

Baltic Trading Ltd  
Form 10-Q  
August 09, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2012**

**OR**

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

**For the transition period from            to**

**Commission file number 001-34648**

---

**BALTIC TRADING LIMITED**

(Exact name of registrant as specified in its charter)

Edgar Filing: Baltic Trading Ltd - Form 10-Q

**Republic of the Marshall Islands**  
(State or other jurisdiction of  
incorporation or organization)

**98-0637837**  
(I.R.S. Employer  
Identification No.)

**299 Park Avenue, 12th Floor, New York, New York 10171**  
(Address of principal executive offices) (Zip Code)

**(646) 443-8550**

(Registrant's telephone number, including area code)

---

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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of August 9, 2012: common stock, \$0.01 per share 17,013,500 shares and Class B stock, \$0.01 per share 5,699,088 shares.

Table of Contents

**Baltic Trading Limited**

	<b>Page</b>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (unaudited)</u>	
a) <u>Condensed Consolidated Balance Sheets - June 30, 2012 and December 31, 2011</u>	2
b) <u>Condensed Consolidated Statements of Operations - For the Three and Six Months ended June 30, 2012 and 2011</u>	3
c) <u>Condensed Consolidated Statements of Shareholders' Equity - For the Six Months ended June 30, 2012 and 2011</u>	4
d) <u>Condensed Consolidated Statements of Cash Flows - For the Six Months ended June 30, 2012 and 2011</u>	5
e) <u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4.</u> <u>Controls and Procedures</u>	27
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	28
<u>Item 6.</u> <u>Exhibits</u>	28

Table of Contents**PART I: FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**Baltic Trading Limited**

Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011

(U.S. Dollars in Thousands, Except for Share and Per Share Data)

(Unaudited)

	June 30, 2012	December 31, 2011
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,423	\$ 8,300
Due from charterers, net of a reserve of \$24 and \$52, respectively	1,990	1,653
Prepaid expenses and other current assets	2,648	2,467
Total current assets	9,061	12,420
Noncurrent assets:		
Vessels, net of accumulated depreciation of \$29,466 and \$22,107, respectively	362,862	370,222
Fixed assets, net of accumulated depreciation of \$28 and \$20, respectively	20	23
Deferred financing costs, net of accumulated amortization of \$969 and \$737, respectively	2,058	2,290
Total noncurrent assets	364,940	372,535
Total assets	\$ 374,001	\$ 384,955
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,264	\$ 1,972
Deferred revenue	69	71
Due to Parent	48	59
Total current liabilities	2,381	2,102
Noncurrent liabilities:		
Long-term debt	101,250	101,250
Total noncurrent liabilities:	101,250	101,250
Total liabilities	103,631	103,352
<u>Commitments and contingencies</u>		
<u>Shareholders' equity:</u>		
Common stock, par value \$0.01; 500,000,000 shares authorized; issued and outstanding 17,013,500 and 17,001,000 shares at June 30, 2012 and December 31, 2011, respectively	170	170

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

Class B stock, par value \$0.01; 100,000,000 shares authorized; issued and outstanding 5,699,088 at June 30, 2012 and December 31, 2011	57	57
Additional paid-in capital	277,811	280,923
(Accumulated deficit) retained earnings	(7,668)	453
Total shareholders' equity	270,370	281,603
Total liabilities and shareholders' equity	\$ 374,001	\$ 384,955

See accompanying notes to condensed consolidated financial statements.

# Edgar Filing: Baltic Trading Ltd - Form 10-Q

## Table of Contents

### Baltic Trading Limited

Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011

(U.S. Dollars in thousands, Except for Net Loss Per Share and Share Data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 7,603	\$ 9,914	\$ 13,897	\$ 19,458
Operating expenses:				
Voyage expenses	379	(388)	432	(306)
Voyage expenses to Parent	97	128	178	250
Vessel operating expenses	4,270	3,780	8,192	7,707
General, administrative, and technical management fees	1,146	1,294	2,456	3,046
Management fees to Parent	614	614	1,229	1,222
Depreciation	3,683	3,684	7,367	7,321
Total operating expenses	10,189	9,112	19,854	19,240
Operating (loss) income	(2,586)	802	(5,957)	218
Other (expense) income:				
Other income (expense)	1	(16)	(7)	(34)
Interest income	1	1	3	4
Interest expense	(1,062)	(1,112)	(2,138)	(2,211)
Other expense, net	(1,060)	(1,127)	(2,142)	(2,241)
Loss before income taxes	(3,646)	(325)	(8,099)	(2,023)
Income tax expense	(15)	(28)	(22)	(23)
Net loss	\$ (3,661)	\$ (353)	\$ (8,121)	\$ (2,046)
Net loss per share of common and Class B Stock:				
Net loss per share-basic	\$ (0.16)	\$ (0.02)	\$ (0.37)	\$ (0.09)
Net loss per share-diluted	\$ (0.16)	\$ (0.02)	\$ (0.37)	\$ (0.09)
Dividends declared and paid per share of common and Class B Stock	\$ 0.05	\$ 0.06	\$ 0.18	\$ 0.23

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**Baltic Trading Limited**

Condensed Consolidated Statements of Shareholders' Equity

For the Six Months Ended June 30, 2012 and 2011

(U.S. Dollars in Thousands)  
(Unaudited)

		Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance	January 1, 2012	\$ 170	\$ 57	\$ 280,923	\$ 453	\$ 281,603
	Net loss				(8,121)	(8,121)
	Cash dividends paid (\$0.18 per share)			(4,086)		(4,086)
	Issuance of 12,500 shares of nonvested common stock					
	Nonvested stock amortization			974		974
Balance	June 30, 2012	\$ 170	\$ 57	\$ 277,811	\$ (7,668)	\$ 270,370
		Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance	January 1, 2011	\$ 169	\$ 57	\$ 288,095	\$ 1,114	\$ 289,435
	Net loss				(2,046)	(2,046)
	Cash dividends paid (\$0.23 per share)			(4,965)	(230)	(5,195)
	Issuance of 12,500 shares of nonvested common stock					
	Nonvested stock amortization			1,551		1,551
Balance	June 30, 2011	\$ 169	\$ 57	\$ 284,681	\$ (1,162)	\$ 283,745

See accompanying notes to condensed consolidated financial statements.

# Edgar Filing: Baltic Trading Ltd - Form 10-Q

## Table of Contents

### **Baltic Trading Limited**

Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011

(U.S. Dollars in Thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net loss	\$ (8,121)	\$ (2,046)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation	7,367	7,321
Amortization of deferred financing costs	232	232
Amortization of nonvested stock compensation expense	974	1,551
<b>Change in assets and liabilities:</b>		
Increase in due from charterers	(336)	(189)
Increase in prepaid expenses and other current assets	(181)	(598)
Increase (decrease) in accounts payable and accrued expenses	292	(384)
Decrease in due to Parent	(11)	(404)
Decrease in deferred revenue	(2)	(104)
<b>Net cash provided by operating activities</b>	<b>214</b>	<b>5,379</b>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(5)	
Purchase of vessels, including deposits		(1,986)
<b>Net cash used in investing activities</b>	<b>(5)</b>	<b>(1,986)</b>
<b>Cash flows from financing activities:</b>		
Cash dividends paid	(4,086)	(5,196)
Payment of deferred financing costs		(139)
<b>Net cash used in financing activities</b>	<b>(4,086)</b>	<b>(5,335)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,877)</b>	<b>(1,942)</b>
Cash and cash equivalents at beginning of period	8,300	5,797
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,423</b>	<b>\$ 3,855</b>

See accompanying notes to condensed consolidated financial statements.



Table of Contents

**Baltic Trading Limited**

Notes to Condensed Consolidated Financial Statements (unaudited)

(U.S. Dollars in Thousands, Except Per Share and Share Data)

1 - GENERAL INFORMATION

The accompanying condensed consolidated financial statements include the accounts of Baltic Trading Limited ( "Baltic Trading" ) and its wholly-owned subsidiaries (collectively, the "Company" ). The Company was formed to own and employ drybulk vessels in the spot market. The spot market represents immediate chartering of a vessel, usually for single voyages, or employing vessels on spot market-related time charters. Baltic Trading was formed on October 6, 2009 (the "inception date" ), under the laws of the Republic of the Marshall Islands.

At June 30, 2012, the Company was the sole owner of all of the outstanding shares of the following ship-owning subsidiaries as set forth below:

Wholly Owned Subsidiaries	Vessels	Dwt	Date Delivered	Year Built
Baltic Leopard Limited	Baltic Leopard	53,447	April 8, 2010	2009
Baltic Panther Limited	Baltic Panther	53,351	April 29, 2010	2009
Baltic Cougar Limited	Baltic Cougar	53,432	May 28, 2010	2009
Baltic Jaguar Limited	Baltic Jaguar	53,474	May 14, 2010	2009
Baltic Bear Limited	Baltic Bear	177,717	May 14, 2010	2010
Baltic Wolf Limited	Baltic Wolf	177,752	October 14, 2010	2010
Baltic Wind Limited	Baltic Wind	34,409	August 4, 2010	2009
Baltic Cove Limited	Baltic Cove	34,403	August 23, 2010	2010
Baltic Breeze Limited	Baltic Breeze	34,386	October 12, 2010	2010

On March 15, 2010, the Company completed its initial public offering ( "IPO" ) of 16,300,000 common shares at \$14.00 per share, which resulted in gross proceeds of \$228,200. After underwriting commissions and other registration expenses, the Company received net proceeds of \$210,430 to be used by the Company for completion of the acquisition of its initial fleet of vessels as well as for working capital purposes.

