

Baltic Trading Ltd
Form 10-K
February 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

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
(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

Edgar Filing: Baltic Trading Ltd - Form 10-K

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (646) 443-8550

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by checkmark 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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition 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

Smaller reporting company o

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

Edgar Filing: Baltic Trading Ltd - Form 10-K

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the last sale price of such stock of \$5.74 per share as of June 30, 2011 on the New York Stock Exchange, was approximately \$93.5 million. The registrant has no non-voting common equity issued and outstanding. The determination of affiliate status for purposes of this paragraph is not necessarily a conclusive determination for any other purpose.

The number of shares outstanding of the registrant's classes of common stock, as of February 29, 2012: common stock, \$0.01 per share 17,001,000 shares and Class B stock, \$0.01 per share 5,699,088 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2012 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2011, are incorporated by reference in Part III herein.

PART I

ITEM 1. BUSINESS

OVERVIEW

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 deadweight tons (dwt). 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 will 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 revolving credit facility (the 2010 Credit Facility). Depending on market conditions, we aim to grow our fleet through timely and selective acquisitions of vessels in a manner that is accretive to our earnings and cash flow. We intend to distribute to our shareholders on a quarterly basis all of our net income less cash expenditures for capital items related to our fleet, other than vessel acquisitions and related expenses, plus non-cash compensation, during the previous quarter, subject to any additional reserves our Board of Directors may from time to time determine are required for the prudent conduct of our business, as further described below under Dividend Policy.

Refer to page 4 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 15 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.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements, and other documents with the SEC, under the Securities Exchange Act of 1934 (the Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at

Edgar Filing: Baltic Trading Ltd - Form 10-K

www.sec.gov.

In addition, our company website can be found on the Internet at www.baltictrading.com. The website contains information about us and our operations. Copies of each of our filings with the SEC on Form 10-Q and Form 8-K, and all amendments to those reports, can be viewed and downloaded free of charge after the reports and amendments are electronically filed with or furnished to the SEC. To view the reports, access www.baltictrading.com, click on Investor Relations, then SEC Filings. No information on our company website is incorporated by reference into this annual report on Form 10-K.

Any of the above documents can also be obtained in print by any shareholder upon request to our Investor Relations Department at the following address:

Corporate Investor Relations

Baltic Trading Limited

299 Park Avenue, 12th Floor

New York, NY 10171

BUSINESS STRATEGY

Our strategy is to employ a fleet of drybulk vessels in the spot market and to grow our business through accretive vessel acquisitions. As detailed below, our strategy largely relies on blending certain complementary elements of vessel employment with a capital structure that supports our operations. For example, we believe our focus on the drybulk spot market and our quarterly dividend policy is attractive to investors because it provides them exposure to the trends of the drybulk shipping industry. We have financed our existing fleet primarily with equity and seek to maintain relatively low leverage. Key elements of our business strategy include:

- *Deploy our vessels in the spot market.* We seek to provide shareholders with the opportunity to invest in a company with a strategic focus on the drybulk spot market by deploying our vessels on voyage or time charters or in vessel pools that are related to the spot market. The spot market is volatile and holds the potential for significant increases or decreases in shipping rates over time. Upward movements in spot rates have the potential to increase our revenues, and we will have opportunities to take advantage of these upswings by not locking our vessels into long-term, fixed-rate time charters. Conversely, our revenues may decline if the spot market does, and we will not benefit from the stabilizing effect of fixed-rate time charters. The spot market may be affected by whether the global economy declines or recovers, particularly with respect to economies outside the United States such as China and India, which have been the primary drivers of drybulk trade in recent years. Further, while economic health is one factor influencing demand, supply of drybulk vessels is also an important factor affecting spot market rates. An undersupply of drybulk vessels could lead to higher spot market rates despite weak economic conditions, while an oversupply of drybulk vessels could lead to lower spot market rates despite strong economic conditions. Because we generate virtually all of our revenues in U.S. Dollars, the current weakness of the U.S. Dollar does not affect our revenues; however, as we may incur certain costs in other currencies, the weakness of the U.S. Dollar could affect our business if these costs are significant.
- *Return a substantial portion of our cash flow to shareholders through quarterly dividends.* Our dividend policy is to pay quarterly dividends to our shareholders approximately equal to our net income minus cash capital expenditures for vessels, other than vessel acquisitions and related expenses plus non-cash compensation. In recent quarters, our Board of Directors determined to declare a dividend based on our cash flow, liquidity, and capital resources, even though the application of our policy would have resulted in a lesser dividend or no dividend. See Dividend Policy herein. As we intend to primarily finance future vessel acquisitions through equity financing as well as internally generated cash flow while minimizing our reliance on debt financing as market conditions permit, we expect our cash flow to be sufficient to support quarterly dividends. By paying dividends in this manner, our goal is to make our common stock more attractive to investors to enhance our ability to conduct equity financings. We paid dividends of \$0.45 and \$0.32 per share during 2011 and 2010, respectively.
- *Maintain a strong balance sheet.* We have primarily used equity to finance our fleet, and we seek to maintain relatively low leverage going forward. When market conditions permit, we may use equity financing to reduce our outstanding debt. We believe our goal of keeping our leverage low will help offset the volatility risk of trading our vessels in the spot market. We also believe this approach will help us capitalize on opportunities if the spot market improves as well as reduce the impact debt covenant restrictions and scheduled debt payments would have on our business if the spot market declines..

Edgar Filing: Baltic Trading Ltd - Form 10-K

- *Strategically expand the size of our fleet.* Depending on market conditions, we intend to acquire modern, high-quality drybulk carriers through timely and selective acquisitions of vessels in a manner that is accretive to our earnings and cash flows. We expect to fund acquisitions of additional vessels primarily using equity financing or cash reserves set aside for this purpose. We may also use debt financing such as our existing revolving credit facility, although our long-term strategy would entail reducing any such debt with future equity financings as market conditions permit..

- *Continue to operate a high-quality fleet.* We intend to maintain a modern, high-quality fleet that meets or exceeds stringent industry standards and complies with charterer requirements through our technical managers' comprehensive maintenance program. In addition, our technical managers maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea.
- *Maintain low-cost, highly efficient operations.* Under the Management Agreement, Genco coordinates and oversees the technical management of our fleet and utilizes qualified third-party independent technical managers. We believe that Genco is able to do so at a cost to us that is lower than what could be achieved by performing the function in-house. Genco's management team actively monitors and controls vessel operating expenses incurred by the independent technical managers by overseeing their activities.
- *Capitalize on our management's experience and reputation.* We intend to continue to capitalize on the reputation of the management at Genco and our company for high standards of performance, reliability and safety, and maintain strong relationships with major international charterers and other owners, many of whom consider the reputation of a vessel owner and operator when entering into charters and asset sales. We believe that the track record of Genco's management team improves our relationships with high quality shipowners, charterers and financial institutions, many of which consider reputation to be an indicator of creditworthiness.

OUR FLEET

Our fleet currently consists of two Capesize, four Supramax and three Handysize drybulk carriers, with an aggregate carrying capacity of approximately 672,000 dwt. As of December 31, 2011, the average age of the vessels currently in our fleet was approximately 2.0 years, as compared to the average age for the world fleet of approximately 12 years for the drybulk shipping segments in which we compete. The table below summarizes the characteristics of our vessels:

Vessel	Class	Dwt	Year Built
Baltic Bear	Capesize	177,717	2010
Baltic Wolf	Capesize	177,752	2010
Baltic Cougar	Supramax	53,432	2009
Baltic Jaguar	Supramax	53,474	2009
Baltic Leopard	Supramax	53,447	2009
Baltic Panther	Supramax	53,351	2009
Baltic Breeze	Handysize	34,386	2010
Baltic Cove	Handysize	34,403	2010
Baltic Wind	Handysize	34,409	2009

FLEET MANAGEMENT

Genco provides us with commercial and strategic management of our fleet. Commercial management involves negotiating charters for vessels, managing the mix of various types of charters, such as time charters and voyage charters, and monitoring the performance of our vessels under their charters. Strategic management involves locating, purchasing, financing and selling vessels.

Edgar Filing: Baltic Trading Ltd - Form 10-K

We utilize the services of Genco and reputable independent technical managers for the technical management of our fleet. We currently contract with Wallem Shipmanagement Limited (Wallem) and Anglo-Eastern Group (Anglo), independent technical managers, for our technical management. Technical management involves the day-to-day management of vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies. Members of our Genco New York City-based management team oversee the activities of our independent technical managers. The head of Genco's technical management team has over 30 years of experience in the shipping industry.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Wallem, founded in 1971, and Anglo, founded in 1974, are among the largest ship management companies in the world. These technical managers are known worldwide for their agency networks, covering all major ports in China, Hong Kong, Japan, Vietnam, Taiwan, Thailand, Malaysia, Indonesia, the Philippines and Singapore. These technical managers provide services to over 500 vessels of all types, including Capesize, Panamax, Supramax, Handymax and Handysize drybulk carriers that meet strict quality standards.

Under our technical management agreements, our technical manager is obligated to:

- provide personnel to supervise the maintenance and general efficiency of our vessels;
- arrange and supervise the maintenance of our vessels to our standards to assure that our vessels comply with applicable national and international regulations and the requirements of our vessels' classification societies;
- select and train the crews for our vessels, including assuring that the crews have the correct certificates for the types of vessels on which they serve;
- check the compliance of the crews' licenses with the regulations of the vessels' flag states and the International Maritime Organization, or IMO;
- arrange the supply of spares and stores for our vessels; and
- report expense transactions to us, and make its procurement and accounting systems available to us.

OUR CHARTERS

As of February 29, 2012, all of our vessels were employed under spot market-related time charters. Spot market-related time charters involve the hiring of a vessel from its owner for a period time pursuant to a contract under which the vessel owner places its ship (including its crew and equipments) at the disposal of the charterer. The charterer typically bears all voyage expenses, including the cost of bunkers (fuel), port expenses, agents' fees and canal dues. Spot market-related time charters are subject to the fluctuations in the spot market rather than being based on a fixed daily rate as time charter agreements are.

Subject to any restrictions in the contract, the charterer determines the type and quantity of cargo to be carried and the ports of loading and discharging. Our vessels operate worldwide within the trading limits imposed by our insurance terms. The technical operation and navigation of the vessel at all times remains the responsibility of the vessel owner, which is generally responsible for the vessel's operating expenses,

Edgar Filing: Baltic Trading Ltd - Form 10-K

including the cost of crewing, insuring, repairing and maintaining the vessel, costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses.

Each of our current spot market-related time charters expires within a range of dates (for example, a minimum of 11 and maximum of 13 months following delivery), with the exact end of the time charter left unspecified to account for the uncertainty of when a vessel will complete its final voyage under the time charter. The charterer may extend the charter period by any time that the vessel is off-hire. If a vessel remains off-hire for more than 30 consecutive days, the time charter may be cancelled at the charterer's option.

In connection with the charter of each of our vessels, we incur commissions generally ranging from 1.25% to 6.25% of the total daily charterhire rate of each charter to third party brokers, which include the 1.25% commission payable to Genco pursuant to the Management Agreement.

We monitor developments in the drybulk shipping industry on a regular basis and strategically adjust the charterhire periods for our vessels according to market conditions as they become available for charter.

The following table sets forth information about the current employment of the vessels currently in our fleet as of February 29, 2012:

Edgar Filing: Baltic Trading Ltd - Form 10-K

Vessel	Year Built	Charterer	Charter Expiration(1)	Employment Structure
<i>Capesize Vessels</i>				
Baltic Bear	2010	Swissmarine Services S.A.	March 2012	101.5% of BCI (2)
Baltic Wolf	2010	Cargill International S.A.	August 2012	100% of BCI (3)
<i>Supramax Vessels</i>				
Baltic Leopard	2009	Resource Marine PTE Ltd. (part of the Macquarie group of companies)	March 2012	97% of BSI (4)
Baltic Panther	2009	Klaveness Chartering	April 2013	95% of BSI (5)
Baltic Jaguar	2009	Resource Marine PTE Ltd. (part of the Macquarie group of companies)	May 2012	97% of BSI (4)
Baltic Cougar	2009	AMN Bulkcarriers Inc.	August 2012	96% of BSI (6)
<i>Handysize Vessels</i>				
Baltic Wind	2009	Cargill International S.A.	May 2013	115% of BHSI (7)
Baltic Cove	2010	Cargill International S.A.	February 2014	115% of BHSI (7)
Baltic Breeze	2010	Cargill International S.A.	July 2014	115% of BHSI (7)

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

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

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

(4) We have reached an agreement with Resource Marine PTE Ltd. on two spot market-related time charters for 11 to 13.5 months based on 97% of the average of the daily rates of the Baltic Supramax Index (BSI) published by the Baltic Exchange, as reflected in daily reports. Hire is paid every 15 days in arrears net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco.

(5) We have reached an agreement with Klaveness Chartering on a spot market-related time charter based on 95% of the average of the daily rates of the BSI, as reflected in daily reports. The duration is 22.5 to 25.5 months with hire paid every 15 days in arrears net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco.

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

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

CLASSIFICATION AND INSPECTION

All of our vessels have been certified as being in class by the American Bureau of Shipping (ABS), Det Norske Veritas (DNV) or Lloyd's Register of Shipping (Lloyd's). Each of these classification societies is a member of the International Association of Classification Societies.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Every commercial vessel's hull and machinery is evaluated by a classification society authorized by its country of registry. The classification society certifies that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. Each vessel is inspected by a surveyor of the classification society in three surveys of varying frequency and thoroughness: every year for the annual survey, every two to three years for the intermediate survey and

Edgar Filing: Baltic Trading Ltd - Form 10-K

every four to five years for special surveys. Special surveys always require drydocking. Vessels that are 15 years old or older are required, as part of the intermediate survey process, to be drydocked every 24 to 30 months for inspection of the underwater portions of the vessel and for necessary repairs stemming from the inspection.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

We have implemented the International Safety Management Code, which was promulgated by the International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of marine pollution by ships), to establish pollution prevention requirements applicable to vessels. We obtained documents of compliance for our offices and safety management certificates for all of our vessels for which the certificates are required by the IMO.

CREWING AND EMPLOYEES

Each of our vessels is crewed with 21 to 24 officers and seamen. Our technical managers are responsible for locating and retaining qualified officers for our vessels. The crewing agencies handle each seaman's training, travel and payroll, and ensure that all the seamen on our vessels have the qualifications and licenses required to comply with international regulations and shipping conventions. We typically man our vessels with more crew members than are required by the country of the vessel's flag in order to allow for the performance of routine maintenance duties.

As of February 29, 2012, we employed approximately 200 seagoing personnel on our vessels.

CUSTOMERS

Our assessment of a charterer's financial condition and reliability is an important factor in negotiating employment for our vessels. We generally charter our vessels to major trading houses (including commodities traders), major producers and government-owned entities rather than to more speculative or undercapitalized entities. Our customers include national, regional and international companies, including Cargill International S.A., Resource Marine PTE Ltd. (part of the Macquarie group of Companies), AMN Bulkcarriers Inc. and Swissmarine Services S.A. For the year ended December 31, 2011, these customers individually accounted for 44.99%, 13.70%, 11.19% and 10.61%, respectively.

COMPETITION

Our business fluctuates in line with the main patterns of trade of the major drybulk cargoes and varies according to changes in the supply and demand for these items. We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location and size, age and condition of the vessel, as well as on our reputation as an owner and operator. We compete with other owners of drybulk carriers in the Capesize, Supramax and Handysize class sectors, some of whom may also charter our

Edgar Filing: Baltic Trading Ltd - Form 10-K

vessels as customers. Ownership of drybulk carriers is highly fragmented and is divided among approximately 1,650 independent drybulk carrier owners.

