping impossible on such routes, thereby causing a decrease in revenues.

In addition, a government could requisition title or seize our vessels during a war or national emergency. Requisition of title occurs when a government takes a vessel and becomes the owner. A government could also

requisition our vessels for hire, which would result in the government's taking control of a vessel and effectively becoming the charterer at a dictated charter rate. Requisition of one or more of our vessels would have a substantial negative effect on us as we would potentially lose all revenues and earnings from the requisitioned vessels and permanently lose the vessels. Such losses might be partially offset if the requisitioning government compensated us for the requisition.

**A failure to pass inspection by classification societies could result in one or more vessels being unemployable unless and until they pass inspection, resulting in a loss of revenues from such vessels for that period and a corresponding decrease in operating cash flows.**

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and with SOLAS. Our owned fleet is currently enrolled with Nippon Kaiji Kiokai, Bureau Veritas, Lloyd's Register and American Bureau of Shipping.

A vessel must undergo an annual survey, an intermediate survey and a special survey. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period.

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Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel fails any annual survey, intermediate survey or special survey, the vessel may be unable to trade between ports and, therefore, would be unemployable, potentially causing a negative impact on our revenues due to the loss of revenues from such vessel until she is able to trade again.

### **Rising crew costs may adversely affect our profits.**

Crew costs are a significant expense for us. Recently, the limited supply of and increased demand for well-qualified crew, due to the increase in the size of the global shipping fleet, has created upward pressure on crewing costs, which we generally bear under our period, time and spot charters. Increases in crew costs may adversely affect our profitability.

### **The shipping industry has inherent operational risks that may not be adequately covered by our insurance.**

The operation of ocean-going vessels in international trade is inherently risky. Although we carry insurance for our fleet covering risks commonly insured against by vessel owners and operators, such as hull and machinery insurance, war risks insurance and protection and indemnity insurance (which include environmental damage and pollution insurance), all risks may not be adequately insured against, and any particular claim may not be paid. We do not currently maintain off-hire insurance, which would cover the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any extended vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could exceed our insurance coverage, which could harm our business, financial condition and operating results. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available to us in the future may be significantly more expensive than our existing coverage.

Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. Our insurance policies also contain deductibles, limitations and exclusions which can result in significant increased overall costs to us.

### **Because we obtain some of our insurance through protection and indemnity associations, we may also be subject to calls, or premiums, in amounts based not only on our own claim records, but also on the claim records of all other members of the protection and indemnity associations.**

We may be subject to calls, or premiums, in amounts based not only on our claim records but also on the claim records of all other members of the protection and indemnity associations through which we receive insurance coverage for tort liability, including pollution-related liability. Our payment of these calls could result in significant expenses to us, which could have a material adverse effect on our business, results of operations and financial condition and our ability to pay interest on, or the principal of, the senior notes.

### **Maritime claimants could arrest our vessels, which could interrupt our cash flow.**

Crew members, suppliers of goods and services to a vessel, shippers of cargo, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages against such vessel. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted. We are not currently aware of the existence of any such maritime lien on our vessels.

In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet

for claims relating to another ship in the fleet.

**The risks and costs associated with vessels increase as the vessels age.**

The costs to operate and maintain a vessel in operation increase with the age of the vessel. The average age of the vessels in our fleet is 4.6 years, and most drybulk vessels have an expected life of approximately 25 years. In some instances, charterers prefer newer vessels that are more fuel efficient than older vessels. Cargo insurance rates also increase with the age of a vessel, making older

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vessels less desirable to charterers as well. Governmental regulations, safety or other equipment standards related to the age of the vessels may require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. If we sell vessels, we may have to sell them at a loss, and if charterers no longer charter-out vessels due to their age, our earnings could be materially adversely affected.

**If we fail to manage our planned growth properly, we may not be able to expand our fleet successfully, which may adversely affect our overall financial position.**

We have grown our fleet and business significantly since August 2005. We intend to continue to expand our fleet in the future. Our growth will depend on:

locating and acquiring suitable vessels;

identifying reputable shipyards with available capacity and contracting with them for the construction of new vessels;

integrating any acquired vessels successfully with our existing operations;

enhancing our customer base;

managing our expansion; and

obtaining required financing, which could include debt, equity or combinations thereof.

Additionally, the marine transportation and logistics industries are capital intensive, traditionally using substantial amounts of indebtedness to finance vessel acquisitions, capital expenditures and working capital needs. If we finance the purchase of our vessels through the issuance of debt securities, it could result in:

default and foreclosure on our assets if our operating cash flow after a business combination or asset acquisition were insufficient to pay our debt obligations;

acceleration of our obligations to repay the indebtedness even if we have made all principal and interest payments when due if the debt security contained covenants that required the maintenance of certain financial ratios or reserves and any such covenant was breached without a waiver or renegotiation of that covenant;

our immediate payment of all principal and accrued interest, if any, if the debt security was payable on demand; and

our inability to obtain additional financing, if necessary, if the debt security contained covenants restricting our ability to obtain additional financing while such security was outstanding.

In addition, our business plan and strategy is predicated on buying vessels in a distressed market at what we believe is near the low end of the cycle in what has typically been a cyclical industry. However, there is no assurance that shipping rates and vessels asset values will not sink lower, or that there will be an upswing in shipping costs or vessel asset values in the near-term or at all, in which case our business plan and strategy may not succeed in the near-term or at all. Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty experienced in obtaining additional qualified personnel and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. We may not be successful in growing and may incur significant expenses and losses.

**Although we have long-standing relationships with certain Japanese ship owners that provide us access to very competitive contracts, we cannot assure you that we will always be able to maintain such relationships or that such contracts will continue to be available in the future.**

We have long-standing relationships with certain Japanese ship owners that give us access to time charters that are currently at favorable rates and that, in some cases, include options to purchase the vessels at favorable prices relative to the current market. We cannot assure you that we will have such relationships indefinitely. In addition, there is no assurance that Japanese ship owners will generally make contracts available on the same or substantially similar terms in the future.

**Unrealized losses of available for sale securities may negatively affect our results of operations in the future.**

As part of the consideration received from the sale of the Navios Hope to Navios Partners in July 2008, the Company received 3,131,415 common units of Navios Partners (14.4% of the then-outstanding units of Navios Partners).

On March 18, 2010, Navios Holdings sold the Navios Aurora II, a 2009 South Korean-built Capesize vessel with a capacity of 169,031 deadweight tons, or dwt, to Navios Partners for \$110.0 million. Out of the \$110.0 million purchase price, \$90.0 million was paid in cash and the remaining amount was paid through the receipt of 1,174,219 common units of Navios Partners.

On November 15, 2010, Navios Holdings sold to Navios Partners the vessels Navios Melodia and Navios Fulvia, two 2010-built Capesize vessels, for a total consideration of \$177.0 million of which \$162.0 million was paid in cash and the remaining in 788,370 common units of Navios Partners.



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All of the common units that the Company received from the sale of the vessels described above to Navios Partners are accounted for under guidance for available-for-sale securities (the AFS Securities). Accordingly, unrealized gains and losses on these securities are reflected directly in equity unless an unrealized loss is considered other-than-temporary in which case it is transferred to the statements of income. The Company has no other types of AFS Securities.

As of December 31, 2010 and 2009, the carrying amounts of the AFS Securities were \$99.1 million and \$46.3 million, respectively, and the unrealized holding gains/(losses) related to these AFS Securities included in Accumulated Other Comprehensive Income/(Loss) were \$32.6 million, \$15.2 million and \$(22.6) million as of December 31, 2010, 2009 and 2008, respectively. On June 30, 2009, the Company recognized in earnings realized losses amounting to \$13.8 million following the common units' market value being less than their acquisition price for a consecutive period of 12 months. Therefore, this decline was considered as other-than-temporary impairment ( OTTI ). Management evaluates securities for OTTI on a quarterly basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of Navios Partners, and (3) the intent and ability of the Company to retain its investment in Navios Partners for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2010, market valuation of these securities had increased. If the fair value of these AFS Securities declines below their June 30, 2009 value and our OTTI analysis indicates such write down to be necessary, the potential future impairment charges may have a material adverse impact on our results of operations in the period recognized.

**The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.**

We expect that our vessels will call in ports in South America and other areas where smugglers attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face governmental or other regulatory claims which could have an adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

**Our vessels may be subject to unbudgeted periods of off-hire, which could materially adversely affect our business, financial condition and results of operations.**

Under the terms of the charter agreements under which our vessels operate, or are expected to operate in the case of the newbuilding, when a vessel is off-hire, or not available for service or otherwise deficient in its condition or performance, the charterer generally is not required to pay the hire rate, and we will be responsible for all costs (including the cost of bunker fuel) unless the charterer is responsible for the circumstances giving rise to the lack of availability. A vessel generally will be deemed to be off-hire if there is an occurrence preventing the full working of the vessel due to, among other things:

operational deficiencies;

the removal of a vessel from the water for repairs, maintenance or inspection, which is referred to as drydocking;

equipment breakdowns;

delays due to accidents or deviations from course;

occurrence of hostilities in the vessel's flag state or in the event of piracy;

crewing strikes, labor boycotts, certain vessel detentions or similar problems; or

our failure to maintain the vessel in compliance with its specifications, contractual standards and applicable country of registry and international regulations or to provide the required crew.

**Accidents or operational disruptions in connection with loading, discharging or transiting the rivers in our Navios Logistics business could adversely affect our operations and revenues.**

Our Navios Logistics business is dependent, in part, upon being able to timely and effectively transit the rivers and load and discharge cargoes. Any accidents or operational disruptions to ports, terminals, bridges or the lock on the high Parana River could adversely affect our operations and our revenues in our Navios Logistics business.

**Our international activities increase the compliance risks associated with economic and trade sanctions imposed by the United States, the European Union and other jurisdictions.**

Our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations, including the United Nations, the European Union and its member countries. Under economic and trading sanctions laws, governments may seek to impose modifications to business practices, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions.

In recent months, the scope of sanctions imposed against the government of Iran and persons engaging in certain activities or doing certain business with and relating to Iran has been expanded by a number of jurisdictions, including the United States, the European Union and Canada. In particular, the United States has enacted new legislation which imposed new sanctions that specifically restrict shipping refined petroleum into Iran (the tankers of our affiliate, Navios Maritime Acquisition Corporation have called on ports in Iran but do not engage in the activities specifically identified by these sanctions). There has also been an increased focus on economic and trade sanctions enforcement that has led recently to a significant number of penalties being imposed against shipping companies.

We are monitoring developments in the United States, the European Union and other jurisdictions that maintain sanctions programs, including developments in implementation and enforcement of such sanctions programs. Expansion of sanctions programs, embargoes and other restrictions in the future (including additional designations of countries subject to sanctions), or modifications in how existing sanctions are interpreted or enforced, could prevent the tankers of our affiliate from calling on ports in sanctioned countries or could limit their cargoes. If any of the risks described above materialize, it could have a material adverse impact on our business and results of operations.

