Baltic Trading Ltd
Form 10-Q
November 09, 2012
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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, 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)

Republic of the Marshall Islands	**98-0637837**
(State or other jurisdiction of incorporation or organization)	(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 x 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 x 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 x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Baltic Trading Limited

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

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

(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 3,261	$ 8,300
Due from charterers, net of a reserve of $110 and $52, respectively	595	1,653
Prepaid expenses and other current assets	3,176	2,467
Total current assets	7,032	12,420
Noncurrent assets:		
Vessels, net of accumulated depreciation of $33,186 and $22,107, respectively	359,138	370,222
Fixed assets, net of accumulated depreciation of $32 and $20, respectively	16	23
Deferred financing costs, net of accumulated amortization of $1,086 and $737, respectively	1,941	2,290
Total noncurrent assets	361,095	372,535
Total assets	$ 368,127	$ 384,955
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,812	$ 1,972
Deferred revenue	220	71
Due to Parent	28	59
Total current liabilities	2,060	2,102
Noncurrent liabilities:		
Long-term debt	101,250	101,250
Total noncurrent liabilities:	101,250	101,250
Total liabilities	103,310	103,352
Commitments and contingencies		
Shareholders equity:		
Common stock, par value $0.01; 500,000,000 shares authorized; issued and outstanding 17,013,500 and 17,001,000 shares at September 30, 2012 and December 31, 2011, respectively	170	170

Class B stock, par value $0.01; 100,000,000 shares authorized; issued and outstanding 5,699,088 at September 30, 2012 and December 31, 2011		57		57
Additional paid-in capital		277,079		280,923
(Accumulated deficit) retained earnings		(12,489)		453
Total shareholders equity		264,817		281,603
Total liabilities and shareholders equity	$	368,127	$	384,955

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011

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

(Unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenues	$ 6,291	$ 10,898	$ 20,188	$ 30,355
Operating expenses:				
Voyage expenses	254	183	686	(123)
Voyage expenses to Parent	82	139	260	389
Vessel operating expenses	4,281	4,047	12,474	11,754
General, administrative, and technical management fees	1,069	1,269	3,525	4,315
Management fees to Parent	621	621	1,850	1,843
Depreciation	3,724	3,724	11,090	11,045
Total operating expenses	10,031	9,983	29,885	29,223
Operating (loss) income	(3,740)	915	(9,697)	1,132
Other (expense) income:				
Other (expense) income	(15)	4	(22)	(31)
Interest income	1	1	4	5
Interest expense	(1,064)	(1,105)	(3,201)	(3,316)
Other expense, net	(1,078)	(1,100)	(3,219)	(3,342)
Loss before income taxes	(4,818)	(185)	(12,916)	(2,210)
Income tax expense	(4)	(9)	(26)	(31)
Net loss	$ (4,822)	$ (194)	$ (12,942)	$ (2,241)
Net loss per share of common and Class B Stock:				
Net loss per share-basic	$ (0.22)	$ (0.01)	$ (0.58)	$ (0.10)
Net loss per share-diluted	$ (0.22)	$ (0.01)	$ (0.58)	$ (0.10)
Dividends declared and paid per share of common and Class B Stock	$ 0.05	$ 0.10	$ 0.23	$ 0.33

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Shareholders Equity

For the Nine Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands, Except for Share and Per Share Data)
(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				(12,942)	(12,942)
Cash dividends paid ($0.23 per share)			(5,221)		(5,221)
Issuance of 12,500 shares of nonvested common stock					
Nonvested stock amortization			1,377		1,377
Balance September 30, 2012	$ 170	$ 57	$ 277,079	$ (12,489)	$ 264,817

	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				(2,241)	(2,241)
Cash dividends paid ($0.33 per share)			(7,225)	(230)	(7,455)
Issuance of 12,500 shares of nonvested common stock					
Nonvested stock amortization			2,174		2,174
Balance September 30, 2011	$ 169	$ 57	$ 283,044	$ (1,357)	$ 281,913