PERMITS AND AUTHORIZATIONS

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and other authorizations with respect to our vessels. The kinds of permits, licenses, certificates and other authorizations required for each vessel depend upon several factors, including the commodity transported, the waters in which the vessel operates, the nationality of the vessel's crew and the age of the vessel. We believe that we have all material permits, licenses, certificates and other authorizations necessary for the conduct of our operations. However, additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of our doing business.

INSURANCE

General

The operation of any drybulk vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, piracy, hostilities and

labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. The U.S. Oil Pollution Act of 1990, or OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the U.S.-exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the U.S. market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover, and freight, demurrage and defense cover and loss of hire insurance for our fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull and Machinery, War Risks, Kidnap and Ransom Insurance

We maintain marine hull and machinery, war risks and kidnap and ransom insurance which cover the risk of actual or constructive total loss, for all of our vessels. Our vessels are each covered up to at least fair market value with deductibles, which depend primarily on the class of the insured vessel and are subject to change. We are covered, subject to limitations in our policy, to have the crew released in the case of kidnapping due to piracy in the Gulf of Aden / Somalia.

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which insure our third-party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or clubs. Subject to the capping discussed below, our coverage, except for pollution, is unlimited.

We maintain protection and indemnity insurance coverage for pollution of \$1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. We are a member of a P&I Association, which is a member of the International Group. As a result, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group.

Loss of Hire Insurance

We maintain loss of hire insurance, which covers business interruptions and related losses that result from the loss of use of a vessel. Our loss of hire insurance has a 14-day deductible and provides claim coverage for up to 90 days. Loss of hire insurance for piracy in the Gulf of Aden / Somalia has a 20-day deductible and provides claim coverage for up to 50 days.

ENVIRONMENTAL AND OTHER REGULATION

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities, (applicable national authorities such as the U.S. Coast Guard and harbor masters), classification societies, flag state administrations (countries of registry) and charterers.

Some of these entities require us to obtain permits, licenses, certificates and other authorizations for the operation of our vessels. Our failure to maintain necessary permits, licenses, certificates or authorizations could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels.

In recent periods, heightened levels of environmental and operational safety concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the drybulk shipping industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident, such as one comparable to the 2010 *Deepwater Horizon* oil spill, that results in significant oil pollution or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization (IMO)

The United Nations International Maritime Organization (the IMO) has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (collectively referred to as MARPOL 73/78 and herein as MARPOL). MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI was separately adopted by the IMO in September of 1997.

Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits deliberate emissions of ozone depleting substances, defined to include certain halons and chlorofluorocarbons. Deliberate emissions are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ships repair and maintenance. Emissions of volatile organic compounds from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

The IMO's Maritime Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which amendments were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. By January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50% sulfur (from the current cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Sulfur content standards are even stricter within certain Emission Control Areas (ECAs). By July 1, 2010, ships operating within an ECA may not use fuel with sulfur content in excess of 1.0% (from 1.50%), which is further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America will also be designated ECAs, as will (effective January 1, 2014) the United States Caribbean Sea. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U. S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

Safety Management System Requirements

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS Convention and LL Convention standards.

Under Chapter IX of SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, our operations are also subject to environmental standards and requirements. The ISM Code requires the owner of a vessel, or any person who has taken responsibility for operation of a vessel, to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We rely upon the safety management system that we and our technical manager have developed for compliance with the ISM Code. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The ISM Code requires that vessel operators also obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We believe that we have all material requisite documents of compliance for our offices and safety management certificates for all of our vessels for which such certificates are required by the IMO. We renew these documents of compliance and safety management certificates as required.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the nations signatory to such conventions. For example, IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory for our vessels, and our vessels would be required to be equipped with ballast water treatment systems that meet mandatory concentration limits, in each case not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2016. If mid-ocean ballast exchange is made mandatory, or if ballast water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers, and the costs of ballast water treatment may be material.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Noncompliance with the ISM Code or other IMO regulations may subject the vessel owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, respectively. As of the date of this report, each of our vessels is ISM Code certified. However, there can be no assurance that such certificates will be maintained in the future.

Anti-Fouling Requirements

In 2001, the IMO adopted the International Convention on the Control of Harmful Anti-fouling Systems on Ships, or the Anti-fouling Convention. The Anti-fouling Convention prohibits the use of organotin compound coatings to prevent the attachment of mollusks and other sea life to the hulls of vessels after September 1, 2003. The exteriors of vessels constructed prior to January 1, 2003 that have not been in drydock must, as of September 17, 2008, either not contain the prohibited compounds or have coatings applied to the vessel exterior that act as a barrier to the leaching of the prohibited compounds. Vessels of over 400 gross tons engaged in international voyages must obtain an International Anti-fouling System Certificate and undergo a survey before the vessel is put into service or when the anti-fouling systems are altered or replaced. We have obtained Anti-fouling System Certificates for all of our vessels that are subject to the Anti-fouling Convention.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S. territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define owner and operator in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Accordingly, both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

- injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- injury to, or economic losses resulting from, the destruction of real and personal property;
- net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal
- loss of subsistence use of natural resources that are injured, destroyed or lost;

Edgar Filing: Baltic Trading Ltd - Form 10-K

- lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels to the greater of \$1,000 per gross ton or \$854,400 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsible party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an

act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. We plan to comply with the U.S. Coast Guard's financial responsibility regulations by providing a certificate of responsibility evidencing sufficient self-insurance. The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

While we do not carry oil as cargo, we do carry bunkers in our drybulk carriers. We currently maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Other United States Environmental Regulations

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA.

The EPA regulates the discharge of ballast water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. The EPA has proposed a draft 2013 Vessel General Permit to replace the current Vessel General Permit upon its expiration on December 19, 2013, authorizing discharges incidental to operations of commercial vessels. The draft permit also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants. U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. In 2009, the Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. As of November 2011, the Office of Management and Budget continues to review this proposed rule. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

European Union Regulations

Edgar Filing: Baltic Trading Ltd - Form 10-K

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. However, in July 2011 the MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from ships that will enter into force in January 2013. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also considering the development of market-based mechanisms to reduce greenhouse gas emissions from ships. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

International Labour Organization

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. The MLC 2006 has not yet been ratified, but its ratification would require us to develop new procedures to ensure full compliance with its requirements.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

Edgar Filing: Baltic Trading Ltd - Form 10-K

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

A ship operating without a valid certificate may be detained at port until it obtains an ISSC, or may be expelled from port or refused entry at port.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Inspection by Classification Societies

Every oceangoing vessel must be classed by a classification society. The classification society certifies that the vessel is in class, signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classes are required to be performed as follows:

- *Annual Surveys:* For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.
- *Intermediate Surveys:* Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.
- *Class Renewal Surveys:* Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a vessel owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a vessel owner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

Edgar Filing: Baltic Trading Ltd - Form 10-K

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the vessel owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as in class by a classification society which is a member of the International Association of Classification Societies. All of our vessels have been certified as being in class by ABS, DNV or Lloyd's. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard agreements.

SEASONALITY

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, may result in quarter-to-quarter volatility in our operating results because our vessels are traded on the spot market. The drybulk sector is typically stronger in the fall and winter months in anticipation of increased consumption of coal and raw materials in the northern hemisphere during the winter months. As a result, our revenues could be weaker during the fiscal quarters ended June 30 and September 30 and conversely, our revenues could be stronger during the quarters ended December 31 and March 31.

ITEM 1A. RISK FACTORS

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

This annual report on Form 10-K 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, budget, estimate, expect, project, intend, believe, and other words and terms 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 our 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 annual report on Form 10-K are the following (i) changes in demand or rates in the drybulk shipping industry; (ii) changes in the supply of or demand for drybulk products, generally or in particular regions; (iii) changes in the supply of drybulk carriers, including newbuilding of vessels or lower than anticipated scrapping of older vessels; (iv) 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; (v) increases in costs and expenses including but not limited to: crew wages, insurance, provisions, lube oil, bunkers, repairs, maintenance and general, administrative and management fee expenses; (vi) the adequacy of our insurance arrangements; (vii) changes in general domestic and international political conditions; (viii) acts of war, terrorism, or piracy; (ix) 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; (x) the amount of off-hire time needed to complete repairs on vessels and the timing and amount of any reimbursement by our insurance carriers for insurance claims including off-hire days; (xi) our acquisition or disposition of vessels; (xii) the ability to leverage Genco's relationships and reputation in the shipping industry; (xiii) the completion of definitive documentation with respect to charters; (xiv) charterers' compliance with the terms of their charters in the current market environment; (xv) those other risks and uncertainties discussed below under the heading **RISKFACORS RELATED TO OUR BUSINESS & OPERATIONS**, and (xvi) other factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC"). 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 risk factors and other information included in this report should be carefully considered. If any of the following risks actually occur, our business, financial condition, operating results or cash flows could be materially and adversely affected and the trading price of our common stock could decline.

RISK FACTORS RELATED TO OUR BUSINESS AND OPERATIONS

Industry Specific Risk Factors

The current global economic downturn may negatively impact our business.

In the current global economy, operating businesses have been facing tight credit, weak demand for goods and services, deteriorating international liquidity conditions, and depressed markets. Lower demand for drybulk cargoes as well as diminished trade credit available for the delivery of such cargoes have led to decreased demand for drybulk vessels, creating downward pressure on charter rates. General market volatility has endured as a result of uncertainty about sovereign debt and fears of countries such as Greece, Portugal and Spain defaulting on their governments' financial obligations and speculation about the growth rate of the Chinese economy. If the current global economic environment persists or worsens, we may be negatively affected in the following ways:

Edgar Filing: Baltic Trading Ltd - Form 10-K

- We may not be able to employ our vessels at charter rates as favorable to us as historical rates or operate our vessels profitably.
- Our earnings could decline, which may cause us to breach one or more of the covenants in the 2010 Credit Facility, thereby potentially accelerating the repayment of outstanding facility borrowings.
- The market values of our vessels have decreased, which may cause us to recognize losses if any of our vessels are sold or if their values are impaired. A further decline in the market value of our vessels could prevent us from borrowing under the 2010 Credit Facility or trigger a default under its covenants. Please refer to The market values of our vessels may decrease, which could adversely affect our operating results, cause us to breach one or more covenants in the 2010 Credit Facility or any credit facility we may enter into, or limit the total amount we may borrow under such a credit facility below for further details.

The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Charterhire rates for drybulk carriers are volatile and are currently at historically low levels and may further decrease in the future, which may adversely affect our earnings.

The prolonged downturn in the drybulk charter market, from which we derive the large majority of our revenues, has severely affected the drybulk shipping industry. The Baltic Dry Index (BDI), an index published by The Baltic Exchange of shipping rates for 26 key drybulk routes, showed continued volatility in 2011 and recorded an average level of 1,525, compared to a ten-year average level of 3,523. The BDI decreased to a historic low in February 2012. While the BDI has since increased, there can be no assurance the drybulk charter market will increase further, and the market could decline.

Seasonal factors have been contributing to the most recent downturn in rates including order timing issues for iron ore cargoes related to the celebration of the Chinese New Year; increased deliveries of newbuilding vessels for the month of January as compared to the previous three months; and short-term weather-related issues in Brazil, temporarily reducing iron ore output by an estimated two million tons. In addition to these factors, the economic dislocation worldwide and associated disruption of the credit markets, have had a number of adverse consequences for drybulk shipping, including, among other things:

- a significant reduction in available financing for vessels;
- a less active second-hand market for the sale of vessels;
- extremely low charter rates, particularly for vessels employed in the spot market;

- widespread loan covenant defaults in the drybulk shipping industry; and
- declaration of bankruptcy by some operators and shipowners as well as charterers.

We charter all of our vessels principally in the spot market or on spot market-related time charters and, as a result, we are exposed to the cyclicity and volatility of the spot charter market.

Because we charter all of our vessels principally in the spot market or on spot market-related time charters known as trip charters, or we may acquire vessels that are subject to existing charters, we are exposed to the cyclicity and volatility of the spot charter market, and we will not have long-term, fixed-rate time charters to ameliorate the adverse effects of downturns in the spot market. Capesize vessels, which we operate as part of our fleet, have been particularly susceptible to recent volatility in spot charter rates. We cannot assure you that we will be able to successfully charter our vessels in the future at rates sufficient to allow us to meet our obligations or to pay dividends to our shareholders.

The supply of and demand for shipping capacity strongly influences freight rates. In addition, vessels may experience repeated periods of unemployment between spot charters. The successful operation of our vessels in the

Edgar Filing: Baltic Trading Ltd - Form 10-K

spot market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo, or ballast time. In the past, there have been periods when spot rates have declined below the operating cost of vessels. Future spot rates may decline significantly and may not be sufficient to enable our vessels trading in the spot market to operate profitably or for us to pay dividends and may have a material adverse effect on our cash flows and financial condition. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable. The current global financial crisis has intensified this unpredictability.

Factors that influence demand for vessel capacity include:

- demand for and production of drybulk products;
- global and regional economic and political conditions including developments in international trade, fluctuations in industrial and agricultural production and armed conflicts;
- the distance drybulk cargo is to be moved by sea;
- environmental and other regulatory developments; and
- changes in seaborne and other transportation patterns.

The factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- port and canal congestion;
- the scrapping rate of older vessels;
- vessel casualties;

Edgar Filing: Baltic Trading Ltd - Form 10-K

- conversion of vessels to other uses;
- the number of vessels that are out of service, i.e., laid-up, drydocked, awaiting repairs or otherwise not available for hire; and
- environmental concerns and regulations.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

We anticipate that the future demand for our drybulk carriers will be dependent upon economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global drybulk carrier fleet and the sources and supply of drybulk cargo to be transported by sea. Adverse economic, political, social or other developments, including a change in worldwide fleet capacity, could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

An oversupply of drybulk carrier capacity may lead to reductions in charterhire rates, vessel values and profitability.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The market supply of drybulk carriers has been increasing as a result of the delivery of numerous newbuilding orders over the last few years. Currently, we believe there is an oversupply of vessels, as evidenced by some carriers letting their ships sit idle rather than operate them at current rates.

Newbuildings have been delivered in significant numbers since the beginning of 2006. The oversupply of drybulk carrier capacity has resulted in a reduction of charterhire rates, as evidenced by the low rates we are experiencing in early 2012. Currently, some of our spot market-related time charterers are at times unprofitable due to the volatility associated with dry cargo freight rates. If market conditions persist, upon the expiration or termination of our vessels' current non-spot charters, we may only be able to re-charter our vessels at reduced or unprofitable rates, or we may not be able to charter these vessels at all. The occurrence of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

The market values of our vessels may decrease, which could adversely affect our operating results, cause us to breach one or more covenants in the 2010 Credit Facility or any credit facility we may enter into, or limit the total amount we may borrow under such a credit facility.

If the book value of one of our vessels is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our financial results. Also, certain covenants in the 2010 Credit Facility depend on the market value of our fleet, and covenants of any other credit facility we may enter into may also depend on such market value. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources for further details on the covenants in the 2010 Credit Facility. If the market value of our fleet declines, we could breach certain provisions of the 2010 Credit Facility, which could accelerate the repayment of outstanding borrowings under such facility or may limit the total amount that we may borrow under such facility. In such an event, we may not be able to refinance our debt or obtain additional financing under any credit facility. The occurrence of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Prolonged declines in charter rates and other market deterioration could cause us to incur impairment charges.