Prior to the IPO, the Company was a wholly-owned subsidiary of Genco Investments LLC, which in turn is a wholly-owned subsidiary of Genco Shipping & Trading Limited ( "Genco" or "Parent" ). After the completion of the IPO and issuance of restricted shares, Genco owned, directly or indirectly, 5,699,088 shares of the Company's Class B stock, representing a 25.35% ownership interest in the Company and 83.59% of the aggregate voting power of the Company's outstanding shares of voting stock. Genco made a capital contribution of \$75,000 and surrendered 100 shares of capital stock in connection with Genco's subscription for 5,699,088 of the Company's Class B stock pursuant to the subscription agreement entered into between Genco and the Company. Additionally, pursuant to the subscription agreement, for so long as Genco directly or indirectly holds at least 10% of the aggregate number of outstanding shares of the Company's common stock and Class B stock, Genco will be entitled to receive at no cost an additional number of shares of Class B stock equal to 2% of the number of common shares issued in the future, other than shares issued under the Company's 2010 Equity Incentive Plan.

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

As of June 30, 2012 and December 31, 2011, Genco's ownership of 5,699,088 shares of the Company's Class B stock represented 25.09% and 25.11% ownership interest in the Company, respectively, and 83.40% and 83.41% of the aggregate voting power of the Company's outstanding shares of voting stock, respectively. Pursuant to an amendment to Genco's \$1.4 billion credit facility entered into on August 1, 2012, all of the Company's Class B stock is pledged as security for Genco's obligations under such facility.

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ), which includes the accounts of Baltic Trading and its wholly-owned ship-owning subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

#### Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and the rules and regulation of the Securities and Exchange Commission (the SEC ). In the

Table of Contents

opinion of management of the Company, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and operating results have been included in the statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 10-K). The results of operations for the three and six month periods ended June 30, 2012 and 2011 are not necessarily indicative of the operating results for the full year.

Vessels, net

Vessels, net is stated at cost less accumulated depreciation. Included in vessel costs are acquisition costs directly attributable to the acquisition of a vessel and expenditures made to prepare the vessel for its initial voyage. The Company also capitalizes interest costs for a vessel under construction as a cost which is directly attributable to the acquisition of a vessel. Vessels are depreciated on a straight-line basis over their estimated useful lives, determined to be 25 years from the date of initial delivery from the shipyard. Depreciation expense for vessels for the three months ended June 30, 2012 and 2011 was \$3,679 and \$3,679, respectively. Depreciation expense for vessels for the six months ended June 30, 2012 and 2011 was \$7,359 and \$7,314, respectively.

Depreciation expense is calculated based on cost less the estimated residual scrap value. The costs of significant replacements, renewals and betterments are capitalized and depreciated over the shorter of the vessel's remaining estimated useful life or the estimated life of the renewal or betterment. Undepreciated cost of any asset component being replaced that was acquired after the initial vessel purchase is written off as a component of vessel operating expense. Expenditures for routine maintenance and repairs are expensed as incurred. Scrap value is estimated by the Company by taking the estimated scrap value of \$245/lwt multiplied by the weight of the ship in lightweight tons (lwt).

Fixed assets, net

Fixed assets, net are stated at cost less accumulated depreciation. Depreciation expense is based on a straight line basis over the estimated useful life of the specific asset placed in service. The following table is used in determining the typical estimated useful lives:

Description	Useful lives
Computer equipment	3 years
Vessel equipment	2-15 years

Voyage expense recognition

In spot market-related time charters and time charters, operating costs including crews, maintenance and insurance are typically paid by the owner of the vessel and specified voyage costs such as fuel and port charges are paid by the charterer. There are certain other non-specified voyage expenses such as commissions which are typically borne by the Company. At the inception of a spot market-related time charter or time charter, the Company records the difference between the cost of bunker fuel delivered by the terminating charterer and the bunker fuel sold to

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

the new charterer as a gain or loss within voyage expenses. These differences in bunkers resulted in net gains of \$73 and \$518 during the three months ended June 30, 2012 and 2011, respectively, and \$73 and \$521 during the six months ended June 30, 2012 and 2011, respectively.

### Income taxes

The Company is incorporated in the Marshall Islands. Pursuant to the income tax laws of the Marshall Islands, the Company is not subject to Marshall Islands income tax. During the three months ended June 30, 2012 and 2011, the Company had United States operations which resulted in United States source income of \$755 and \$1,394, respectively. The Company's estimated United States income tax expense for the three months ended June 30, 2012 and 2011 was \$15 and \$28, respectively. Additionally, during the six months ended June 30, 2012 and 2011, the Company had United States operations which resulted in United States source income of \$1,121 and \$2,457, respectively. The Company's estimated United States income tax expense for the six months ended June 30, 2012 and 2011 was \$22 and \$23, respectively.

### Deferred revenue

Deferred revenue primarily relates to cash received from charterers prior to it being earned. These amounts are recognized as revenue when earned. Additionally, deferred revenue includes estimated customer claims mainly due to time charter performance issues. As of June 30, 2012 and December 31, 2011, the Company had an accrual of \$13 and \$2, respectively, related to these estimated customer claims.

Table of Contents

Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement ( ASU 2011-04 ), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This standard was effective for interim and annual periods beginning after December 15, 2011 and has been applied on a prospective basis. The Company has adopted ASU 2011-04 and the impact of adoption is not material to the Company's condensed consolidated financial statements.

3 - CASH FLOW INFORMATION

For the six months ended June 30, 2012, the Company did not have any non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses.

For the six months ended June 30, 2011, the Company had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses of \$584 for the purchase of vessels, including deposits.

During the six months ended June 30, 2012 and 2011, cash paid for interest, net of amounts capitalized, was \$1,907 and \$1,992, respectively.

During the six months ended June 30, 2012 and 2011, cash paid for estimated income taxes was \$12 and \$51, respectively.

On May 12, 2011, the Company made grants of nonvested common stock in the amount of 12,500 shares in the aggregate to directors of the Company. The fair value of such nonvested stock was \$87. These shares vested on May 17, 2012.

On May 17, 2012, the Company made grants of nonvested common stock in the amount of 12,500 shares in the aggregate to directors of the Company. The fair value of such nonvested stock was \$48.

4 - NET LOSS PER COMMON AND CLASS B SHARE

The computation of net (loss) income per share of common stock and Class B shares is in accordance with the Accounting Standards Codification ( ASC ) 260 Earnings Per Share ( ASC 260 ), using the two-class method. Under these provisions, basic net (loss) income per share

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

is computed using the weighted-average number of common shares and Class B shares outstanding during the year, except that it does not include nonvested stock awards subject to repurchase or cancellation. Diluted net (loss) income per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of nonvested stock awards (see Note 13 Nonvested Stock Awards) for the common shares, for which the assumed proceeds upon vesting are deemed to be the amount of compensation cost attributable to future services and not yet recognized using the treasury stock method, to the extent dilutive. Of the 429,250 nonvested shares outstanding at June 30, 2012 (see Note 13 Nonvested Stock Awards), all are anti-dilutive. The computation of the diluted net (loss) income per share of common stock assumes the conversion of Class B shares, while the diluted net (loss) income per share of Class B stock does not assume the conversion of those shares.

Edgar Filing: Baltic Trading Ltd - Form 10-Q

Table of Contents

The following table sets forth the computation of basic and diluted net loss per share of common stock and Class B stock:

	<b>Three Months Ended June 30, 2012</b>	
	<b>Common</b>	<b>Class B</b>
<b>Basic net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (2,725)	\$ (936)
<b>Denominator:</b>		
Weighted-average shares outstanding, basic	16,577,931	5,699,088
Basic net loss per share	\$ (0.16)	\$ (0.16)
<b>Diluted net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (2,725)	\$ (936)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(1,221)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	285	
Allocation of loss	\$ (3,661)	\$ (936)
<b>Denominator:</b>		
Weighted-average shares outstanding used in basic computation	16,577,931	5,699,088
<b>Add:</b>		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,277,019	5,699,088
Diluted net loss per share	\$ (0.16)	\$ (0.16)

	<b>Three Months Ended June 30, 2011</b>	
	<b>Common</b>	<b>Class B</b>
<b>Basic net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (262)	\$ (91)
<b>Denominator:</b>		
Weighted-average shares outstanding, basic	16,429,000	5,699,088
Basic net loss per share	\$ (0.02)	\$ (0.02)
<b>Diluted net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (262)	\$ (91)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(433)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	342	
Allocation of loss	\$ (353)	\$ (91)
<b>Denominator:</b>		
Weighted-average shares outstanding used in basic computation	16,429,000	5,699,088
<b>Add:</b>		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,128,088	5,699,088

Edgar Filing: Baltic Trading Ltd - Form 10-Q

Diluted net loss per share	\$	(0.02)	\$	(0.02)
----------------------------	----	--------	----	--------



Edgar Filing: Baltic Trading Ltd - Form 10-Q

Table of Contents

	<b>Six Months Ended June 30, 2012</b>	
	<b>Common</b>	<b>Class B</b>
<b>Basic net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (6,039)	\$ (2,082)
<b>Denominator:</b>		
Weighted-average shares outstanding, basic	16,527,473	5,699,088
Basic net loss per share	\$ (0.37)	\$ (0.37)
<b>Diluted net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (6,039)	\$ (2,082)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(3,108)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	1,026	
Allocation of loss	\$ (8,121)	\$ (2,082)
<b>Denominator:</b>		
Weighted-average shares outstanding used in basic computation	16,527,473	5,699,088
<b>Add:</b>		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,226,561	5,699,088
Diluted net loss per share	\$ (0.37)	\$ (0.37)

	<b>Six Months Ended June 30, 2011</b>	
	<b>Common</b>	<b>Class B</b>
<b>Basic net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (1,518)	\$ (528)
<b>Denominator:</b>		
Weighted-average shares outstanding, basic	16,376,972	5,699,088
Basic net loss per share	\$ (0.09)	\$ (0.09)
<b>Diluted net loss per share:</b>		
<b>Numerator:</b>		
Allocation of loss	\$ (1,518)	\$ (528)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(1,839)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	1,311	
Allocation of loss	\$ (2,046)	\$ (528)
<b>Denominator:</b>		
Weighted-average shares outstanding used in basic computation	16,376,972	5,699,088
<b>Add:</b>		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,076,060	5,699,088
Diluted net loss per share	\$ (0.09)	\$ (0.09)



Table of Contents

5 - RELATED PARTY TRANSACTIONS

The following include related party transactions not disclosed elsewhere in these condensed consolidated financial statements. Due to Parent, Voyage expenses to Parent and Management fees to Parent have been disclosed above in these condensed consolidated financial statements.

