

Baltic Trading Ltd
Form 10-Q
August 09, 2013
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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 June 30, 2013

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)

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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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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, 2013: common stock, \$0.01 per share 23,779,896 shares and Class B stock, \$0.01 per share 5,827,471 shares.

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Website Information

We intend to use our website, www.BalticTrading.com, as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included in our website's Investor Relations section. Accordingly, investors should monitor the Investor Relations portion of our website, in addition to following our press releases, SEC filings, public conference calls, and webcasts. To subscribe to our e-mail alert service, please click the "Receive E-mail Alerts" link in the Investor Relations section of our website and submit your email address. The information contained in, or that may be accessed through, our website is not incorporated by reference into or a part of this document or any other report or document we file with or furnish to the SEC, and any references to our website are intended to be inactive textual references only.

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

Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012

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

(Unaudited)

	June 30, 2013	December 31, 2012
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 23,732	\$ 3,280
Due from charterers, net of a reserve of \$125 and \$154, respectively	1,232	945
Prepaid expenses and other current assets	3,380	2,892
Total current assets	28,344	7,117
Noncurrent assets:		
Vessels, net of accumulated depreciation of \$44,225 and \$36,906, respectively	348,100	355,418
Fixed assets, net of accumulated depreciation of \$41 and \$36, respectively	66	12
Deferred financing costs, net of accumulated amortization of \$1,435 and \$1,204, respectively	1,592	1,823
Total noncurrent assets	349,758	357,253
Total assets	\$ 378,102	\$ 364,370
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,663	\$ 2,163
Deferred revenue	292	261
Due to Parent	29	34
Total current liabilities	2,984	2,458
Noncurrent liabilities:		
Long-term debt	102,250	101,250
Total noncurrent liabilities:	102,250	101,250
Total liabilities	105,234	103,708
<u>Commitments and contingencies</u>		
<u>Shareholders' equity:</u>		
Common stock, par value \$0.01; 500,000,000 shares authorized; issued and outstanding 23,779,896 and 17,300,999 shares at June 30, 2013 and December 31, 2012, respectively	238	173

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Class B stock, par value \$0.01; 100,000,000 shares authorized; issued and outstanding 5,827,471 and 5,699,088 at June 30, 2013 and December 31, 2012, respectively	58	57
Additional paid-in capital	299,097	277,249
Accumulated deficit	(26,525)	(16,817)
Total shareholders' equity	272,868	260,662
Total liabilities and shareholders' equity	\$ 378,102	\$ 364,370

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2013 and 2012

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

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 6,379	\$ 7,603	\$ 12,365	\$ 13,897
Operating expenses:				
Voyage expenses	157	379	738	432
Voyage expenses to Parent	82	97	155	178
Vessel operating expenses	4,248	4,270	8,113	8,192
General, administrative, and technical management fees	1,184	1,146	2,475	2,456
Management fees to Parent	614	614	1,222	1,229
Depreciation	3,682	3,683	7,325	7,367
Total operating expenses	9,967	10,189	20,028	19,854
Operating loss	(3,588)	(2,586)	(7,663)	(5,957)
Other (expense) income:				
Other (expense) income	(3)	1	4	(7)
Interest income	2	1	3	3
Interest expense	(1,023)	(1,062)	(2,039)	(2,138)
Other expense, net	(1,024)	(1,060)	(2,032)	(2,142)
Loss before income taxes	(4,612)	(3,646)	(9,695)	(8,099)
Income tax expense	(13)	(15)	(13)	(22)
Net loss	\$ (4,625)	\$ (3,661)	\$ (9,708)	\$ (8,121)
Net loss per share of common and Class B Stock:				
Net loss per share-basic	\$ (0.19)	\$ (0.16)	\$ (0.41)	\$ (0.37)
Net loss per share-diluted	\$ (0.19)	\$ (0.16)	\$ (0.41)	\$ (0.37)
Dividends declared and paid per share of common and Class B Stock	\$ 0.01	\$ 0.05	\$ 0.02	\$ 0.18

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Shareholders' Equity

For the Six Months Ended June 30, 2013 and 2012

(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, 2013	\$ 173	\$ 57	\$ 277,249	\$ (16,817)	\$ 260,662
	Net loss				(9,708)	(9,708)
	Cash dividends paid (\$0.02 per share)			(460)		(460)
	Issuance of 6,419,217 shares of common stock	64		21,495		21,559
	Issuance of 128,383 shares of Class B stock		1	(1)		
	Issuance of 59,680 shares of nonvested common stock	1		(1)		
	Nonvested stock amortization			815		815
Balance	June 30, 2013	\$ 238	\$ 58	\$ 299,097	\$ (26,525)	\$ 272,868
		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

See accompanying notes to condensed consolidated financial statements.

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Baltic Trading Limited

Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012

(U.S. Dollars in Thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (9,708)	\$ (8,121)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	7,325	7,367
Amortization of deferred financing costs	231	232
Amortization of nonvested stock compensation expense	815	974
Change in assets and liabilities:		
Increase in due from charterers	(287)	(336)
Increase in prepaid expenses and other current assets	(488)	(181)
Increase in accounts payable and accrued expenses	238	292
Decrease in due to Parent	(5)	(11)
Increase (decrease) in deferred revenue	31	(2)
Net cash (used in) provided by operating activities	(1,848)	214
Cash flows from investing activities:		
Purchase of fixed assets	(61)	(5)
Net cash used in investing activities	(61)	(5)
Cash flows from financing activities:		
Proceeds from the 2010 Credit Facility	1,000	
Proceeds from issuance of common stock	21,838	
Payment of common stock issuance costs	(17)	
Cash dividends paid	(460)	(4,086)
Net cash provided by (used in) financing activities	22,361	(4,086)
Net increase (decrease) in cash and cash equivalents	20,452	(3,877)
Cash and cash equivalents at beginning of period	3,280	8,300
Cash and cash equivalents at end of period	\$ 23,732	\$ 4,423

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, 2013, 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	Delivery Date	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
Baltic Fox Limited	Baltic Fox	31,883	Q3 2013 (1)	2010
Baltic Hare Limited	Baltic Hare	31,887	Q3 2013 (1)	2009

(1) Delivery dates for vessels being delivered in the future are estimates based on guidance received from the sellers.