We evaluate the carrying amounts of our vessels to determine if events have occurred that would require us to evaluate our vessels for an impairment of their carrying amounts. The recoverable amount of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. The review for potential impairment indicators and projection of future cash flows related to the vessels is complex and requires us to make various estimates including future freight rates and earnings from the vessels. All of these items have been historically volatile.

We evaluate the recoverable amount as the higher of fair value in use on an undiscounted cash basis. If the recoverable amount is less than the carrying amount of the vessel, the vessel is deemed impaired, and such vessel would be written down to its fair value. The carrying values of our vessels may not represent their fair market value in the future because the new market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Any impairment charges incurred as a result of declines in charter rates could have a material adverse effect on our business, results of operations, cash flows and financial condition.

A further economic slowdown or changes in the economic and political environment in the Asia Pacific region could have a material adverse effect on our business, financial position and results of operations.

Edgar Filing: Baltic Trading Ltd - Form 10-K

A significant number of the port calls our vessels make involve the loading or discharging of raw materials and semi-finished products in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, and particularly in China or Japan, could have an adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. China's gross domestic product grew by 9.2% in 2011 as compared to a 10.3% growth rate in 2010. We cannot assure you that the Chinese economy will not experience a significant contraction in the future. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a market economy and enterprise reform. Limited price reforms were undertaken with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, the level of imports

to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions. Notwithstanding economic reform, the Chinese government may adopt policies that favor domestic drybulk shipping companies and may hinder our ability to compete with them effectively. Moreover, a significant or protracted slowdown in the economies of the United States, the European Union or various Asian countries may adversely affect economic growth in China and elsewhere. Our business, results of operations, cash flows, financial condition and ability to pay dividends will likely be materially and adversely affected by an economic downturn in any of these countries.

We are subject to regulation and liability under environmental and operational safety laws that could require significant expenditures and affect our cash flows and net income and could subject us to increased liability under applicable law or regulation.

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions and national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the countries of their registration. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with them or their impact on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our business, results of operations, cash flows, financial condition and ability to pay dividends. See [Overview Environmental and Other Regulation](#) in Item 1, [Business](#) of this report for a discussion of such conventions, laws, and regulations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our operations.

The operation of our vessels is affected by the requirements set forth in the United Nations International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive Safety Management System that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention, which became effective on November 21, 2008, requires registered owners of ships over 1,000 gross tons to maintain insurance or other financial security for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters. OPA allows for liability without regard to fault of vessel owners, operators and demise charterers for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers, in U.S. waters. Such liability is potentially unlimited in cases of willful misconduct or gross negligence. OPA also expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution materials occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

Edgar Filing: Baltic Trading Ltd - Form 10-K

While we do not carry oil as cargo, we do carry bunkers in our drybulk carriers. We currently maintain, for each of our vessels, pollution liability coverage insurance of \$1 billion per incident. Damages from a catastrophic spill exceeding our insurance coverage could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of the contents of our vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We operate our vessels worldwide, and as a result, our vessels are exposed to international risks which could reduce revenue or increase expenses.

The international shipping industry is an inherently risky business involving global operations. Our vessels are at risk of damage or loss because of events such as mechanical failure, collision, human error, war, terrorism, piracy, cargo loss and bad weather. All these hazards can result in death or injury to persons, increased costs, loss of revenues, loss or damage to property (including cargo), environmental damage, higher insurance rates, damage to our customer relationships, harm to our reputation as a safe and reliable operator and delay or rerouting. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These sorts of events could interfere with shipping routes and result in market disruptions which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Our vessels may suffer damage and we may face unexpected dry docking costs, which could adversely affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that our insurance does not cover in full. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or we may be forced to travel to a drydocking facility that is distant from the relevant vessel's position. The loss of earnings while our vessels are being repaired and repositioned or from being forced to wait for space or to travel to more distant drydocking facilities, as well as the actual cost of repairs, could negatively impact our business, results of operations, cash flows, financial condition and ability to pay dividends.

The operation of drybulk carriers has certain unique operational risks which could affect our earnings and cash flow.

The operation of certain ship types, such as drybulk carriers, has certain unique risks. With a drybulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in drybulk carriers may lead to the flooding of the vessels' holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads, leading to the loss of a vessel. If we are unable to adequately maintain our vessels, we may be unable to prevent these events. Any of these circumstances or events may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

Acts of piracy on ocean-going vessels have continued and could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean, in the Gulf of Aden off the coast of Somalia and off the western coast of Africa. Since 2008, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden off the coast of Somalia. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as war risk zones, or Joint War Committee (JWC) war and strikes listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, results of operations, cash flows, financial condition and ability to pay dividends.

In response to piracy incidents, particularly in the Gulf of Aden off the coast of Somalia, following consultation with regulatory authorities, we may station guards on some of our vessels in some instances. While our use of guards is intended to deter and prevent the hijacking of our vessels, it may also increase our risk of liability for death or injury to persons or damage to personal property. If we do not have adequate insurance in place to cover such liability, it could adversely impact our business, results of operations, cash flows, and financial condition.

Terrorist attacks, such as the attacks on the United States on September 11, 2001, and other acts of violence or war may affect the financial markets, our vessels, our operations, or our customers and may therefore have an adverse effect on our business, results of operations and financial condition.

Terrorist attacks such as the attacks in the United States on September 11, 2001 and the United States continuing response to these attacks, the attacks in London on July 7, 2005, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets, including the energy markets. The continuing conflict in Iraq may lead to additional acts of terrorism, armed conflict and civil disturbance around the world, which may contribute to further instability, including in the drybulk shipping markets. Terrorist attacks, such as the attack on the M.T. Limburg in Yemen in October 2002, may also negatively affect our trade patterns or other operations and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences, or the perception that drybulk carriers are potential terrorist targets, could have a material adverse impact on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Compliance with safety and other vessel requirements imposed by classification societies may be costly and could reduce our net cash flows and net income.

The hull and machinery of every commercial vessel must be certified as being in class by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. Our vessels are currently enrolled with the ABS, DNV, or Lloyd's, each of which is a member of the International Association of Classification Societies. Further, to trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization.

Edgar Filing: Baltic Trading Ltd - Form 10-K

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of its underwater parts.

If any vessel does not maintain its class or fails any annual, intermediate or special survey, the vessel will be unable to trade between ports and will be unemployable and we could be in violation of certain covenants in our credit facilities, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, UK Bribery Act, and other applicable worldwide anti-corruption laws.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The U.S. Foreign Corrupt Practices Act (FCPA) and other applicable worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. These laws include the recently enacted U.K. Bribery Act, which became effective on July 1, 2011 and which is broader in scope than the FCPA, as it contains no facilitating payments exception. We charter our vessels into some jurisdictions that international corruption monitoring groups have identified as having high levels of corruption. Our activities create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of the FCPA or other applicable anti-corruption laws. Our policies mandate compliance with applicable anti-corruption laws. Although we have policies, procedures and internal controls in place to monitor internal and external compliance, we cannot assure that our policies and procedures will protect us from governmental investigations or inquiries surrounding actions of our employees or agents. If we are found to be liable for violations of the FCPA or other applicable anti-corruption laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), we could suffer from civil and criminal penalties or other sanctions.

We may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.

Our success depends in large part on the ability of our Manager, our third-party technical managers, and us to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. If we are not able to increase our rates to compensate for any crew cost increases, it could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends. Any inability our Manager, our third-party technical managers, or we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Labor interruptions could disrupt our business.

Our vessels are manned by masters, officers and crews that are employed by third parties. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out normally and could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

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

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

Arrests of our vessels by maritime claimants could cause a significant loss of earnings for the related off-hire period.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting or attaching a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could result in a significant loss of earnings for the

Edgar Filing: Baltic Trading Ltd - Form 10-K

related off-hire period. In addition, in jurisdictions where the sister ship theory of liability applies, a claimant may arrest the vessel which is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. In countries with sister ship liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

Governments could requisition our vessels during a period of war or emergency, resulting in loss of earnings.

A government of a vessel's registry could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of

one or more of our vessels could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Increases in fuel prices could adversely affect our profits.

Spot charter arrangements generally provide that the vessel owner or pool operator bear the cost of fuel in the form of bunkers, which is a significant vessel operating expense. While all of our vessels are currently on spot-related time charters, they may be placed on spot charters in the future. If our vessels are placed on spot charters, an increase in the price of fuel beyond our expectations could adversely affect our profitability, cash flows and ability to pay dividends. The price and supply of fuel is unpredictable and fluctuates as a result of events outside our control, including geo-political developments, supply and demand for oil and gas, actions by members of the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations.

Given that the vessel owner or pool operator bears the cost of fuel under spot charters, the recent volatility in fuel prices is one factor affecting profitability in the drybulk spot market. To profitably price an individual charter, the vessel owner or pool operator must take into account the anticipated cost of fuel for the duration of the charter. Changes in the actual price of fuel at the time the charter is to be performed could result in the charter being performed at a significantly greater or lesser profit than originally anticipated or even result in a loss.

Our results of operations are subject to seasonal fluctuations, which may adversely affect our financial condition.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results, as our vessels trade in the spot market. The drybulk sector is typically stronger in the fall and winter months in anticipation of increased consumption of coal and raw materials in the northern hemisphere during the winter months. As a result, our revenues could be weaker during the fiscal quarters ended June 30 and September 30, and conversely, our revenue could be stronger during the quarters ended December 31 and March 31. This seasonality could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Company Specific Risk Factors

We have a limited operating history on which you can evaluate our business strategy.

Our vessel operating history commenced in April 2010 with the delivery of the first vessel we agreed to purchase prior to our IPO, and we have taken delivery of eight additional vessels since that time. Given the limited period of time in which we have been operating our fleet, there can be no assurance that our business strategy and operations will be successful.

We may not be able to implement our growth effectively.

Edgar Filing: Baltic Trading Ltd - Form 10-K

A principal focus of our business strategy is to grow by expanding our business. Our growth plan therefore depends upon a number of factors, some of which may not be within our control. These factors include our ability to:

- identify suitable vessels or shipping companies for acquisitions or joint ventures to grow our fleet in the future;
- integrate successfully any acquired vessels or businesses with our existing operations; and
- obtain required financing for our existing and any new operations.

Growing any business by acquisition presents numerous risks, including undisclosed liabilities and obligations, difficulty obtaining additional qualified personnel, managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. In addition, competition from other companies, many of which have significantly greater financial resources than do we or Genco, may reduce our acquisition opportunities or cause us to pay higher prices. We cannot assure you that we will be successful in executing our plans to establish and grow our business or that we will not incur significant expenses and losses in connection with these

plans. Our failure to effectively identify, purchase, develop and integrate any vessels or businesses could adversely affect our business, financial condition and results of operations. Our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- incur or assume unanticipated liabilities, losses or costs associated with any vessels or businesses acquired, particularly if any vessel we acquire proves not to be in good condition;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Moreover, to the extent we have future opportunities to expand our fleet, our strategy is to do so primarily through equity financing, which we expect will mainly consist of issuances of additional shares of our common stock, and internally generated cash flow. We have also entered into the 2010 Credit Facility to provide bridge financing for vessel acquisitions. However, we have not deemed conditions since our initial public offering to be suitable for equity financings to repay debt under our 2010 Credit Facility or finance potential acquisitions. If we are unable to complete equity issuances at prices that we deem acceptable, or our internally generated cash flow or credit facility are insufficient to finance future vessel acquisitions, we may need to revise our growth plan or consider alternative forms of financing.

Genco and its affiliates may compete with us or claim business opportunities that would benefit us.

Genco may compete with us and is not contractually restricted from doing so. Our amended and restated articles of incorporation and our Omnibus Agreement with Genco specify that Genco has a right of first refusal with respect to business opportunities generally except with respect to certain spot charter opportunities, as to which we have a right of first refusal. The most common types of business opportunities for which Genco has a right of first refusal are vessel purchase and sale opportunities and charters other than the spot charter opportunities for which we have a right of first refusal. Other business opportunities for which Genco has a result of first refusal are to hire employees, acquire other businesses, or enter into joint ventures. These provisions may strengthen Genco's ability to compete with us or claim business opportunities that would benefit us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Our plan to maintain low leverage and rely primarily on equity financing and our earnings to expand our business may adversely affect our growth and earnings.

Since our initial public offering, we financed the acquisition of three of our vessels using borrowings under our 2010 Credit Facility. Our intention has been to use the 2010 Credit Facility to provide bridge financing for vessel acquisitions; however, given unfavorable market conditions, we have not pursued additional equity financing that would allow us to reduce our indebtedness. The remaining availability under our 2010 Credit Facility and cash generated from our operations is not sufficient for substantial acquisitions to expand our business. Accordingly, unless market conditions improve or we consider other financing alternatives, we may be unable to take advantage of strategic opportunities to expand our business. As a result, our future earnings, cash flows and growth may be adversely affected.

Edgar Filing: Baltic Trading Ltd - Form 10-K

We may be unable to pay dividends.

We currently intend to pay a variable quarterly dividend equal to our Cash Available for Distribution, as defined herein, from the previous quarter, subject to any reserves our Board of Directors may from time to time determine are required. The amount of Cash Available for Distribution will principally depend upon the amount of cash we generate from our operations, which may fluctuate from quarter to quarter based upon, among other things:

- the cyclical nature in the spot vessel market;
- the rates we obtain from our charters;
- the price and demand for drybulk cargoes;
- the level of our operating costs, such as the cost of crews and insurance;
- the number of off-hire days for our fleet and the timing of, and number of days required for, drydocking of our vessels;
- delays in the delivery of any vessels we have agreed to acquire;
- prevailing global and regional economic and political conditions; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

The actual amount of cash generated also will depend upon other factors, such as:

- the level of capital expenditures we make, including for maintaining existing vessels and acquiring new vessels, which we expect will be substantial;

Edgar Filing: Baltic Trading Ltd - Form 10-K

- our debt service requirements and restrictions on distributions contained in any credit agreement we may enter into;
- fluctuations in our working capital needs; and
- the amount of any cash reserves established by our Board of Directors, including reserves for working capital and other matters.

In addition, the declaration and payment of dividends is subject at all times to the discretion of our Board of Directors and compliance with the laws of the Republic of the Marshall Islands. Please read [Dividend Policy](#) herein for more details.

Our ability to grow and satisfy our financial needs may be adversely affected by our dividend policy.

Our dividend policy calls for us to distribute all of our Cash Available for Distribution on a quarterly basis, subject to any reserves that our Board of Directors may determine are required. Accordingly, our growth, if any, will be financed principally by equity capital raising and, therefore, may not be as fast as businesses that reinvest their cash to expand ongoing operations.

In determining the amount of Cash Available for Distribution, our Board of Directors will consider contingent liabilities, the terms of the 2010 Credit Facility as well as any credit facilities we may enter into, our other cash needs and the requirements of Marshall Islands law. We believe that we will generally finance any maintenance and expansion capital expenditures from cash balances or external financing sources (which we intend as part of our strategy to be equity issuances and borrowings under a credit facility, but could include debt issuances). To the extent

Edgar Filing: Baltic Trading Ltd - Form 10-K

we do not have sufficient cash reserves or are unable to obtain financing for these purposes, our dividend policy may significantly impair our ability to meet our financial needs or to grow.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which may reduce the amount of cash for dividends to our shareholders.

We must make substantial capital expenditures to maintain the operating capacity of our fleet. We generally finance these maintenance capital expenditures with cash balances or undrawn credit facilities. We anticipate growing our fleet through the acquisition of vessels, which would increase the level of our maintenance capital expenditures.

