INTROGEN THERAPEUTICS INC
Form 10-Q
May 04, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007.

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 000-21291

Introgen Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**74-2704230**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

301 Congress Avenue, Suite 1850
Austin, Texas 78701
(Address of principal executive offices, including zip code)
(512) 708-9310
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of May 3, 2007 the registrant had 43,730,724 shares of its common stock, $0.001 par value per share, issued and outstanding.

Table of Contents

INTROGEN THERAPEUTICS, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

PAGE NO.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share amounts)

	December 31, 2006	March 31, 2007 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 25,578	$ 4,956
Short-term investments	15,767	29,203
Total cash, cash equivalents and short-term investments	41,345	34,159
Marketable securities	6,957	11,004
Prepaid expense and other current assets	397	785
Total current assets	48,699	45,948
Property and equipment, net of accumulated depreciation of $13,976 and $14,255	5,172	4,893
Other assets	290	283
Total assets	$ 54,161	$ 51,124
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 2,384	$ 1,538
Accrued liabilities and other	4,817	3,383
Deferred revenue and other	624	624
Current portion of notes payable	917	791
Total current liabilities	8,742	6,336
Notes payable, net of current portion	7,448	7,305
Deferred revenue and other, long-term	923	712
Total liabilities	17,113	14,353
Non-controlling interest in consolidated subsidiary		14
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, $.001 par value per share; 5,000 shares authorized; 4,900 shares issuable; zero Series A shares issued and outstanding in 2006 and 2007, respectively	44	44

Common stock, $.001 par value per share; 100,000 shares authorized; shares issued and outstanding of 43,591in 2006 and 43,700 in 2007		
Additional paid-in capital	205,350	206,633
Accumulated deficit	(172,260)	(177,877)
Accumulated other comprehensive gain	3,914	7,957
Total stockholders equity	37,048	36,757
Total liabilities and stockholders equity	$ 54,161	$ 51,124

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended March 31,	
	2006	**2007**
Contract services, grant and other revenue	$ 225	$ 322
Operating costs and expense:		
Research and development, including share-based compensation of $217 in 2006 and $305 in 2007	5,046	3,175
General and administrative, including share-based compensation of $2,021 in 2006 and $950 in 2007	3,796	3,267
Total operating costs and expense	8,842	6,442
Loss from operations	(8,617)	(6,120)
Interest income	299	442
Interest expense	(156)	(179)
Other income	255	254
Loss before non-controlling interest in consolidated subsidiary	(8,219)	(5,603)
Non-controlling interest in consolidated subsidiary		(14)
Net loss	$ (8,219)	$ (5,617)
Net loss per share, basic and diluted	$ (0.22)	$ (0.13)
Shares used in computing basic and diluted net loss per share	37,180	43,655

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(UNAUDITED)

	Three Months Ended March 31,	
	2006	**2007**
Cash flows from operating activities:		
Net loss	$ (8,219)	$ (5,617)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-controlling interest in consolidated subsidiary		14
Depreciation	358	279
Share-based compensation	2,238	1,255
Amortization of grant rights acquired	133	
Changes in assets and liabilities:		
(Increase) decrease in other assets	20	(381)
Increase (decrease) in accounts payable	223	(846)
Increase (decrease) in accrued liabilities	(357)	68
Increase (decrease) in deferred revenue and other	(6)	(211)
Net cash used in operating activities	(5,610)	(5,439)
Cash flows from investing activities:		
Purchases of property and equipment	(36)	
Purchases of short-term investments	(15,809)	(13,436)
Net cash used in investing activities	(15,845)	(13,436)
Cash flows from financing activities:		
Payment of offering costs related to sale of common stock		(1,571)
Proceeds from exercise of options for common stock	29	97
Proceeds from notes payable	97	
Principal payments under notes payable	(224)	(269)
Net cash used in financing activities	(98)	(1,743)
Effect of exchange rate changes on cash		(4)
Net decrease in cash	(21,553)	(20,622)
Cash and cash equivalents, beginning of period	28,090	25,578
Cash and cash equivalents, end of period	$ 6,537	$ 4,956
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 148	$ 171
Cash paid for taxes for the issuance of common stock in connection with the grant of common stock	$ 28	$