**Our Chairman and Chief Executive Officer holds approximately 23% of our common stock and will be able to exert considerable influence over our actions; her failure to own a significant amount of our common stock or to be our Chief Executive Officer would constitute a default under our secured credit facilities.**

Ms. Angeliki Frangou owns approximately 23% of the outstanding shares of our common stock, and has filed a Schedule 13D indicating that she intends, subject to market conditions, to purchase in total \$20.0 million of our common stock (as of March 31, 2011, she had purchased approximately \$10.0 million in value of our common stock). As the Chairman, Chief Executive Officer and a significant stockholder, she has the power to exert considerable influence over our actions and the outcome of matters on which our stockholders are entitled to vote including the election of directors and other significant corporate actions. The interests of Ms. Frangou may be different from your interests. Furthermore, if Ms. Frangou ceases to hold a minimum of 20% of our common

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stock, does not remain actively involved in the business, or ceases to be our Chief Executive Officer, then we will be in default under our secured credit facilities.

### **The loss of key members of our senior management team could disrupt the management of our business.**

We believe that our success depends on the continued contributions of the members of our senior management team, including Ms. Angeliki Frangou, our Chairman, Chief Executive Officer and principal stockholder. The loss of the services of Ms. Frangou or one of our other executive officers or senior management members could impair our ability to identify and secure new charter contracts, to maintain good customer relations and to otherwise manage our business, which could have a material adverse effect on our financial performance and our ability to compete.

### **Certain of our directors, officers, and principal stockholders are affiliated with entities engaged in business activities similar to those conducted by us which may compete directly with us, causing such persons to have conflicts of interest.**

Some of our directors, officers and principal stockholders have affiliations with entities that have similar business activities to those conducted by us. Certain of our directors are also directors of other shipping companies and they may enter similar businesses in the future. These other affiliations and business activities may give rise to certain conflicts of interest in the course of such individuals' affiliation with us. Although we do not prevent our directors, officers and principal stockholders from having such affiliations, we use our best efforts to cause such individuals to comply with all applicable laws and regulations in addressing such conflicts of interest. Our officers and employee directors devote their full time and attention to our ongoing operations, and our non-employee directors devote such time as is necessary and required to satisfy their duties as directors of a public company.

### **Because we generate all of our revenues in U.S. dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could cause us to suffer exchange rate losses, thereby increasing expenses and reducing income.**

We engage in worldwide commerce with a variety of entities. Although our operations may expose us to certain levels of foreign currency risk, our transactions are predominantly U.S. dollar-denominated at the present. Additionally, our South American subsidiaries transact a nominal amount of their operations in Uruguayan pesos, Paraguayan Guaranies, Argentinean pesos and Brazilian Reales, whereas our wholly owned vessel subsidiaries and the vessel management subsidiary transact a nominal amount of their operations in Euros; however, all of the subsidiaries' primary cash flows are U.S. dollar-denominated. In 2010, approximately 27.1% of our expenses were incurred in currencies other than U.S. dollars. Transactions in currencies other than the functional currency are translated at the exchange rate in effect at the date of each transaction. Expenses incurred in foreign currencies against which the U.S. dollar falls in value can increase, thereby decreasing our income. For example, during the year ended December 31, 2010, the value of the U.S. dollar increased by approximately 8.2% as compared to the Euro. A greater percentage of our transactions and expenses in the future may be denominated in currencies other than U.S. dollar. As part of our overall risk management policy, we attempt to hedge these risks in exchange rate fluctuations from time to time. We may not always be successful in such hedging activities and, as a result, our operating results could suffer as a result of non-hedged losses incurred as a result of exchange rate fluctuations.

### **We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law.**

Our corporate affairs are governed by our amended and restated articles of incorporation and by-laws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA are intended to resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain U.S. jurisdictions. Stockholder rights may differ as well. The BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions. Accordingly, you may have more difficulty protecting your interests in the face of actions by management, directors or controlling stockholders than you would in the case of a corporation incorporated in the State of Delaware or other U.S. jurisdictions.

**We, and certain of our officers and directors, may be difficult to serve with process as we are incorporated in the Republic of the Marshall Islands and such persons may reside outside of the United States.**

We are a corporation organized under the laws of the Republic of the Marshall Islands. Several of our directors and officers are residents of Greece or other non-U.S. jurisdictions. Substantial portions of the assets of these persons are located in Greece or other non-U.S. jurisdictions. Thus, it may not be possible for investors to affect service of process upon us, or our non-U.S. directors or officers, or to enforce any judgment obtained against these persons in U.S. courts. Also, it may not be possible to enforce U.S. securities laws or judgments obtained in U.S. courts against these persons in a non-U.S. jurisdiction.

**Being a foreign private issuer exempts us from certain SEC requirements.**

We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. As such, we are exempt from certain provisions applicable to United States public companies including:

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the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;

the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;

the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and

the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any short-swing trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer's equity securities within less than six months).

Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

### **Risks Relating to Our Debt**

**We have substantial debt, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and make payments under the notes.**

As of December 31, 2010, we had \$2,075.9 million in aggregate principal amount of debt outstanding of which \$318.8 million was unsecured. We also have up to \$30.0 million available to us to be used for general corporate purposes under our existing credit facilities. We may increase the amount of our indebtedness in the future, which would further exacerbate the risks listed below.

Our substantial debt could have important consequences to holders of our common stock. Because of our substantial debt:

our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, vessel or other acquisitions or general corporate purposes and our ability to satisfy our obligations with respect to our debt may be impaired in the future;

a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;

we will be exposed to the risk of increased interest rates because our borrowings under our senior secured credit facility will be at variable rates of interest;

it may be more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such indebtedness;

we may be more vulnerable to general adverse economic and industry conditions;

we may be at a competitive disadvantage compared to our competitors with less debt or comparable debt at more favorable interest rates and, as a result, we may not be better positioned to withstand economic downturns;

our ability to refinance indebtedness may be limited or the associated costs may increase; and

our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited, or we may be prevented from carrying out capital expenditures that are necessary or important to our growth strategy and efforts to improve operating margins or our business.

**Despite our current indebtedness levels, we and our subsidiaries may be able to incur substantially more debt, including secured debt. This could further exacerbate the risks associated with our substantial indebtedness.**

We and our subsidiaries may be able to incur substantial additional indebtedness in the future as the terms of the indenture governing our 8.125% Senior Notes due 2019 (the Notes ) and the indenture governing our 8.875% first priority ship mortgage notes due 2017 (the Ship Mortgage Notes ) do not fully prohibit us or our subsidiaries from doing so. If new debt is added to our current debt levels, the related risks that we now face would increase and we may not be able to meet all of our debt obligations, including the repayment of the senior notes.

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**The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business.**

Our secured credit facilities and our indenture impose certain operating and financial restrictions on us. These restrictions limit our ability to:

incur or guarantee additional indebtedness;

create liens on our assets;

make new investments;

engage in mergers and acquisitions;

pay dividends or redeem capital stock;

make capital expenditures;

engage in certain FFA trading activities;

change the flag, class or commercial and technical management of our vessels;

enter into long-term charter arrangements without the consent of the lender; and

sell any of our vessels.

Therefore, we will need to seek permission from our lenders in order to engage in some corporate and commercial actions that we believe would be in the best interest of our business, and a denial of permission may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. Our lenders' interests may be different from our interests or those of our holders of common stock, and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may prevent us from taking actions that are in our or our stockholders' best interests. Any future credit agreements may include similar or more restrictive restrictions.

**Our ability to generate the significant amount of cash needed to pay interest and principal and otherwise service our debt and our ability to refinance all or a portion of our indebtedness or obtain additional financing depend on multiple factors, many of which may be beyond our control.**

Our ability to make scheduled payments on or to refinance our obligations under our debt will depend on our financial and operating performance, which, in turn, will be subject to prevailing economic and competitive conditions and to the financial and business factors, many of which may be beyond our control.

We will use cash to pay the principal and interest on our debt. These payments limit funds otherwise available for working capital, capital expenditures, vessel acquisitions and other purposes. As a result of these obligations, our current liabilities may exceed our current assets. We may need to take on additional debt as we expand our fleet, which could increase our ratio of debt to equity. The need to service our debt may limit funds available for other purposes, and our inability to service debt in the future could lead to acceleration of our debt and foreclosure on our owned vessels.

**We may be unable to raise funds necessary to finance the change of control repurchase offer required by the indenture governing our outstanding notes and our secured credit facilities.**

The indenture governing the Notes, the Ship Mortgage Notes and our secured credit facilities contain certain change of control provisions. If we experience specified changes of control under the Notes, we will be required to make an offer to repurchase all of our outstanding notes (unless otherwise redeemed) at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the repurchase date. The occurrence of specified events that would constitute a change of control will constitute a default under our secured credit facilities. In the

event of a change of control, we cannot assure you that we would have sufficient assets to satisfy all of our obligations under our secured credit facilities and the Notes, including but not limited to repaying all indebtedness outstanding under our secured credit facilities or repurchasing the Notes.

**An increase in interest rates would increase the cost of servicing our debt and could reduce our profitability.**

Portion of the debt under our secured credit facilities bears interest at variable rates. We may also incur indebtedness in the future with variable interest rates. As a result, an increase in market interest rates would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. The impact of such an increase would be more significant for us than it would be for some other companies because of our substantial debt.

**If the recent volatility in LIBOR continues, it could affect our profitability, earnings and cash flow.**

LIBOR has recently been volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by



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our outstanding indebtedness fluctuate with changes in LIBOR, if this volatility were to continue, it would affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our profitability, earnings and cash flow.

Furthermore, interest in most loan agreements in our industry has been based on published LIBOR rates. Recently, however, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. Such provisions could significantly increase our lending costs, which would have an adverse effect on our profitability, earnings and cash flow.

**The market values of our vessels, which have declined from historically high levels, may fluctuate significantly, which could cause us to breach covenants in our credit facilities and result in the foreclosure of our mortgaged vessels.**

Factors that influence vessel values include:

number of newbuilding deliveries;

number of vessels scrapped or otherwise removed from the total fleet;

changes in environmental and other regulations that may limit the useful life of vessels;

changes in global drybulk commodity supply;

types and sizes of vessels;

development of and increase in use of other modes of transportation;

cost of vessel acquisitions;

cost of newbuilding vessels;

governmental or other regulations;

prevailing level of charter rates; and

general economic and market conditions affecting the shipping industry.

If the market values of our owned vessels decrease, we may breach covenants contained in our secured credit facilities. If we breach such covenants and are unable to remedy any relevant breach, our lenders could accelerate our debt and foreclose on the collateral, including our vessels. Any loss of vessels would significantly decrease our ability to generate positive cash flow from operations and, therefore, service our debt. In addition, if the book value of a vessel is impaired due to unfavorable market conditions, or a vessel is sold at a price below its book value, we would incur a loss.

In addition, as vessels grow older, they generally decline in value. We will review our vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We review certain indicators of potential impairment, such as undiscounted projected operating cash flows expected from the future operation of the vessels, which can be volatile for vessels employed on short-term charters or in the spot market. Any impairment charges incurred as a result of declines in charter rates would negatively affect our financial condition and results of operations. In addition, if we sell any vessel at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount on our financial statements, resulting in a loss and a reduction in earnings.

**We may require additional financing to acquire vessels or business or to exercise vessel purchase options, and such financing may not be available.**

In the future, we may be required to make substantial cash outlays to exercise options or to acquire vessels or business and will need additional financing to cover all or a portion of the purchase prices. We intend to cover the cost of such items with new debt collateralized by the vessels to be acquired, if applicable, but there can be no assurance that we will generate sufficient cash or that debt financing will be available. Moreover, the covenants in our senior secured credit facility, the indenture or other debt, may make it more difficult to obtain such financing by imposing restrictions on what we can offer as collateral.