Maintenance capital expenditures include capital expenditures associated with drydocking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in the cost of labor and materials; customer requirements; increases in our fleet size or the cost of replacement vessels; governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and competitive standards.

In addition, maintenance capital expenditures will vary significantly from quarter to quarter based on the number of vessels drydocked during that quarter. Significant maintenance capital expenditures may reduce the amount of Cash Available for Distribution to our shareholders.

We will be required to make substantial capital expenditures to expand the size of our fleet, which may diminish our ability to pay dividends, increase our financial leverage, or dilute our shareholders' ownership interest in us.

We will be required to make substantial capital expenditures to increase the size of our fleet. We intend to expand our fleet by acquiring existing vessels from other parties or newbuilding vessels, which we refer to as newbuildings.

We generally will be required to make installment payments on any newbuildings prior to their delivery. We typically would pay 10% to 25% of the purchase price of a vessel upon signing the purchase contract, even though delivery of the completed vessel will not occur until much later (approximately three to four years from the order). If we finance all or a portion of these acquisition costs through borrowings under the 2010 Credit Facility or by issuing debt securities, we will increase the aggregate amount of interest we must pay prior to generating cash from the operation of the newbuilding. Any interest expense we incur in connection with financing our vessel acquisitions, including capitalized interest expense, will decrease the amount of our dividends. If we finance these acquisition costs by issuing shares of common stock, we will dilute our quarterly per-share dividends prior to generating cash from the operation of the newbuilding.

To fund expansion capital expenditures, we may be required to use cash balances, cash from operations, incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce the amount of cash for dividends to our shareholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain funds for capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to pay dividends. Even if we are

Edgar Filing: Baltic Trading Ltd - Form 10-K

successful in obtaining the necessary funds, the terms of such financings could limit our ability to pay dividends to shareholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant shareholder ownership or dividend dilution.

Our executive officers and the officers of our Manager will not devote all of their time to our business, which may hinder our ability to operate successfully.

Our executive officers and the officers of our Manager are involved in other Genco business activities, which may result in their spending less time than is appropriate or necessary to manage our business successfully. Based solely on the anticipated relative sizes of our fleet and Genco's fleet over the next twelve months, we estimate that Mr. Wobensmith and other officers of Genco will spend approximately 10-15% of their monthly business time on our

Edgar Filing: Baltic Trading Ltd - Form 10-K

business activities and approximately 85-90% of such time on Genco's. However, the actual allocation of time could vary significantly from time to time depending on various circumstances and needs of the businesses, such as the relative levels of strategic activities of the businesses. This could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Our executive officers and directors, our Manager, and the executive officers and directors of our Manager have conflicts of interest and limited duties, which may permit them to favor interests of Genco or its affiliates above our interests and those of our common stock holders and allow Genco to compete with us.

Conflicts of interest may arise between Genco, our Manager, and its affiliates, on the one hand, and us and our shareholders, on the other hand. These conflicts include, among others, the following situations:

- Our amended and restated articles of incorporation and the Omnibus Agreement specify that Genco has a right of first refusal with respect to business opportunities generally, such as vessel purchase and sale opportunities and most charter opportunities, but excluding certain spot charter opportunities as to which we have a right of first refusal. Our President and Chief Financial Officer and certain of our directors also serve as executive officers or directors of Genco, who is our Manager, or its affiliates. As a result of the right of first refusal provision, the obligation of these individuals to provide opportunities to us will be limited.
- Our Manager advises our Board of Directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional common stock and cash reserves, each of which can affect the amount of the Cash Available for Distribution to our shareholders.
- Our executive officers and those of our Manager do not spend all of their time on matters related to our business.
- Our Manager advises us of costs incurred by it and its affiliates that it believes are reimbursable by us.

As a result of these conflicts, as well as any others that may arise pursuant to such arrangements, our Manager may favor its own interests and the interests of its affiliates over our interests and those of our shareholders, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

The fiduciary duties of our officers and directors may conflict with those of the officers and directors of Genco and its affiliates.

Our officers and directors have fiduciary duties to manage our business in a manner beneficial to our shareholders and us. However, our Chairman, our President and Chief Financial Officer and two of our independent directors, Basil G. Mavroleon and Harry A. Perrin, also serve as executive officers or directors of Genco. As a result, these individuals have fiduciary duties to manage the business of Genco and its affiliates in a manner beneficial to such entities and their shareholders. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Genco and us are in conflict. We believe the principal situations in which these conflicts may occur are in the allocation

Edgar Filing: Baltic Trading Ltd - Form 10-K

of business opportunities to Genco or us, particularly with respect to the allocation of chartering or vessel sale and purchase opportunities. The Omnibus Agreement is intended to reduce these conflicts by granting a right of first refusal for certain spot chartering opportunities to us while granting a right of first refusal to Genco for other business opportunities generally. The resolution of these conflicts may not always be in our best interest or that of our shareholders and could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Our Chairman may pursue business opportunities in our industry that may conflict with our interests

Our Chairman, Peter C. Georgiopoulos, is not an employee of our company or of Genco and is not contractually committed to remain as a director of our company or to refrain from other activities in our industry. Mr. Georgiopoulos actively reviews potential investment opportunities in the shipping industry, including the drybulk sector, from time to time. Affiliates of Mr. Georgiopoulos manage a company in which Mr. Georgiopoulos has a minority investment which owns an aggregate of 12 drybulk vessels. Mr. Georgiopoulos has informed us that so long as he is a director of our company, prior to making an investment in an entity owning or operating drybulk vessels, he intends to disclose the details of such investment to our Board of Directors and our independent directors and allow us to pursue the opportunity, subject to Genco's right of first refusal, to the extent we choose to do so and are able. However, in the event we choose not to, or are unable to, pursue any such opportunity, Mr. Georgiopoulos may proceed, either alone or with others, with such investments. In keeping with these principles, Mr. Georgiopoulos has become a minority investor in Maritime Equity Partners LLC ("MEP"), a company he controls which owns 12 drybulk vessels. As a result of such investments, Mr. Georgiopoulos may have independent interests in the ownership and operation of drybulk vessels that may conflict with our interests.

Our Manager has rights to terminate the Management Agreement and, under certain circumstances, could receive substantial sums in connection with such termination; however, even if our Board of Directors or our shareholders are dissatisfied with our Manager, there are limited circumstances under which we can terminate the Management Agreement.

The Management Agreement has an initial term of approximately 15 years and will automatically renew for subsequent five-year terms provided that certain conditions are met. Our Manager has the right, after five years following the completion of our IPO in March 2010, to terminate the Management Agreement with 12 months' notice. Our Manager also has the right to terminate the Management Agreement after a dispute resolution process if we have materially breached the Management Agreement.

Our Manager may elect to terminate the Management Agreement upon the sale of all or substantially all of our assets to a third party, our liquidation or after any change of control of our company occurs. If our Manager so elects to terminate the Management Agreement, then our Manager may be paid a termination fee. This 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 December 31, 2011, the termination payment that would be due to Genco is approximately \$30.4 million. In addition, our rights to terminate the Management Agreement are limited. Even if we are not satisfied with the Manager's efforts in managing our business, unless our Manager materially breaches the agreement, we may terminate the Management Agreement only:

- if we provide notice in the fiscal quarter that is four fiscal quarters before the fiscal quarter containing the tenth anniversary of the date on which we took delivery of our first vessel (which was in April 2010) after two-thirds of our Board of Directors elect to terminate the Management Agreement, which termination would be effective the last day of the fiscal quarter that contains such tenth anniversary; or
- if we provide notice of termination in the fiscal quarter that is four fiscal quarters before the fiscal quarter containing the fifteenth anniversary of the date on which we take delivery of our first vessel, which termination would be effective the last day of our fiscal quarter that contains such fifteenth anniversary.

Edgar Filing: Baltic Trading Ltd - Form 10-K

If we elect to terminate the Management Agreement at either of these points or at the end of a subsequent renewal term, our Manager will receive a termination fee, which may be substantial.

We depend on Genco to assist us in operating our business and competing in our markets, and our business will be harmed if Genco fails to assist us effectively.

We are party to a Management Agreement with Genco as our Manager, pursuant to which Genco provides to us commercial, technical, administrative and strategic services, including vessel maintenance, crewing, purchasing, shipyard supervision, insurance and financial services. Our operational success and ability to execute our growth strategy will depend significantly upon the satisfactory performance of these services by Genco. Our business will be harmed if Genco fails to perform these services satisfactorily, if it stops providing these services to us for any reason

or if it terminates the Management Agreement, as it is entitled to do under certain circumstances. The circumstances under which we are able to terminate the Management Agreement are extremely limited and do not include mere dissatisfaction with our Manager's performance. In addition, upon any termination of the Management Agreement, we may lose our ability to benefit from economies of scale in purchasing supplies and other advantages that we believe our relationship with Genco provides.

If Genco suffers material damage to its reputation or relationships, it may harm our ability to:

- acquire new vessels;
- enter into new charters for our vessels;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with charterers, suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to shareholders.

An increase in operating costs could adversely affect our cash flows and financial condition.

Under the Management Agreement, we must pay for vessel operating expenses (including crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses), and in addition for spot or voyage charters, voyage expenses (including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and conversions). These expenses depend upon a variety of factors, many of which are beyond our or our Manager's control. Some of these costs, primarily relating to insurance and enhanced security measures implemented after September 11, 2001 and as a result of a recent increase in the frequency of acts of piracy, have been increasing and may increase in the future. In addition, to the extent we employ our vessels on voyage charters, we will also have to bear the cost of bunkers. The price of bunker fuel may increase in the future. Further, if our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. Increases in any of these costs would decrease our earnings, cash flows and the amount of Cash Available for Distribution to our shareholders.

The 2010 Credit Facility and any other financing agreements we enter into may contain operating and financial restrictions that restrict our business and financing activities.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The operating and financial restrictions and covenants contained in the 2010 Credit Facility and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand our business activities. For example, these financing arrangements may restrict our ability to:

- pay dividends;
- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- incur liens on our assets;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into a new line of business.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The 2010 Credit Facility requires us to comply with a number of covenants, including financial covenants related to liquidity, consolidated net worth, and collateral maintenance, restrictions on changes in our Manager or our initial vessels (or acceptable replacement vessels), limitations on changes to the Management Agreement between Genco and us, limitations on liens, limitations on additional indebtedness, restrictions on paying dividends, restrictions on transactions with affiliates and other customary covenants.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours, and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may prevent us from taking actions that are in our best interest and from executing our business strategy of growth through acquisitions and may restrict or limit our ability to pay dividends and finance our future operations.

Our ability to comply with covenants and restrictions contained in debt instruments also may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in the financing agreements, our obligations may become immediately due and payable, and the lenders' commitment, if any, to make further loans may terminate. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans. The occurrence of any of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Restrictions in the 2010 Credit Facility and any other potential future debt agreements may prevent us from paying dividends.

The payment of principal and interest on any debt we have or may incur will reduce the amount of cash for dividends to our shareholders. In addition, the 2010 Credit Facility includes restrictions on paying dividends in certain circumstances and we expect that any additional future financing agreements will prohibit the payment of dividends upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to the vessels;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;

Edgar Filing: Baltic Trading Ltd - Form 10-K

- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be materially correct;
- a change of control, as defined in the applicable agreement; and
- a material adverse effect, as defined in the applicable agreement.

The aging of our fleet and our practice of purchasing and operating previously owned vessels may result in increased operating costs and vessels off-hire, which could adversely affect our earnings.

Our current business strategy includes growth through the acquisition of previously owned vessels. While we typically inspect previously owned vessels before purchase, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Accordingly, we may not discover defects or other problems with such vessels before purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. Also, when purchasing previously owned vessels, we do not receive the benefit of any builder warranties if the vessels we buy are older than one year.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. The average age of the vessels in our current fleet is approximately 2.0 years as of December 31, 2011. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine technology and cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Governmental regulations, safety and other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to some of our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. As a result, regulations and standards could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We depend to a significant degree upon third-party managers to provide the technical management of our fleet. Any failure of these technical managers to perform their obligations to us could adversely affect our business.

Through our Manager, we contract the technical management of our fleet, including crewing, maintenance and repair services, to third-party technical management companies. The failure of these technical managers to perform their obligations could materially and adversely affect our business, results of operations, cash flows, financial condition and ability to pay dividends. Although we may have rights against our third-party managers if they default on their obligations to us, our shareholders will share that recourse only indirectly to the extent that we recover funds.

We depend upon a small number of charterers for all of our revenues. The loss of one or more of these charterers could adversely affect our financial performance.

We derive all of our revenues from a small number of charterers. For the year ended December 31, 2011, 100% of our revenues were derived from four charterers. If we were to lose any of these charterers, or if any of these charterers significantly reduced its use of our services or was unable to make charter payments to us, it could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Edgar Filing: Baltic Trading Ltd - Form 10-K

In the highly competitive international drybulk shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of drybulk cargoes can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Due in part to the highly fragmented market, competitors with greater resources could enter and operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets than we are able to offer.

We maintain all of our cash with a limited number of financial institutions, which subjects us to credit risk.

Currently, we maintain all of our cash with one financial institution and we expect to do so for the foreseeable future. This financial institution is located in the Cayman Islands, although in the future we may select other financial institutions located in other countries. None of our balances are covered by insurance in the event of default by these

Edgar Filing: Baltic Trading Ltd - Form 10-K

financial institutions. The occurrence of such a default could therefore have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels, which would have a material adverse effect on our business and our ability to pay dividends.

In order to fund our capital expenditures, we generally plan to use equity financing. If equity financing is not available on favorable terms, we may have to use debt financing. Our ability to borrow money and access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could limit our ability to continue to operate some of our vessels or impair the values of our vessels and could have a material adverse effect on our business, results of operations, financial condition, cash flows and ability to pay dividends. Even if we are successful in obtaining such funds through financings, the terms of such financings could further limit our ability to pay dividends.

We are a holding company, and we depend on the ability of our current and future subsidiaries to distribute funds to us in order to satisfy our financial obligations or to make dividend payments.

We are a holding company, and our current and future subsidiaries, which are all wholly-owned by us, either directly or indirectly, will conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our wholly-owned subsidiaries. As a result, our ability to satisfy our financial obligations and to pay dividends to our shareholders will depend on the ability of our subsidiaries to distribute funds to us. In turn, the ability of our subsidiaries to make dividend payments to us will depend on them having profits available for distribution and, to the extent that we are unable to obtain dividends from our subsidiaries, this will limit the discretion of our Board of Directors to pay or recommend the payment of dividends.

Our ability to obtain debt financing may depend on the performance of our business, our Manager, and market conditions.

The actual or perceived credit quality of our business, our Manager, and market conditions affecting the spot charter market and the credit markets may materially affect our ability to obtain the additional capital resources that may be required to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing at all or at a higher than anticipated cost may have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

If management is unable to provide reports as to the effectiveness of our internal control over financial reporting or our independent registered public accounting firm is unable to provide us with unqualified attestation reports as to the effectiveness of our internal control over financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.

Under Section 404 of the Sarbanes-Oxley Act of 2002 (or Sarbanes-Oxley), we will be required to include in this and each of our subsequent future annual reports on Form 10-K a report containing our management's assessment of the effectiveness of our internal control over financial reporting and a related attestation of our independent registered public accounting firm. As our manager, Genco provides substantially all of our

Edgar Filing: Baltic Trading Ltd - Form 10-K

financial reporting, and we depend on the procedures they have in place. If, in such future annual reports on Form 10-K, our management cannot provide a report as to the effectiveness of our internal control over financial reporting or our independent registered public accounting firm is unable to provide us with an unqualified attestation report as to the effectiveness of our internal control over financial reporting as required by Section 404, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Our costs of operating as a public company are significant, and our management is required to devote substantial time to complying with public company regulations.