During 2010, the Company entered into an agreement with Aegean Marine Petroleum Network, Inc. ( Aegean ) to purchase lubricating oils for certain vessels in the Company s fleet. Peter C. Georgiopoulos, Chairman of the Board of the Company, is also the Chairman of the Board of Aegean. During the six months ended June 30, 2012 and 2011, Aegean supplied lubricating oils to the Company s vessels aggregating \$320 and \$401, respectively. At June 30, 2012 and December 31, 2011, \$52 and \$101 remained outstanding to Aegean, respectively.

During the six months ended June 30, 2012 and 2011, the Company incurred other expenses totaling \$1 and \$3, respectively, reimbursable to General Maritime Corporation ( GMC ), where the Company s Chairman, Peter C. Georgiopoulos, also serves as Chairman of the Board of GMC. At June 30, 2012 and December 31, 2011, the amount due to GMC from the Company was \$0.

The Company receives internal audit services from employees of Genco, the Company s Parent. For the six months ended June 30, 2012 and 2011, the Company incurred internal audit service fees of \$22 and \$11, respectively, which are reimbursable to Genco pursuant to the Management Agreement (Refer to Note 15 Commitments and Contingencies for further information regarding the Management Agreement). At June 30, 2012 and December 31, 2011, the amount due to Genco from the Company was \$7 and \$11, respectively, for such services and is included in due to Parent.

During the six months ended June 30, 2012 and 2011, Genco, the Company s parent, incurred costs of \$20 and \$48 on the Company s behalf to be reimbursed to Genco pursuant to the Management Agreement. At June 30, 2012 and December 31, 2011, the amount due to Genco from the Company was \$9 and \$1, respectively, and is included in due to Parent.

Genco also provides the Company with commercial, technical, administrative and strategic services pursuant to the Management Agreement. During the six months ended June 30, 2012 and 2011, the Company incurred costs of \$1,407 and \$1,472 pursuant to the Management Agreement. At June 30, 2012, the amount due to Genco of \$32 consisted of commercial service fees and is included in due to Parent. At December 31, 2011, the amount due to Genco of \$47 consisted of commercial service fees and is included in due to Parent.

6 - DEBT

On April 16, 2010, the Company entered into a \$100,000 senior secured revolving credit facility with Nordea Bank Finland plc, acting through its New York branch (as amended, the 2010 Credit Facility ). The Company entered into an amendment to this facility effective November 30, 2010 which, among other things, increased the commitment amount from \$100,000 to \$150,000. As of June 30, 2012, total available working capital borrowings were \$23,500, as \$1,500 was drawn down during 2010 for working capital purposes. As of June 30, 2012, \$33,750 remained available under the 2010 Credit Facility, as the total commitment under this facility was reduced to \$135,000 on May 31, 2012. The total commitment will reduce in 11 consecutive semi-annual reductions of \$5,000 which commenced on May 31, 2011. On the maturity date,

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

November 30, 2016, the total commitment will reduce to zero and all borrowings must be repaid in full.

As of June 30, 2012, the Company believes it is in compliance with all of the financial covenants under the 2010 Credit Facility.

The following table sets forth the repayment of the outstanding debt of \$101,250 at June 30, 2012 under the 2010 Credit Facility:

<b>Period Ending December 31,</b>	<b>Total</b>
2012 (July 1, 2012 - December 31, 2012)	\$
2013	
2014	
2015	1,250
2016	100,000
<b>Total debt</b>	<b>\$ 101,250</b>

Table of ContentsInterest rates

The following table sets forth the effective interest rate associated with the interest expense for the 2010 Credit Facility, excluding the cost associated with unused commitment fees. Additionally, it includes the range of interest rates on the debt, excluding the impact of unused commitment fees:

	Three months ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Effective Interest Rate (excluding impact of unused commitment fees)	3.24%	3.29%	3.25%	3.30%
Range of Interest Rates (excluding impact of unused commitment fees)	3.24% to 3.25%	3.25% to 3.31%	3.24% to 3.30%	3.25% to 3.31%

7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values and carrying values of the Company's financial instruments at June 30, 2012 and December 31, 2011 which are required to be disclosed at fair value, but not recorded at fair value, are as follows:

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 4,423	\$ 4,423	\$ 8,300	\$ 8,300
Floating rate debt	101,250	101,250	101,250	101,250

The fair value of floating rate debt under the 2010 Credit Facility is based on management's estimate of rates the Company could obtain for similar debt of the same remaining maturities. Additionally, the Company considers its creditworthiness in determining the fair value of the floating rate debt under the revolving credit facility. The carrying value approximates the fair market value for this floating rate loan. The carrying amounts of the Company's other financial instruments at June 30, 2012 and December 31, 2011 (principally Due from charterers and Accounts payable and accrued expenses), approximate fair values because of the relatively short maturity of these instruments.

ASC Subtopic 820-10, Fair Value Measurements & Disclosures (ASC 820-10), applies to all assets and liabilities that are being measured and reported on a fair value basis. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Cash and cash equivalents is considered a Level 1 item as it represents liquid assets with short-term maturities. Floating rate debt is considered to be a Level 2 item as the Company considers the estimate of rates it could obtain for similar debt.

### 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	June 30, 2012	December 31, 2011
Lubricant inventory, fuel oil and diesel oil inventory and other stores	\$ 1,583	\$ 1,603
Prepaid items	1,014	730
Insurance receivable	5	16
Other	46	118
Total	\$ 2,648	\$ 2,467

Table of Contents9 - DEFERRED FINANCING COSTS

The Company has unamortized deferred financing costs of \$2,058 and \$2,290 at June 30, 2012 and December 31, 2011, respectively, associated with the 2010 Credit Facility. Accumulated amortization of deferred financing costs as of June 30, 2012 and December 31, 2011 was \$969 and \$737, respectively. The Company has incurred deferred financing costs of \$3,027 for the existing 2010 Credit Facility as of June 30, 2012 and December 31, 2011, which includes fees incurred in order to negotiate the amendment to the 2010 Credit Facility. Amortization expense of deferred financing costs for the three months ended June 30, 2012 and 2011 was \$116 and \$121, respectively. Amortization expense of deferred financing costs for the six months ended June 30, 2012 and 2011 was \$232 and \$232, respectively.

10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	June 30, 2012	December 31, 2011
Accounts payable	\$ 780	\$ 447
Accrued vessel operating expenses	1,368	1,442
Accrued general and administrative expenses	116	83
<b>Total</b>	<b>\$ 2,264</b>	<b>\$ 1,972</b>

11 - FIXED ASSETS

Fixed assets consist of the following:

	June 30, 2012	December 31, 2011
Fixed assets:		
Computer equipment, at cost	\$ 43	\$ 43
Vessel equipment, at cost	5	
Total cost	48	43
Less: accumulated depreciation	28	20
<b>Total</b>	<b>\$ 20</b>	<b>\$ 23</b>

Depreciation expense for fixed assets for the three months ended June 30, 2012 and 2011 was \$4 and \$5, respectively. Depreciation expense for fixed assets for the six months ended June 30, 2012 and 2011 was \$8 and \$7, respectively.

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

### 12 - REVENUE FROM SPOT MARKET-RELATED TIME CHARTERS

Total revenue earned on spot market-related time charters and the short-term time charters for the Baltic Leopard and Baltic Jaguar for the three and six months ended June 30, 2012 was \$7,603 and \$13,897, respectively. Total revenue earned on spot market-related time charters and the short-term time charter for the Baltic Leopard for the three and six months ended June 30, 2011 was \$9,914 and \$19,458, respectively. Future minimum time charter revenue based on the Baltic Leopard and Baltic Jaguar, which are committed to a noncancelable short-term time charters as of June 30, 2012, is expected to be \$788 for the remainder of 2012. Future minimum time charter revenue for the remaining vessels cannot be estimated as these vessels are currently on spot market-related time charters, and future spot rates cannot be estimated. The spot market-related time charters that the Company's vessels are currently employed on have estimated expiration dates that range from August 2012 to July 2014.