**Risks Relating to Navios South American Logistics Inc. ( Navios Logistics )**

**Navios Logistics business can be affected by adverse weather conditions, effects of climate change and other factors beyond its control, that can affect production of the goods Navios Logistics transports and store as well as the navigability of the river system on which Navios Logistics operates.**

A significant portion of our subsidiary Navios Logistics, is derived from the transportation, handling and storage of soybeans and other agricultural products produced in the Hidrovia region. Any drought or other adverse weather conditions, such as floods,

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could result in a decline in production of these products, which would likely result in a reduction in demand for Navios Logistics services. This would, in turn, negatively impact its results of operations and financial condition. Furthermore, Navios Logistics fleet operates in the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as changes in the depth of the water or the width of the navigable channel, could, in the short-term, reduce or limit its ability to effectively transport cargo on the rivers. For example, Navios Logistics was adversely affected by the decline in soybean production associated with the drought experienced mainly in the first quarter of 2009, throughout the main soybean growing areas of the Hidrovia. Low water levels, which began during the fourth quarter of 2008 and extended into 2009, also affected the volume carried. The possible effects of climate change, such as floods, droughts or increased storm activity, could similarly affect the demand for its services or its operations.

A prolonged drought, the possible effects of climate change, or other turn of events that is perceived by the market to have an impact on the region, the navigability of the Parana or Paraguay Rivers or Navios Logistics business in general may, in the short-term, result in a reduction in the market value of its ports, barges and pushboats that operate in the region. These barges and pushboats are designed to operate in wide and relatively calm rivers, of which there are only a few in the world. If it becomes difficult or impossible to operate profitably Navios Logistics barges and pushboats in the Hidrovia and we are forced to sell them to a third party located outside of the region, there is a limited market in which we would be able to sell these vessels, and accordingly we may be forced to sell them at a substantial loss.

**Navios Logistics industry has inherent operational risks that may not be adequately covered by its insurance.**

The operation of vessels in international and regional trade is inherently risky. Although Navios Logistics carries insurance for its fleet covering risks commonly insured against by vessel owners and operators, such as hull and machinery insurance, war risks insurance and protection and indemnity insurance, all risks may not be adequately insured against, any particular claim may not be paid and any indemnification paid due to the occurrence of a casualty covered by its policies may not be sufficient to entirely compensate Navios Logistics for the damages suffered. Navios Logistics does not currently maintain loss of hire or defense insurance. Navios Logistics also does not maintain off-hire insurance, which would cover the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Furthermore, Navios Logistics does not maintain strike insurance, which would protect it from loss of revenue due to labor disruptions. Accordingly, any extended vessel off-hire, due to an accident, labor disruption or other reason, could have a material adverse effect on its business. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material.

Navios Logistics may be unable to procure adequate insurance coverage for its fleet or port terminals at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could exceed its insurance coverage, which could harm its business, financial condition and operating results. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for Navios Logistics to obtain. In addition, the insurance that may be available to it in the future may be significantly more expensive than its existing coverage.

Even if Navios Logistics insurance coverage is adequate to cover its losses, it may not be able to timely obtain a replacement vessel or other asset in the event of a loss. Furthermore, in the future, Navios Logistics may not be able to obtain adequate insurance coverage at reasonable rates for its fleet and port terminals. Navios Logistics insurance policies also contain deductibles, limitations and exclusions, which can result in significant increased overall costs to Navios Logistics.

**Navios Logistics is an international company that is exposed to the risks of doing business in many different, and often less developed and emerging market countries.**

Navios Logistics is an international company and conduct all of its operations outside of the United States, and expects to continue doing so for the foreseeable future. These operations are performed in countries that are historically less developed and stable than the United States, such as Argentina, Brazil, Bolivia, Paraguay and Uruguay. Some of the other risks Navios Logistics is generally exposed to through its operations in emerging markets

include among others:

political and economic instability, changing economic policies and conditions, and war and civil disturbances;

recessions in economies of countries in which Navios Logistics has business operations;

frequent government interventions into the country's economy, including changes to monetary, fiscal and credit policy;

the imposition of additional withholding, income or other taxes, or tariffs or other restrictions on foreign trade or investment, including currency exchange controls and currency repatriation limitations;

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the modification of Navios Logistics status or the rules and regulations relating to the international tax-free trade zone in which it operates its dry port;

the imposition of executive and judicial decisions upon Navios Logistics vessels by the different governmental authorities associated with some of these countries;

the imposition of or unexpected adverse changes in foreign laws or regulatory requirements;

longer payment cycles in foreign countries and difficulties in collecting accounts receivable;

difficulties and costs of staffing and managing Navios Logistics foreign operations; and

acts of terrorism.

These risks may result in unforeseen harm to Navios Logistics business and financial condition. Also, some of Navios Logistics customers are headquartered in South America, and a general decline in the economies of South America, or the instability of certain South American countries and economies, could adversely affect it.

Navios Logistics business in emerging markets requires to respond to rapid changes in market conditions in these countries. Navios Logistics overall success in international markets depends, in part, upon its ability to succeed in different legal, regulatory, economic, social and political conditions. Navios Logistics may not continue to succeed in developing and implementing policies and strategies that will be effective in each location where it does business. Furthermore, the occurrence of any of the foregoing factors may have a material adverse effect on its business and results of operations.

With respect to Argentina, the Argentine economy has experienced significant volatility in recent decades. Although general economic conditions in Argentina have recovered significantly during recent years, there is uncertainty as to whether this growth is sustainable. The global economic crisis of 2008 has led to a sudden economic decline, accompanied by political and social unrest, inflationary and Peso depreciation pressures and lack of consumer and investor confidence. Future government policies to preempt, or in response to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights, new taxation policies, and changes in laws and policies affecting foreign trade. Such policies could destabilize the country and adversely and materially affect the Argentine economy, and thereby Navios Logistics business, results of operations and financial condition.

Argentina has very limited access to foreign financing resulting from a default, several restructurings, and a series of payment suspensions over the past decade. Due to the lack of access to the international capital markets, the Argentine government continues to use the Argentine Central Bank's foreign-currency reserves for the payment of Argentina's current debt, the reduction of which may weaken Argentina's ability to overcome economic deterioration in the future. Without access to international private financing, Argentina may not be able to finance its obligations, and financing from multilateral financial institutions may be limited or not available. This could also inhibit the ability of the Argentine Central Bank to adopt measures to curb inflation and could adversely affect Argentina's economic growth and public finances.

With respect to Brazil, the Brazilian economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high and variable levels of inflation and currency devaluation. Historically, Brazil's political situation has influenced the performance of the Brazilian economy, and political crises have affected the confidence of investors and the general public. Future developments in policies of the Brazilian government and/or the uncertainty of whether and when such policies and regulations may be implemented, all of which are beyond Navios Logistics' control, could have a material adverse effect on it. Additionally, the Brazilian government frequently implements changes to the Brazilian tax regime, including changes in prevailing tax rates and the imposition of temporary taxes, which may affect Navios Logistics.

**The governments of Argentina, Bolivia, Brazil, Paraguay and Uruguay have entered into a treaty that commits each of them to participate in a regional initiative to integrate the region's economies. There is no guarantee**

**that such an initiative will be successful or that each of the governments involved in the initiative will follow through on its intentions to participate and if such regional initiative is unsuccessful, it could have a material adverse impact on Navios Logistics results of operations.**

The governments of Argentina, Bolivia, Brazil, Paraguay and Uruguay have entered into a treaty that commits each of them to participate in a regional initiative to integrate the region's economies, a central component of which is water transportation in the Hidrovia. Although Navios Logistics believes that this regional initiative of expanding navigation on the Hidrovia river system will result in significant economic benefits, there is no guarantee that such an initiative will ultimately be successful, that each country will follow through on its intention to participate, or that the benefits of this initiative will match its expectations of continuing growth in the Hidrovia or reducing transportation costs. If the regional initiative is unsuccessful, Navios Logistics results of operations could be materially and adversely affected.

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**Changes in rules and regulations with respect to cabotage or their interpretation in the markets in which Navios Logistics operates could have a material adverse effect on our results of operations.**

In the markets in which Navios Logistics currently operates, in cabotage or regional trades, it is subject to restrictive rules and regulations on a region by region basis. Navios Logistics operations currently benefit from these rules and regulations or their interpretation. For instance, preferential treatment is extended in Argentine cabotage for Argentine flagged vessels or foreign flagged vessels operated by local established operators with sufficient Argentine tonnage under one to three years licenses, including Navios Logistics Argentine cabotage vessels. Changes in cabotage rules and regulations or in their interpretation may have an adverse effect on our current or future cabotage operations, either by becoming more restrictive (which could result in limitations to the utilization of some of our vessels in those trades) or less restrictive (which could result in increased competition in these markets).

**Risks Relating to Navios Maritime Acquisition Corporation**

On May 28, 2010, certain shareholders of Navios Maritime Acquisition Corporation, or Navios Acquisition, redeemed their shares in connection with the business combination, and Navios Holdings' ownership of Navios Acquisition increased to 57.3%. At that point, Navios Holdings concluded that the increase in its ownership interest resulted in obtaining control over Navios Acquisition and, consequently, concluded that a business combination had occurred and consolidated Navios Acquisition from that date onwards (refer to the consolidated financial statements note 3). We present the following risk factors of Navios Acquisition, as applicable for the year ended December 31, 2010.

**Navios Acquisition has a limited combined operating history and you will have a limited basis on which to evaluate its ability to achieve its business objectives. Navios Acquisition may not operate profitably in the future.**

Navios Acquisition is a company with limited consolidated operating results to date. Accordingly, you will have a limited basis upon which to evaluate its ability to achieve its business objectives. Navios Acquisition has completed its initial public offering on July 1, 2008. Pursuant to the Acquisition Agreement dated April 8, 2010 and approved by its stockholders on May 25, 2010, Navios Acquisition completed the acquisition of 13 vessels (11 product tankers and two chemical tankers) referred to as the Product and Chemical Tanker Acquisition. Three of the 13 vessels were delivered in the second, third and fourth quarter of 2010 and a fourth was delivered in the first quarter of 2011, with the remaining vessels under the Acquisition Agreement scheduled to be delivered in the future. The vessels acquired with the Product and Chemical Tanker Acquisition have no operating history, and the four vessels delivered in the second, third and fourth quarters of 2010 and the first quarter of 2011 have been chartered since their respective delivery. On September 10, 2010, Navios Acquisition completed the acquisition of seven very large crude carriers, referred to as the VLCC Acquisition, with six vessels already operating and one vessel scheduled to be delivered in the future. On October 26, 2010, Navios Acquisition entered into agreement to acquire two vessels scheduled for delivery in the fourth quarter of 2011. Navios Acquisitions' historical financial statements do not fully reflect the consolidated operating results of the acquisitions it has completed. Furthermore, the combined historical financial statements of the subsidiaries owning the seven VLCC vessels do not necessarily reflect the actual results of operations, financial position and cash flow that Navios Acquisition would have had if Navios Acquisition had operated those subsidiaries as part of its business during such periods or of its future results. Further, Navios Acquisition can give no assurance that the results reflected in our pro forma financial information included in its filings will be achieved or reflect how its business would have performed in the periods covered or in the future. Accordingly, its historical financial statements and pro forma financial information may not provide a meaningful basis for you to evaluate its operations and ability to be profitable in the future. Navios Acquisition cannot assure you that it will be able to implement its business strategy and thus it may not be profitable in the future.