Supplemental disclosure of non-cash investing and financing activities:				
Grant rights acquired in asset acquisition	$	30	$	
Non-cash unrealized gain (loss) on marketable securities	$	(128)	$	4,047
Issuance of common stock in connection with the grant of stock	$	41	$	

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

INTROGEN THERAPEUTICS, INC. AND SUBSIDIARIES
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Formation and Business of the Company

We are a biopharmaceutical company focused on the discovery, development and commercialization of targeted molecular therapies for the treatment of cancer and other diseases. We are developing product candidates to treat a wide range of cancers using tumor suppressors, cytokines and other targeted molecular therapies. These agents are designed to increase production of normal cancer-fighting proteins that act to overpower cancerous cells, stimulate immune activity and enhance conventional cancer therapies.

We have not yet generated any significant revenue from unaffiliated third parties, nor is there any assurance of future product revenue. We earn minimal revenue from contract services activities, interest income, and rent from the lease of a portion of our facilities to The University of Texas M. D. Anderson Cancer Center. We do not expect to generate revenue from the commercial sale of our products in the near future. We may never generate revenue from the commercial sale of our products.

Our research and development activities involve a high degree of risk and uncertainty. Our ability to successfully develop, manufacture and market our proprietary products is dependent upon many factors. These factors include, but are not limited to, the need for and the ability to obtain additional financing, the reliance on collaborative research and development arrangements with corporate and academic affiliates and the ability to develop manufacturing, sales and marketing experience. Additional factors include uncertainties as to patents and proprietary technologies, competitive technologies, technological change and risk of obsolescence, development of products, competition, government regulations and regulatory approval, and product liability exposure. As a result of these factors and the related uncertainties, there can be no assurance of our future success.

2. Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These financial statements do not include all of the information and footnotes required under GAAP for complete financial statements. In management s opinion, all accounting entries considered necessary for a fair presentation have been made in preparing these financial statements, and such entries are normal in nature. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year.

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 8, 2007.

We account for our investment in Introgen Research Institute, Inc. (IRI) in accordance with FIN 46(R), Consolidation of Variable Interest Entities (as amended). Accordingly, the accounts of IRI are included in these consolidated financial statements. We record a non-controlling interest relative to the portion of IRI we do not own.

See footnote 6 below regarding our adoption of and accounting policies related to Statement of Financial Accounting Standard (SFAS) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS Statement No. 109 (FIN 48),

Table of Contents

3. Introgen Research Institute, Inc.

During the three months ended March 31, 2007, we purchased 49% of the outstanding stock of Introgen Research Institute, Inc. for $10,000. The other 51% of IRI is owned by our corporate Secretary, who is also an Introgen shareholder. We transferred to IRI an NIH grant originally awarded to us. IRI will be responsible for the remaining research contemplated by that grant and will receive future funding, if any, from the NIH under that grant. For the three months ended March 31, 2007, we recorded grant income of $213,000 related to grants held by IRI. We have contractual relationships with IRI under which we may perform research and development services for them in the future.

4. Stockholders Equity

Under an agreement with us, Aventis Pharmaceutical Products, Inc. (Aventis), which is now Sanofi-Aventis, must vote all of its Introgen shares in the same manner as the shares voted by a majority of the other stockholders on any corporate action put to a vote of our stockholders. This voting requirement terminates at the earliest of June 2011 or the sale of these shares pursuant to an effective registration statement on the open market or to an Aventis non-affiliate, as defined in the voting agreement. As of December 31, 2006, Aventis reported owning approximately 1.8 million shares of our common stock that are subject to the voting agreement.

5. Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive income or loss is included as a component of stockholders equity and is composed of (1) foreign currency translation adjustments and (2) unrealized gains and losses on investments designated as available-for-sale securities. Accumulated other comprehensive income (loss) is calculated as follows (in thousands):

	Three Months Ended March 31	
	2006	**2007**
Net loss	$ (8,219)	$ (5,617)
Foreign currency translation adjustments		(4)
Unrealized gain (loss) on marketable securities	(128)	4,047
Total comprehensive loss	$ (8,347)	$ (1,574)

6. Accounting for Uncertainty in Income Taxes

We adopted FIN 48 as of January 1, 2007. FIN 48 applies to all tax positions accounted for under SFAS No. 109. FIN 48 refers to tax positions as positions taken in a previously filed tax return or positions expected to be taken in a future tax return which are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include, but not be limited to, the following:

An allocation or a shift of income between taxing jurisdictions;

The characterization of income or a decision to exclude reporting taxable income in a tax return;

A decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 provides that a tax benefit may be reflected in the financial statements only if it is more likely than not that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. This approach is a change from previous practice under which a tax benefit could be recognized only if it was probable a tax position could be sustained.

FIN 48 requires we make qualitative and quantitative disclosures, including a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next twelve months, a description of open tax years by major jurisdictions and a roll-forward of all unrecognized tax benefits, presented as a reconciliation of the beginning and ending balances of the unrecognized tax benefits on an aggregated basis.

Table of Contents

The Company and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and certain foreign jurisdictions. Generally, the Company is no longer subject to examinations for U.S. federal income taxes for years prior to 2003 and for state income taxes for years prior to 2002. Examinations for foreign income taxes for previous years remain open, but tax considerations in those jurisdictions are not material to us.

The adoption of FIN 48 did not have a material impact on our financial statements or disclosures. As of January 1, 2007 and March 31, 2007, we did not recognize any assets or liabilities for unrecognized tax benefits relative to uncertain tax positions. We anticipate no significant increase or decrease to gross unrecognized tax benefits will be recorded during the next twelve months. Any interest or penalties resulting from examinations will continue to be recognized as a component of the income tax provision. However, since there are no unrecognized tax benefits as a result of tax positions taken, we have no accrued interest and penalties.

7. Subsequent Event

Subsequent to March 31, 2007, we were relieved of the need to pay certain invoices that were recorded as accounts payable and expensed in earlier periods. We recorded this event as of March 31, 2007, which reduced our research and development expense by approximately $1.1 million for the three months ended March 31, 2007.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included in this Quarterly Report on Form 10-Q and the other documents we have filed with the Securities and Exchange Commission. In addition to historical information, this report and the following discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements address our future operations, financial condition, business strategies and other prospective items and include, among other subjects, matters concerning our expectations regarding:

- The growth of our operations, business and revenues and the growth rate of our costs and expenses;
- Future increases in our research and development, sales and marketing and general and administrative expenses;
- The sufficiency of our existing cash, cash equivalents, marketable securities and cash generated from operations;
- Our expectations regarding various regulatory applications, procedures and approvals relating to our product candidates, including but not limited to our expectations regarding the timing of such applications, procedures and approvals;
- Better efficacy of our product candidates through the use of biomarkers ; and
- Application of our research and development expertise to other diseases that result from cellular dysfunction and uncontrolled cell growth.

The words believe, expect, anticipate and other similar expressions generally identify forward-looking statements. These forward-looking statements are based on our current expectations and entail various risks and uncertainties. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under the heading Risk Factors in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission.

Table of Contents

Overview

Introgen Therapeutics, Inc. was incorporated in Delaware in 1993. We are a biopharmaceutical company focused on the discovery, development and commercialization of targeted molecular therapies for the treatment of cancer and other diseases. We are developing product candidates to treat a wide range of cancers using tumor suppressors, cytokines and other targeted molecular therapies. These agents are designed to increase production of normal cancer-fighting proteins that act to overpower cancerous cells, stimulate immune activity and enhance conventional cancer therapies.

Our primary approach to the treatment of cancers is to deliver targeted molecular therapies that increase production of normal cancer-fighting proteins to induce apoptosis, cell cycle control, cell growth control and gene regulation, including the regulation of angiogenic and immune factors. Our products work by acting as templates for the transient *in vivo* production of proteins that have pharmacological properties. The resultant proteins engage disease-related molecular targets or receptors to produce specific therapeutic effects.