As a public company, we incur significant legal, accounting and other expenses. In addition, Sarbanes-Oxley, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, have imposed various requirements on public companies, including changes in corporate governance practices, and these requirements may continue to evolve. Our Manager, management personnel, and other personnel, if any, will need to devote a substantial amount of time to comply with these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and have made some activities more time-consuming and costly.

Sarbanes-Oxley requires, among other things, that we maintain and periodically evaluate our internal control over financial reporting and disclosure controls and procedures. In particular, we will need to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of Sarbanes-Oxley. While we expect to be able to follow Genco's model and systems for compliance with Section 404, our compliance with Section 404 may require that we incur substantial accounting expense and expend significant management efforts, and we will depend on Genco for our compliance as Genco personnel will perform our accounting function.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively affect the effectiveness of our management and our results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management and our ability to hire and retain key members of management. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends. We do not intend to maintain key man life insurance on any of our officers.

We may not have adequate insurance to compensate us if we lose our vessels or to compensate third parties.

There are a number of risks associated with the operation of ocean-going vessels, including mechanical failure, collision, human error, war, terrorism, piracy, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. Any of these events may result in loss of revenues, increased costs and decreased cash flows. In addition, the operation of any vessel is subject to the inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade.

We are insured against tort claims and some contractual claims (including claims related to environmental damage and pollution) through memberships in protection and indemnity associations or clubs, or P&I Associations. As a result of such membership, the P&I Associations will provide us coverage for such tort and contractual claims. We also carry hull and machinery insurance and war risk insurance for our fleet. We insure our vessels for third-party liability claims subject to and in accordance with the rules of the P&I Associations in which the vessels are entered. We also maintain insurance against loss of hire, which covers business interruptions that result in the loss of use of a vessel. We can give no assurance that we are adequately insured against all risks. We may not be able to obtain adequate insurance coverage for our fleet in the future. The insurers may not pay particular claims. Our insurance policies contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue.

We cannot assure you that we will be able to renew our insurance policies on the same or commercially reasonable terms, or at all, in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm our business, results of operations, cash flows, financial condition and ability to pay dividends. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations. Further, we cannot assure you that our insurance policies will cover all losses that we incur, or that disputes over insurance claims will not arise with our insurance carriers. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. In addition, our insurance policies are subject to

Edgar Filing: Baltic Trading Ltd - Form 10-K

limitations and exclusions, which may increase our costs or lower our revenues, thereby possibly having a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

We are subject to funding calls by our protection and indemnity associations, and our associations may not have enough resources to cover claims made against them.

We are indemnified for legal liabilities incurred while operating our vessels through membership in P&I Associations. P&I Associations are mutual insurance associations whose members must contribute to cover losses sustained by other association members. The objective of a P&I Association is to provide mutual insurance based on the aggregate tonnage of a member's vessels entered into the association. Claims are paid through the aggregate premiums of all members of the association, although members remain subject to calls for additional funds if the aggregate premiums are insufficient to cover claims submitted to the association. Claims submitted to the association may include those incurred by members of the association, as well as claims submitted to the association from other P&I Associations with which our P&I Association has entered into interassociation agreements. We cannot assure you that the P&I Associations to which we belong will remain viable or that we will not become subject to additional funding calls which could adversely affect us.

We have to pay U.S. tax on U.S. source income, which reduces our net income and cash flows.

We do not currently qualify for an exemption pursuant to Section 883 of the U.S. Internal Revenue Code of 1986, as amended (the Code), which we refer to as Section 883. As a result, we will be subject to U.S. federal income tax on our shipping income that is derived from U.S. sources as described below. To the extent we are subject to such tax, our net income and cash flows will be reduced by the amount of such tax.

We would qualify for exemption under Section 883 if, among other things, one or more classes of our stock representing, in the aggregate, more than 50% of the combined voting power and value of all classes of our stock were treated as primarily and regularly traded on an established securities market in the United States. Under applicable Treasury regulations, we may not satisfy this publicly traded requirement in any taxable year in which 50% or more of any class(es) of stock we rely on to meet this rule is owned for more than half the days in such year by persons who actually or constructively own 5% or more of such class(es) of our stock, which we sometimes refer to as 5% shareholders.

As of the date of this report, our common stock represents more than 50% of the value of all classes of our stock, but less than 50% of the combined voting power of all classes of our stock. Unless the holders of the Class B stock irrevocably elect to limit their aggregate voting power to 49%, our Class B stock will represent more than 50% of the combined voting power of all classes of our voting stock and will not be treated as primarily and regularly traded on an established securities market in the United States. Therefore, we do not currently qualify for exemption under Section 883. As a result, 50% of our gross shipping income attributable to transportation beginning or ending in the United States, if any, will be subject to a 4% tax without allowance for deductions. While we do not currently anticipate that a significant portion of our shipping income will be U.S. source shipping income, there can be no assurance that this will be the case. During the years ended December 31, 2011 and 2010, we had U.S. operations which resulted in U.S. source shipping income of approximately \$3.1 million and \$2.5 million, respectively.

In the event that holders of a majority of the Class B stock irrevocably elect to reduce the voting power of the Class B stock to constitute not more than 49% of the total voting power of all classes of stock, our common stock will represent more than 50% of the combined voting power and value of all classes of our stock. However, there can be no assurance as to if and when holders of Class B stock may do so, and we have no right to require these holders to do so. Even if that were to occur, if 5% shareholders of the common stock were to own more than 50% of our common stock for more than half the days of any taxable year, we may nonetheless not be eligible to claim exemption from tax under Section

883 for such taxable year.

Legislative action relating to taxation could materially and adversely affect us.

Our tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by any tax authority. For example, legislative proposals have been introduced in the U.S. Congress which, if enacted, could change the circumstances under which we would be treated as a U.S. person for U.S. federal income tax purposes, which could materially and adversely affect our effective tax rate and

Edgar Filing: Baltic Trading Ltd - Form 10-K

cash tax position and require us to take action, at potentially significant expense, to seek to preserve our effective tax rate and cash tax position. We cannot predict the outcome of any specific legislative proposals.

U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation generally will be treated as a passive foreign investment company, which we sometimes refer to as a PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of passive income or (2) at least 50% of its assets (averaged over the year and generally determined based upon value) produce or are held for the production of passive income. U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to distributions they receive from the PFIC and gain, if any, they derive from the sale or other disposition of their stock in the PFIC.

For purposes of these tests, passive income generally includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business, as defined in applicable Treasury regulations. For purposes of these tests, income derived from the performance of services does not constitute passive income. By contrast, rental income would generally constitute passive income unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business. Based on our planned operations and certain estimates of our gross income and gross assets, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we treat the gross income we derive or are deemed to derive from our spot chartering activities as services income, rather than rental income. Accordingly, we believe that (1) our income from our spot chartering activities does not constitute passive income and (2) the assets that we own and operate in connection with the production of that income do not constitute passive assets.

While there is no direct legal authority under the PFIC rules addressing our method of operation, there is legal authority supporting this position consisting of case law and pronouncements by the United States Internal Revenue Service, which we sometimes refer to as the IRS, concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, because there are uncertainties in the application of the PFIC rules, because the PFIC test is an annual test, and because, although we intend to manage our business so as to avoid PFIC status to the extent consistent with our other business goals, there could be changes in the nature and extent of our operations in future years, there can be no assurance that we will not become a PFIC in any taxable year.

If we were to be treated as a PFIC for any taxable year (and regardless of whether we remain a PFIC for subsequent taxable years), our U.S. shareholders would face adverse U.S. tax consequences. Under the PFIC rules, unless a shareholder makes certain elections available under the Code (which elections could themselves have adverse consequences for such shareholder), such shareholder would be liable to pay U.S. federal income tax at the highest applicable income tax rates on ordinary income upon the receipt of excess distributions and upon any gain from the disposition of our common stock, plus interest on such amounts, as if such excess distribution or gain had been recognized ratably over the shareholder's holding period of our common stock.

Because we generate virtually all of our revenues in U.S. Dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could hurt our results of operations.

Edgar Filing: Baltic Trading Ltd - Form 10-K

We generate virtually all of our revenues in U.S. Dollars, but we may incur drydocking costs and special survey fees in other currencies. If our expenditures on such costs and fees were significant, and the U.S. Dollar were weak against such currencies, our business, results of operations, cash flows, financial condition and ability to pay dividends could be adversely affected.

RISK FACTORS RELATED TO OUR COMMON STOCK

The concentration of our capital stock ownership with Genco and its affiliates and the superior voting rights of our Class B stock held by Genco will limit our common stockholders' ability to influence corporate matters.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Under our amended and restated articles of incorporation, our Class B stock has 15 votes per share, and our common stock has one vote per share resulting in Genco controlling in excess of 50% of the combined voting power of these two classes of stock. However, if holders of a majority of the Class B stock make an irrevocable election to do so, the aggregate voting power of the Class B stock will be limited to a maximum of 49% of the voting power of our outstanding common stock and Class B stock, voting together as a single class. As of December 31, 2011, Genco owns shares of our Class B stock representing 83.41% of the voting power of our outstanding capital stock through its wholly-owned subsidiary, Genco Investments LLC. In addition, pursuant to the subscription agreement between us and Genco Investments LLC, for so long as Genco Investments LLC or its affiliates holds at least 10% of the aggregate number of outstanding shares of our common stock and Class B stock, Genco Investments LLC is entitled to receive an additional number of shares of Class B stock equal to 2% of the number of shares of common stock issued after our IPO was consummated in March 2010, excluding any shares of common stock issuable upon the exercise of the underwriters' over-allotment option in our IPO or issued as an award or issuable upon exercise of an award under our 2010 Equity Incentive Plan. These additional shares would be issued for no additional consideration unless insufficient surplus exists to cover the par value of such additional shares, in which case Genco Investments LLC will pay us the par value of such shares. In addition, our directors or officers who are affiliated with Genco or other individuals providing services under the Management Agreement who are affiliated with Genco may receive equity awards under our 2010 Equity Incentive Plan.

Through its ownership of our Class B stock, its role as our Manager and the issuance of equity awards to individuals affiliated with Genco, Genco will have substantial control and influence over our management and affairs and over all matters requiring shareholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. In addition, because of this dual-class stock structure, Genco will continue to be able to control all matters submitted to our shareholders for approval even though it owns significantly less than 50% of the aggregate number of outstanding shares of our common stock and Class B stock. This concentrated control limits our common stockholders' ability to influence corporate matters and, as a result, we may take actions that our common stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

Because we are a foreign corporation, you may not have the same rights or protections that a shareholder in a United States corporation may have.

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

Future sales of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline due to sales of a large number of shares in the market, including sales of shares by our large shareholders, or the perception that these sales could occur. These sales could also make it more difficult or impossible for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of common stock. We entered into a registration rights agreement with Genco that entitles Genco to have all the shares of our common stock that it owns registered for sale in the public market under the Securities Act.

As a key component of our business strategy, we intend to issue additional shares of common stock or other securities to finance our growth. These issuances, which would generally not be subject to shareholder approval, will dilute your ownership interests and may depress the market price of the common stock.

Edgar Filing: Baltic Trading Ltd - Form 10-K

We plan to finance potential future expansions of our fleet primarily through equity financing and internally generated cash flow. Therefore, subject to the rules of the New York Stock Exchange, we plan to issue additional shares of common stock, and other equity securities of equal or senior rank, without shareholder approval, in a number of circumstances from time to time.

The issuance by us of additional shares of common stock or other equity securities of equal or senior rank will have the following effects:

- our existing shareholders' proportionate ownership interest in us will decrease;
- the amount of cash available for dividends payable on our common stock may decrease;
- the relative voting strength of each previously outstanding share may be diminished; and
- the market price of our common stock may decline.

We may need to raise additional capital in the future, which may not be available on favorable terms or at all or which may dilute our common stock or adversely affect its market price.

We may require additional capital to expand our business and increase revenues, add liquidity in response to negative economic conditions, meet unexpected liquidity needs caused by industry volatility or uncertainty and reduce our outstanding indebtedness under the 2010 Credit Facility. To the extent that our existing capital and borrowing capabilities are insufficient to meet these requirements and cover any losses, we will need to raise additional funds through debt or equity financings, including offerings of our common stock, securities convertible into our common stock, or rights to acquire our common stock or curtail our growth and reduce our assets or restructure arrangements with existing security holders. Any equity or debt financing, or additional borrowings, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our stockholders, as described further below, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital. If we cannot raise funds on acceptable terms if and when needed, we may not be able to take advantage of future opportunities, grow our business or respond to competitive pressures or unanticipated requirements.

We have agreed to restrict our ability to issue preferred stock or take other actions that may result in a default under one of Genco's credit facilities, which may limit how we conduct our business.

So that Genco may comply with a provision in one of its existing credit facilities, our amended and restated articles of incorporation and the Omnibus Agreement provide that we will not issue any shares of preferred stock without the prior written consent of Genco. We therefore do not anticipate that we will be able to issue preferred stock for the foreseeable future. As a result, our options for raising additional capital that we may require for future operations or growth, or our ability to enter into mergers, acquisitions, or other strategic transactions our shareholders

Edgar Filing: Baltic Trading Ltd - Form 10-K

may consider to be in our best interests, may be limited. The Omnibus Agreement also provides that we will use our commercially reasonable efforts not to take any action that would result in an event of default under one of Genco's existing credit facilities or the terms of any future credit facility that Genco may enter into to the extent such terms impose no greater restrictions on Genco's subsidiaries than this existing credit facility. We may therefore have to take actions or forego opportunities that would otherwise be in our best interests in order to prevent an event of default under one of Genco's credit facilities. For example, this may restrict, among other things, our ability to make acquisitions or investments in other companies, our ability to borrow generally, the terms we may enter into in another credit facility of our own, or our ability to expand our operations into other lines of business.

Volatility in the market price and trading volume of our common stock could adversely impact the trading price of our common stock.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like us. These broad market factors may materially reduce the market price of our common stock, regardless of our operating performance. The market price of our common stock, which has experienced significant price and volume fluctuations in recent months, could continue

Edgar Filing: Baltic Trading Ltd - Form 10-K

to fluctuate significantly for many reasons, including in response to the risks described herein or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common stock would adversely impact the value of your shares of common stock.

Provisions of our amended and restated articles of incorporation and amended and restated by-laws and our shareholder rights plan may have anti-takeover effects which could adversely affect the market price of our common stock.

Several provisions of our amended and restated articles of incorporation and amended and restated by-laws, which are summarized below, may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our Board of Directors to maximize shareholder value in connection with any unsolicited offer to acquire our company. However, these anti-takeover provisions could also discourage, delay or prevent (1) the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise that a shareholder may consider in its best interest and (2) the removal of incumbent officers and directors.

Dual Class Stock.

Our dual class stock structure, which consists of common stock and Class B stock, gives Genco and its affiliates control over all matters requiring shareholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets.

Blank Check Preferred Stock.

Under the terms of our amended and restated articles of incorporation, our Board of Directors has the authority, without any further vote or action by our shareholders, to authorize our issuance of up to 100,000,000 shares of blank check preferred stock. Our Board of Directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management. However, so that Genco may comply with a provision in one of its existing credit facilities, our amended and restated articles of incorporation and the Omnibus Agreement provide that we will not issue any shares of preferred stock without the prior written consent of Genco. We therefore do not anticipate that we will be able to issue preferred stock for the foreseeable future.