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2012	**2011**
Cash flows from operating activities:		
Net loss	$ (12,942)	$ (2,241)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	11,090	11,045
Amortization of deferred financing costs	350	350
Amortization of nonvested stock compensation expense	1,377	2,174
Change in assets and liabilities:		
Decrease (increase) in due from charterers	1,058	(494)
Increase in prepaid expenses and other current assets	(708)	(193)
Decrease in accounts payable and accrued expenses	(157)	(411)
Decrease in due to Parent	(30)	(388)
Increase (decrease) in deferred revenue	149	(233)
Net cash provided by operating activities	187	9,609
Cash flows from investing activities:		
Purchase of fixed assets	(5)	
Purchase of vessels, including deposits		(2,516)
Net cash used in investing activities	(5)	(2,516)
Cash flows from financing activities:		
Cash dividends paid	(5,221)	(7,455)
Payment of deferred financing costs		(139)
Net cash used in financing activities	(5,221)	(7,594)
Net decrease in cash and cash equivalents	(5,039)	(501)
Cash and cash equivalents at beginning of period	8,300	5,797
Cash and cash equivalents at end of period	$ 3,261	$ 5,296

See accompanying notes to condensed consolidated financial statements.

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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 September 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.

As of September 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.

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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. 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 nine month period ended September 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 September 30, 2012 and 2011 was $3,720 and $3,720, respectively. Depreciation expense for vessels for the nine months ended September 30, 2012 and 2011 was $11,079 and $11,034, 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 the new charterer as a gain or loss within voyage expenses. These differences in bunkers resulted in a net loss (gain) of $119 and $0 during the three months ended September 30, 2012 and 2011, respectively, and a net loss (gain) of $45 and ($521) during the nine months ended September 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 September 30, 2012 and 2011, the Company had United States source income of $200 and $452, respectively. The Company s estimated United States income tax expense for the three months ended September 30, 2012 and 2011 was $4 and $9, respectively. Additionally, during the nine months ended September 30, 2012 and 2011, the Company had United States source income of $1,321 and $2,909, respectively. The Company s estimated United States income tax expense for the nine months ended September 30, 2012 and 2011 was $26 and $31, respectively.

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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 September 30, 2012 and December 31, 2011, the Company had an accrual of $26 and $2, respectively, related to these estimated customer claims.

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 nine months ended September 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 nine months ended September 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 $53 for the purchase of vessels, including deposits. For the nine months ended September 30, 2011, 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) for the purchase of vessels.

During the nine months ended September 30, 2012 and 2011, cash paid for interest, net of amounts capitalized, was $2,843 and $2,973, respectively.

During the nine months ended September 30, 2012 and 2011, cash paid for estimated income taxes was $22 and $61, 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 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 September 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.

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

	Three Months Ended September 30, 2012			
		Common		Class B
Basic net loss per share:				
Numerator:				
Allocation of loss	$	(3,589)	$	(1,233)
Denominator:				
Weighted-average shares outstanding, basic		16,584,250		5,699,088
Basic net loss per share	$	(0.22)	$	(0.22)
Diluted net loss per share:				
Numerator:				
Allocation of loss	$	(3,589)	$	(1,233)
Reallocation of undistributed loss as a result of conversion of Class B to common shares		(1,518)		
Reallocation of dividends paid as a result of conversion of Class B to common shares		285		
Allocation of loss	$	(4,822)	$	(1,233)
Denominator:				
Weighted-average shares outstanding used in basic computation		16,584,250		5,699,088
Add:				
Conversion of Class B to common shares		5,699,088		
Weighted-average shares outstanding, diluted		22,283,338		5,699,088
Diluted net loss per share	$	(0.22)	$	(0.22)