**Delays in deliveries of Navios Acquisition newbuild vessels, or its decision to cancel, or its inability to otherwise complete the acquisitions of any newbuildings Navios Acquisition may decide to acquire in the future, could harm its operating results and lead to the termination of any related charters.**

Navios Acquisition's newbuilding vessels, as well as any newbuildings it may contract to acquire or order in the future, could be delayed, not completed or cancelled, which would delay or eliminate its expected receipt of revenues under any charters for such vessels. The shipbuilder or third party seller could fail to deliver the newbuilding vessel or

any other vessels it acquires or orders, or it could cancel a purchase or a newbuilding contract because the shipbuilder has not met its obligations, including its obligation to maintain agreed refund guarantees in place for Navios Acquisition's benefit. For prolonged delays, the customer may terminate the time charter.

Navios Acquisitions' receipt of newbuildings could be delayed, cancelled, or otherwise not completed because of:

quality or engineering problems or failure to deliver the vessel in accordance with the vessel specifications;

changes in governmental regulations or maritime self-regulatory organization standards;

work stoppages or other labor disturbances at the shipyard;

natural disasters and their effects



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bankruptcy or other financial or liquidity problems of the shipbuilder;

a backlog of orders at the shipyard;

political or economic disturbances in the country or region where the vessel is being built;

weather interference or catastrophic event, such as a major earthquake or fire;

shortages of or delays in the receipt of necessary construction materials, such as steel; and

its inability to finance the purchase of the vessel.

If delivery of any newbuild vessel acquired, or any vessel Navios Acquisition's contract to acquire in the future is materially delayed, it could materially adversely affect its results of operations and financial condition.

**Navios Acquisition relies on its technical managers to provide essential services to its vessels and run the day-to-day operations of its vessels.**

Pursuant to technical management agreements, which involve overseeing the construction of a vessel, as well as subsequent shipping operations throughout the life of a vessel, Navios Acquisition's current technical manager provides services essential to the business of its vessels, including vessel maintenance, crewing, purchasing, shipyard supervision, insurance and assistance with vessel regulatory compliance. The current technical manager of the VLCC vessels, an affiliate of the seller of such vessels, is a technical ship management company that has provided technical management to the acquired VLCC vessels prior to the consummation of the acquisition. This technical manager will continue to provide such services for an interim period subsequent to the closing of the VLCC Acquisition, after which the technical management of Navios Acquisition's fleet is expected to be provided directly by a subsidiary of Navios Holdings. However, in the event Navios Holdings does not obtain the required vetting approvals, it will not be able to take over technical management. Navios Acquisition's operational success and ability to execute its strategy will depend significantly upon the satisfactory performance of these services by the current technical manager, and, subsequently, by the Navios Holdings subsidiary. The failure of either of these technical managers to perform these services satisfactorily and/or the failure of the Navios Holdings subsidiary to garner the approvals necessary to become Navios Acquisition's technical manager for the VLCC vessels could have a material adverse effect on Navios Acquisition's business, financial condition and results of operations.

**The cyclical nature of the tanker industry may lead to volatility in charter rates and vessel values, which could materially adversely affect Navios Acquisitions future earnings.**

Oil has been one of the world's primary energy sources for a number of decades. The global economic growth of previous years had a significant impact on the demand for oil and subsequently on the oil trade and shipping demand. However, during the second half of 2008 and throughout 2009, the world's economies experienced a major economic slowdown with effects that are ongoing, the duration of which is very difficult to forecast and which has, and is expected to continue to have, a significant impact on world trade, including the oil trade. If the tanker market, which has historically been cyclical, is depressed in the future, our earnings and available cash flow may be materially adversely affected. Our ability to employ Navios Acquisition vessels profitably will depend upon, among other things, economic conditions in the tanker market. Fluctuations in charter rates and tanker values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for liquid cargoes, including petroleum and petroleum products.

Historically, the crude oil markets have been volatile as a result of the many conditions and events that can affect the price, demand, production and transport of oil, including competition from alternative energy sources. Decreased demand for oil transportation may have a material adverse effect on our revenues, cash flows and profitability. The factors affecting the supply and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. The current global financial crisis has intensified this unpredictability.

The factors that influence demand for tanker capacity include:

demand for and supply of liquid cargoes, including petroleum and petroleum products;

developments in international trade;

waiting days in ports;

changes in oil production and refining capacity and regional availability of petroleum refining capacity;

environmental and other regulatory developments;

global and regional economic conditions;

the distance chemicals, petroleum and petroleum products are to be moved by sea;

changes in seaborne and other transportation patterns, including changes in distances over which cargo is transported due to

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geographic changes in where oil is produced, refined and used;

competition from alternative sources of energy;

armed conflicts and terrorist activities;

political developments; and

embargoes and strikes.

The factors that influence the supply of tanker capacity include:

the number of newbuilding deliveries;

the scrapping rate of older vessels;

port or canal congestion;

the number of vessels that are used for storage or as floating storage offloading service vessels;

the conversion of tankers to other uses, including conversion of vessels from transporting oil and oil products to carrying drybulk cargo and the reverse conversion;

availability of financing for new tankers;

the phasing out of single-hull tankers due to legislation and environmental concerns;

the price of steel;

the number of vessels that are out of service;

national or international regulations that may effectively cause reductions in the carrying capacity of vessels or early obsolescence of tonnage; and

environmental concerns and regulations.

Furthermore, the extension of refinery capacity in India and the Middle East up to 2011 is expected to exceed the immediate consumption in these areas, and an increase in exports of refined oil products is expected as a result. Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. The recent global economic crisis may further reduce demand for transportation of oil over long distances and supply of tankers that carry oil, which may materially affect our future revenues, profitability and cash flows.

Navios Acquisition's current order book for tanker vessels represents a significant percentage of the existing fleet. An over-supply of tanker capacity may result in a reduction of charter hire rates. If a reduction in charter rates occurs, Navios Acquisition may only be able to charter its vessels at unprofitable rates or it may not be able to charter these vessels at all, which could lead to a material adverse effect on its results of operations.

**Charter rates in the crude oil, product and chemical tanker sectors of the seaborne transportation industry in which Navios Acquisition operates have significantly declined from historically high levels in 2008 and may remain depressed or decline further in the future, which may adversely affect our earnings.**

Charter rates in the crude oil, product and chemical tanker sectors have significantly declined from historically high levels in 2008 and may remain depressed or decline further. For example, the Baltic Dirty Tanker Index declined from a high of 2,347 in July 2008 to 453 in mid-April 2009, which represents a decline of approximately 81%. As of

March 7, 2011, it stood at 1,055. The Baltic Clean Tanker Index fell from 1,509 in the early summer of 2008 to 345 in April 2009, or approximately 77%. It has since rallied to 795 as of March 7, 2011. Of note is that Chinese imports of crude oil have steadily increased from 3 million barrels per day in 2008 to about 5 million barrels per day in January 2011. If the tanker sector of the seaborne transportation industry, which has been highly cyclical, is depressed in the future at a time when Navios Acquisition may want to sell a vessel, its earnings and available cash flow may be adversely affected. Navios Acquisition cannot assure you that it will be able to successfully charter its vessels in the future at rates sufficient to allow Navios Acquisition to operate its business profitably or to meet its obligations, including payment of debt service to our lenders. Navios Acquisition's ability to renew the charters on vessels that Navios Acquisition may acquire in the future, the charter rates payable under any replacement charters and vessel values will depend upon, among other things, economic conditions in the sector in which its vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the seaborne transportation of energy resources and commodities.

**Spot market rates for tanker vessels are highly volatile and are currently at relatively low levels historically and may further decrease in the future, which may adversely affect our earnings in the event that Navios Acquisition's vessels are chartered in the spot market.**

Navios Acquisition intends to deploy at least some of its vessels in the spot market. Although spot chartering is common in the product and chemical tanker sectors, product and chemical tanker charter hire rates are highly volatile and may fluctuate significantly based upon demand for seaborne transportation of crude oil and oil products and chemicals, as well as tanker supply. The

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world oil demand is influenced by many factors, including international economic activity; geographic changes in oil production, processing, and consumption; oil price levels; inventory policies of the major oil and oil trading companies; and strategic inventory policies of countries such as the United States and China. The successful operation of Navios Acquisition's vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. Furthermore, as charter rates for spot charters are fixed for a single voyage that may last up to several weeks, during periods in which spot charter rates are rising, Navios Acquisition will generally experience delays in realizing the benefits from such increases.

The spot market is highly volatile, and, in the past, there have been periods when spot rates have declined below the operating cost of vessels. Currently, charter hire rates are at relatively low rates historically and there is no assurance that the crude oil, product and chemical tanker charter market will recover over the next several months or will not continue to decline further.

Navios Acquisition's six on-the-water VLCC vessels are contractually committed to time charters, with the remaining terms of these charters expiring during the period from and including 2014 through 2025. The acquired newbuilding VLCC is expected to operate on a charter that expires during 2026. Although time charters generally provide reliable revenue, they will also limit the portion of Navios Acquisition's fleet available for spot market voyages. Navios Acquisition is not permitted to unilaterally terminate the charter agreements of the VLCC vessels due to upswings in the tanker industry cycle, when spot market voyages might be more profitable. Navios Acquisition may also decide to sell a vessel in the future. In such a case, should Navios Acquisition sell a vessel that is committed to a long-term charter, it may not be able to realize the full charter free fair market value of the vessel during a period when spot market charters are more profitable than the charter agreement under which the vessel operates. Navios Acquisition may re-charter the VLCC vessels on long-term charters or charter them in the spot market upon expiration or termination of the vessels' current charters. If Navios Acquisition is not able to employ the VLCC vessels profitably under time charters or in the spot market, its results of operations and operating cash flow may suffer.

**Any decrease in shipments of crude oil from the Arabian Gulf or West Africa may materially adversely affect our financial performance.**

The demand for VLCC oil tankers derives primarily from demand for Arabian Gulf and West African crude oil, which, in turn, primarily depends on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, social and other factors can significantly affect the strength of the world's industrial economies and their demand for Arabian Gulf and West African crude oil.

Among the factors that could lead to a decrease in demand for exported Arabian Gulf and West African crude oil are:

- increased use of existing and future crude oil pipelines in the Arabian Gulf or West African regions;
- a decision by the Organization of the Petroleum Exporting Countries ( OPEC ) to increase its crude oil prices or to further decrease or limit their crude oil production;

- armed conflict or acts of piracy in the Arabian Gulf or West Africa and political or other factors;

- increased oil production in other regions, such as Russia and Latin America; and

- the development and the relative costs of nuclear power, natural gas, coal and other alternative sources of energy.

Any significant decrease in shipments of crude oil from the Arabian Gulf or West Africa may materially adversely affect our financial performance.