Classified Board of Directors.

Our amended and restated articles of incorporation provide for the division of our Board of Directors into three classes of directors, with each class as nearly equal in number as possible, serving staggered, three-year terms beginning upon the expiration of the initial term for each class. Approximately one-third of our Board of Directors is elected each year. This classified board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of us. It could also delay shareholders who do not agree with the policies of our Board of Directors from removing a majority of our Board of Directors for up to two years.

Election and Removal of Directors.

Our amended and restated articles of incorporation prohibit cumulative voting in the election of directors. Our amended and restated by-laws require parties other than the Board of Directors to give advance written notice of nominations for the election of directors. Our amended and restated articles of incorporation also provide that our directors may be removed only for cause and only upon the affirmative vote of 66 $\frac{2}{3}$ % of the outstanding shares of our capital stock entitled to vote for those directors or by a majority of the members of the board of directors then in office. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

Limited Actions by Shareholders.

Our amended and restated articles of incorporation and our amended and restated by-laws provide that any action required or permitted to be taken by our shareholders must be effected at an annual or special meeting of shareholders or by the unanimous written consent of our shareholders. Our amended and restated articles of incorporation and our amended and restated by-laws provide that, subject to certain exceptions, our Chairman, President, or Secretary at the direction of the Board of Directors may call special meetings of our shareholders and the business transacted at the special meeting is limited to the purposes stated in the notice.

Advance Notice Requirements for Shareholder Proposals and Director Nominations.

Our amended and restated by-laws provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must provide timely notice of their proposal in writing to the corporate secretary. Generally, to be timely, a shareholder's notice must be received at our principal executive offices not less than 150 days nor more than 180 days before the date on which we first mailed our proxy materials for the preceding year's annual meeting. Our amended and restated by-laws also specify requirements as to the form and content of a shareholder's notice. These provisions may impede a shareholder's ability to bring matters before an annual meeting of shareholders or make nominations for directors at an annual meeting of shareholders.

In addition, we entered into a shareholder rights plan that makes it more difficult for a third party to acquire us without the support of our Board of Directors.

It may not be possible for our investors to enforce U.S. judgments against us.

Both our company and our wholly-owned subsidiaries through which we own and operate our vessels are incorporated in the Republic of the Marshall Islands, and we expect most of our future subsidiaries will also be organized in the Marshall Islands. Substantially all of our assets and those of our subsidiaries are located outside the United States. As a result, it may be difficult or impossible for United States shareholders to serve process within the United States upon us or to enforce judgment upon us for civil liabilities in United States courts. In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located (1) would enforce judgments of United States courts obtained in actions against us based upon the civil liability provisions of applicable United States federal and state securities laws or (2) would enforce, in original actions, liabilities against us based upon these laws.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

For a description of our vessels, see *Our Fleet* in Item 1, *Business* in this report.

We consider each of our significant properties to be suitable for its intended use.

ITEM 3. LEGAL PROCEEDINGS

We have not been involved in any legal proceedings which we believe are likely to have, or have had a significant effect on our business, financial position, results of operations or cash flows, nor are we aware of any proceedings that are pending or threatened which we believe are likely to have a significant effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES****MARKET INFORMATION, HOLDERS AND DIVIDENDS**

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol BALT. Trading of our common stock on the NYSE commenced on March 10, 2010. The following table sets forth for the periods indicated the high and low prices for the common stock as reported by the NYSE:

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2011		
1st Quarter	\$ 11.07	\$ 8.25
2nd Quarter	\$ 9.37	\$ 5.68
3rd Quarter	\$ 5.86	\$ 3.64
4th Quarter	\$ 6.20	\$ 4.17

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2010		
1st Quarter*	\$ 14.27	\$ 13.05
2nd Quarter	\$ 14.50	\$ 11.07
3rd Quarter	\$ 12.00	\$ 9.90
4th Quarter	\$ 12.69	\$ 10.14

*March 10, 2010 through March 31, 2010.

As of February 29, 2012, there were approximately 11 holders of record of our common stock.

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

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

Edgar Filing: Baltic Trading Ltd - Form 10-K

Net Income (loss)
Less Fleet Related Capital Maintenance Expenditures
Plus Non-Cash Compensation

Cash Available for Distribution

The application of our dividend policy would have resulted in a lesser dividend or no dividend for the first through the fourth quarter of 2011; however, based on our cash flow, liquidity and capital resources, our Board of Directors determined to declare a dividend.

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

	Dividend per share	Declaration date
FISCAL YEAR ENDING DECEMBER 31, 2011		
4th Quarter	\$ 0.13	2/16/2012
3rd Quarter	\$ 0.12	10/27/2011
2nd Quarter	\$ 0.10	7/25/2011
1st Quarter	\$ 0.06	4/28/2011

Edgar Filing: Baltic Trading Ltd - Form 10-K

	Dividend per share	Declaration date
FISCAL YEAR ENDING DECEMBER 31, 2010		
4th Quarter	\$ 0.17	2/17/2011
3rd Quarter	\$ 0.16	10/26/2010
2nd Quarter	\$ 0.16	7/30/2010
1st Quarter		N/A

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2011 regarding the number of shares of our common stock that may be issued under the 2010 Equity Incentive Plan, which is our sole equity compensation plan:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders		\$	1,299,000
Equity compensation plans not approved by security holders			
Total		\$	1,299,000

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

	For the years ended December 31,		
	2011	2010	2009 (1)
Income Statement Data:			
Revenues	\$ 43,492,085	\$ 32,558,648	\$
<i>Operating Expenses:</i>			
Voyage expenses	61,336	166,997	
Voyage expenses to Parent	559,872	422,129	
Vessel operating expenses	16,004,698	8,198,378	
General, administrative and technical management fees	5,585,205	5,044,135	15,820
Management fees to Parent	2,463,750	1,228,500	
Depreciation and amortization	14,768,703	7,358,789	
Other operating income		(206,000)	
Total operating expenses	39,443,564	22,212,928	15,820
Operating income (loss)	4,048,521	10,345,720	(15,820)
Other expense	(4,445,074)	(1,945,545)	
(Loss) income before income taxes	(396,553)	8,400,175	(15,820)
Income tax expense	(34,559)	(77,740)	

Edgar Filing: Baltic Trading Ltd - Form 10-K

Net (loss) income	\$	(431,112)	\$	8,322,435	(15,820)
<i>Net (loss) income per share of common and Class B Stock:</i>					
Net (loss) income per share - basic	\$	(0.02)	\$	0.46	\$
Net (loss) income per share - diluted	\$	(0.02)	\$	0.46	\$
Net loss per share of Capital Stock basic and diluted	\$		\$		\$ (158.20)
Dividends declared and paid per share of common and Class B stock	\$	0.45	\$	0.32	\$

Balance Sheet Data:

(at end of period)

Cash and cash equivalents	\$	8,299,646	\$	5,796,862	\$ 1
Total assets		384,954,527		396,153,718	834,110
Total debt		101,250,000		101,250,000	
Total shareholders equity		281,603,221		289,435,160	(15,819)

Other Data:

Net cash provided by operating activities	\$	15,378,117	\$	18,999,340	\$
Net cash used in investing activities		(2,570,106)		(389,801,596)	
Net cash (used in) provided by financing activities		(10,305,227)		376,599,117	1
EBITDA (2)	\$	18,784,716	\$	17,677,256	\$ (15,820)

(1) Represents the period from our date of inception, October 6, 2009, through December 31, 2009.

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

	For the Years Ended December 31,		
	2011	2010	2009
Net (loss) income	\$ (431,112)	\$ 8,322,435	\$ (15,820)
Net interest expense	4,412,566	1,918,292	
Income tax expense	34,559	77,740	
Depreciation	14,768,703	7,358,789	
EBITDA (2)	\$ 18,784,716	\$ 17,677,256	\$ (15,820)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, 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. 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. Currently, all of our vessels are on spot market-related time charters. We have financed our fleet primarily with equity capital and have financed the remainder with our 2010 Credit Facility. While our intention has been that the 2010 Credit Facility serve as bridge financing for acquisitions, we have not deemed current conditions to be suitable for equity financings to repay debt under our 2010 Credit Facility. We aim to grow our fleet through timely and selective acquisitions of vessels in a manner that is accretive to our earnings and cash flow. We intend to distribute to our shareholders on a quarterly basis all of our net income less cash expenditures for capital items related to our fleet, other than vessel acquisitions and related expenses, plus non-cash compensation, during the previous quarter, subject to any additional reserves our Board of Directors may from time to time determine are required for the prudent conduct of our business, as further described below under Dividend Policy.

Refer to page 4 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 15 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.

Year ended December 31, 2011 compared to the year ended December 31, 2010

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, TCE rates and daily vessel operating expenses for the years ended December 31, 2011 and 2010.



Fleet Data:

<i>Ownership days (1)</i>				
Capesize	730.0	310.3	419.7	135.3%

Edgar Filing: Baltic Trading Ltd - Form 10-K

Supramax	1,460.0	963.2	496.8	51.6%
Handysize	1,095.0	361.1	733.9	203.2%
Total	3,285.0	1,634.6	1,650.4	101.0%
<i>Available days (2)</i>				
Capesize	730.0	308.4	421.6	136.7%
Supramax	1,460.0	955.9	504.1	52.7%
Handysize	1,095.0	359.2	735.8	204.8%
Total	3,285.0	1,623.5	1,661.5	102.3%
<i>Operating days (3)</i>				
Capesize	730.0	306.8	423.2	137.9%
Supramax	1,438.9	939.1	499.8	53.2%
Handysize	1,093.9	356.2	737.7	207.1%
Total	3,262.8	1,602.1	1,660.7	103.7%
<i>Fleet utilization (4)</i>				
Capesize	100.0%	99.5%	0.5%	0.5%
Supramax	98.6%	98.2%	0.4%	0.4%
Handysize	99.9%	99.2%	0.7%	0.7%
Fleet average	99.3%	98.7%	0.6%	0.6%

Edgar Filing: Baltic Trading Ltd - Form 10-K

(U.S. dollars)	For the years ended December 31,		Increase	% Change
	2011	2010	(Decrease)	
Average Daily Results:				
<i>Time Charter Equivalent (5)</i>				
Capesize	\$ 15,371	\$ 30,860	\$ (15,489)	(50.2)%
Supramax	13,051	17,921	(4,870)	(27.2)%
Handysize	11,503	14,819	(3,316)	(22.4)%
Fleet average	13,050	19,692	(6,642)	(33.7)%
<i>Daily vessel operating expenses (6)</i>				
Capesize	\$ 5,264	\$ 5,081	183	3.6%
Supramax	5,211	5,297	(86)	(1.6)%
Handysize	4,159	4,208	(49)	(1.2)%
Fleet average	4,872	5,016	(144)	(2.9)%

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

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

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

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

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

For the years ended December 31,
2011 2010

Edgar Filing: Baltic Trading Ltd - Form 10-K

Voyage revenues	\$	43,492,085	\$	32,558,648
Voyage expenses		61,336		166,997
Voyage expenses to Parent		559,872		422,129
		42,870,877		31,969,522
Total available days		3,285.0		1,623.5
Total TCE rate	\$	13,050	\$	19,692

Edgar Filing: Baltic Trading Ltd - Form 10-K

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

Operating Data

The following compares our operating income and net (loss) income for the years ended December 31, 2011 and 2010.

	For the years ended December 31,		Increase	% Change
	2011	2010	(Decrease)	
Income Statement Data:				
Revenues	\$ 43,492,085	\$ 32,558,648	\$ 10,933,437	33.6%
<i>Operating Expenses:</i>				
Voyage expenses	61,336	166,997	(105,661)	(63.3)%
Voyage expenses to Parent	559,872	422,129	137,743	32.6%
Vessel operating expenses	16,004,698	8,198,378	7,806,320	95.2%
General, administrative and technical management fees	5,585,205	5,044,135	541,070	10.7%
Management fees to Parent	2,463,750	1,228,500	1,235,250	100.5%
Depreciation and amortization	14,768,703	7,358,789	7,409,914	100.7%
Other operating income		(206,000)	206,000	(100.0)%
Total operating expenses	39,443,564	22,212,928	17,230,636	77.6%
Operating income	4,048,521	10,345,720	(6,297,199)	(60.9)%
Other expense	(4,445,074)	(1,945,545)	(2,499,529)	128.5%
(Loss) income before income taxes	(396,553)	8,400,175	(8,796,728)	(104.7)%
Income tax expense	(34,559)	(77,740)	43,181	(55.5)%
Net (loss) income	\$ (431,112)	\$ 8,322,435	(8,753,547)	(105.2)%
<i>Net (loss) income per share of common and Class B Stock:</i>				
Net (loss) income per share - basic	\$ (0.02)	\$ 0.46	\$ (0.48)	(104.3)%
Net (loss) income per share - diluted	\$ (0.02)	\$ 0.46	\$ (0.48)	(104.3)%
Dividends declared and paid per share	\$ 0.45	\$ 0.32	\$ 0.13	40.6%
Balance Sheet Data:				
(at end of period)				
Cash and cash equivalents	\$ 8,299,646	\$ 5,796,862	2,502,784	43.2%
Total assets	384,954,527	396,153,718	(11,199,191)	(2.8)%
Total debt	101,250,000	101,250,000		
Total shareholders equity	281,603,221	289,435,160	(7,831,939)	(2.7)%
Other Data:				
Net cash provided by operating activities	\$ 15,378,117	\$ 18,999,340	\$ (3,621,223)	(19.1)%
Net cash used in investing activities	(2,570,106)	(389,801,596)	387,231,490	(99.3)%
Net cash (used in) provided by financing activities	(10,305,227)	376,599,117	(386,904,344)	(102.7)%

Edgar Filing: Baltic Trading Ltd - Form 10-K

EBITDA (1)	\$	18,784,716	\$	17,677,256	\$	1,107,460	6.3%
------------	----	------------	----	------------	----	-----------	------

(1) EBITDA represents net (loss) income plus net interest expense, taxes and depreciation. Refer to page

42 included in Item 6 where the use of EBITDA is discussed and for a table demonstrating our calculation of EBITDA that provides a reconciliation of EBITDA to net (loss) income for each of the periods presented above.

Results of Operations

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

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

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

Years ended December 31, 2011 and 2010

VOYAGE REVENUES-

Voyage revenues are driven primarily by the number of vessels that we have in our fleet, the number of calendar days during which our vessels will generate revenues and the amount of daily charter hire that our vessels earn under charters. These, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in drydock undergoing repairs, maintenance and upgrade work, the age, condition and specifications of our vessels, levels of supply and demand in the drybulk carrier market and other factors affecting spot market charter rates for our vessels.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Vessels operating in the spot charter market generate revenues that are less predictable than those operating on time charters but may enable us to capture increased profit margins during periods of improvements in charter rates. Conversely, by operating in the spot charter market, we are exposed to the risk of declining charter rates, which may have a materially adverse impact on our financial performance.

For the years ended December 31, 2011 and 2010, voyage revenues were \$43,492,085 and \$32,558,648, respectively. The increase in voyage revenues was due to the increase in the size of our fleet, offset by lower spot market rates achieved by our vessels during 2011.

A standard maritime industry performance measure is the daily time charter equivalent, or daily TCE. Daily TCE revenues are voyage revenues minus voyage expenses divided by the number of available days during the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter, as well as commissions. We believe that the daily TCE neutralizes the variability created by unique costs associated with particular voyages or the employment of vessels on time charter or on the spot market and presents a more accurate representation of the revenues generated by our vessels.