### 13 - NONVESTED STOCK AWARDS

The following table presents a summary of the Company's nonvested stock awards for the six months ended June 30, 2012:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Price</b>
Outstanding at January 1, 2012	545,750	\$ 11.60
Granted	12,500	3.86
Vested	(129,000)	13.31
Forfeited		
Outstanding at June 30, 2012	429,250	\$ 10.86



## Edgar Filing: Baltic Trading Ltd - Form 10-Q

### Table of Contents

The total fair value of shares that vested under the Plan during the six months ended June 30, 2012 and 2011 was \$505 and \$1,131, respectively. The total fair value is calculated as the number of shares vested during the period multiplied by the fair value on the vesting date.

For the three and six months ended June 30, 2012 and 2011, the Company recognized nonvested stock amortization expense for the Plan, which is included in general, administrative and technical management fees, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
General, administrative and technical management fees	\$ 402	\$ 606	\$ 974	\$ 1,551

The Company is amortizing these grants over the applicable vesting periods, net of anticipated forfeitures. As of June 30, 2012, unrecognized future compensation cost of \$1,836 related to nonvested stock will be recognized over a weighted-average period of 2.21 years.

### 14 - LEGAL PROCEEDINGS

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of its business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material effect on the Company, its financial condition, results of operations or cash flows.

### 15 - COMMITMENTS AND CONTINGENCIES

Genco, the Company's parent, provides the Company with commercial, technical, administrative and strategic services necessary to support the Company's business pursuant to the Company's Management Agreement with Genco. If the Company terminates the agreement without cause or for Genco's change of control, or if Genco terminates the agreement for the Company's material breach or change of control, the Company must make a termination payment to Genco in a single lump sum within 30 days of the termination date. The termination payment is generally calculated as five times the average annual management fees payable to Genco for the last five completed years of the term of the Management Agreement, or such lesser number of years as may have been completed at the time of termination. As of June 30, 2012, the termination payment that would be due to Genco is approximately \$22,717. Refer to Note 5 - Related Party Transactions for any costs incurred during the six months ended June 30, 2012 and 2011 pursuant to the Management Agreement.

### 16 - SUBSEQUENT EVENTS

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

On July 26, 2012, the Company declared a dividend of \$0.05 per share to be paid on or about August 22, 2012 to shareholders of record as of August 15, 2012. The aggregate amount of the dividend is expected to be approximately \$1.1 million, which the Company anticipates will be funded from cash on hand at the time payment is to be made.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements use words such as anticipate, estimate, expect, project, intend, plan, believe, and other words of similar meaning in connection with a discussion of potential future events, circumstances or future operating or financial performance. These forward-looking statements are based on management's current expectations and observations. Included among the factors that, in our view, could cause actual results to differ materially from the forward looking statements contained in this report are the following: (i) declines in demand or rates in the drybulk shipping industry; (ii) prolonged weakness in drybulk shipping rates; (iii) changes in the supply of or demand for drybulk products, generally or in particular regions; (iv) changes in the supply of drybulk carriers, including newbuilding of vessels or lower than anticipated scrapping of older vessels; (v) changes in rules and regulations applicable to the cargo industry, including, without limitation, legislation adopted by international organizations or by individual countries and actions taken by regulatory authorities; (vi) increases in costs and expenses including but not limited to: crew wages, insurance, provisions, lube oil, bunkers, repairs, maintenance and general, administrative and management fee expenses; (vii) whether our insurance arrangements are adequate; (viii) changes in general

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

### Table of Contents

domestic and international political conditions; (ix) acts of war, terrorism, or piracy; (x) changes in the condition of our vessels or applicable maintenance or regulatory standards (which may affect, among other things, our anticipated drydocking or maintenance and repair costs) and unanticipated drydock expenditures; (xi) the amount of offhire time needed to complete repairs on vessels and the timing and amount of any reimbursement by our insurance carriers for insurance claims, including offhire days; (xii) our acquisition or disposition of vessels, (xiii) our ability to leverage Genco's relationships and reputation in the shipping industry; (xiv) the completion of definitive documentation with respect to charters; (xv) charterers' compliance with the terms of their charters in the current market environment; and other factors listed from time to time in our filings with the Securities and Exchange Commission, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2011 and subsequent reports on Form 8-K and Form 10-Q. Our ability to pay dividends in any period will depend upon various factors, including the limitations under any credit agreements to which we may be a party, applicable provisions of Marshall Islands law and the final determination by the Board of Directors each quarter after its review of our financial performance. The timing and amount of dividends, if any, could also be affected by factors affecting cash flows, results of operations, required capital expenditures, or reserves. As a result, the amount of dividends actually paid may vary.

The following management's discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes included in this Form 10-Q.

### General

We are a New York City-based company incorporated in October 2009 in the Marshall Islands to conduct a shipping business focused on the drybulk industry spot market. We were formed by Genco Shipping & Trading Limited (NYSE: GNK) ( "Genco" ), an international drybulk shipping company that also serves as our Manager. Our fleet currently consists of two Capesize vessels, four Supramax vessels and three Handysize vessels with an aggregate carrying capacity of approximately 672,000 dwt and the average age of our fleet is approximately 2.6 years, as compared to the average age for the world fleet of approximately 11 years for the drybulk shipping segments in which we compete. Our fleet contains three groups of sister ships, which are vessels of virtually identical sizes and specifications. We believe that maintaining a fleet that includes sister ships reduces costs by creating economies of scale in the maintenance, supply and crewing of our vessels.

We seek to leverage the expertise and reputation of Genco to pursue growth opportunities in the drybulk shipping spot market. To pursue these opportunities, we operate a fleet of drybulk ships that transport iron ore, coal, grain, steel products and other drybulk cargoes along worldwide shipping routes. We plan to operate all of our vessels in the spot market, on spot market-related time charters, or in vessel pools trading in the spot market. We have financed our fleet primarily with equity capital and have financed the remainder with our 2010 Credit Facility. We aim to grow our fleet through timely and selective acquisitions of vessels in a manner that is accretive to our earnings and cash flow. We intend to distribute to our shareholders on a quarterly basis all of our net income less cash expenditures for capital items related to our fleet, other than vessel acquisitions and related expenses, plus non-cash compensation, during the previous quarter, subject to any additional reserves our Board of Directors may from time to time determine are required for the prudent conduct of our business, as further described below under "Dividend Policy."

Refer to page 20 for a table of all vessels that have been delivered to us.

Our operations are managed, under the supervision of our Board of Directors, by Genco as our Manager. We entered into a long-term management agreement (the "Management Agreement") pursuant to which our Manager and its affiliates apply their expertise and experience in the drybulk industry to provide us with commercial, technical, administrative and strategic services. The Management Agreement is for an

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

initial term of approximately fifteen years and will automatically renew for additional five-year periods unless terminated in accordance with its terms. We pay our Manager fees for the services it provides us as well as reimburse our Manager for its costs and expenses incurred in providing certain of these services.

### **Factors Affecting Our Results of Operations**

We believe that the following table reflects important measures for analyzing trends in our results of operations. The table reflects our ownership days, available days, operating days, fleet utilization, Time Charter Equivalent ( TCE ) rates and daily vessel operating expenses for the three and six months ended June 30, 2012 and 2011.

Edgar Filing: Baltic Trading Ltd - Form 10-Q

Table of Contents

	For the Three Months Ended June 30,		Increase	% Change
	2012	2011	(Decrease)	
<b>Fleet Data:</b>				
<i>Ownership days (1)</i>				
Capesize	182.0	182.0		
Supramax	364.0	364.0		
Handysize	273.0	273.0		
Total	819.0	819.0		
<i>Available days (2)</i>				
Capesize	182.0	182.0		
Supramax	354.7	364.0	(9.3)	(2.6)%
Handysize	273.0	273.0		
Total	809.7	819.0	(9.3)	(1.1)%
<i>Operating days (3)</i>				
Capesize	182.0	182.0		
Supramax	347.2	360.6	(13.4)	(3.7)%
Handysize	273.0	273.0		
Total	802.2	815.6	(13.4)	(1.6)%
<i>Fleet utilization (4)</i>				
Capesize	100.0%	100.0%		
Supramax	97.9%	99.1%	(1.2)%	(1.2)%
Handysize	100.0%	100.0%		
Fleet average	99.1%	99.6%	(0.5)%	(0.5)%
<b>Average Daily Results:</b>				
<i>Time Charter Equivalent (5)</i>				
Capesize	\$ 5,918	\$ 9,536	\$ (3,618)	(37.9)%
Supramax	9,759	13,807	(4,048)	(29.3)%
Handysize	9,480	12,502	(3,022)	(24.2)%
Fleet average	8,802	12,423	(3,621)	(29.1)%
<i>Daily vessel operating expenses (6)</i>				
Capesize	\$ 4,952	\$ 5,193	\$ (241)	(4.6)%
Supramax	5,505	4,749	756	15.9%
Handysize	5,001	4,053	948	23.4%
Fleet average	5,214	4,615	599	13.0%

	For the Six Months Ended June 30,		Increase	% Change
	2012	2011	(Decrease)	
<b>Fleet Data:</b>				
<i>Ownership days (1)</i>				
Capesize	364.0	362.0	2.0	0.6%
Supramax	728.0	724.0	4.0	0.6%
Handysize	546.0	543.0	3.0	0.6%
Total	1,638.0	1,629.0	9.0	0.6%