**Eight of the vessels Navios Acquisition has acquired are second-hand vessels, and may acquire more second-hand vessels in the future. The acquisition and operation of such vessels may result in increased operating costs and vessel off-hire, which could materially adversely affect our earnings.**

Two of the LR1 product tanker vessels and six of the VLCC vessels that Navios Acquisition has acquired are second-hand vessels, and may acquire more second-hand vessels in the future. Navios Acquisition's inspection of

second-hand vessels prior to purchase does not provide it with the same knowledge about their condition and cost of any required or anticipated repairs that it would have had if these vessels had been built for and operated exclusively by it. Generally, Navios Acquisition will not receive the benefit of warranties on second-hand vessels.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Due to improvements in engine technology, older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment, to its vessels and may restrict the type of activities in which the vessels may engage or the geographic regions in which we may operate. Navios Acquisition cannot predict what alterations or modifications Navios Acquisition's vessels may be required to undergo in the future. As Navios Acquisition's vessels age, market conditions may not justify those expenditures or enable it to operate its vessels profitably during the remainder of their useful lives.

Although Navios Acquisition has considered the age and condition of the vessels in budgeting for operating, insurance and

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maintenance costs, it may encounter higher operating and maintenance costs due to the age and condition of these vessels, or any additional vessels it acquires in the future. The age of some of the VLCC vessels may result in higher operating costs and increased vessel off-hire periods relative to Navios Acquisition's competitors that operate newer fleets, which could have a material adverse effect on its results of operations.

**Navios Acquisition's growth depends on continued growth in demand for crude oil, refined petroleum products (clean and dirty) and bulk liquid chemicals and the continued demand for seaborne transportation of such cargoes.**

Navios Acquisition's growth strategy focuses on expansion in the crude oil, product and chemical tanker sectors. Accordingly, its growth depends on continued growth in world and regional demand for crude oil, refined petroleum (clean and dirty) products and bulk liquid chemicals and the transportation of such cargoes by sea, which could be negatively affected by a number of factors, including:

the economic and financial developments globally, including actual and projected global economic growth;

fluctuations in the actual or projected price of crude oil, refined petroleum (clean and dirty) products or bulk liquid chemicals;

refining capacity and its geographical location;

increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;

decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;

availability of new, alternative energy sources; and

negative or deteriorating global or regional economic or political conditions, particularly in oil-consuming regions, which could reduce energy consumption or its growth.

The refining and chemical industries may respond to the economic downturn and demand weakness by reducing operating rates and by reducing or cancelling certain investment expansion plans, including plans for additional refining capacity, in the case of the refining industry. Continued reduced demand for refined petroleum (clean and dirty) products and bulk liquid chemicals and the shipping of such cargoes or the increased availability of pipelines used to transport refined petroleum (clean and dirty) products, would have a material adverse effect on its future growth and could harm its business, results of operations and financial condition.

**Navios Acquisition's growth depends on its ability to obtain customers, for which it faces substantial competition. In the highly competitive VLCC shipping industry, Navios Acquisition may not be able to compete for charters with new entrants or established companies with greater resources, which may adversely affect its results of operations.**

Navios Acquisition employs the VLCC vessels in the highly competitive product and chemical tanker sectors of the shipping industry that is capital intensive and fragmented. Competition arises primarily from other vessel owners, including major oil companies as well as independent tanker companies, some of whom have substantially greater resources and experience than it. Competition for the chartering of VLCCs can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Such competition has been enhanced as a result of the downturn in the shipping industry, which has resulted in an excess supply of vessels and reduced charter rates.

Medium- to long-term time charters and bareboat charters have the potential to provide income at pre-determined rates over more extended periods of time. However, the process for obtaining longer term time charters and bareboat charters is highly competitive and generally involves a lengthy, intensive and continuous

screening and vetting process and the submission of competitive bids that often extends for several months. In addition to the quality, age and suitability of the vessel, longer term shipping contracts tend to be awarded based upon a variety of other factors relating to the vessel operator. Competition for the transportation of refined petroleum products (clean and dirty) and bulk liquid chemicals can be intense and depends on price, location, size, age, condition and acceptability of the vessel and its managers to the charterers.

In addition to having to meet the stringent requirements set out by charterers, it is likely that Navios Acquisition will also face substantial competition from a number of competitors who may have greater financial resources, stronger reputations or experience than it does when it tries to recharter its vessels. It is also likely that it will face increased numbers of competitors entering into the crude oil product and chemical tanker sectors, including in the ice class sector. Increased competition may cause greater price competition, especially for medium- to long-term charters. Due in part to the highly fragmented markets, competitors with greater resources could operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets than Navios Acquisition's.

As a result of these factors, Navios Acquisition may be unable to obtain customers for medium- to long-term time charters or bareboat charters on a profitable basis, if at all. Even if Navios Acquisition is successful in employing its vessels under longer term time charters or bareboat charters, Navios Acquisition's vessels will not be available for trading in the spot market during an upturn in the product and chemical tanker market cycle, when spot trading may be more profitable. If Navios Acquisition cannot successfully employ its vessels in profitable time charters its results of operations and operating cash flow could be adversely affected.



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### **Future increases in vessel operating expenses, including rising fuel prices, could materially adversely affect our business, financial condition and results of operations.**

Under Navios Acquisition's time charter agreements, the charterer is responsible for substantially all of the voyage expenses, including port and canal charges and fuel costs and is generally responsible for vessel operating expenses. Vessel operating expenses are the costs of operating a vessel, primarily consisting of crew wages and associated costs, insurance premiums, management fees, lubricants and spare parts and repair and maintenance costs. In particular, the cost of fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect its profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside its control, including geopolitical developments, supply and demand for oil, actions by members of OPEC and other oil and gas producers, war, terrorism and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations.

Navios Acquisition receives a daily rate for the use of its vessels, which is fixed through the term of the applicable charter agreement. Its charter agreements do not provide for any increase in the daily hire rate in the event that vessel-operating expenses increase during the term of the charter agreement. The charter agreements for the six on-the-water VLCC vessels expire during the period from and including 2014 through 2025 and the VLCC newbuilding is expected to operate under a charter agreement that expires in 2026. Because of the long-term nature of these charter agreements, incremental increases in Navios Acquisition's vessel operating expenses over the term of a charter agreement will effectively reduce Navios Acquisition's operating income and, if such increases in operating expenses are significant, adversely affect its business, financial condition and results of operations.

### **The crude oil, product and chemical tanker sectors are subject to seasonal fluctuations in demand and, therefore, may cause volatility in our operating results.**

The crude oil, product and chemical tanker sectors of the shipping industry have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The product and chemical tanker markets are typically stronger in the fall and winter months in anticipation of increased consumption of oil and natural gas in the northern hemisphere. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, revenues are typically weaker during the fiscal quarters ended June 30 and September 30, and, conversely, typically stronger in fiscal quarters ended December 31 and March 31. Our operating results, therefore, may be subject to seasonal fluctuations.

### **The current global economic downturn may negatively impact Navios Acquisition's business.**

In recent years, there has been a significant adverse shift in the global economy, with operating businesses facing tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions, and declining markets. Lower demand for tanker cargoes as well as diminished trade credit available for the delivery of such cargoes may create downward pressure on charter rates. If the current global economic environment persists or worsens, we may be negatively affected in the following ways:

Navios Acquisition may not be able to employ its vessels at charter rates as favorable to Navios Acquisition as historical rates or operate such vessels profitably.

The market value of its vessels could decrease significantly, which may cause Navios Acquisition to recognize losses if any of its vessels are sold or if their values are impaired. In addition, such a decline in the market value of its vessels could prevent Navios Acquisition from borrowing under its credit facilities or trigger a default under one of their covenants.

Charterers could have difficulty meeting their payment obligations to us.

If the contraction of the global credit markets and the resulting volatility in the financial markets continues or worsens that could have a material adverse impact on its results of operations, financial condition and cash flows, and could cause the market price of our common stock to decline.

### **The employment of Navios Acquisition's vessels could be adversely affected by an inability to clear the oil majors' risk assessment process, and could be in breach of its charter agreements with respect to the VLCC**

**vessels.**

The shipping industry, and especially the shipment of crude oil, refined petroleum products (clean and dirty) and bulk liquid chemicals, has been, and will remain, heavily regulated. The so-called oil majors companies, such as Exxon Mobil, BP p.l.c., Royal Dutch Shell plc. Chevron, ConocoPhillips and Total S.A. together with a number of commodities traders, represent a significant percentage of the production, trading and shipping logistics (terminals) of crude oil and refined products worldwide. Concerns for the environment have led the oil majors to develop and implement a strict ongoing due diligence process when selecting their commercial partners. This vetting process has evolved into a sophisticated and comprehensive risk assessment of both the vessel operator and the vessel, including physical ship inspections, completion of vessel inspection questionnaires performed by accredited inspectors and the production of comprehensive risk assessment reports. In the case of term charter relationships, additional factors are considered when awarding such contracts, including:

office assessments and audits of the vessel operator;

the operator's environmental, health and safety record;

compliance with the standards of the International Maritime Organization (the IMO), a United Nations agency that issues international trade standards for shipping;

compliance with heightened industry standards that have been set by several oil companies;

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shipping industry relationships, reputation for customer service, technical and operating expertise;

shipping experience and quality of ship operations, including cost-effectiveness;

quality, experience and technical capability of crews;

the ability to finance vessels at competitive rates and overall financial stability;

relationships with shipyards and the ability to obtain suitable berths;

construction management experience, including the ability to procure on-time delivery of new vessels according to customer specifications;

willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and

competitiveness of the bid in terms of overall price.

Under the terms of Navios Acquisition's charter agreements, its charterers require that these vessels and the technical manager are vetted and approved to transport oil products by multiple oil majors. Navios Acquisition's failure to maintain any of its vessels to the standards required by the oil majors could put us in breach of the applicable charter agreement and lead to termination of such agreement, and could give rise to impairment in the value of its vessels.

Should Navios Acquisition not be able to successfully clear the oil majors' risk assessment processes on an ongoing basis, the future employment of its vessels, as well as its ability to obtain charters, whether medium- or long-term, could be adversely affected. Such a situation may lead to the oil majors terminating existing charters and refusing to use its vessels in the future, which would adversely affect its results of operations and cash flows.

**Charterers may terminate or default on their obligations to Navios Acquisition, which could materially adversely affect its results of operations and cash flow, and breaches of the charters may be difficult to enforce.**

The loss of any of Navios Acquisition's customers, a customer's failure to perform under any of the applicable charters, a customer's termination of any of the applicable charters, the loss of any of its vessels or a decline in payments under the charters could have a material adverse effect on its business, results of operations and financial condition. In addition, the charterers of the VLCC vessels are based in, and have their primary assets and operations in, the Asia-Pacific region, including the People's Republic of China. The charter agreements for the VLCC vessels are governed by English law and provide for dispute resolution in English courts or London-based arbitral proceedings. There can be no assurance that we would be able to enforce any judgments against these charterers in jurisdictions where they are based or have their primary assets and operations.