On May 28, 2013, the Company closed on an equity offering of 6,419,217 shares of common stock at an offering price of \$3.60 per share. The Company received net proceeds of \$21,559 after deducting underwriters' fees and expenses. Additionally, pursuant to the subscription agreement between the Company and Genco, 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, other than shares issued under the Company's 2010 Equity Incentive Plan. As a result of this equity offering, Genco was issued 128,383 of Class B stock, which represents 2% of the number of common shares issued.

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As of June 30, 2013 and December 31, 2012, Genco Shipping & Trading Limited's (Genco or Parent) ownership of 5,827,471 and 5,699,088 shares, respectively, of the Company's Class B stock represented a 19.68% and 24.78% ownership interest in the Company, respectively, and 78.61% and 83.17% 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, 2012 (the "2012 10-K"). The results of operations for the three and six month periods ended June 30, 2013 and 2012 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, 2013 and 2012 was \$3,680 and \$3,679, respectively. Depreciation expense for vessels for the six months ended June 30, 2013 and 2012 was \$7,319 and \$7,359, 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).

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, 2013 and 2012, the Company had United States operations which resulted in United States source income of \$639 and \$755, respectively. The Company's estimated United States income tax expense for the three months ended June 30, 2013 and 2012 was \$13 and \$15, respectively. Additionally, during the six months ended June 30, 2013 and 2012, the Company had United States operations which resulted in United States source income of \$639 and \$1,121, respectively. The Company's estimated United States income tax expense for the six months ended June 30, 2013 and 2012 was \$13 and \$22, respectively.

Deferred revenue

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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 June 30, 2013 and December 31, 2012, the Company had an accrual of \$17 and \$7, respectively, related to these estimated customer claims.

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 net gains (losses) of (\$2) and \$73 during the three months ended June 30, 2013 and 2012, respectively, and \$9 and \$73 during the six months ended June 30, 2013 and 2012, respectively. Additionally, voyage expenses include the cost of bunkers consumed during short-term time charters pursuant to the terms of the time charter agreement.

3 - CASH FLOW INFORMATION

For the six months ended June 30, 2013, 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 of \$262 for the payment of common stock issuance costs.

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

During the six months ended June 30, 2013 and 2012, cash paid for interest was \$1,788 and \$1,907 respectively.

During the six months ended June 30, 2013 and 2012, cash paid for estimated income taxes was \$12 and \$12, respectively.

On May 16, 2013, the Company made grants of nonvested common stock in the amount of 59,680 shares in the aggregate to directors of the Company. The fair value of such nonvested stock was \$225.

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. The shares vested on May 16, 2013.

4 - NET LOSS PER COMMON AND CLASS B SHARE

The computation of net loss 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 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 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 557,429 nonvested shares outstanding at June 30, 2013 (see Note 13 Nonvested Stock Awards), all are anti-dilutive. The computation of the diluted net loss per share of common stock assumes the conversion of Class B shares, while the diluted net loss per share of Class B stock does not assume the conversion of those shares.

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

	For the Three Months Ended June 30, 2013	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	\$ (3,559)	\$ (1,066)
Denominator:		
Weighted-average shares outstanding, basic	19,176,913	5,747,055

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Basic net loss per share	\$	(0.19)	\$	(0.19)
Diluted net loss per share:				
Numerator:				
Allocation of loss	\$	(3,559)	\$	(1,066)
Reallocation of undistributed loss as a result of conversion of Class B to common shares		(1,123)		
Reallocation of dividends paid as a result of conversion of Class B to common shares		57		
Allocation of loss	\$	(4,625)	\$	(1,066)
Denominator:				
Weighted-average shares outstanding used in basic computation		19,176,913		5,747,055
Add:				
Conversion of Class B to common shares		5,747,055		
Weighted-average shares outstanding, diluted		24,923,968		5,747,055
Diluted net loss per share	\$	(0.19)	\$	(0.19)

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	For the Three Months Ended June 30, 2012	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	\$ (2,725)	\$ (936)
Denominator:		
Weighted-average shares outstanding, basic	16,577,931	5,699,088
Basic net loss per share	\$ (0.16)	\$ (0.16)
Diluted net loss per share:		
Numerator:		
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)
Denominator:		
Weighted-average shares outstanding used in basic computation	16,577,931	5,699,088
Add:		
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)

	For the Six Months Ended June 30, 2013	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	\$ (7,358)	\$ (2,350)
Denominator:		
Weighted-average shares outstanding, basic	17,924,791	5,723,204
Basic net loss per share	\$ (0.41)	\$ (0.41)
Diluted net loss per share:		
Numerator:		
Allocation of loss	\$ (7,358)	\$ (2,350)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(2,464)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	114	
Allocation of loss	\$ (9,708)	\$ (2,350)
Denominator:		
Weighted-average shares outstanding used in basic computation	17,924,791	5,723,204
Add:		
Conversion of Class B to common shares	5,723,204	
Weighted-average shares outstanding, diluted	23,647,995	5,723,204