Edgar Filing: Baltic Trading Ltd - Form 10-Q

<i>Available days (2)</i>				
Capesize	364.0	362.0	2.0	0.6%
Supramax	718.7	724.0	(5.3)	(0.7)%
Handysize	546.0	543.0	3.0	0.6%
Total	1,628.7	1,629.0	(0.3)	
<i>Operating days (3)</i>				
Capesize	364.0	362.0	2.0	0.6%
Supramax	708.3	719.7	(11.4)	(1.6)%
Handysize	544.4	543.0	1.4	0.3%
Total	1,616.7	1,624.7	(8.0)	(0.5)%
<i>Fleet utilization (4)</i>				
Capesize	100.0%	100.0%		
Supramax	98.6%	99.4%	(0.8)%	(0.8)%
Handysize	99.7%	100.0%	(0.3)%	(0.3)%
Fleet average	99.3%	99.7%	(0.4)%	(0.4)%
<b>Average Daily Results:</b>				
<i>Time Charter Equivalent (5)</i>				
Capesize	\$ 6,238	\$ 8,820	\$ (2,582)	(29.3)%
Supramax	8,852	13,484	(4,632)	(34.4)%
Handysize	8,524	12,077	(3,553)	(29.4)%
Fleet average	8,158	11,979	(3,821)	(31.9)%
<i>Daily vessel operating expenses (6)</i>				
Capesize	\$ 5,047	\$ 5,089	\$ (42)	(0.8)%
Supramax	5,277	5,033	244	4.8%
Handysize	4,603	4,089	514	12.6%
Fleet average	5,001	4,731	270	5.7%

Table of Contents

**Definitions**

In order to understand our discussion of our results of operations, it is important to understand the meaning of the following terms used in our analysis and the factors that influence our results of operations.

(1) Ownership days. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

(2) Available days. We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels between time charters. Companies in the shipping industry generally use available days to measure the number of days in a period during which vessels should be capable of generating revenues.

(3) Operating days. We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

(4) Fleet utilization. We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the number of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning.

(5) TCE rates. We define TCE rates as net voyage revenue (voyage revenues less voyage expenses (including voyage expenses to Parent)) divided by the number of our available days during the period, which is consistent with industry standards. TCE rate is a common shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charterhire rates for vessels on voyage charters are generally not expressed in per-day amounts while charterhire rates for vessels on time charters generally are expressed in such amounts.

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Voyage revenues (in thousands)	\$ 7,603	\$ 9,914	\$ 13,897	\$ 19,458
Voyage expenses (in thousands)	379	(388)	432	(306)
Voyage expenses to Parent (in thousands)	97	128	178	250
	\$ 7,127	\$ 10,174	13,287	\$ 19,514
Total available days	809.7	819.0	1,628.7	1,629.0
Total TCE rate	\$ 8,802	\$ 12,423	\$ 8,158	\$ 11,979

(6) Daily vessel operating expenses. We define daily vessel operating expenses ( DVOE ) as vessel operating expenses divided by ownership days for the period. Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance (excluding drydocking), the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses.



Table of Contents**Operating Data**

The following discusses our financial results for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended June 30,		Change	% Change
	2012	2011		
	(U.S. dollars in thousands, except for per share amounts)			
Revenues	\$ 7,603	\$ 9,914	\$ (2,311)	(23.3)%
<i>Operating Expenses:</i>				
Voyage expenses	379	(388)	767	(197.7)%
Voyage expenses to Parent	97	128	(31)	(24.2)%
Vessel operating expenses	4,270	3,780	490	13.0%
General, administrative and technical management fees	1,146	1,294	(148)	(11.4)%
Management fees to Parent	614	614		
Depreciation	3,683	3,684	(1)	
Total operating expenses	10,189	9,112	1,077	11.8%
Operating (loss) income	(2,586)	802	(3,388)	(422.4)%
Other expense	(1,060)	(1,127)	67	(5.9)%
Loss before income taxes	(3,646)	(325)	(3,321)	1,021.8%
Income tax expense	(15)	(28)	13	(46.4)%
Net loss	\$ (3,661)	\$ (353)	\$ (3,308)	937.1%
Net loss per share of common and Class B Stock:				
Net loss per share - basic	\$ (0.16)	\$ (0.02)	\$ (0.14)	700.0%
Net loss per share - diluted	\$ (0.16)	\$ (0.02)	\$ (0.14)	700.0%
Dividends declared and paid per share	\$ 0.05	\$ 0.06	\$ (0.01)	(16.7)%
EBITDA (1)	\$ 1,098	\$ 4,470	\$ (3,372)	(75.4)%

	For the Six Months Ended June 30,		Change	% Change
	2012	2011		
	(U.S. dollars in thousands, except for per share amounts)			
Revenues	\$ 13,897	\$ 19,458	\$ (5,561)	(28.6)%
<i>Operating Expenses:</i>				
Voyage expenses	432	(306)	738	(241.2)%
Voyage expenses to Parent	178	250	(72)	(28.8)%
Vessel operating expenses	8,192	7,707	485	6.3%
General, administrative and technical management fees	2,456	3,046	(590)	(19.4)%
Management fees to Parent	1,229	1,222	7	0.6%
Depreciation	7,367	7,321	46	0.6%
Total operating expenses	19,854	19,240	614	3.2%
Operating (loss) income	(5,957)	218	(6,175)	(2,832.6)%

Edgar Filing: Baltic Trading Ltd - Form 10-Q

Other expense	(2,142)	(2,241)	99	(4.4)%
Loss before income taxes	(8,099)	(2,023)	(6,076)	300.3%
Income tax expense	(22)	(23)	1	(4.3)%
Net loss	\$ (8,121)	\$ (2,046)	\$ (6,075)	296.9%
Net loss per share of common and Class B Stock:				
Net loss per share - basic	\$ (0.37)	\$ (0.09)	\$ (0.28)	311.1%
Net loss per share - diluted	\$ (0.37)	\$ (0.09)	\$ (0.28)	311.1%
Dividends declared and paid per share	\$ 0.18	\$ 0.23	\$ (0.05)	(21.7)%
EBITDA (1)	\$ 1,403	\$ 7,505	\$ (6,102)	(81.3)%

Table of Contents

(1) EBITDA represents net income (loss) plus net interest expense, taxes and depreciation. EBITDA is included because it is used by management and certain investors as a measure of operating performance. EBITDA is used by analysts in the shipping industry as a common performance measure to compare results across peers. Our management uses EBITDA as a performance measure in our consolidated internal financial statements, and it is presented for review at our board meetings. We believe that EBITDA is useful to investors as the shipping industry is capital intensive which often results in significant depreciation and cost of financing. EBITDA presents investors with a measure in addition to net income (loss) to evaluate our performance prior to these costs. EBITDA is not an item recognized by U.S. GAAP and should not be considered as an alternative to net income (loss), operating income or any other indicator of a company's operating performance required by U.S. GAAP. EBITDA is not a measure of liquidity or cash flows as shown in our consolidated statement of cash flows. The definition of EBITDA used here may not be comparable to that used by other companies. The following table demonstrates our calculation of EBITDA and provides a reconciliation of EBITDA to net income (loss) for each of the periods presented above:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Net loss	\$ (3,661)	\$ (353)	\$ (8,121)	\$ (2,046)
Net interest expense	1,061	1,111	2,135	2,207
Income tax expense	15	28	22	23
Depreciation	3,683	3,684	7,367	7,321
EBITDA (1)	\$ 1,098	\$ 4,470	\$ 1,403	\$ 7,505

**Results of Operations**

We began earning revenues during the three months ended June 30, 2010, since our first vessel was delivered in the second quarter of 2010. Beginning with the second quarter of 2010, our revenues following the delivery of our first vessel have consisted primarily of charterhire. Our ongoing cash expenses consist of fees and reimbursements under our Management Agreement and other expenses directly related to the operation of our vessels and certain administrative expenses. We do not expect to have any income tax liabilities in the Marshall Islands but may be subject to tax in the United States on revenues derived from voyages that either begin or end in the United States. We have accrued for estimated taxes from these voyages at June 30, 2012 and December 31, 2011.

We expect that our financial results will be largely driven by the following factors:

- the number of vessels in our fleet and their charter rates;
- the number of days that our vessels are utilized and not subject to drydocking, special surveys or otherwise off-hire; and
- our ability to control our fixed and variable expenses, including our ship management fees, our operating costs and our general, administrative and other expenses, including insurance. Operating costs may vary from month to month depending on a number of factors, including the timing of purchases of lube oil, crew changes and delivery of spare parts.



## Edgar Filing: Baltic Trading Ltd - Form 10-Q

### Table of Contents

The following table reflects the current employment of our fleet as of August 2, 2012:

Vessel	Year Built	Charterer	Charter Expiration (1)	Employment Structure
<i>Capesize Vessels</i>				
Baltic Bear	2010	Swissmarine Services S.A.	May 2013	101.5% of BCI (2)
Baltic Wolf	2010	Cargill International S.A.	September 2012	100% of BCI (3)
<i>Supramax Vessels</i>				
Baltic Leopard	2009	D/S Norden/Resource Marine PTE Ltd. (part of the Macquarie group of companies)	August 2012/February 2014	\$10,050/95% of BSI (4)
Baltic Panther	2009	Klaveness Chartering	April 2013	95% of BSI (5)
Baltic Jaguar	2009	Resource Marine PTE Ltd. (part of the Macquarie group of companies)	April 2014	95% of BSI (6)
Baltic Cougar	2009	AMN Bulkcarriers Inc.	August 2012	96% of BSI (7)
<i>Handysize Vessels</i>				
Baltic Wind	2009	Cargill International S.A.	May 2013	115% of BHSI (8)
Baltic Cove	2010	Cargill International S.A.	February 2014	115% of BHSI (8)
Baltic Breeze	2010	Cargill International S.A.	July 2014	115% of BHSI (8)

(1) The charter expiration dates presented represent the earliest dates that our charters may be terminated in the ordinary course. Under the terms of each contract, the charterer is entitled to extend the time charters from two to four months in order to complete the vessel's final voyage plus any time the vessel has been off-hire.