Even after a charter contract is entered, charterers may terminate charters early under certain circumstances. The events or occurrences that will cause a charter to terminate or give the charterer the option to terminate the charter generally include a total or constructive total loss of the related vessel, the requisition for hire of the related vessel or the failure of the related vessel to meet specified performance criteria. In addition, the ability of a charterer to perform its obligations under a charter will depend on a number of factors that are beyond its control. These factors may include general economic conditions, the condition of the product and chemical tanker sectors of the shipping industry, the charter rates received for specific types of vessels and various operating expenses. There can be no assurance that Navios Acquisition would be able to enforce any judgments against these charterers in jurisdictions where they are based or have their primary assets and operations. In addition, Navios Acquisition is exploring the possibility of participating in the credit risk insurance currently available to Navios Holdings. Navios Holdings has insured its charter-out contracts through a AA+ rated governmental agency of a European Union member state, which provides that if the charterer goes into payment default, the insurer will reimburse it for the charter payments under the terms of the policy (subject to applicable deductibles and other customary limitations for such insurance). While

Navios Acquisition may seek to benefit from such insurance, no assurance can be provided that will qualify for or choose to obtain this insurance.

Navios Acquisition cannot predict whether its charterers will, upon the expiration of their charters, re-charter its vessels on favorable terms or at all. If Navios Acquisition's charterers decide not to re-charter its vessels, it may not be able to re-charter them on terms similar to its current charters or at all. In the future, may also employ its vessels on the spot charter market, which is subject to greater rate fluctuation than the time charter market.

If Navios Acquisition receives lower charter rates under replacement charters or are unable to re-charter all of its vessels, its results of operations and financial condition could be materially adversely affected.

**If Navios Acquisition experienced a catastrophic loss and its insurance is not adequate to cover such loss, it could lower its profitability and be detrimental to operations.**

The ownership and operation of vessels in international trade is affected by a number of inherent risks, including mechanical failure, personal injury, vessel and cargo loss or damage, business interruption due to political conditions in foreign countries, hostilities, piracy, terrorism, labor strikes and/or boycotts, adverse weather conditions and catastrophic marine disaster, including environmental accidents and collisions. All of these risks could result in liability, loss of revenues, increased costs and loss of reputation. Navios Acquisition maintains hull and machinery insurance, protection and indemnity insurance, which include environmental damage and pollution and war risk insurance, consistent with industry standards, against these risks on its vessels and

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other business assets. However, Navios Acquisition cannot assure you that will be able to insure against all risks adequately, that any particular claim will be paid out of its insurance, or that Navios Acquisition will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

### **Navios Acquisition may not have adequate insurance to compensate for damage to or loss of its vessels, which may have a material adverse effect on its financial condition and results of operation.**

Navios Acquisition's insurers also require to pay certain deductible amounts, before they will pay claims, and insurance policies may contain limitations and exclusions, which, although we believe will be standard for the shipping industry, may nevertheless increase its costs and lower our profitability. Additionally, any increase in environmental and other regulations may also result in increased costs for, or the lack of availability of, insurance against the risks of environmental damage, pollution and other claims. Navios Acquisition's inability to obtain insurance sufficient to cover potential claims or the failure of insurers to pay any significant claims could lower its profitability and be detrimental to its operations.

Furthermore, even if insurance coverage is adequate to cover its losses, Navios Acquisition may not be able to timely obtain a replacement ship in the event of a loss. Navios Acquisition may also be subject to calls, or premiums, in amounts based not only on its own claim records but also the claim records of all other members of the protection and indemnity associations through which Navios Acquisition receive indemnity insurance coverage for tort liability. In addition, its protection and indemnity associations may not have enough resources to cover claims made against them. Navios Acquisition's payment of these calls could result in significant expenses to it, which could reduce its cash flows and place strains on its liquidity and capital resources.

### **Governments could requisition vessels of a target business during a period of war or emergency, resulting in a loss of earnings.**

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

### **Labor interruptions and problems could disrupt our business.**

Certain of Navios Acquisition's vessels are manned by masters, officers and crews that are employed by third parties. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder its operations from being carried out normally and could have a material adverse effect on its business, results of operations, cash flow and financial condition.

### **In the highly competitive product and chemical tanker sectors of the shipping industry, Navios Acquisition may not be able to compete for charters with new entrants or established companies with greater resources, which may adversely affect its results of operations.**

Navios Acquisition employs its vessels in the product and chemical tanker sectors, highly competitive markets that are capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than it. Competition for the transportation of refined petroleum products (clean and dirty) and bulk liquid chemicals can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Due in part to the highly fragmented markets, competitors with greater resources could operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets than Navios Acquisition's.

### **The indemnity may be inadequate to cover any damages.**

The Securities Purchase Agreement for the VLCC vessels has a cap on indemnity obligations, subject to certain exceptions, of \$58.7 million. Although we performed substantial due diligence with respect to the VLCC Acquisition, there can be no assurance that there will not be undisclosed liabilities or other matters not discovered in the course of such due diligence and the \$58.7 million indemnity may be inadequate to cover these or other damages related to breaches of such agreement. In addition, as there are approximately 1,378,122 shares available in escrow, of which some or all may be returnable to Navios Acquisition under the terms of the indemnity, it may be difficult to enforce an

arbitration award for any damages in excess of such amount.

**A large proportion of the revenue from the VLCC vessels is derived from a Chinese state-owned company, and changes in the economic and political environment in China or in Chinese relations with other countries could adversely affect Navios Acquisition's ability to continue this customer relationship.**

DOSCO, a wholly owned subsidiary of the Chinese state-owned COSCO, charters four of the seven VLCC vessels (including the newbuilding). Changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, could restrict DOSCO's ability to continue its relationship with it. If DOSCO becomes unable to perform under its charter agreements with it, Navios Acquisition could suffer a loss of revenue that could materially adversely affect its business, financial condition, and results of operations. In addition, it may have limited ability in Chinese courts to enforce any awards for damages that it may suffer if DOSCO were to fail to perform its obligations under its charter agreements.

**One of the vessels is subject to a mutual sale provision between the subsidiary that owns the vessel and the charterer of the vessel, which, if exercised, could reduce the size of Navios Acquisition's fleet and reduce our future revenue.**

The Shinyo Ocean is subject to a mutual sale provision whereby Navios Acquisition or the charterer can request the sale of the vessel

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provided that a price can be obtained that is at least \$3,000,000 greater than the agreed depreciated value of the vessel as set forth in the charter agreement. If this provision is exercised, it may not be able to obtain a replacement vessel for the price at which the vessel is sold. In such a case, the size of its fleet would be reduced and it may experience a reduction in its future revenue.

### **Navios Holdings has limited recent experience in the crude oil, product and chemical tanker sectors.**

Navios Tankers Management Inc., a wholly owned subsidiary of Navios Holdings, oversees the commercial and administrative management of its entire fleet and the technical management of a portion of its fleet. Navios Holdings is a vertically-integrated seaborne shipping and logistics company with over 55 years of operating history in the shipping industry that held approximately 53.7% of Navios Acquisition's shares of common stock as of December 31, 2010. Other than with respect to South American operations, Navios Holdings has limited recent experience in the crude oil, chemical and product tanker sectors.

Such limited experience could cause Navios Holdings or Navios Tankers Management Inc. to make decisions that a more experienced operator in the sector might not make. If Navios Holdings or Navios Tankers Management Inc. is not able to properly assess or ascertain a particular aspect of the crude oil, product or chemical tanker sectors, it could have a material adverse affect on its operations. Further, there can be no assurance that Navios Holdings will continue to own over 50% of its shares of common stock, which could also have a material adverse affect on its business.

### **Navios Holdings may compete directly with Navios Acquisition, causing certain officers to have a conflict of interest.**

Angeliki Frangou and Ted C. Petrone are each officers and/or directors of both Navios Holdings and Navios Acquisition. Navios Acquisition operates in the crude oil, product and chemical tanker sectors of the shipping industry, and although Navios Holdings does not currently operate in those sectors, there is no assurance it will not enter them. If it does, Navios Acquisition may compete directly with Navios Holdings for business opportunities.

### **Tax Risks**

#### **We may earn United States source income that is subject to tax, thereby adversely affecting our results of operations and cash flows.**

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of gross income attributable to shipping transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income. Such income generally will be subject to a 4% U.S. federal income tax without allowance for deduction, unless we qualify for an exemption from such tax under section 883 of the Code. Based on our current plans, we expect that our income from sources within the United States will be international shipping income that qualifies for exemption from United States federal income taxation under section 883 of the Code, and that we will have no other income that will be taxed in the United States. Our ability to qualify for the exemption at any given time will depend upon circumstances related to the ownership of our common stock at such time and thus are beyond our control. Accordingly, we can give no assurance that we would qualify for the exemption under Section 883 with respect to any such income we earn. If Navios Holdings' vessel-owning subsidiaries were not entitled to the benefit of section 883 of the Code, they would be subject to United States taxation on a portion of their income. As a result, depending on the trading patterns of our vessels, we could become liable for tax, and our net income and cash flow could be adversely affected.

#### **We may be taxed as a United States corporation.**

The purchase by International Shipping Enterprises Inc. ( ISE ), our predecessor, of all of the outstanding shares of common stock of Navios Holdings, and the subsequent downstream merger of ISE with and into Navios Holdings took place on August 25, 2005. Navios Holdings is incorporated under the laws of the Republic of the Marshall Islands. ISE received an opinion from its counsel for the merger transaction that, while there is no direct authority that governs the tax treatment of the transaction, it was more likely than not that Navios Holdings would be taxed by the United States as a foreign corporation. Accordingly, we take the position that we will be taxed as a foreign corporation by the United States. If Navios Holdings is taxed as a U.S. corporation in the future, its taxes will be significantly higher than they are currently.

### **Item 4. Information on the Company**

***A. History and Development of the Company***

The legal and commercial name of the Company is Navios Maritime Holdings Inc. The Company's office and principal place of business is located at 85 Akti Miaouli Street, Piraeus, Greece 185 38, and its telephone number is (011) +30-210-4595000. The Company is a corporation incorporated under the BCA and the laws of the Republic of the Marshall Islands. Trust Company of the Marshall Islands, Inc. serves as the Company's agent for service of process, and the Company's registered address and telephone number, as well as address and telephone number of its agent for service of process, is Trust Company Complex, Ajeltake Island P.O. Box 1405, Majuro, Marshall Islands MH96960.

On August 25, 2005, pursuant to a Stock Purchase Agreement dated February 28, 2005, as amended, by and among ISE, Navios Holdings, and all the shareholders of Navios Holdings, ISE acquired Navios Holdings through the purchase of all of the outstanding shares of common stock of Navios Holdings. As a result of this acquisition, Navios Holdings became a wholly owned subsidiary of ISE. In addition, on August 25, 2005, simultaneously with the acquisition of Navios Holdings, ISE effected a



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reincorporation from the State of Delaware to the Republic of the Marshall Islands through a downstream merger with and into its newly acquired wholly owned subsidiary, whose name was and continued to be Navios Maritime Holdings Inc. As a result of the reincorporation, ISE transitioned from a shell company to an operating business, and the operations of Navios Holdings became those of a publicly-traded company. The Company publicly files its reports with the SEC under the rules of Foreign Private Issuers.

The Company operates a fleet of owned Capesize, Panamax and Ultra Handymax vessels and a fleet of time chartered Capesize, Panamax and Ultra Handymax vessels that are employed to provide worldwide transportation of bulk commodities. The Company actively engages in assessing risk associated with fluctuating future freight rates, fuel prices and foreign exchange and, where appropriate, will actively hedge identified economic risk with appropriate derivative instruments. Such economic hedges do not always qualify for accounting hedge treatment, and, as such, the usage of such derivatives could lead to material fluctuations in the Company's reported results from operations on a period-to-period basis.

