Baltic Trading Ltd
Form 10-Q
November 09, 2010

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 September 30, 2010

OR

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

For the transition period from __________________________ to __________________________

Commission file number 001-34648

BALTIC TRADING LIMITED
(Exact name of registrant as specified in its charter)

Republic of the Marshall Islands (State or other jurisdiction of incorporation or organization)	98-0637837 (I.R.S. Employer Identification No.)

299 Park Avenue, 20th 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 ý No o

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 o No o

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 o	Accelerated filer o
Non-accelerated filer ý (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 o No ý

The number of shares outstanding of each of the issuer’s classes of common stock, as of November 9, 2010: common stock, $0.01 per share — 16,778,500 shares and Class B stock, $0.01 per share — 5,699,088 shares.

Baltic Trading Limited

Baltic Trading Limited
Condensed Consolidated Balance Sheets as of September 30, 2010
and December 31, 2009
(Unaudited)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 48,106,041	$ 1
Restricted cash	12,000,000	—
Due from charterers	452,030	—
Prepaid expenses and other current assets	2,378,232	—
Total current assets	62,936,303	1
Noncurrent assets:		
Vessels, net of accumulated depreciation of $3,697,461 and $0, respectively	280,850,310	—
Deposits on vessels	17,750,500	—
Fixed assets, net of accumulated depreciation of $4,047 and $0, respectively	39,352	—
Deferred registration costs	—	834,109
Deferred financing costs, net of accumulated amortization of $166,812 and $0, respectively	1,381,867	—
Total noncurrent assets	300,022,029	834,109
Total assets	$ 362,958,332	$ 834,110
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,300,499	$ —
Deferred revenue	649,967	—
Current portion of long-term debt	7,481,250	—
Due to Parent	1,788,021	849,929
Total current liabilities	12,219,737	849,929
Noncurrent liabilities:		
Long-term debt	62,343,750	—
Total noncurrent liabilities:	62,343,750	—
Total liabilities	74,563,487	849,929
Commitments and contingencies	—	—
Shareholders' equity (deficit):		
Capital stock, par value $0.01; 0 and 100 shares authorized and 0 and 100 shares issued and outstanding at	—	1

September 30, 2010 and December 31, 2009, respectively				
Common stock, par value $0.01; 500,000,000 and 0 shares authorized and 16,778,500 and 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		167,785		—
Class B stock, par value $0.01; 100,000,000 and 0 shares authorized and 5,699,088 and 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		56,991		—
Additional paid-in capital		287,155,608		—
Retained earnings (deficit)		1,014,461		(15,820)
Total shareholders’ equity (deficit)		288,394,845		(15,819)
Total liabilities and shareholders’ equity (deficit)	$	362,958,332	$	834,110

See accompanying notes to condensed consolidated financial statements.

Baltic Trading Limited
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010
(Unaudited)

	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2010
Revenues	$ 10,406,663	$ 17,397,426
Operating expenses:		
Voyage expenses	186,854	337,278
Vessel operating expenses	2,722,373	4,047,708
General, administrative and management fees	1,834,945	3,944,494
Depreciation	2,461,963	3,701,509
Other operating income	—	(206,000)
Total operating expenses	7,206,135	11,824,989
Operating income	3,200,528	5,572,437
Other (expense) income:		
Other expense	(17,715)	(17,715)
Interest income	64,982	227,051
Interest expense	(683,987)	(1,126,293)
Other expense, net	(636,720)	(916,957)
Net income before income taxes	2,563,808	4,655,480
Income tax expense	(28,785)	(28,785)
Net income	$ 2,535,023	$ 4,626,695
Net income per share of common and Class B Stock:		
Net income per share-basic	$ 0.12	$ 0.28
Net income per share-diluted	$ 0.12	$ 0.28
Dividends declared per share of common and Class B Stock	$ 0.16	$ 0.16

See accompanying notes to condensed consolidated financial statements.