The average TCE rate of our fleet was \$13,050 a day for the year ended December 31, 2011 as compared to \$19,692 for the year ended December 31, 2010. The decrease was due to lower spot market rates achieved by our vessels during 2011 versus 2010.

Edgar Filing: Baltic Trading Ltd - Form 10-K

During 2011, the Baltic Dry Index, or BDI (a drybulk index) went from a low of 1,043 on February 4, 2011 to a high of 2,173 on October 14, 2011. At December 31, 2010, the index was 1,773. In 2012, the index started off at 1,624 on January 3, 2012 and decreased to a low of 660 as of February 7, 2012.

The BDI displayed considerable weakness in the beginning of 2011 due to reduced iron ore cargoes recorded through the celebration of the Chinese New Year, as well as a record level of newbuilding vessel deliveries for January, while continuous pressure was evident through August 2011, primarily due to severe weather in Brazil and Australia affecting cargo availability. A significant rebound was experienced in the remainder of the year with the BDI doubling in value during October 2011. 2012 has started much the same way as 2011, with seasonal factors contributing to the most recent downturn in rates, including: order timing issues for iron ore cargoes related to the celebration of the Chinese New Year; increased deliveries of newbuilding vessels for the month of January as compared to the previous three months; and short-term weather-related issues in Brazil, temporarily reducing iron ore output. Given the fact that all of our vessels are chartered at spot market-related rates, we expect that the recent downturn in rates will adversely impact our first quarter 2012 revenues and results of operation.

During 2011 and 2010, we had 3,285.0 and 1,634.6 ownership days, respectively. The increase in ownership days is a result of a full year of operations during 2011 for the nine vessels delivered during 2010. Fleet utilization remained relatively stable at 99.3% and 98.7% during 2011 and 2010, respectively.

VOYAGE EXPENSES-

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

For 2011 and 2010, voyage expenses were \$61,336 and \$166,997, respectively, and consisted of brokerage commissions paid to third parties as well as gains and losses related to bunker fuel for vessels coming off spot market-related time charters and short-term time charters. The variance in voyage expenses is a result of a full year of operation of our fleet during 2011. This increase was offset by net gains related to bunker fuel for vessels coming off spot market-related time charters and short-term time charters amounting to \$520,717 during 2011. During 2010, there were net losses related to bunker fuel in the amount of \$73,167.

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent increased by \$137,743 to \$559,872 during 2011 as compared to \$422,129 in 2010. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The increase was a result of the growth of the fleet offset by lower spot market rates achieved by our vessels during 2011.

VESSEL OPERATING EXPENSES-

Edgar Filing: Baltic Trading Ltd - Form 10-K

Vessel operating expenses increased by \$7,806,320 to \$16,004,698 during 2011 as compared to \$8,198,378 in 2010. The increase was primarily due to a full year of operation of our fleet during 2011.

Daily vessel operating expenses decreased to \$4,872 per vessel per day during the year ended December 31, 2011 from \$5,016 per vessel per day during the year ended December 31, 2010. The decrease in daily vessel operating expenses is primarily due to a decrease in insurance expenses and lube expenses. These decreases were partially offset by increases in spare parts and repairs and maintenance expenses. We believe daily vessel operating expenses are best measured for comparative purposes over a 12-month period in order to take into account all of the expenses that each vessel in our fleet will incur over a full year of operation. For the first half of 2011, we budgeted daily vessel operating expenses at a weighted-average rate of \$5,200 per vessel per day. For the second half of 2011, we budgeted daily vessel operating expenses at a weighted-average rate of \$5,000 per vessel per day. Our actual daily vessel operating expenses per vessel for the year ended December 31, 2011 have been \$227 below the weighted-average budgeted rate for the year ended December 31, 2011 of approximately \$5,099.

Edgar Filing: Baltic Trading Ltd - Form 10-K

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

Based on our management's estimates and budgets provided by our technical manager, we expect our vessels to have average daily vessel operating expenses during 2012 of:

Vessel Type	Average Daily Budgeted Amount
Capesize	\$ 5,900
Supramax	5,400
Handysize	4,800

Based on these average daily budgeted amounts by vessel type, we expect our fleet to have average daily vessel operating expenses of \$5,300 during 2012.

GENERAL, ADMINISTRATIVE AND TECHNICAL MANAGEMENT FEES-

We incur general and administrative expenses, which relate to our onshore non-vessel-related activities. Our general and administrative expenses include non-cash compensation expense, legal, auditing and other professional expenses. With respect to the restricted shares issued as incentive compensation to our Chairman, our President and Chief Financial Officer and our directors under our 2010 Equity Incentive Plan, refer to Note 14 Nonvested Stock Awards in our consolidated financial statements. Additionally, we incur management fees to third-party technical management companies for the day-to-day management of our vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies.

For 2011 and 2010, general, administrative and technical management fees were \$5,585,205 and \$5,044,135, respectively. The increase in general, administrative and technical management fees was primarily a result of an increase in management fees of \$590,314 related to the operation of a larger fleet. During 2012, the management fees per vessel are expected to be the same as during 2011, or approximately \$130,000 per vessel.

DEPRECIATION-

We depreciate the cost of our vessels on a straight-line basis over the expected useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated residual value. We estimate the useful life of our vessels to be 25 years. Furthermore, we estimate the residual values of our vessels to be based upon the estimated scrap value of the vessels. Effective January 1, 2011, we increased the estimated scrap value of the vessels from \$175/lwt to \$245/lwt prospectively based on the 15-year average scrap value of steel.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Depreciation expense increased by \$7,409,914 during 2011 as compared to 2010 as a result of the increase in the size of our fleet. Depreciation expense for 2011 also reflected a decrease in depreciation of \$344,362 due to the change in estimated salvage value from \$175 per lightweight ton to \$245 per lightweight ton. Refer to Note 2 Summary of Significant Accounting Policies in our consolidated financial statements for further information regarding this change.

OTHER OPERATING INCOME-

During the year ended December 31, 2010, we recorded other operating income of \$206,000 related to a payment received from the seller of the Baltic Cougar as a result of the late delivery of the vessel. There was no such income recorded during the year ended December 31, 2011.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For 2011 and 2010, net interest expense was \$4,412,566 and \$1,918,292, respectively. The net interest expense during both periods consisted of interest expense and unused commitment fees related to our 2010 Credit Facility, the amortization of deferred financing fees associated with this facility as well as interest income earned on

Edgar Filing: Baltic Trading Ltd - Form 10-K

our cash balances. As a result of the amendment to the 2010 Credit Facility, which was effective November 30, 2010, the total applicable margin over LIBOR decreased from 3.25% to 3.00%. The increase in net interest expense was primarily a result of the drawdown of additional debt during the second half of 2010 due to the expansion of our fleet.

INCOME TAX EXPENSE-

For 2011 and 2010, income tax expense was \$34,559 and \$77,740, respectively. During 2011, we had United States operations which resulted in United States source income of \$3,061,995, which resulted in income tax expense of \$34,559. During the year ended December 31, 2010, we had United States operations which resulted in United States source income of \$2,541,424, which resulted in income tax expense of \$77,740. The decrease in income tax expense is a result of an income tax benefit recorded during the year ended December 31, 2011.

Year ended December 31, 2009

Baltic Trading was formed on October 6, 2009 (the inception date), under the laws of the Republic of the Marshall Islands. During the period from the inception date to December 31, 2009 we incurred general, administrative and technical management fees of \$15,820, which consisted of costs related to our formation and inspections for the potential purchase of vessels. As we did not have any operations during the period from the inception date to December 31, 2009, the results of operations are not comparable to the year ended December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

On April 16, 2010, we entered into a \$100 million senior secured revolving credit facility with Nordea Bank Finland plc, acting through its New York branch, for a \$100 million senior secured revolving credit facility, which was amended in November 2010, as described below. See Note 7

Debt in our consolidated financial statements for a full description of our 2010 Credit Facility. A commitment fee of 1.25% per annum is payable on the unused daily portion of the 2010 Credit Facility which began accruing on March 18, 2010 under the terms of the commitment letter entered into on February 25, 2010. In connection with the commitment letter, we paid an upfront fee of \$0.3 million. Additionally upon executing the 2010 Credit Facility, we paid the remaining upfront fee of \$0.9 million, for total upfront fees of \$1.3 million, which has been capitalized as Deferred financing costs in the consolidated balance sheets.

Effective November 30, 2010, we entered into an amendment to the 2010 Credit Facility with Nordea Bank Finland plc, acting through its New York branch, and Skandinaviska Enskilda Banken AB. Under the terms of the amended 2010 Credit Facility, the commitment amount increased to \$150 million from \$100 million and the amounts borrowed bear interest at LIBOR plus a margin of 3.00% as compared to 3.25% previously.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The term of the 2010 Credit Facility has been extended to six years from the previous term of four years and the repayment structure has been modified to provide for 11 semi-annual commitment reductions of \$5.0 million each with a balloon payment at the end of the facility. The amended 2010 Credit Facility will expire on November 30, 2016. In connection with the amendment to the 2010 Credit Facility, we paid an upfront fee of \$1.4 million which has been capitalized as Deferred financing costs in the consolidated balance sheets.

Borrowings of up to \$25 million under the 2010 Credit Facility are available for working capital purposes. At December 31, 2011, we have borrowed \$1.5 million of the total \$25 million available for working capital. As noted above, the repayment structure under the amended 2010 Credit Facility has been modified to provide for 11 semi-annual commitment reductions of \$5 million beginning on May 31, 2011 with a balloon payment at the end of the facility on November 30, 2016. We do not anticipate that borrowings under the 2010 Credit Facility will be used to satisfy our long-term capital needs. As of December 31, 2011, total borrowings, including those for working capital purposes, under the 2010 Credit Facility were \$101.3 million. Additionally, as of December 31, 2011, \$38.8 million remained available under the 2010 Credit Facility as the total commitment under this facility decreased to \$140

million. Given recent conditions we deem unfavorable for conducting equity financings, we have not used such financings to repay indebtedness under the 2010 Credit Facility, although we may conduct such financings if conditions improve.

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

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

As of December 31, 2011, we believe we are in compliance with all of the financial covenants under the 2010 Credit Facility.

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

Our dividend policy will also impact our future liquidity position. We currently intend to pay a variable quarterly dividend equal to our Cash Available for Distribution from the previous quarter (refer to "Dividend Policy" below), subject to any reserves the Board of Directors may from time to time determine are required. These reserves may cover, among other things, drydocking, repairs, claims, liabilities and other obligations, debt amortization, acquisitions of additional assets and working capital.

Dividend Policy

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

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

Edgar Filing: Baltic Trading Ltd - Form 10-K

Net Income (loss)
Less Fleet Related Capital Maintenance Expenditures
Plus Non-Cash Compensation

Cash Available for Distribution

The application of our dividend policy would have resulted in a lesser dividend or no dividend for the first through the fourth quarter of 2011; however, based on our cash flow, liquidity and capital resources, our Board of Directors determined to declare a dividend. While our Board of Directors may consider declaring future dividends that exceed the amount determined by our policy, we cannot assure you that they will do so, and the recent dividend declarations do not represent a change in our policy.

Edgar Filing: Baltic Trading Ltd - Form 10-K

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

FISCAL YEAR ENDING DECEMBER 31, 2011			
3rd Quarter	\$	0.12	10/27/2011
1st Quarter	\$	0.06	4/28/2011

FISCAL YEAR ENDING DECEMBER 31, 2010			
3rd Quarter	\$	0.16	10/26/2010
1st Quarter			N/A

The aggregate amount of the dividend declared in 2011 and 2010 was \$10,165,665 and \$7,192,829, respectively, which we funded from cash on hand.

Our Board of Directors declared a dividend for the fourth quarter of 2011 of \$0.13 per share payable on or about March 9, 2012 to all shareholders of record as of March 2, 2012. Our dividend policy is to pay a variable quarterly dividend equal to our Cash Available for Distribution, during the previous quarter, subject to any reserves our board of directors may from time to time determine are required.

Dividends will be paid equally on a per-share basis between our common stock and our Class B stock. Cash Available for Distribution represents our net income less cash expenditures for capital items related to our fleet, such as drydocking or special surveys, other than vessel acquisitions and related expenses, plus non-cash compensation. For purposes of calculating Cash Available for Distribution, we may disregard non-cash adjustments to our net income, such as those that would result from acquiring a vessel subject to a charter that was above or below market rates. We intend to pay dividends on a quarterly basis.

We believe that, under current law, our dividend payments from earnings and profits will constitute qualified dividend income and, as such, will generally be subject to a 15% U.S. federal income tax rate with respect to non-corporate U.S. shareholders that meet certain holding period and other requirements (through 2012). Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of a U.S. shareholder's tax basis in its common stock on a dollar-for-dollar basis and, thereafter, as capital gain.

Limitations on Dividends and Our Ability to Change Our Dividend Policy

There is no guarantee that our shareholders will receive quarterly dividends from us. Our dividend policy may be changed at any time by our Board of Directors and is subject to certain restrictions, including:

- Our shareholders have no contractual or other legal right to receive dividends.

Edgar Filing: Baltic Trading Ltd - Form 10-K

- Our Board of Directors has authority to establish reserves for the prudent conduct of our business, after giving effect to contingent liabilities, the terms of any credit facilities we may enter into, our other cash needs and the requirements of Marshall Islands law. The establishment of these reserves could result in a reduction in dividends to you. We do not anticipate the need for reserves at this time.

- Our Board of Directors may modify or terminate our dividend policy at any time. Even if our dividend policy is not modified or revoked, the amount of dividends we pay under our dividend policy and the decision to pay any dividend is determined by our Board of Directors.

Edgar Filing: Baltic Trading Ltd - Form 10-K

- Marshall Islands law generally prohibits the payment of a dividend when a company is insolvent or would be rendered insolvent by the payment of such a dividend or when the declaration or payment would be contrary to any restriction contained in the company's articles of incorporation. Dividends may be declared and paid out of surplus only, but if there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year.
- We may lack sufficient cash to pay dividends due to decreases in net voyage revenues or increases in operating expenses, principal and interest payments on outstanding debt, tax expenses, working capital requirements, capital expenditures or other anticipated or unanticipated cash needs.
- Our dividend policy may be affected by restrictions on distributions under any credit facilities we may enter into, which contain material financial tests and covenants that must be satisfied. If we are unable to satisfy these restrictions included in the credit facilities or if we are otherwise in default under the facilities, we would be prohibited from making cash distributions to you, notwithstanding our stated cash dividend policy.
- While we intend that future acquisitions to expand our fleet will enhance our ability to pay dividends over time, acquisitions could limit our Cash Available for Distribution.

Our ability to make distributions to our shareholders will depend upon the performance of our current and future wholly-owned subsidiaries through which we own and operate vessels, which are our principal cash-generating assets, and their ability to distribute funds to us. The ability of our ship-owning or other subsidiaries to make distributions to us may be restricted by, among other things, the provisions of future indebtedness, applicable corporate or limited liability company laws and other laws and regulations.

We have a limited operating history upon which to rely as to whether we will have sufficient cash available to pay dividends on our common stock. In addition, the drybulk vessel spot charter market is highly volatile, and we cannot accurately predict the amount of cash distributions, if any, that we may make in any period. Factors beyond our control may affect the charter market for our vessels, our charterers' ability to satisfy their contractual obligations to us, and our voyage and operating expenses.

Cash Flow

Net cash provided by operating activities for the years ended December 31, 2011 and 2010 was \$15.4 million and \$19.0 million, respectively. The decrease in cash provided by operating activities was primarily a result of a recorded net loss of \$0.4 million offset by an increase in the size of our fleet. Lower net income was reported in 2011 compared to 2010, which resulted primarily from lower charter rates achieved in 2011 versus the prior year for the vessels in our fleet and higher depreciation due to the expansion of our fleet and the operation of our fleet for the full twelve month period in 2011, as our fleet was acquired in the second through fourth quarters of 2010.