We believe the use of targeted molecular therapies to induce the production of biopharmaceutical proteins represents a new approach for treating many cancers while avoiding the toxic side effects common to traditional therapies. We have developed significant expertise in developing targeted therapies that may be used to treat disease and in using what we believe are safe and effective delivery systems to transport these agents to the cancer cells. We believe we will be able to treat a number of cancers in a way that kills cancer cells without harming normal cells.

Our lead product candidate, ADVEXIN® therapy, combines the p53 tumor suppressor with a non-replicating, non-integrating, adenoviral delivery system we have developed and extensively tested. The p53 molecule is one of the most potent members of a group of naturally-occurring tumor suppressors, which act to kill cancer cells, arrest cancer growth and protect cells from becoming cancerous. We are developing other product candidates for the treatment of cancer using other molecules and delivery systems, such as the mda-7 and FUS1 tumor suppressors.

We believe our research and development expertise gained from our targeted molecular therapies for cancer is also applicable to other diseases that, like cancer, result from cellular dysfunction and uncontrolled cell growth. As a result, we are conducting research in collaboration with medical institutions to understand the safety and effectiveness of our targeted molecular therapy product candidates in the treatment of other diseases.

We typically license the technologies on which our products are based from third parties. These licenses generally grant us exclusive rights for pre-clinical and clinical development, manufacturing, marketing and commercialization of product candidates based on those technologies.

Our product research and development efforts include pre-clinical activities as well as the conduct of Phase 1, 2 and 3 clinical trials. We rely on third parties to treat patients in their facilities under these clinical trials. We produce ADVEXIN therapy and other product candidates in manufacturing facilities we own and operate using production methods we developed. We hold a number of patents or patents pending on certain product candidates and manufacturing processes used to produce certain product candidates.

We have not yet generated any significant revenue from unaffiliated third parties, nor is there any assurance of future product revenue. We earn minimal revenue from contract services activities, grants and interest income, as well as rent from the lease of a portion of our facilities to The University of Texas M. D. Anderson Cancer Center. We do not expect to generate revenue from the commercial sale of our products in the near future. We may never generate revenue from the commercial sale of our products.

Our principal executive offices are located at 301 Congress Avenue, Suite 1850, Austin, Texas 78701. Our telephone number is (512) 708-9310. Our Internet website address is www.introgen.com.

The Introgen Approach

Our primary approach for the treatment of cancers is to deliver targeted molecular therapies that increase production of normal cancer-fighting proteins. The resultant proteins engage disease-related molecular targets or receptors to produce specific therapeutic effects. We believe we are able to treat a number of cancers in a way that kills cancer cells without harming normal cells.

Most cancers are amenable to local treatment, such as surgery and radiation, which are administered far more often than systemic cancer treatments. Our locally delivered product candidates, such as ADVEXIN therapy and INGN 241, IL24 therapy, deposit

Table of Contents

therapeutic molecules directly into a patient s cancerous tumor by hypodermic syringe. We have systemic formulations for intravenous use in those cases for which a systemic therapy may be indicated and have applied ADVEXIN therapy using a nanoparticle formulation system to deliver our tumor suppressors.

We initially focused on advanced cancers lacking effective treatments and in which local tumor growth control, where the tumor stops growing or shrinks, is likely to lead to measurable benefit. We have expanded our focus to include earlier stage cancers and pre-malignancies. We believe our clinical trials have shown that our therapies can be used alone and in combination with conventional treatments such as surgery, radiation therapy and chemotherapy.

The Introgen Strategy

Our objective is to be a leader in the development of targeted molecular tumor suppressor therapies and other products for the treatment of cancer and other diseases that, like cancer, result from cellular dysfunction and uncontrolled cell growth. To accomplish this objective, we are pursuing the following strategies:

Develop and Commercialize ADVEXIN Therapy, INGN 241 and INGN 401 for Multiple Cancer Indications. We plan to continue our development programs to commercialize our ADVEXIN therapy, using the p53 tumor suppressor, our INGN 241 product, using the mda-7 tumor suppressor, also know as interleukin 24 (IL-24), and our INGN 401 product, using the FUS1 tumor suppressor, in multiple cancer indications.