**Navios Partners**

On August 7, 2007, Navios Holdings formed Navios Partners under the laws of Marshall Islands. Navios GP L.L.C., or the General Partner, a wholly owned subsidiary of Navios Holdings, was also formed on that date to act as the general partner of Navios Partners and received a 2% general partner interest in Navios Partners.

In connection with the initial public offering, or IPO, of Navios Partners, on November 16, 2007, Navios Holdings sold the interests of five of its wholly owned subsidiaries, each of which owned a Panamax drybulk carrier, as well as interests of three of its wholly owned subsidiaries that operated and had options to purchase three additional vessels in exchange for: (a) all of the net proceeds from the sale of an aggregate of 10,500,000 common units in the IPO and to a corporation owned by Navios Partners' Chairman and CEO for a total amount of \$193.3 million, plus; (b) \$160.0 million of the \$165.0 million of borrowings under Navios Partners' revolving credit facility; (c) 7,621,843 subordinated units issued to Navios Holdings; and (d) a 2% general partner interest and all incentive distribution rights in Navios Partners to the General Partner.

On or prior to the closing of the IPO, Navios Holdings entered into the following agreements with Navios Partners: (a) a share purchase agreement pursuant to which Navios Holdings sold the capital stock of a subsidiary that would own the Capesize vessel Navios Bonavis and related time charter, upon delivery of the vessel, which occurred in June 2009; (b) a share purchase agreement pursuant to which Navios Partners had the option, exercisable at any time between January 1, 2009 and April 1, 2009, to acquire the capital stock of the subsidiary that would own the Capesize vessel Navios TBN II and related time charter. On April 2, 2009, Navios Partners announced that it would not be exercising this option given the then-prevailing unfavorable capital market conditions; (c) a management agreement with Navios Partners pursuant to which Navios ShipManagement Inc., or the Manager, a wholly owned subsidiary of Navios Holdings, provides Navios Partners with commercial and technical management services; (d) an administrative services agreement with the Manager pursuant to which the Manager provides Navios Partners administrative services; and (e) an omnibus agreement with Navios Partners, governing, among other things, when Navios Partners and Navios Holdings may compete against each other as well as rights of first offer on certain drybulk carriers.

From the formation of Navios Partners until the end of 2010, Navios Holdings sold four vessels to Navios Partners (the Navios Hope, the Navios Aurora II, the Navios Fulvia and the Navios Melodia in exchange of cash and 5,094,004 common units of Navios Partners in total. Following Navios Partners' public equity offerings of: (a) 3,500,000 common units in May 2009; (b) 2,800,000 common units in September 2009 (plus 360,400 overallotment units in October 2009); (c) 4,000,000 common units in November 2009; (d) 3,500,000 common units (plus 525,000 overallotment units) in February 2010; (e) 4,500,000 common units (plus 675,000 overallotment units) in May 2010; and (f) 5,500,000 common units (plus 825,000 overallotment units) in October 2010 and including a 2% GP interest accounted under the equity method. Following the sale of Navios Fulvia and Navios Melodia from Navios Holdings to Navios Partners on November 15, 2010, Navios Holdings' interest in Navios Partners is currently 28.7%.

Navios Partners is engaged in the seaborne transportation services of a wide range of drybulk commodities including iron ore, coal, grain and fertilizer, chartering its vessels under medium to long-term charters. The operations of Navios Partners are managed by the Manager, from its offices in Piraeus, Greece.

### **Navios Logistics**

On January 1, 2008, pursuant to a share purchase agreement, Navios Holdings contributed: a) \$112.2 million in cash; and b) the authorized capital stock of its wholly owned subsidiary Corporacion Navios Sociedad Anonima ( CNSA ) in exchange for the issuance and delivery of 12,765 shares of Navios Logistics, representing 63.8% (67.2% excluding contingent consideration) of its outstanding stock. Navios Logistics acquired all ownership interests in the Horamar Group ( Horamar ) in exchange for; (a) \$112.2 million in cash, of which \$5.0 million was kept in escrow and payable upon the attainment of certain EBITDA targets during specified periods through December 2008 (the EBITDA Adjustment ); and b) the issuance of 7,235 shares of Navios Logistics representing 36.2% (32.8% excluding contingent consideration) of Navios Logistics' outstanding stock, of which 1,007 shares were kept in escrow pending attainment of certain EBITDA targets.

In November 2008, part of the contingent consideration for the acquisition of Horamar was released, as Horamar achieved the interim EBITDA target, at which time \$2.5 million in cash and 503 shares were released to the shareholders of Horamar. Following this release, Navios Holdings owned 65.5% (excluding 504 shares that remained in escrow as of such November 2008 date, pending achievement of final EBITDA target) of the outstanding common stock of Navios Logistics. On June 17, 2010, \$2.5 million in cash and the 504 shares remaining in escrow were released from escrow upon the achievement of the EBITDA target threshold.

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Following the release of the remaining shares that were kept in escrow, Navios Holdings currently owns 63.8% of Navios Logistics and Navios Logistics is a consolidated entity.

The 1,007 shares issued as part of the Horamar Group acquisition were released from escrow to the former shareholders of Horamar upon achievement of the EBITDA target threshold. The 1,007 shares have been reflected as part of Navios Logistics' outstanding shares from the date of issuance since these shares have been irrevocably issued on January 1, 2008 with the identity of the ultimate recipient to be determined at a future date. Following the achievement of the EBITDA targets mentioned above, the shares were delivered to Horamar Group shareholders, otherwise they would have been delivered to Navios Holdings.

Horamar was a privately held Argentina-based group specializing in the transportation and storage of liquid cargoes and the transportation of drybulk cargoes in South America along the Hidrovia river system. The combination of CNSA and Horamar under Navios Logistics' umbrella created one of the largest logistics businesses in the Hidrovia region of South America.

### **Navios Acquisition**

On July 1, 2008, Navios Holdings completed the IPO of units in its subsidiary, Navios Acquisition, a blank check company. In this offering, Navios Acquisition sold 25,300,000 units for an aggregate purchase price of \$253.0 million. Simultaneously with the completion of the IPO, Navios Holdings purchased private placement warrants of Navios Acquisition for an aggregate purchase price of \$7.6 million. Prior to the IPO, Navios Holdings had purchased 8,625,000 sponsor units for a total consideration of \$25,000, of which an aggregate of 290,000 units were transferred to Navios Holdings' officers and directors and an aggregate of 2,300,000 sponsor units were returned to Navios Acquisition and cancelled upon receipt. Each unit consists of one share of Navios Acquisition's common stock and one warrant.

On May 25, 2010, after its special meeting of stockholders, Navios Acquisition announced the approval of: (a) the acquisition of 13 vessels (11 product tankers and two chemical tankers) plus options to purchase two additional product tankers for an aggregate purchase price of \$457.7 million pursuant to the terms and conditions of the Acquisition Agreement between Navios Acquisition and Navios Holdings; and (b) certain amendments to Navios Acquisition's amended and restated articles of incorporation.

Following the consummation of the transactions described in the Acquisition Agreement, Navios Holdings was released from all debt and equity commitments for the above vessels and Navios Acquisition reimbursed Navios Holdings for equity payments made prior to the stockholders' meeting under the purchase contracts for the vessels, plus all associated payments previously made by Navios Holdings which amounted to \$76.5 million.

Navios Acquisition entered into an omnibus agreement (the Acquisition Omnibus Agreement) with Navios Holdings and Navios Partners in connection with the closing of Navios Acquisition's vessel acquisition, pursuant to which, among other things, Navios Holdings and Navios Partners agreed not to acquire, charter-in or own liquid shipment vessels, except for container vessels and vessels that are primarily employed in operations in South America without the consent of an independent committee of Navios Acquisition. In addition, Navios Acquisition, under the Acquisition Omnibus Agreement, agreed to cause its subsidiaries not to acquire, own, operate or charter drybulk carriers under specific exceptions. Under the Acquisition Omnibus Agreement, Navios Acquisition and its subsidiaries grant to Navios Holdings and Navios Partners, a right of first offer on any proposed sale, transfer or other disposition of any of its drybulk carriers and related charters owned or acquired by Navios Acquisition. Likewise, Navios Holdings and Navios Partners agreed to grant a similar right of first offer to Navios Acquisition for any liquid shipment vessels they might own. These rights of first offer will not apply to a (a) sale, transfer or other disposition of vessels between any affiliated subsidiaries, or pursuant to the existing terms of any charter or other agreement with a counterparty, or (b) merger with or into, or sale of substantially all of the assets to, an unaffiliated third party.

On May 28, 2010, certain stockholders of Navios Acquisition redeemed their shares upon de-SPAC-ing, and Navios Holdings' ownership of Navios Acquisition increased to 57.3%. At that point, Navios Holdings concluded that the increase in its ownership interest resulted in obtaining control over Navios Acquisition and, consequently concluded that a business combination had occurred and consolidated Navios Acquisition from that date onwards.

On September 2, 2010, Navios Acquisition completed its warrant exercise program (the Warrant Program). Under the Warrant Program, holders of Navios Acquisition's publicly traded awards (Public Warrants) had the

opportunity to exercise the public warrants on enhanced terms through August 27, 2010. Navios Holdings exercised in cash 13,635,000 private warrants and paid \$77.0 million. Navios Holdings currently holds no other warrants of Navios Acquisition.

On November 19, 2010, Navios Acquisition announced the public offering of 6,500,000 shares of common stock at \$5.50 per share, raising gross proceeds of approximately \$35.7 million. The net proceeds of this offering, including the underwriting discount of \$1.8 million and excluding offering costs of \$0.6 million were approximately \$34.0 million. Following this transaction, as of December 31, 2010, Navios Holdings owned 26,007,551 shares or 53.7% of the outstanding common stock of Navios Acquisition.

Navios Holdings exchanged 7.7 million shares of Navios Acquisition's common stock it held for non-voting preferred stock of Navios Acquisition pursuant to an Exchange Agreement entered into on March 30, 2011, between Navios Acquisition and Navios Holdings. Following this exchange, Navios Holdings' interest in Navios Acquisition decreased to 45%.

**Table of Contents*****B. Business overview*****Introduction**

Navios Holdings is a global, vertically integrated seaborne shipping and logistics company focused on the transport and transshipment of drybulk commodities including iron ore, coal and grain. For over 50 years, Navios Holdings has had an in-house technical ship management expertise that has worked with producers of raw materials, agricultural traders and exporters, industrial end-users, ship owners, and charterers. Navios Holdings' current core fleet (excluding those of Navios Partners, Navios Logistics and Navios Acquisition), the average age of which is approximately 4.7 years, consists of a total of 57 vessels, aggregating approximately 6.0 million dwt. Navios Holdings owns 12 Capesize vessels (169,000-181,000 dwt), 14 modern Ultra Handymax vessels (50,000-59,000 dwt) and four Panamax vessels (75,000-83,000 dwt). It also time charters-in and operates a fleet of five Ultra Handymax, two Handysize, 11 Panamax, and nine Capesize vessels under long-term time charters, 14 of which are currently in operation, with the remaining 13 scheduled for delivery on various dates through December 2013. Navios Holdings has options to acquire 15 of the 27 time chartered-in vessels (on six of which Navios Holdings holds an initial 50% purchase option).