	Three Months Ended September 30, 2011			
		Common		Class B
Basic net loss per share:				
Numerator:				
Allocation of loss	$	(144)	$	(50)
Denominator:				
Weighted-average shares outstanding, basic		16,429,000		5,699,088
Basic net loss per share	$	(0.01)	$	(0.01)
Diluted net loss per share:				
Numerator:				
Allocation of loss	$	(144)	$	(50)
Reallocation of undistributed loss as a result of conversion of Class B to common shares		(620)		
Reallocation of dividends paid as a result of conversion of Class B to common shares		570		
Allocation of loss	$	(194)	$	(50)
Denominator:				
Weighted-average shares outstanding used in basic computation		16,429,000		5,699,088
Add:				
Conversion of Class B to common shares		5,699,088		

Weighted-average shares outstanding, diluted		22,128,088		5,699,088
Diluted net loss per share	$	(0.01)	$	(0.01)

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	Nine Months Ended September 30, 2012	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$ (9,627)	$ (3,315)
Denominator:		
Weighted-average shares outstanding, basic	16,546,536	5,699,088
Basic net loss per share	$ (0.58)	$ (0.58)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$ (9,627)	$ (3,315)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(4,626)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	1,311	
Allocation of loss	$ (12,942)	$ (3,315)
Denominator:		
Weighted-average shares outstanding used in basic computation	16,546,536	5,699,088
Add:		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,245,624	5,699,088
Diluted net loss per share	$ (0.58)	$ (0.58)

	Nine Months Ended September 30, 2011	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$ (1,663)	$ (578)
Denominator:		
Weighted-average shares outstanding, basic	16,394,505	5,699,088
Basic net loss per share	$ (0.10)	$ (0.10)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$ (1,663)	$ (578)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(2,459)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	1,881	
Allocation of loss	$ (2,241)	$ (578)
Denominator:		
Weighted-average shares outstanding used in basic computation	16,394,505	5,699,088
Add:		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,093,593	5,699,088
Diluted net loss per share	$ (0.10)	$ (0.10)

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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 nine months ended September 30, 2012 and 2011, Aegean supplied lubricating oils to the Company s vessels aggregating $458 and $513, respectively. At September 30, 2012 and December 31, 2011, $43 and $101 remained outstanding to Aegean, respectively.

During the nine months ended September 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 September 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 nine months ended September 30, 2012 and 2011, the Company incurred internal audit service fees of $30 and $17, 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 September 30, 2012 and December 31, 2011, the amount due to Genco from the Company was $4 and $11, respectively, for such services and is included in due to Parent.

During the nine months ended September 30, 2012 and 2011, Genco, the Company s parent, incurred costs of $22 and $68 on the Company s behalf to be reimbursed to Genco pursuant to the Management Agreement. At September 30, 2012, the amount due to the Company from Genco is $1 and is included in due to Parent. At December 31, 2011, the amount due to Genco from the Company was $1 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 nine months ended September 30, 2012 and 2011, the Company incurred costs of $2,109 and $2,232 pursuant to the Management Agreement. At September 30, 2012, the amount due to Genco of $25 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 September 30, 2012, total available working capital borrowings were $23,500, as $1,500 was drawn down during 2010 for working capital purposes. As of September 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, November 30, 2016, the total commitment will reduce to zero and all borrowings must be repaid in full.

As of September 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 September 30, 2012 under the 2010 Credit Facility:

Period Ending December 31,		**Total**
2012 (October 1, 2012 December 31, 2012)	$	
2013		
2014		
2015		1,250
2016		100,000
Total debt	$	101,250

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Interest 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Effective Interest Rate (excluding impact of unused commitment fees)	3.24%	3.28%	3.25%	3.29%
Range of Interest Rates (excluding impact of unused commitment fees)	3.22% to 3.25%	3.25% to 3.33%	3.22% to 3.30%	3.25% to 3.33%

7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 3,261	$ 3,261	$ 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 September 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 Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments

does not entail a significant degree of judgment.