Develop Our Portfolio of Targeted Molecular Therapies and Other Drug Products. Utilizing our research, clinical, regulatory and manufacturing expertise, we are evaluating development of additional molecular therapies for various cancers, including:

INGN 225, a highly specific cancer immunotherapy;

INGN 234, an oral rinse or mouthwash formulation containing the p53 tumor suppressor;

INGN 402 and 403, using nanoparticle formulations for systemic delivery of the p53 and mda-7 tumor suppressors; and

INGN 007, a replication-competent viral therapy.

We have an established process for evaluating new drug candidates and advancing them from pre-clinical to clinical development. We have identified and licensed multiple technologies, which we intend to combine with our adenoviral and non-viral vector systems and which we believe are attractive development targets for the treatment of various cancers. We are also evaluating the development of mebendazole (INGN 601), our first small molecule product candidate. We intend to evaluate additional opportunities to in-license or acquire new technologies.

Develop a Nanoparticle Systemic Administration Platform. Early pre-clinical and clinical studies with these new nanoparticle drugs have demonstrated a good safety profile and promising anti-cancer activity. In addition to FUS-1, we incorporate the p53 tumor suppressor and the mda-7 tumor suppressor in these nanoparticle formulations. We also have in-licensed technologies for nanoparticle delivery of DNA, siRNA, proteins, peptides and polypeptides.

Develop the Topical Use of Tumor Suppressors. We plan to continue developing topical product candidates for the treatment or prevention of oral and dermal cancers, specifically INGN 234 referred to above. We believe these treatments are a logical extension of our loco-regional delivery of cancer therapies and represent attractive product candidates since pre-malignant and malignant cells can be exposed to natural, biological tumor suppressors and DNA repairing agents.

Establish Targeted Sales and Marketing Capabilities. The oncology market can be effectively addressed by a small, focused sales force because it is characterized by a concentration of specialists in relatively few major cancer centers. We believe we can address this market by a combination of building a direct sales force as part of the ADVEXIN therapy commercialization process and pursuing marketing and distribution agreements with corporate partners for ADVEXIN therapy as well as additional products.

Expand Our Market Focus to Non-Cancer Indications. We plan to leverage our scientific, research and process competencies in

Table of Contents

molecular therapy and vector development to pursue targeted molecular therapies for a variety of other diseases and conditions. We believe these therapies could hold promise for diseases such as cardiovascular disease and rheumatoid arthritis, which, like cancer, result from cellular dysfunction or uncontrolled cell growth.

Product Development Overview

ADVEXIN® Therapy (p53)

ADVEXIN Therapy Overview and Regulatory Status

Our lead product candidate, ADVEXIN® therapy, combines the p53 tumor suppressor with a non-replicating, non-integrating adenoviral delivery system we have developed and extensively tested. The p53 molecule is one of the most potent members of a group of naturally-occurring tumor suppressors, which act to kill cancer cells, arrest cancer cell growth and protect cells from becoming cancerous.

ADVEXIN therapy for head and neck cancer has been designated an Orphan Drug under the Orphan Drug Act. This designation may give us up to seven years of marketing exclusivity for ADVEXIN therapy for this indication if approved by the U.S. Food and Drug Administration (FDA). The European Medicines Agency (EMEA) Committee for Orphan Medicinal Products has granted ADVEXIN therapy an Orphan Medicinal Product Designation in Europe for the treatment of Li-Fraumeni Syndrome. This designation has been ratified by the European Commission. Li-Fraumeni Syndrome is an inherited cancer characterized by inherited mutations in the p53 tumor suppressor gene. The Orphan Medicinal Product Designation in Europe confers a number of regulatory benefits to ADVEXIN therapy, including access to protocol assistance, reduced regulatory fees and a 10-year period of marketing exclusivity from the date of approval.