(2) We have agreed to an extension with Swissmarine Services S.A. on a spot market-related time charter at a rate based on 101.5% of the average of the daily rates of the Baltic Capesize Index (BCI), published by the Baltic Exchange, as reflected in daily reports. Hire is paid in arrears net of a 6.25% brokerage commission which includes the 1.25% commission payable to Genco. The duration of the extension is 10.5 to 13.5 months.

(3) We have agreed to an extension with Cargill International S.A., on a spot market-related time charter based on 100% of the average of the daily rates of the BCI, as reflected in daily reports. Hire is paid every 15 days in arrears net of a 5.00% brokerage commission, which includes the 1.25% commission payable to Genco. The duration of the spot market-related time charter is 11 to 13.5 months.

(4) We have reached an agreement with Resource Marine PTE Ltd. on a spot market-related time charter for a minimum of 18.5 months to a maximum end date of May 30, 2014 based on 95% of the Baltic Supramax Index (BSI), published by the Baltic Exchange, as reflected in daily reports except for the initial 65 days in which the vessel will earn a fixed rate of \$4,000 per day. Hire is paid every 15 days in arrears net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco. The vessel will deliver to charterers on or about August 10, 2012. The vessel is currently on a time charter with D/S Norden earning a fixed rate of \$10,050 per day.

(5) We have reached an agreement with Klaveness Chartering on a spot market-related time charter based on 95% of the average of the daily rates of the BSI, as reflected in daily reports. The duration is 22.5 to 25.5 months with hire paid every 15 days in arrears net of a 6.25%

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

brokerage commission, which includes the 1.25% commission payable to Genco.

(6) We have reached an agreement with Resource Marine PTE Ltd. on a spot market-related time charter for a minimum of 20.5 months to a maximum end date of July 11, 2014 based on 95% of the average of the daily rates of the BSI, as reflected in daily reports, except for the initial 65 days in which the vessel will earn a fixed rate of \$4,000 per day. Hire is paid every 15 days in arrears net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco. The vessel was delivered to charterers on July 23, 2012 after repositioning. The vessel was previously fixed with Oldendorff GMBH & Co. at a rate of \$10,250 per day until July 16, 2012.

(7) We have agreed to an extension with AMN Bulkcarriers Inc. on a spot market-related time charter based on 96% of the average of the daily rates of the BSI, as reflected in daily reports. Hire is paid every 15 days in arrears net of a 5.00% brokerage commission, which includes the 1.25% commission payable to Genco. The duration of the spot market-related time charter is 11 to 13.5 months.

Table of Contents

(8) The rate for each of the spot market-related time charters is based on 115% of the average of the daily rates of the Baltic Handysize Index (BHSI), published by the Baltic Exchange, as reflected in daily reports. Hire is paid every 15 days in advance net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco.

**Three months ended June 30, 2012 and 2011**

VOYAGE REVENUES-

For the three months ended June 30, 2012 and 2011, voyage revenues were \$7,603 and \$9,914, respectively. The decrease in voyage revenues was due to lower spot market rates achieved by our vessels during the second quarter of 2012.

The average TCE rate of our fleet was \$8,802 a day for the three months ended June 30, 2012 as compared to \$12,423 for the three months ended June 30, 2011. The decrease was due to lower spot rates achieved by the vessels in our fleet during the second quarter of 2012 as compared to the second quarter of 2011. Continued deliveries of newbuilding vessels coupled with lower growth rates of imported commodities in emerging market economies through the first half of 2012 were the main contributors of reduced rates, which affected the earnings of our vessels. The effect of these contributors was partially offset by increased scrapping of older tonnage.

For the three months ended June 30, 2012 and 2011, we had 819.0 ownership days during both periods. Fleet utilization decreased to 99.1% during the three months ended June 30, 2012 as compared to 99.6% during the three months ended June 30, 2011 due to additional offhire periods during the second quarter of 2012 for some of our Supramax vessels.

VOYAGE EXPENSES-

To the extent we operate our vessels on voyage charters in the spot market, we will be responsible for all voyage expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. We expect that our voyage expenses will vary depending on the number of vessels in our fleet and the extent to which we enter into voyage charters in the spot market as opposed to spot market-related time charters, trip charters or vessel pools, in which we would not be responsible for voyage expenses. At the inception of a spot market-related time charter, we record the difference between the cost of bunker fuel delivered by the terminating charterer and the bunker fuel sold to the new charterer as a gain or loss within voyage expenses.

For the three months ended June 30, 2012 and 2011, voyage expenses were \$379 and (\$388), respectively. The increase is primarily due to large gains recorded during the second quarter of 2011 which represented the difference between the costs of the bunker fuel delivered by the terminating charterer and the bunker fuel sold to the new charterer. During the second quarter of 2012, there was also bunker consumption recorded during the ballast leg of the time charter for the Baltic Jaguar which resulted in an increase in voyage expenses. This increase was partially offset by a decrease in broker commissions as a result of a decrease in voyage revenue earned during the second quarter of 2012 as compared to the second quarter of 2011.

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent decreased by \$31 to \$97 during the three months ended June 30, 2012 as compared to \$128 during the three months ended June 30, 2011. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The decrease was a result of the decrease in voyage revenue due to lower spot market rates achieved by our vessels during the second quarter of 2012.

VESSEL OPERATING EXPENSES-

Vessel operating expenses increased by \$490 during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 due to higher crew related expenses and the timing of purchases of spare parts.

Daily vessel operating expenses increased to \$5,214 per vessel per day during the three months ended June 30, 2012 from \$4,615 per vessel per day during the three months ended June 30, 2011. The increase in daily vessel operating expense was mainly due to higher crew related expense and the timing of purchases of spare parts. We believe daily vessel operating expenses are best measured for comparative purposes over a 12-month period in order to take into account all of the expenses that each vessel in our fleet will incur over a full year of operation. Our actual daily vessel operating expenses per vessel for the three months ended June 30, 2012 were \$86 below the budgeted rate of \$5,300 per vessel per day.



Table of Contents

Our vessel operating expenses, which generally represent fixed costs for each vessel, will increase if our fleet expands. Other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for crewing, lubes, and insurance, may also cause these expenses to increase.

GENERAL, ADMINISTRATIVE AND TECHNICAL MANAGEMENT FEES-

For the three months ended June 30, 2012 and 2011, general, administrative and technical management fees were \$1,146 and \$1,294, respectively. The decrease is primarily due to lower non-cash compensation. We incur management fees to third-party technical management companies for the day-to-day management of our vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies. Management fees did not fluctuate significantly during the second quarter of 2012 as compared to the second quarter of 2011.

MANAGEMENT FEES TO PARENT-

Management fees to Parent for the three months ended June 30, 2012 and 2011 remained stable at \$614 during both periods. This amount represents the technical services fees of \$750 per vessel per day payable to Genco pursuant to the Management Agreement.

DEPRECIATION-

Depreciation expense remained relatively stable at \$3,683 during the three months ended June 30, 2012 as compared to \$3,684 during the three months ended June 30, 2011.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For the three months ended June 30, 2012 and 2011, net interest expense was \$1,061 and \$1,111, respectively. The decrease in net interest expense is primarily a result of the decrease in unused commitment fees as the total commitment under the 2010 Credit Facility was reduced by \$5,000 on May 31, 2011, November 30, 2011 and May 31, 2012. Refer to Note 6 Debt in the condensed consolidated financial statements for further information. The net interest expense during both periods consisted of interest expense and unused commitment fees related to our 2010 Credit Facility, the amortization of deferred financing fees associated with this facility as well as interest income earned on our cash balances.

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

### INCOME TAX EXPENSE-

For the three months ended June 30, 2012 and 2011, income tax expense was \$15 and \$28, respectively. During the three months ended June 30, 2012 and 2011, we had United States operations which resulted in United States source income of \$755 and \$1,394, respectively, which resulted in income tax expense of \$15 and \$28, respectively.

### Six months ended June 30, 2012 and 2011

### VOYAGE REVENUES-

For the six months ended June 30, 2012 and 2011, voyage revenues were \$13,897 and \$19,458, respectively. The decrease in voyage revenues was due to lower spot market rates achieved by our vessels during the six months ended June 30, 2012.

The average TCE rate of our fleet was \$8,158 a day for the six months ended June 30, 2012 as compared to \$11,979 for the six months ended June 30, 2011. The decrease was due to lower spot rates achieved by the vessels in our fleet during the six months ended June 30, 2012 as compared to the same period last year. Continued deliveries of newbuilding vessels coupled with lower growth rates of imported commodities in emerging market economies through the first half of 2012 were the main contributors of reduced rates, which affected the earnings of our vessels. The effect of these contributors was partially offset by increased scrapping of older tonnage.