Baltic Trading Limited
Condensed Consolidated Statement of Shareholders' Equity
For the Nine Months Ended September 30, 2010
(Unaudited)

	Capital Stock Par Value	Common Stock Par Value	Class B Stock Par Value	Additional paid in Capital	Retained Earnings (Deficit)	Total
Balance – January 1, 2010	$ 1	$ —	$ —	$ —	$ (15,820)	$ (15,819)
Net income					4,626,695	4,626,695
Capital contribution from Parent and exchange of 100 shares of capital stock for 5,699,088 shares of Class B stock	(1)		56,991	74,943,010		75,000,000
Cash dividends paid ($0.16 per share)					(3,596,414)	(3,596,414)
Issuance of 16,300,000 shares of common stock		163,000		210,231,788		210,394,788
Issuance of 478,500 shares of nonvested common stock		4,785		(4,785)		—
Nonvested stock amortization				1,985,595		1,985,595
Balance – September 30, 2010	$ —	$ 167,785	$ 56,991	$ 287,155,608	$ 1,014,461	$ 288,394,845

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited
Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2010
(Unaudited)

Cash flows from operating activities:		
Net income	$	4,626,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		3,701,509
Amortization of deferred financing costs		166,812
Amortization of nonvested stock compensation expense		1,985,595
Change in assets and liabilities:		
Increase in due from charterers		(452,030)
Increase in prepaid expenses and other current assets		(2,375,371)
Increase in accounts payable and accrued expenses		1,523,005
Decrease in due to Parent		(4,046)
Increase in deferred revenue		649,967
Net cash provided by operating activities		9,822,136
Cash flows from investing activities:		
Purchase of vessels, including deposits		(299,835,650)
Purchase of other fixed assets		(23,955)
Deposits of restricted cash		(12,000,000)
Net cash used in investing activities		(311,859,605)
Cash flows from financing activities:		
Proceeds from the 2010 Credit Facility		69,825,000
Capital contribution from Parent		75,000,000
Cash dividends paid		(3,596,414)
Proceeds from issuance of common stock		214,508,000
Payments of common stock issuance costs		(4,078,175)
Payment of deferred financing costs		(1,514,902)
Net cash provided by financing activities		350,143,509
Net increase in cash and cash equivalents		48,106,040
Cash and cash equivalents at beginning of period		1
Cash and cash equivalents at end of period	$	48,106,041

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Notes to Condensed Consolidated Financial Statements for the Three and Nine Months Ended September 30, 2010 (unaudited)

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, under the laws of the Republic of the Marshall Islands.

At September 30, 2010, 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 $228,200,000. After underwriting commissions and other registration expenses, the Company received net proceeds of $210,394,788 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 $75,000,000 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.

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 include 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 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. Interim results are not necessarily indicative of results for a full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's financial statements included in the Company's Registration Statement on Form S-1, as amended (the "Registration Statement") (See Registration Statement No. 333-162456).

Cash and cash equivalents

The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Deferred registration costs

Deferred Registration costs represent costs associated with preparing the Company for a public offering. Such costs consist primarily of professional fees and printing costs. These costs were offset against proceeds received from the IPO, which closed on March 15, 2010.

Deferred financing costs

Deferred financing costs consist of fees, commissions and legal expenses associated with obtaining loan facilities. These costs are being amortized over the life of the related loan facility and are included in interest expense.

Deferred revenue

Deferred revenue primarily relates to cash received from charterers prior to it being earned. These amounts are recognized as income when earned. Additionally, deferred revenue includes estimated customer claims mainly due to time charter performance issues. As of September 30, 2010 and December 31, 2009, the Company had a reserve of $365,259 and $0, respectively, related to these estimated customer claims.

Vessels, net

The Company depreciates the cost of its vessels, including the purchase commission paid to Genco, on a straight-line basis over their estimated useful lives, which the Company expects to be approximately 25 years from the date of initial delivery from the shipyard, based on the types of vessels the Company has purchased and plans to purchase. Depreciation is based on cost less estimated residual value. Furthermore, the Company estimates the residual values of its vessels to be based upon $175 per lightweight ton, which the Company believes to be the anticipated scrap value of its vessels. Depreciation expense for the three and nine months ended September 30, 2010 for vessel assets was $2,459,950 and $3,697,461, respectively.

Due to/from Parent

Due to/from Parent consists of amounts due to/from Genco, which in turn represent the timing of payments for amounts due to/from the Company primarily consisting of fees payable to Parent pursuant to the Management

Agreement between the Company and Genco for commercial, technical, administrative and strategic services necessary to support the Company's business. At December 31, 2009, prior to the Company's IPO, this amount consisted of costs borne by Genco on behalf of the Company as part of the IPO which were reimbursed to Genco once the offering was completed.

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 and nine months ended September 30 2010, the Company had United States operations which resulted in United States source income of $1,439,267 during the three and nine months ended September 30, 2010. As such, the Company's estimated United States income tax liability is $28,785.