We have an agreement with EMEA to file for marketing approval for ADVEXIN therapy under the EMEA s Exceptional Circumstances (EC) provisions. The application will be for the use of ADVEXIN therapy for the treatment of Li-Fraumeni Syndrome. Exceptional circumstances provisions are designed to facilitate access to needed treatments for certain Orphan Medicinal Products. A Marketing Authorization Application filed with the EMEA under these provisions can be reviewed on an expedited basis. This EC registration approach is designed by EMEA to be more streamlined than EMEA s Conditional Approval procedures, which are similar to the FDA s Accelerated Approval regulations.

As a result of an audit and inspection by a European Union Qualified Person (QP), we are certified with the United Kingdom s Medicines and Healthcare Products Regulatory Agency (MHRA) that our facilities and production processes are compliant with European Good Manufacturing Practices for the manufacture of ADVEXIN therapy. The MHRA is the competent authority in the United Kingdom and is a component of the EMEA.

We have two ongoing Phase 3 clinical trials of ADVEXIN therapy in patients with advanced recurrent squamous cell carcinoma of the head and neck (recurrent head and neck cancer). These trials involve administration of ADVEXIN therapy, both independently and in combination with chemotherapy, in recurrent head and neck cancer.

We received Fast Track designation for ADVEXIN therapy from the FDA under its protocol assessment program as a result of the FDA s agreement with the design of our two ongoing Phase 3 clinical trials of ADVEXIN therapy. Under this Fast Track designation, the FDA will take actions to expedite the evaluation and review of the Biologics License Application (BLA) for ADVEXIN therapy. We plan to pursue with the FDA an Accelerated Approval of ADVEXIN therapy, which is one alternative provided under a Fast Track designation.

We reviewed historically successful FDA registration strategies for numerous cancer drugs, noting that during the past decade, approximately 14 cancer drugs were initially approved based upon submissions of Phase 2 clinical data. A number of the Phase 2 trials supporting these approvals employed single-arm studies involving relatively small patient populations. Virtually all of those drugs relied on surrogate endpoints for approval and a substantial number of the products were for orphan drug indications.

We conducted a series of meetings with the FDA to develop and implement the filing strategy for the BLA for ADVEXIN therapy, which is the application for approval to market and sell ADVEXIN therapy in the United States. As a result of these meetings, we are developing and pursuing an initial rolling BLA filing strategy based on data from our Phase 2 and Phase 3 clinical trials of ADVEXIN

Table of Contents

therapy for treatment of recurrent head and neck cancer. The FDA has concurred that preliminary evaluation of this data suggests a level of efficacy consistent with the standard for the initiation of a rolling BLA (a submission process also known as Submission Of a Partial Application or SOPA). The FDA has also concluded that ADVEXIN therapy continues to show promise with respect to an unmet medical need since there are limited treatment alternatives in the United States for recurrent head and neck cancer. The FDA has also concluded that the clinical development program for ADVEXIN therapy for recurrent head and neck cancer continues to meet the criteria for Fast Track designation. In conjunction with the new data, the new analyses, and other newly employed biological techniques, we hope to more specifically target recurrent head and neck cancer in patients using indicators known as biomarkers , as discussed further below. We believe this approach will improve efficacy by identifying the patients most likely to benefit from Advexin therapy.

We submitted a SOPA Request to the FDA Division of Cellular and Gene Therapies proposing a rolling BLA for ADVEXIN therapy for the treatment of recurrent head and neck cancer, based primarily on data from our Phase 2 clinical trials. We have proposed to the FDA that, since the basis of the proposed rolling BLA is Phase 2 clinical data utilizing surrogate endpoints, the rolling BLA could be evaluated under the provisions of Subpart H for Accelerated Approval. In order to fully explore all of the review and approval possibilities for ADVEXIN therapy, the FDA has requested we submit new data and analyses from the Phase 2 ADVEXIN therapy clinical trials for recurrent head and neck cancer and conduct efficacy analyses on one or both of our ongoing Phase 3 trials. Given that we have two ongoing Phase 3 clinical trials in recurrent head and neck cancer as discussed further below, we and the FDA are evaluating the most effective use of the data from these Phase 2 and 3 clinical trials in the review and approval of ADVEXIN therapy. Regulatory approval approaches may allow Accelerated Approval on the basis of Phase 2 clinical data with subsequent confirmatory data being provided by the Phase 3 clinical studies or, alternatively, a full approval based on data from Phase 2 and certain Phase 3 clinical trials. We have reached agreement with the FDA that biomarker evaluations as described in its recently announced Critical Path Initiative, which permits new product evaluation on the basis of specifically targeted (i.e., by prognostic or biologic parameters) clinical trials and/or patient populations, can be used in the ADVEXIN therapy approval process. This initiative also encouraged sponsors to examine novel approaches to define tumor responses that correlate with clinical benefit. We have employed several biomarker and response criteria to evaluate ADVEXIN efficiency as described below.