For the six months ended June 30, 2012 and 2011, we had 1,638.0 and 1,629.0 ownership days, respectively. The increase in ownership days is a result of an additional day during the first quarter of 2012 due to the leap year. Fleet utilization decreased to 99.3% during the six months ended June 30, 2012 as compared to 99.7% during the six months ended June 30, 2011 due to additional offhire periods during the six months ended June 30, 2012 for some of our Supramax vessels.

Table of Contents

VOYAGE EXPENSES-

For the six months ended June 30, 2012 and 2011, voyage expenses were \$432 and (\$306), respectively. The increase is primarily due to large gains recorded during the six months ended June 30, 2011 which represented the difference between the costs of the bunker fuel delivered by the terminating charterer and the bunker fuel sold to the new charterer. During the six months ended June 30, 2012, there was also bunker consumption recorded during the ballast leg of the time charter for the Baltic Jaguar which resulted in an increase in voyage expenses. This increase was partially offset by a decrease in in broker commissions as a result of a decrease in voyage revenue earned during the six months ended June 30, 2012 as compared to the same period last year.

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent decreased by \$72 to \$178 during the six months ended June 30, 2012 as compared to \$250 during the six months ended June 30, 2011. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The decrease was a result of the decrease in voyage revenue due to lower spot market rates achieved by our vessels during the six months ended June 30, 2012.

VESSEL OPERATING EXPENSES-

Vessel operating expenses increased by \$485 during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 due to higher crew related expenses and the timing of purchases of spare parts.

Daily vessel operating expenses increased to \$5,001 per vessel per day during the six months ended June 30, 2012 from \$4,731 per vessel per day during the six months ended June 30, 2011. The increase in daily vessel operating expense was mainly due to higher crew related expense and the timing of purchases of spare parts. We believe daily vessel operating expenses are best measured for comparative purposes over a 12-month period in order to take into account all of the expenses that each vessel in our fleet will incur over a full year of operation. Our actual daily vessel operating expenses per vessel for the six months ended June 30, 2012 were \$299 below the budgeted rate of \$5,300 per vessel per day.

GENERAL, ADMINISTRATIVE AND TECHNICAL MANAGEMENT FEES-

For the six months ended June 30, 2012 and 2011, general, administrative and technical management fees were \$2,456 and \$3,046, respectively. The decrease is primarily due to lower non-cash compensation. We incur management fees to third-party technical management companies for the day-to-day management of our vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies. Management fees did not fluctuate significantly during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

MANAGEMENT FEES TO PARENT-

Management fees to Parent for the six months ended June 30, 2012 and 2011 remained stable at \$1,229 and \$1,222, respectively. This amount represents the technical services fees of \$750 per vessel per day payable to Genco pursuant to the Management Agreement.

DEPRECIATION-

Depreciation expense remained relatively stable at \$7,367 during the six months ended June 30, 2012 as compared to \$7,321 during the six months ended June 30, 2011.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For the six months ended June 30, 2012 and 2011, net interest expense was \$2,135 and \$2,207, respectively. The decrease in net interest expense is primarily a result of the decrease in unused commitment fees as the total commitment under the 2010 Credit Facility was reduced by \$5,000 on May 31, 2011, November 30, 2011 and May 31, 2012. Refer to Note 6 Debt in the condensed consolidated financial statements for further information. The net interest expense during both periods consisted of interest expense and unused commitment fees related to our 2010 Credit Facility, the amortization of deferred financing fees associated with this facility as well as interest income earned on our cash balances.

Table of Contents

INCOME TAX EXPENSE-

For the six months ended June 30, 2012 and 2011, income tax expense was \$22 and \$23, respectively. During the six months ended June 30, 2012 and 2011, we had United States operations which resulted in United States source income of \$1,121 and \$2,457, respectively, which resulted in net income tax expense of \$22 and \$23, respectively.

**Liquidity and Capital Resources**

Our primary initial sources of capital were the capital contribution made by Genco, through Genco Investments LLC, of \$75 million for 5,699,088 shares of our Class B stock and the net proceeds from the IPO, which was approximately \$210.4 million as described hereunder. We will require capital to fund ongoing operations, acquisitions and potential debt service, for which we expect the main sources to be cash flow from operations and equity offerings. We plan to finance potential future expansions of our fleet primarily through use of our 2010 Credit Facility as a bridge to equity financing, which we expect will mainly consist of issuances of additional shares of our common stock, and internally generated cash flow. We anticipate that internally generated cash flow, together with borrowings that we may make under our 2010 Credit Facility for working capital purposes, will be sufficient to fund the operations of our fleet, including our working capital requirements, for the next twelve months.

On April 16, 2010, we entered into a \$100 million senior secured revolving credit facility with Nordea Bank Finland plc, acting through its New York branch, for a \$100 million senior secured revolving credit facility, which was amended in November 2010, as described below. Refer to the 2011 10-K for further information regarding our 2010 Credit Facility. A commitment fee of 1.25% per annum is payable on the unused daily portion of the 2010 Credit Facility which began accruing on March 18, 2010 under the terms of the commitment letter entered into on February 25, 2010. In connection with the commitment letter, we paid an upfront fee of \$0.3 million. Additionally upon executing the 2010 Credit Facility, we paid the remaining upfront fee of \$0.9 million, for total upfront fees of \$1.3 million, which has been capitalized as Deferred financing costs in the consolidated balance sheets.

Effective November 30, 2010, we entered into an amendment to the 2010 Credit Facility with Nordea Bank Finland plc, acting through its New York branch, and Skandinaviska Enskilda Banken AB. Under the terms of the amended 2010 Credit Facility, the commitment amount increased to \$150 million from \$100 million and the amounts borrowed bear interest at LIBOR plus a margin of 3.00% as compared to 3.25% previously. The term of the 2010 Credit Facility has been extended to six years from the previous term of four years and the repayment structure has been modified to provide for 11 semi-annual commitment reductions of \$5.0 million each with a balloon payment at the end of the facility. The amended 2010 Credit Facility will expire on November 30, 2016. In connection with the amendment to the 2010 Credit Facility, we paid an upfront fee of \$1.4 million which has been capitalized as Deferred financing costs in the consolidated balance sheets.

Borrowings of up to \$25 million under the 2010 Credit Facility are available for working capital purposes, subject to the total availability of the 2010 Credit Facility. At June 30, 2012, we have borrowed \$1.5 million of the total \$25 million available for working capital. As noted above, the repayment structure under the amended 2010 Credit Facility has been modified to provide for 11 semi-annual commitment reductions of \$5 million beginning on May 31, 2011 with a balloon payment at the end of the facility on November 30, 2016. We do not anticipate that borrowings under the 2010 Credit Facility will be used to satisfy our long-term capital needs. As of June 30, 2012, total borrowings, including those for working capital purposes, under the 2010 Credit Facility were \$101.3 million. Additionally, as of June 30, 2012, \$33.8 million remained available under the 2010 Credit Facility as the total commitment under this facility decreased to \$135 million. Given recent conditions we deem unfavorable for conducting equity financings, we have not used such financings to repay indebtedness under the 2010 Credit Facility, although we may conduct such financings if conditions improve.

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

The 2010 Credit Facility requires us to comply with a number of covenants, including financial covenants related to liquidity, consolidated net worth, and collateral maintenance; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); compliance with ERISA; maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; restrictions on changes in the Manager of our initial vessels (or acceptable replacement vessels); limitations on changes to our Management Agreement with Genco; limitations on liens; limitations on additional indebtedness; restrictions on paying dividends; restrictions on transactions with affiliates; and other customary covenants.

Under the collateral maintenance covenant of our 2010 Credit Facility, the aggregate valuations of our vessels pledged under this facility must at least be 140% of the total amount we may borrow. If our valuations fall below this percentage, we must provide additional acceptable collateral, repay a portion of our borrowings, or permanently reduce the amount we may borrow under the facility to the extent required to restore our compliance with the covenant.

As of June 30, 2012, we believe we are in compliance with all of the financial covenants under the 2010 Credit Facility.

Table of Contents

Our business is capital intensive, and our future success will depend on our ability to maintain a high-quality fleet through the acquisition of newer drybulk vessels and the selective sale of older drybulk vessels. These acquisitions will be principally subject to management's expectation of future market conditions as well as our ability to acquire drybulk vessels on favorable terms.

Our payment of dividends will also impact our future liquidity position. Refer to Dividend Policy below for a description of our dividend policy and actual dividends paid.

**Dividend Policy**

We have adopted a dividend policy to pay a variable quarterly dividend equal to our Cash Available for Distribution during the previous quarter, subject to any reserves our Board of Directors may from time to time determine are required. These reserves may cover, among other things, drydocking, repairs, claims, liabilities and other obligations, debt amortization, acquisitions of additional assets and working capital. Dividends will be paid equally on a per-share basis between our common stock and our Class B stock. Cash Available for Distribution represents our net income less cash expenditures for capital items related to our fleet, such as drydocking or special surveys, other than vessel acquisitions and related expenses, plus non-cash compensation. For purposes of calculating Cash Available for Distribution, we may disregard non-cash adjustments to our net income, such as those that would result from acquiring a vessel subject to a charter that was above or below market rates.

The following table illustrates the calculation of Cash Available for Distribution (non-cash adjustments we may disregard are not included):



The application of our dividend policy would not have resulted in dividend for the first and second quarter of 2012; however, based on our cash flow, liquidity and capital resources, our Board of Directors determined to declare a dividend of \$0.05 per share during both quarters.