Net cash used in investing activities was \$2.6 million for the year ended December 31, 2011 due to vessel related purchases. For the year ended December 31, 2010, cash used in investing activities was \$389.8 million and primarily related to the purchase of the nine vessels in our fleet.

Net cash used in financing activities for the year ended December 31, 2011 was \$10.3 million and consisted primarily of \$10.2 million in cash dividends paid. For the year ended December 31, 2010, cash provided by financing activities was \$376.6 million and primarily consisted of \$214.5 million of proceeds from the issuance of common stock, \$75.0 million of capital contributions from Genco, and \$101.3 million of proceeds from the 2010 Credit Facility.

Contractual Obligations

The following table sets forth our contractual obligations and their maturity dates as of December 31, 2011. The interest and borrowing fees in the table incorporate the unused fees and interest expense related to the amended 2010 Credit Facility, as well as other fees associated with the amended 2010 Credit Facility.

Edgar Filing: Baltic Trading Ltd - Form 10-K

	Total	Less Than One Year	One to Three Years	Three to Five Years
2010 Credit Agreement	\$ 101,250,000	\$	\$	\$ 101,250,000
Interest and borrowing fees	17,928,736	7,675,147	7,200,853	3,052,736
Total	\$ 119,178,736	\$ 7,675,147	\$ 7,200,853	\$ 104,302,736

Future interest expense has been estimated using 0.3125% plus the applicable margin for the amended 2010 Credit Facility of 3.00%.

Capital Expenditures

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

In addition to acquisitions that we may undertake in future periods, we will incur additional capital expenditures due to special surveys and drydockings. We estimate that we will not have any drydocking costs for our fleet through 2013 as we estimate that none of our vessels will be drydocked during 2012 or 2013.

We did not incur any drydocking costs during the years ended December 31, 2011 and 2010.

Off-Balance Sheet Arrangements

Except as disclosed in our consolidated financial statements, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

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

CRITICAL ACCOUNTING POLICIES

Edgar Filing: Baltic Trading Ltd - Form 10-K

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application. For an additional description of our significant accounting policies, see Note 2 to our consolidated financial statements included in this 10-K.

Time Charters Acquired

When a vessel is acquired with an existing time charter, we allocate the purchase price of the vessel and the time charter based on, among other things, vessel market valuations and the present value (using an interest rate which reflects the risks associated with the acquired charters) of the difference between (i) the contractual amounts to be paid pursuant to the charter terms and (ii) management's estimate of the fair market charter rate, measured over a period equal to the remaining term of the charter. The capitalized above-market (assets) and below-market (liabilities) charters are amortized as a reduction or increase, respectively, to voyage revenues over the remaining term of the charter.

Edgar Filing: Baltic Trading Ltd - Form 10-K

During the years ended December 31, 2011 and 2010, we did not acquire vessels with existing time charters for which there was a significant difference between the present value of the difference between the contractual amounts to be paid and our estimate of the fair market charter rate.

Performance Claims

Revenue is based on contracted charterparties, including spot-market related time charters which rates fluctuate based on changes in the spot market. However, there is always the possibility of dispute over terms and payment of hires and freights. In particular, disagreements may arise as to the responsibility of lost time and revenue due to us as a result. Additionally, there are certain performance parameters included in contracted charterparties which if not met, can result in customer claims. Accordingly, we periodically assess the recoverability of amounts outstanding and estimate a provision if there is a possibility of non-recoverability. At each balance sheet date, we provide a provision based on a review of all outstanding charter receivables and we also will accrue for any estimated customer claims primarily a result of time charter performance issues that have not yet been deducted by the charterer. We provide for reserves which offset the due from charterers balance if a disputed amount or performance claim has been deducted by the charterer. If a disputed amount or potential performance claim has not been deducted by the charterer, we record the estimated customer claims as deferred revenue. Providing for these reserves will be offset by a decrease in revenue. Although we believe its provisions to be reasonable at the time they are made, it is possible that an amount under dispute is not ultimately recovered and the estimated provision for doubtful accounts is inadequate.

Vessels and Depreciation

We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our drybulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard. Depreciation is based on cost less the estimated residual scrap value. Effective January 1, 2011, we increased the estimated scrap value of the vessels from \$175/lwt to \$245/lwt prospectively based on the 15-year average scrap value of steel. This increase in the residual value of the vessels will decrease the annual depreciation charge over the remaining useful life of the vessel. During the year ended December 31, 2011, the increase in the estimated scrap value resulted in a decrease in depreciation expense of approximately \$0.3 million. Similarly, an increase in the useful life of a drybulk vessel would also decrease the annual depreciation charge. Comparatively, a decrease in the useful life of a drybulk vessel or in its residual value would have the effect of increasing the annual depreciation charge. However, when regulations place limitations over the ability of a vessel to trade on a worldwide basis, we will adjust the vessel's useful life to end at the date such regulations preclude such vessel's further commercial use.

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

Pursuant to our 2010 Credit Facility, we regularly submit to the lenders valuations of our vessels on an individual charter free basis in order to evidence our compliance with the collateral maintenance covenant under our 2010 Credit Facility. Such a valuation is not necessarily the same as the amount any vessel may bring upon sale, which may be more or less, and should not be relied upon as such. We were in compliance with the collateral maintenance covenant under our 2010 Credit Facility at December 31, 2011 and 2010. In the chart below, we list each of our vessels, the year it was built, the year we acquired it, and its carrying value at December 31, 2011. For all of our vessels, the vessel valuations for covenant compliance purposes under our 2010 Credit Facility as of December 31, 2011 were lower than their carrying values at December 31, 2011. The amount by which the carrying value at December 31, 2011 of our vessels exceeded the valuation of such vessels for

Edgar Filing: Baltic Trading Ltd - Form 10-K

covenant compliance purposes ranged, on an individual vessel basis, from \$7.4 million to \$24.2 million per vessel. The average amount by which the carrying value of these vessels exceeded the valuation of such vessels for covenant compliance purposes was \$11.4 million.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Vessels	Year Built	Year Acquired	Carrying Value (U.S. Dollars in thousands)
Baltic Leopard	2009	2009	\$ 33,358
Baltic Panther	2009	2010	33,436
Baltic Cougar	2009	2010	33,588
Baltic Jaguar	2009	2010	33,489
Baltic Bear	2010	2010	69,835
Baltic Wolf	2010	2010	69,333
Baltic Wind	2009	2010	32,008
Baltic Cove	2010	2010	32,306
Baltic Breeze	2010	2010	32,868
TOTAL			\$ 370,221

Impairment of long-lived assets

We follow the Accounting Standards Codification (ASC) Subtopic 360-10, Property, Plant and Equipment (ASC 360-10), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If indicators of impairment are present, we perform an analysis of the anticipated undiscounted future net cash flows to be derived from the related long-lived assets.

The current economic and market conditions, including the significant disruptions in the global credit markets, are having broad effects on participants in a wide variety of industries. Since mid-August 2008, the charter rates in the dry bulk charter market have declined significantly, and drybulk vessel values have also declined both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates.

When indicators of impairment are present and our estimate of undiscounted future cash flows for any vessel is lower than the vessel's carrying value, the carrying value is written down, by recording a charge to operations, to the vessel's fair market value if the fair market value is lower than the vessel's carrying value.

We concluded at December 31, 2011 that the future income streams expected to be earned by such vessels over their remaining operating lives on an undiscounted basis would be sufficient to recover their carrying values and that, accordingly, our vessels were not impaired under U.S. GAAP. Our estimated future undiscounted cash flows exceeded each of our vessels' carrying values by a considerable margin (73% - 404% of carrying value). Our vessels remain fully utilized and have a relatively long average remaining useful life of approximately 2.0 years in which to recover sufficient cash flows on an undiscounted basis to recover their carrying values as of December 31, 2011. Management will continue to monitor developments in charter rates in the markets in which it participates with respect to the expectation of future rates over an extended period of time that are utilized in the analyses.

In developing estimates of future undiscounted cash flows, we make assumptions and estimates about the vessels' future performance, with the significant assumptions being related to charter rates, fleet utilization, vessels' operating expenses, vessels' capital expenditures and drydocking requirements, vessels' residual value and the estimated remaining useful life of each vessel. The assumptions used to develop estimates of future undiscounted cash flows are based on historical trends. Specifically, we utilize the rates currently in effect for the duration of their current spot market-related time charters. For periods of time where our vessels are not fixed on such charters, we utilize an estimated daily time charter equivalent for our vessels based on the most recent ten year historical one year time charter average. Actual equivalent drybulk shipping rates are currently lower than the estimated rate. We believe current rates have been driven by short term disruptions or seasonal issues as discussed under Management's Discussion and Analysis Results of Operations Voyage Revenues.

Edgar Filing: Baltic Trading Ltd - Form 10-K

The projected net operating cash flows are determined by considering the future charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days over the estimated remaining life of the vessel, assumed to be 25 years from the delivery of the vessel from the shipyard, reduced by brokerage commissions, expected outflows for vessels' maintenance and vessel operating expenses (including planned drydocking and special survey expenditures) and capital expenditures adjusted annually for inflation, assuming fleet utilization of 98%. The salvage value used in the impairment test is estimated to be \$245 per light weight ton, consistent with our vessels' depreciation policy discussed above.

Although we believe that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. There can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether they will improve by any significant degree. Charter rates may remain at depressed levels for some time, which could adversely affect our revenue and profitability, and future

assessments of vessel impairment.

Fair value of financial instruments

The estimated fair values of our financial instruments such as amounts due to / due from charterers, accounts payable and long-term debt approximate their individual carrying amounts as of December 31, 2011 and December 31, 2010 due to their short-term maturity or the variable-rate nature of the respective borrowings under the 2010 Credit Facility. See Note 8 - Fair Value of Financial Instruments in our consolidated financial statements for additional disclosure on the fair values of long term debt.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

The international shipping industry is a capital intensive industry, requiring significant amounts of investment. Effective April 16, 2010, we entered into the 2010 Credit Facility that provides us with bridge financing for completed and potential vessel acquisitions. Our interest expense under any such credit facility will be affected by changes in LIBOR rates as outstanding debt on the amended 2010 Credit Facility is based on LIBOR plus an applicable margin of 3.00% per annum. Prior to the effective date of the amendment to the 2010 Credit Facility of November 30, 2010, the applicable margin was 3.25%. Increasing interest rates could adversely impact our future earnings. A 1% increase in LIBOR would result in an increase of \$1,026,563 in interest expense for the year ended December 31, 2011.

Currency and exchange rates risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Baltic Trading Limited

Consolidated financial statements as of December 31, 2011 and 2010 and for the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009
Index to consolidated financial statements

	Page
a) <u>Report of Independent Registered Public Accounting Firm</u>	F-2
b) <u>Consolidated Balance Sheets - December 31, 2011 and December 31, 2010</u>	F-3
c) <u>Consolidated Statements of Operations - For the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009</u>	F-4
d) <u>Consolidated Statement of Shareholders' Equity (Deficit)- For the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009</u>	F-5
e) <u>Consolidated Statements of Cash Flows - For the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009</u>	F-6
f) <u>Notes to Consolidated Financial Statements For the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009</u>	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Baltic Trading Limited

New York, New York

We have audited the accompanying consolidated balance sheets of Baltic Trading Limited and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years ended December 31, 2011 and December 31, 2010, and for the period from October 6, 2009 (date of inception) through December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baltic Trading Limited and subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years ended December 31, 2011 and 2010, and for the period from October 6, 2009 (date of inception) through December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 29, 2012

Baltic Trading Limited

Consolidated Balance Sheets as of December 31, 2011
and December 31, 2010

	December 31,	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,299,646	\$ 5,796,862
Due from charterers, net	1,652,789	666,007
Prepaid expenses and other current assets	2,467,436	2,392,838
Total current assets	12,419,871	8,855,707
Noncurrent assets:		
Vessels, net of accumulated depreciation of \$22,106,977 and \$7,352,729, respectively	370,221,281	384,590,337
Fixed assets, net of accumulated depreciation of \$20,515 and \$6,060, respectively	22,929	37,384
Deferred financing costs, net of accumulated amortization of \$736,994 and \$269,976, respectively	2,290,446	2,670,290
Total noncurrent assets	372,534,656	387,298,011
Total assets	\$ 384,954,527	\$ 396,153,718
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,972,218	\$ 3,345,266
Deferred revenue	70,440	385,288
Due to Parent	58,648	1,738,004
Total current liabilities	2,101,306	5,468,558
Noncurrent liabilities:		
Long-term debt	101,250,000	101,250,000
Total noncurrent liabilities:	101,250,000	101,250,000
Total liabilities	103,351,306	106,718,558
Commitments and contingencies		
Shareholders' equity:		
Common stock, par value \$0.01; 500,000,000 shares authorized; issued and outstanding 17,001,000 and 16,883,500 shares at December 31, 2011 and 2010, respectively	170,010	168,835
Class B stock, par value \$0.01; 100,000,000 shares authorized; issued and outstanding 5,699,088 at December 31, 2011 and 2010	56,991	56,991
Additional paid-in capital	280,923,195	288,095,548
Retained earnings	453,025	1,113,786
Total shareholders' equity	281,603,221	289,435,160
Total liabilities and shareholders' equity	\$ 384,954,527	\$ 396,153,718

See accompanying notes to consolidated financial statements.

Edgar Filing: Baltic Trading Ltd - Form 10-K

Baltic Trading Limited

Consolidated Statements of Operations for the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	October 6, 2009 through December 31, 2009
Revenues	\$ 43,492,085	\$ 32,558,648	\$
Operating expenses:			
Voyage expenses	61,336	166,997	
Voyage expenses to Parent	559,872	422,129	
Vessel operating expenses	16,004,698	8,198,378	
General, administrative and technical management fees	5,585,205	5,044,135	15,820
Management fees to Parent	2,463,750	1,228,500	
Depreciation	14,768,703	7,358,789	
Other operating income		(206,000)	
Total operating expenses	39,443,564	22,212,928	15,820
Operating income (loss)	4,048,521	10,345,720	(15,820)
Other (expense) income:			
Other expense	(32,508)	(27,253)	
Interest income	9,349	236,451	
Interest expense	(4,421,915)	(2,154,743)	
Other expense, net	(4,445,074)	(1,945,545)	
(Loss) income before income taxes	(396,553)	8,400,175	(15,820)
Income tax expense	(34,559)	(77,740)	
Net (loss) income	\$ (431,112)	\$ 8,322,435	\$ (15,820)
Net (loss) income per share of common and Class B stock:			
Net (loss) income per share-basic	\$ (0.02)	\$ 0.46	\$
Net (loss) income per share-diluted	\$ (0.02)	\$ 0.46	\$
Net loss per share of Capital Stock basic and diluted	\$	\$	\$ (158.20)
Dividends declared and paid per share of common and Class B Stock	\$ 0.45	\$ 0.32	\$

See accompanying notes to consolidated financial statements.

Baltic Trading Limited

Consolidated Statement of Shareholders Equity (Deficit) for the Years Ended December 31, 2011 and 2010 and for the Period from October 6, 2009 (Date of Inception) through December 31, 2009

		Capital Stock Par Value	Common Stock Par Value	Class B Stock Par Value	Additional paid-in Capital	Retained Earnings (Deficit)	Total
Balance	October 6, 2009	\$	\$	\$	\$	\$	\$
Net loss							