Nonvested stock awards

The Company follows Accounting Standards Codification ("ASC") Subtopic 718-10, "Compensation – Stock Compensation" ("ASC 718-10"), for nonvested stock issued under its equity incentive plan. Compensation costs from nonvested stock have been classified as a component of additional paid-in capital.

Other operating income

During the three and nine months ended September 30, 2010, the Company recorded other operating income of $0 and $206,000, respectively, related to a payment received from the seller of the Baltic Cougar as a result of the late delivery of the vessel.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk are amounts due from charterers, cash and cash equivalents and deposits on vessels. With respect to amounts due from charterers, the Company attempts to limit its credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, guarantees or collateral. During the three and nine months ended September 30, 2010, the Company earned 100% of its revenues from four customers. Management does not believe significant risk exists in connection with the Company's concentrations of credit at September 30, 2010.

For the three months ended September 30, 2010, there were four customers that individually accounted for more than 10% of revenues, Olendorff GMBH and Co. KG. Lubeck, Cargill International S.A., Clipper Bulk Shipping N.V., Curacao and AMN Bulkcarriers Inc., which represented 28.81%, 38.50%, 15.86% and 16.83% of revenues, respectively.

For the nine months ended September 30, 2010, there were four customers that individually accounted for more than 10% of revenues, Olendorff GMBH and Co. KG. Lubeck, Cargill International S.A., Clipper Bulk Shipping N.V., Curacao and AMN Bulkcarriers Inc., which represented 38.19%, 33.54%, 14.76% and 13.51% of revenues, respectively.

The Company maintains all of its cash and cash equivalents with two financial institutions. None of the Company's cash and cash equivalent balances are covered by insurance in the event of default by these financial institutions.

Deposits on vessels are held in escrow accounts maintained by DnB NOR Bank ASA. None of the deposits on vessels are covered by insurance in the event of default by this financial institution.

3 - CASH FLOW INFORMATION

For the nine months ended September 30, 2010, 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 $708,682 for the purchase of vessels, including deposits. For the nine months ended September 30, 2010, the Company also had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in due to Parent of $1,756,802 for the purchase of vessels and $19,445 for the purchase of other fixed assets. Additionally, for the nine months ended September 30, 2010, the Company had non-cash financing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses consisting of $33,777 associated with deferred financing fees and $35,037 associated with the payment of common stock issuance costs related to the IPO of the Company. Also, for the nine months ended

September 30, 2010, the Company had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in prepaid expenses and other current assets as of September 30, 2010 consisting of $2,862 interest receivable associated with the purchase of vessels, including deposits.

During the nine months ended September 30, 2010, cash paid for interest, net of amount capitalized, was $844,397.

On March 10, 2010, 358,000 and 108,000 shares of nonvested common stock were granted to Peter Georgiopoulos, Chairman of the Board, and John Wobensmith, President and Chief Financial Officer, respectively, which were approved by the Board of Directors on such date. The fair value of such nonvested stock was $6,524,000 based on the IPO price of $14.00 per share. Both of these grants of nonvested common stock were granted under the Baltic Trading Limited 2010 Equity Incentive Plan and will vest ratably in four annual installments commencing on the first anniversary of the closing of the Company's IPO, March 15, 2010. Lastly, on March 15, 2010, the Company made grants of nonvested common stock under the Baltic Trading Limited 2010 Equity Incentive Plan in the amount of 12,500 shares to directors of the Company. The fair value of such nonvested stock was $175,000 based on the IPO price of $14.00 per share. These grants will vest the earlier of the first anniversary of the grant date or the date of the next annual shareholders' meeting, which is expected to be held in May 2011.

4 - VESSEL ACQUISITIONS

On June 3, 2010, the Company entered into an agreement to purchase three Handysize drybulk vessels, including one newbuilding, from companies within the Metrostar group of companies for an aggregate purchase price of approximately $99,750,000. Total vessel deposits of $9,975,000 were made during the second quarter of 2010. Two of the vessels were delivered during August 2010. The Baltic Wind, a 2009 built Handysize vessel, was delivered on August 4, 2010 and the Baltic Cove, a 2010 built Handysize vessel, was delivered on August 23, 2010. The remaining vessel, the Baltic Breeze, a newbuilding, was delivered during the fourth quarter of 2010 on October 12, 2010. All three vessels are secured on spot market-related time charters with Cargill International S.A. at a rate based on 115% of the average of the daily rates of the Baltic Handysize Index ("BHSI"). The Company financed the purchase price of the aforementioned acquisitions utilizing its existing $100,000,000 senior secured revolving credit facility for bridge financing.