The following table summarizes the dividends declared based on the results of each fiscal quarter:

	Dividend per share	Declaration date
<b>FISCAL YEAR ENDING DECEMBER 31, 2012</b>		
2nd Quarter	\$ 0.05	7/26/2012
1st Quarter	\$ 0.05	4/26/2012
<b>FISCAL YEAR ENDED DECEMBER 31, 2011</b>		
4th Quarter	\$ 0.13	2/16/2012
3rd Quarter	\$ 0.12	10/27/2011

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

2nd Quarter	\$	0.10	7/25/2011
1st Quarter	\$	0.06	4/28/2011

Under current law, the maximum Federal income tax rate on dividends paid to non-corporate shareholders is 15%, which rate is set to expire after December 31, 2012. If Congress takes no further action, the maximum Federal income tax rate on dividends paid to non-corporate shareholders after December 31, 2012 would be 43.4%. We may consider changes to our dividend policy if Congress takes no further action or adjusts this tax rate.

### Cash Flow

Net cash provided by operating activities for the six months ended June 30, 2012 and 2011 was \$0.2 million and \$5.4 million, respectively. The decrease in cash provided by operating activities was primarily a result of a recorded net loss of \$8.1 million compared to a net loss of \$2.0 million for the six months ended June 30, 2011. The larger net loss was predominantly due to lower charter rates achieved in the first half of 2012 versus the prior year period for the vessels in our fleet.

Net cash used in investing activities was \$5,000 for the six months ended June 30, 2012 due to the purchase of other fixed assets. For the six month period ended June 30, 2011, cash used in investing activities was \$2.0 million and primarily related to the purchases of vessel related equipment.

Net cash used in financing activities for the six months ended June 30, 2012 was \$4.1 million which consisted of cash dividends paid during the first half of the year. For the six months ended June 30, 2011, cash used in financing activities was \$5.3 million and primarily consisted of \$5.2 million in cash dividends paid.



Table of Contents**Contractual Obligations**

The following table sets forth our contractual obligations and their maturity dates as of June 30, 2012. The interest and borrowing fees in the table incorporate the unused fees and interest expense related to the amended 2010 Credit Facility, as well as other fees associated with the amended 2010 Credit Facility.

	Total	Less Than One Year (1)	One to Three Years	Three to Five Years
2010 Credit Agreement	\$ 101,250	\$	\$	\$ 101,250
Interest and borrowing fees	15,684	1,896	7,322	6,466
Total	\$ 116,934	\$ 1,896	\$ 7,322	\$ 107,716

(1) Represents the six-month period ending December 31, 2012.

Interest expense has been estimated using 0.25% plus the applicable margin for the amended 2010 Credit Facility of 3.00%.

**Capital Expenditures**

We make capital expenditures from time to time in connection with our vessel acquisitions. Our fleet currently consists of two Capesize drybulk carriers, four Supramax drybulk carriers and three Handysize drybulk carriers.

In addition to acquisitions that we may undertake in future periods, we will incur additional capital expenditures due to special surveys and drydockings. We estimate that we will not have any drydocking costs for our fleet through 2013 as we do not currently expect any of our vessels to be drydocked during the remainder of 2012 and 2013.

We did not incur any drydocking costs during the six months ended June 30, 2012 and 2011.

**Off-Balance Sheet Arrangements**

Except as disclosed in the condensed consolidated financial statements, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of

## Edgar Filing: Baltic Trading Ltd - Form 10-Q

operations, liquidity, capital expenditures or capital resources that is material to investors.

### **Inflation**

Inflation has only a moderate effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, general and administrative, and financing costs.

### CRITICAL ACCOUNTING POLICIES

There have been no changes or updates to the critical accounting policies as disclosed in the 2011 10-K.

#### Vessels and Depreciation

We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our drybulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard. Depreciation is based on cost less the estimated residual scrap value of \$245/lwt. We estimate residual scrap value based on the 15-year average scrap value of steel. An increase in the residual value of the vessels would decrease the annual depreciation charge over the remaining useful life of the vessel. Similarly, an increase in the useful life of a drybulk vessel would also decrease the annual depreciation charge. Comparatively, a decrease in the useful life of a drybulk vessel or in its residual value would have the effect of increasing the annual depreciation charge. However, when regulations place limitations over the ability of a vessel to trade on a worldwide basis, we will adjust the vessel's useful life to end at the date such regulations preclude such vessel's further commercial use.

The carrying value of each of our vessels does not represent the fair market value of such vessel or the amount we could obtain if we were to sell any of our vessels, which could be more or less. Under U.S. GAAP, we would not record a loss if the fair market value of a vessel (excluding its charter) is below our carrying value unless and until we determine to sell that vessel or the vessel is impaired as discussed in the 2011 10-K. We have never sold any of our vessels.

Table of Contents

Pursuant to our 2010 Credit Facility, we regularly submit to the lenders valuations of our vessels on an individual charter free basis in order to evidence our compliance with the collateral maintenance covenant under our 2010 Credit Facility. Such a valuation is not necessarily the same as the amount any vessel may bring upon sale, which may be more or less, and should not be relied upon as such. We were in compliance with the collateral maintenance covenant under our 2010 Credit Facility at June 30, 2012. In the chart below, we list each of our vessels, the year it was built, the year we acquired it, and its carrying value at June 30, 2012. At June 30, 2012, the vessel valuations of all of our vessels for covenant compliance purposes under our 2010 Credit Facility as of the most recent compliance testing date were lower than their carrying values at June 30, 2012. The amount by which the carrying value at June 30, 2012 of our vessels exceeded the valuation of such vessels for covenant compliance purposes ranged, on an individual vessel basis, from \$10.0 million to \$31.0 million per vessel. The average amount by which the carrying value of our vessels exceeded the valuation of such vessels for covenant compliance purposes was \$15.3 million.

Vessels	Year Built	Year Acquired	Carrying Value (U.S. Dollars in thousands)
Baltic Leopard	2009	2010	\$ 32,673
Baltic Panther	2009	2010	32,752
Baltic Cougar	2009	2010	32,903
Baltic Jaguar	2009	2010	32,809
Baltic Bear	2010	2010	68,476
Baltic Wolf	2010	2010	68,009
Baltic Wind	2009	2010	31,350
Baltic Cove	2010	2010	31,664
Baltic Breeze	2010	2010	32,226
TOTAL			\$ 362,862

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Interest rate risk**

The international shipping industry is a capital intensive industry, requiring significant amounts of investment. Effective April 16, 2010, we entered into the 2010 Credit Facility, which has provided us with bridge financing for potential vessel acquisitions. Our interest expense under any such credit facility will be affected by changes in LIBOR rates as outstanding debt on the amended 2010 Credit Facility is based on LIBOR plus an applicable margin of 3.00% per annum. Increasing interest rates could adversely impact our future earnings. A 1% increase in LIBOR would result in an increase of \$0.5 million in interest expense for the six months ended June 30, 2012.

**Currency and exchange rates risk**

The international shipping industry's functional currency is the U.S. Dollar. We expect that virtually all of our revenues and most of our operating costs will be in U.S. Dollars. We expect to incur certain operating expenses in currencies other than the U.S. dollar, and we expect the foreign exchange risk associated with these operating expenses to be immaterial.

ITEM 4. CONTROLS AND PROCEDURES

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our President and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Financial Officer has concluded that our disclosure controls and procedures are effective.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II: OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of its business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material effect on the Company, its financial condition, results of operations or cash flows.

**Item 6. EXHIBITS**

<b>Exhibit</b>	<b>Document</b>
3.1	Amended and Restated Articles of Incorporation of Baltic Trading Limited.(1)
3.2	Amended and Restated By-Laws of Baltic Trading Limited.(1)
31.1	Certification of President and Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.*
101	The following materials from Baltic Trading Limited's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (Unaudited), (ii) Condensed Consolidated Statements of Operations for the Three and Six Months ended June 30, 2012 and 2011 (Unaudited), (iii) Condensed Consolidated Statements of Shareholders' Equity for the Six Months ended June 30, 2012 and 2011 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2012 and 2011 (Unaudited), and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).**

---

(\*) Filed with this report.

(\*\*) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(1) Incorporated by reference to Baltic Trading Limited's Registration Statement on Form S-1/A, filed with the Securities and Exchange Commission on March 9, 2010.

**(Remainder of page left intentionally blank)**

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BALTIC TRADING LIMITED

DATE: August 9, 2012

By: */s/ John C. Wobensmith*  
John C. Wobensmith  
President, Secretary, Treasurer and Chief Financial Officer  
(Principal Executive Officer and Principal Financial and Accounting Officer)

Table of Contents

**Exhibit Index**

<b>Exhibit</b>	<b>Document</b>
3.1	Amended and Restated Articles of Incorporation of Baltic Trading Limited.(1)
3.2	Amended and Restated By-Laws of Baltic Trading Limited.(1)
31.1	Certification of President and Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.*
101	The following materials from Baltic Trading Limited's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (Unaudited), (ii) Condensed Consolidated Statements of Operations for the Three and Six Months ended June 30, 2012 and 2011 (Unaudited), (iii) Condensed Consolidated Statements of Shareholders' Equity for the Six Months ended June 30, 2012 and 2011 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the Six Months ended June 30, 2012 and 2011 (Unaudited), and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).**

---

(\*) Filed with this report.

(\*\*) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are not deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(1) Incorporated by reference to Baltic Trading Limited's Registration Statement on Form S-1/A, filed with the Securities and Exchange Commission on March 9, 2010.

**(Remainder of page left intentionally blank)**