- Level 2 Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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:

	September 30, 2012	December 31, 2011
Lubricant inventory, fuel oil and diesel oil inventory and other stores	$ 2,044	$ 1,603
Prepaid items	1,001	730
Insurance receivable		16
Other	131	118
Total	$ 3,176	$ 2,467

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9 - DEFERRED FINANCING COSTS

The Company has unamortized deferred financing costs of $1,941 and $2,290 at September 30, 2012 and December 31, 2011, respectively, associated with the 2010 Credit Facility. Accumulated amortization of deferred financing costs as of September 30, 2012 and December 31, 2011 was $1,086 and $737, respectively. The Company has incurred deferred financing costs of $3,027 for the existing 2010 Credit Facility as of September 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 September 30, 2012 and 2011 was $117 and $117, respectively. Amortization expense of deferred financing costs for the nine months ended September 30, 2012 and 2011 was $350 and $350, respectively.

10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	September 30, 2012	December 31, 2011
Accounts payable	$ 304	$ 447
Accrued vessel operating expenses	1,427	1,442
Accrued general and administrative expenses	81	83
Total	$ 1,812	$ 1,972

11 - FIXED ASSETS

Fixed assets consist of the following:

	September 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	32	20
Total	$ 16	$ 23

Depreciation expense for fixed assets for the three months ended September 30, 2012 and 2011 was $4 and $4, respectively. Depreciation expense for fixed assets for the nine months ended September 30, 2012 and 2011 was $12 and $11, respectively.

12 - REVENUE FROM SPOT MARKET-RELATED TIME CHARTERS

Total revenue earned on spot market-related time charters and short-term time charters during the three and nine months ended September 30, 2012 was $6,291 and $20,188, respectively. Total revenue earned on spot market-related time charters and short-term time charters during the three and nine months ended September 30, 2011 was $10,898 and $30,355, respectively. Future minimum time charter revenue based on the Baltic Cougar, which is committed to noncancelable short-term time charters as of September 30, 2012, and the Baltic Leopard, which was on a spot market-related time charter with a fixed rate for the first 65 days, is expected to be $336 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 October 2012 to July 2014.

13 - NONVESTED STOCK AWARDS

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

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

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The total fair value of shares that vested under the Plan during the nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
General, administrative and technical management fees	$ 403	$ 623	$ 1,377	$ 2,174

The Company is amortizing these grants over the applicable vesting periods, net of anticipated forfeitures. As of September 30, 2012, unrecognized future compensation cost of $1,434 related to nonvested stock will be recognized over a weighted-average period of 1.96 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 September 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 nine months ended September 30, 2012 and 2011 pursuant to the Management Agreement.

16 - SUBSEQUENT EVENTS

On October 31, 2012, the Company declared a dividend of $0.01 per share to be paid on or about November 21, 2012 to shareholders of record as of November 14, 2012. The aggregate amount of the dividend is expected to be approximately $227, 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 a 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

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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 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 2.9 years, as compared to the average age for the world fleet of approximately 10 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 pages 21-22 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 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 nine months ended September 30, 2012 and 2011.

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	For the Three Months Ended September 30,		Increase	
	2012	2011	(Decrease)	% Change
Fleet Data:				
Ownership days (1)				
Capesize	184.0	184.0		
Supramax	368.0	368.0		
Handysize	276.0	276.0		
Total	828.0	828.0		
Available days (2)				
Capesize	184.0	184.0		
Supramax	368.0	368.0		
Handysize	276.0	276.0		
Total	828.0	828.0		
Operating days (3)				
Capesize	184.0	184.0		
Supramax	361.7	358.4	3.3	0.9%
Handysize	276.0	276.0		
Total	821.7	818.4	3.3	0.4%
Fleet utilization (4)				
Capesize	100.0%	100.0%		
Supramax	98.3%	97.4%	0.9%	0.9%
Handysize	100.0%	100.0%		
Fleet average	99.2%	98.8%	0.4%	0.4%
Average Daily Results:				
Time Charter Equivalent (5)				
Capesize	$ 4,701	$ 16,440	$ (11,739)	(71.4)%
Supramax	6,991	12,314	(5,323)	(43.2)%
Handysize	9,124	10,939	(1,815)	(16.6)%
Fleet average	7,193	12,773	(5,580)	(43.7)%

Daily vessel operating *expenses (6)*