On February 19, 2010, the Company entered into agreements with subsidiaries of an unaffiliated third-party seller to purchase four 2009-built Supramax drybulk vessels for an aggregate price of $140,000,000. Total vessel deposits of $14,000,000 were made during the first quarter of 2010 and the remaining payment of $126,000,000 was made upon delivery of the vessels during the second quarter of 2010. These four vessels, the Baltic Leopard, Baltic Panther, Baltic Cougar, and Baltic Jaguar, were delivered during the second quarter of 2010. Refer to Note 1 – General Information for the dates on which these vessels were delivered.

On February 22, 2010, the Company also entered into agreements with subsidiaries of another unaffiliated third-party seller to purchase two Capesize drybulk vessels for an aggregate price of $144,200,000. The Baltic Wolf was delivered on October 14, 2010 and the Baltic Bear was delivered on May 14, 2010. Total vessel deposits of $21,540,000 were made during the first quarter of 2010 and the remaining payment for the Baltic Bear of $65,700,000 and the Baltic Wolf of $56,960,000 were made upon delivery of the vessels during the second and fourth quarter of 2010, respectively. Refer to Note 1 – General Information for the dates on which these vessels were delivered.

5 - EARNINGS PER COMMON SHARE

The computation of net income per share of common stock and Class B shares is in accordance with ASC 260 – "Earnings Per Share," using the two-class method. Under these provisions, basic net income per share 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 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 14 – 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 478,500 nonvested shares outstanding at September 30, 2010 (see Note 14 – Nonvested Stock Awards), none are anti-dilutive. The computation of the diluted net income per share of common stock assumes the conversion of Class B shares, while the diluted net income per share of Class B stock does not assume the conversion of those shares.

Under the Company's Amended and Restated Articles of Incorporation, the rights, including dividend rights, of the holders of the Company's common and Class B shares are identical, except with respect to voting. Further, the Company's Amended and Restated Articles of Incorporation and Marshall Islands law embody safeguards against modifying the identical rights of the Company's common stock and Class B stock to dividends. Specifically, Marshall Islands law provides that amendments to the Company's Amended and Restated Articles of Incorporation which would have the effect of adversely altering the powers, preferences, or special rights of a given class of stock (in this case the right of the Company's common stock to receive an equal dividend to any declared on the Company's Class B stock) must be approved by the class of stock adversely affected by the proposed amendment. As a result, and in accordance with ASC 260 – "Earnings Per Share," the undistributed earnings are allocated based on the contractual participation rights of the common and Class B shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B shares is assumed in the computation of the diluted net income per share of common stock, the undistributed earnings are equal to net income for that computation.

The Company was formed with 100 shares of capital stock during October of 2009, and on March 3, 2010, Genco made an additional capital contribution of $75,000,000 and surrendered the 100 shares of capital stock for 5,699,088 shares of Class B stock. The net loss attributable to the period from January 1, 2010 to March 2, 2010 was insignificant and therefore the Company has not allocated any of the net loss during that period to the capital stock. The following table sets forth the computation of basic and diluted net income per share of capital stock, common stock and Class B stock:

	Three Months Ended September 30, 2010		
	Capital Stock	Common	Class B
Basic net income per share:			
Numerator:			
Allocation of income	$—	$1,878,300	$656,723
Denominator:			
Weighted average shares outstanding	—	16,300,000	5,699,088
Basic net income per share	$—	$0.12	$0.12
Diluted net income per share:			
Numerator:			
Allocation of income	$—	$1,878,300	$656,723
Reallocation of undistributed earnings as a result of conversion of Class B to common shares	—	(255,131)	—
Reallocation of dividends paid as a result of conversion of Class B to common shares	—	911,854	—
Reallocation of undistributed earnings to Class B shares	—	—	(354)
Allocation of earnings	$—	$2,535,023	$656,369
Denominator:			
Weighted average shares outstanding used in basic computation	—	16,300,000	5,699,088
Add:			
Conversion of Class B to common shares	—	5,699,088	—
Dilutive effect of nonvested stock awards	—	11,875	—
Weighted average shares outstanding, diluted	—	22,010,963	5,699,088

Diluted net income per share	$—	$0.12	$0.12

	Nine Months Ended September 30, 2010		
	Capital Stock	Common	Class B
Basic net income per share:			
Numerator:			
Allocation of income	$—	$3,398,044	$1,228,651
Denominator:			
Weighted average shares outstanding	22	12,239,927	4,425,665