Navios Holdings also offers commercial and technical management services to Navios Partners and Navios Acquisition's fleets. Navios Partners' fleet is comprised of 10 Panamax vessels, five Capesize vessels and one Ultra-Handymax vessel. Since October 2009, Navios Holdings will receive \$4,500 per owned Ultra Handymax vessel, \$4,400 per owned Panamax vessel and \$5,500 per owned Capesize vessel. Navios Acquisition's fleet is comprised of 22 tankers, of which ten are currently in operation and Navios Holdings will receive a daily fee of \$6,000 per owned MR2 product tanker and chemical tanker vessel, \$7,000 per owned LR1 product tanker vessel and \$10,000 per owned VLCC vessel, for the first two years with the fixed daily fees adjusted for the remainder of the term based on then-current market fees. For Navios Acquisition, all intercompany transactions have been eliminated upon consolidation.

Navios Logistics is one of the largest logistics companies in the Hidrovia region of South America, serving the storage and marine transportation needs of its customers through our port terminal, river barge and coastal cabotage operations.

Navios Holdings' strategy and business model focuses on:

*Operation of a high quality, modern fleet.* Navios Holdings owns and charters in a modern, high quality fleet, having an average age of approximately 4.7 years that provides numerous operational advantages including more efficient cargo operations, lower insurance and vessel maintenance costs, higher levels of fleet productivity, and an efficient operating cost structure.

*Pursue an appropriate balance between vessel ownership and a long-term chartered-in fleet.* Navios Holdings controls, through a combination of vessel ownership and long-term time chartered vessels, approximately 6.0 million dwt in tonnage, making Navios Holdings one of the largest independent drybulk operators in the world. Navios Holdings' ability, through its long-standing relationships with various shipyards and trading houses, to charter-in vessels at favorable rates allows it to control additional shipping capacity without the capital expenditures required by new vessel acquisition. In addition, having purchase options on 15 of the 27 time chartered vessels (including those to be delivered) permits Navios Holdings to determine when is the most commercially opportune time to own or charter-in vessels. Navios Holdings intends to monitor developments in the sales and purchase market to maintain the appropriate balance between owned and long-term time chartered vessels.

*Capitalize on Navios Holdings' established reputation.* Navios Holdings believes its reputation and commercial relationships enable it to obtain favorable long-term time charters, enter into the freight market and increase its short-term tonnage capacity to complement the capacity of its core fleet, as well as to obtain access to cargo freight opportunities through COA arrangements not readily available to other industry participants. This reputation has also enabled Navios Holdings to obtain favorable vessel acquisition terms as reflected in the purchase options contained in some of its long-term charters.

*Utilize industry expertise to take advantage of market volatility.* The drybulk shipping market is cyclical and volatile. Navios Holdings uses its experience in the industry, sensitivity to trends, and knowledge and expertise as to risk management and FFAs to hedge against, and in some cases, to generate profit from, such volatility.

*Maintain high fleet utilization rates.* The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the days its vessels are off-hire. At 99.5% as of December 31, 2010, Navios Holdings believes that it has one of the highest fleet utilization rates in the industry.

*Maintain customer focus and reputation for service and safety.* Navios Holdings is recognized by its customers for the high quality of its service and safety record. Navios Holdings' high standards for performance, reliability, and safety provide Navios Holdings with an advantageous competitive profile.

*Enhance vessel utilization and profitability through a mix of spot charters, time charters, and COAs and strategic backhaul and triangulation methods.* Specifically, this strategy is implemented as follows:

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The operation of voyage charters or spot fixtures for the carriage of a single cargo from load port to discharge port;

The operation of time charters, whereby the vessel is hired out for a predetermined period but without any specification as to voyages to be performed, with the ship owner being responsible for operating costs and the charterer for voyage costs; and

The use of COAs, under which Navios Holdings contracts to carry a given quantity of cargo between certain load and discharge ports within a stipulated time frame, but does not specify in advance which vessels will be used to perform the voyages.

In addition, Navios Holdings attempts, through selecting COAs on what would normally be backhaul or ballast legs, to enhance vessel utilization and, hence, profitability. The cargoes are in such cases used to position vessels at or near major loading areas (such as the Gulf of Mexico) where spot cargoes can readily be obtained. This reduces ballast time to be reduced as a percentage of the round voyage. This strategy is referred to as triangulation.

Navios Holdings is one of relatively few major owners and operators of this type in the drybulk market, and has vast experience in this area. In recent years, it has further raised the commercial sophistication of its business model by using market intelligence derived from its risk management operations and, specifically, its freight derivatives hedging desk, to make more informed decisions regarding the management of its fleet.

### **Competitive Advantages**

Controlling approximately 6.0 million dwt (excluding Navios Logistics and Navios Acquisition) in drybulk tonnage, Navios Holdings is one of the largest independent drybulk operators in the world. Management believes that Navios Holdings occupies a competitive position within the industry in that its reputation in the global drybulk markets permits it to enter into at any time, and take on spot, medium or long-term freight commitments, depending on its view of future market trends. In addition, many of the long-term charter deals that form the core of Navios Holdings' fleet were brought to the attention of Navios Holdings prior to ever being quoted in the open market. Even in the open market, Navios Holdings' solid reputation allows it to take in large amounts of tonnage on a short, medium, or long-term basis on very short notice. This ability is possessed by relatively few ship owners and operators, and is a direct consequence of Navios Holdings' market reputation for reliability in the performance of its obligations in each of its roles as a ship owner, COA operator, and charterer. Navios Holdings, therefore, has much greater flexibility than a traditional ship owner or charterer to quickly go long or short relative to the drybulk markets.

Navios Holdings' long involvement and reputation for reliability in the Asian Pacific region have also allowed it to develop privileged relationships with many of the largest trading houses in Japan, such as Marubeni Corporation and Mitsui & Co. Through these institutional relationships, Navios Holdings has obtained relatively low-cost, long-term charter-in deals, with options to extend time charters and options to purchase the majority of the vessels. Through its established reputation and relationships, Navios Holdings has had access to opportunities not readily available to most other industry participants who lack Navios Holdings' brand recognition, credibility, and track record.

In addition to its long-standing reputation and flexible business model, management believes that Navios Holdings is well-positioned in the drybulk market on the basis of the following factors:

A high-quality, modern fleet of vessels that provides a variety of operational advantages, such as lower insurance premiums, higher levels of productivity, and efficient operating cost structures, as well as a competitive advantage over owners of older fleets, especially in the time charter market, where age and quality of a vessel are of significant importance in competing for business;

A core fleet which has been chartered-in (some through 2023, assuming minimum available charter extension periods are exercised) on attractive terms that allow Navios Holdings to charter-out the vessels at an attractive spread during strong markets and to weather down cycles in the market while maintaining low operating expenses;

Strong cash flows from creditworthy counterparties;

Strong commercial relationships with both freight customers and Japanese trading houses and ship owners, providing Navios Holdings with access to future attractive long-term time charters on newbuildings with valuable purchase options;

Strong in-house technical management team who oversee every step of technical management, from the construction of the vessels in Japan or Korea to subsequent shipping operations throughout the life of a vessel, including the superintendence of maintenance, repairs and drydocking, providing efficiency and transparency in Navios Holdings' owned fleet operations; and



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Visibility into worldwide commodity flows through its physical shipping operations and port terminal operations in South America.

Management intends to maintain and build on these qualitative advantages, while at the same time continuing to benefit from Navios Holdings' reputation.

**Shipping Operations (excluding Navios Acquisition)**

**Navios Holdings' Fleet.** Navios Holdings controls a core fleet of 30 owned vessels and 27 chartered-in vessels (15 of which have purchase options). The average age of the operating fleet is 4.6 years.

**Owned Fleet.** Navios Holdings owns a fleet comprised of 14 modern Ultra Handymax vessels, 12 Capesize vessels and four Panamax vessels, whose technical specifications and youth distinguish them in the market, where, approximately 23% of the drybulk world fleet is composed of older than 20 years.

**Owned Vessels**

Vessel Name	Vessel Type	Year Built	Deadweight (in metric tons)
Navios Ionian	Ultra Handymax	2000	52,067
Navios Vector	Ultra Handymax	2002	50,296
Navios Horizon	Ultra Handymax	2001	50,346
Navios Herakles	Ultra Handymax	2001	52,061
Navios Achilles	Ultra Handymax	2001	52,063
Navios Meridian	Ultra Handymax	2002	50,316
Navios Mercator	Ultra Handymax	2002	53,553
Navios Arc	Ultra Handymax	2003	53,514
Navios Hios	Ultra Handymax	2003	55,180
Navios Kypros	Ultra Handymax	2003	55,222
Navios Ulysses	Ultra Handymax	2007	55,728
Navios Vega	Ultra Handymax	2009	58,792
Navios Celestial	Ultra Handymax	2009	58,063
Navios Astra	Ultra Handymax	2006	53,468
Navios Magellan	Panamax	2000	74,333
Navios Star	Panamax	2002	76,662
Navios Orbiter	Panamax	2004	76,602
Navios Asteriks	Panamax	2005	76,801
Navios Bonavis	Capesize	2009	180,022
Navios Happiness	Capesize	2009	180,022
Navios Lumen	Capesize	2009	180,661
Navios Stellar	Capesize	2009	169,001
Navios Phoenix	Capesize	2009	180,242
Navios Antares	Capesize	2010	169,059
Navios Buena Ventura	Capesize	2010	179,132
Navios Luz	Capesize	2010	179,144
Navios Etoile	Capesize	2010	179,234
Navios Bonheur	Capesize	2010	179,259
Navios Altamira	Capesize	2011	179,165
Navios Azimuth	Capesize	2011	179,169

**Long-Term Fleet.** In addition to the 30 currently operating owned vessels, Navios Holdings controls a fleet of nine Capesize, 11 Panamax, five Ultra Handymax, and two Handysize vessels under long-term time charters, having an average age of approximately 4.7 years. Of the 27 chartered-in vessels, 14 are currently in operation and 13 are scheduled for delivery at various times through December 2013, as set forth in the following table:



**Table of Contents****Long-term Chartered-in Fleet in Operation**

<b>Vessel Name</b>	<b>Vessel Type</b>	<b>Year Built</b>	<b>Deadweight (in metric tons)</b>	<b>Purchase Option<sup>(1)</sup></b>
Navios Primavera	Ultra Handymax	2007	53,464	Yes
Navios Armonia	Ultra Handymax	2008	55,100	No
Navios Orion	Panamax	2005	76,602	No
Navios Titan	Panamax	2005	82,936	No
Navios Altair	Panamax	2006	83,001	No
Navios Esperanza	Panamax	2007	75,200	No
Torm Antwerp	Panamax	2008	75,250	No
Golden Heiwa	Panamax	2007	76,662	No
King Ore	Capesize	2010	176,800	No
Beaufiks	Capesize	2004	180,181	Yes
Phoenix Beauty	Capesize	2010	169,150	No
Rubena N	Capesize	2006	203,233	No
Formosabulk Brave	Capesize	2001	170,000	No
SC Lotta	Capesize	2009	170,500	No

**Long-term Chartered-in Fleet to be Delivered**

<b>Vessels</b>	<b>Vessel Type</b>	<b>Delivery</b>	<b>Purchase</b>	<b>Deadweight</b>
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