We have initiated the efficacy analysis of our ADVEXIN Phase 3 study. This analysis will involve comparing ADVEXIN therapy to methotrexate for the treatment of recurrent head and neck cancer. The prospective efficacy assessment of the randomized, controlled clinical trial is based upon analysis of biomarkers and clinical outcomes. The efficacy evaluation of the Phase 3 study will incorporate the biomarker analyses identified in Phase 2 clinical trials of ADVEXIN therapy of recurrent head and neck cancer. The Phase 3 Statistical Analysis Plan was finalized with input from the FDA. Introgen has followed advice from the FDA to accelerate its Phase 3 safety analysis and to perform an efficacy analysis for this study. An independent Data Safety Monitory Board review in 2006 noted no safety issues with the Phase 3 study.

During 2007, we plan to complete the efficacy analyses of one or both of our two ongoing Phase 3 clinical trials for recurrent head and neck cancer, submit Phase 2 and Phase 3 clinical data to the FDA and EMEA in support of our ADVEXIN registration program and complete filings with the EMEA in support of an Exceptional Circumstance Approval Application for Li-Fraumeni Syndrome cancers that are due to inherited abnormalities in the p53 tumor suppressor gene that is the molecular target of ADVEXIN therapy.

We cannot assure you that we will be able to achieve these regulatory milestones during the time period that we currently anticipate. We may encounter delays in the regulatory process relating to these milestones due to additional information requirements from regulatory authorities, unintentional omissions in our applications, additional government regulation or other delays in the review process. We may update our expectations regarding these regulatory milestones from time to time to reflect new information as it becomes available to us.

ADVEXIN Therapy as a Targeted Molecular Therapy

We identified a set of predictive indicators, commonly referred to as biomarkers, associated with high response rates and increased survival in Phase 2 clinical trials of ADVEXIN therapy in patients with recurrent head and neck cancer. These trials are discussed in more detail below under Other ADVEXIN Therapy Activities. These biomarkers

support the use of ADVEXIN therapy as a targeted molecular therapy.

The FDA, the National Cancer Institute (NCI), and the Centers for Medicare & Medicaid Services are undertaking the Oncology Biomarker Qualification Initiative to expedite the development of novel cancer treatments. These agencies define biomarkers as

Table of Contents

clinical or biological indicators of disease or therapeutic effects, which can be measured through dynamic imaging tests, laboratory tests on blood or tissue samples as well as by clinically defined parameters. This initiative was developed to employ biomarkers as a way of speeding the development and evaluation of new cancer therapies.

The identification of predictive indicators of ADVEXIN therapy activity is responsive to these initiatives by predicting the patient populations most likely to benefit from a specific cancer therapy. The population we identified as benefiting from ADVEXIN therapy includes patients who are less likely to respond to standard therapies such as chemotherapies and radiation.

A molecular biomarker predictive of ADVEXIN therapy activity is abnormal p53 function detected in tumor tissues by a routine immunohistochemistry laboratory test. In patients with the abnormal p53 biomarker, ADVEXIN therapy caused a statistically significant increase in median survival of 11.6 months compared to only 3.5 months for patients without abnormal p53 function. Patients with abnormal p53 function are known to have a poor prognosis when treated with standard therapies. In addition to this molecular biomarker, we have identified clinical prognostic biomarkers that correlate with statistically significant increases in survival, partial and complete tumor responses and durable locoregional disease control (tumor responses or tumor growth arrest for two months or longer in duration) following treatment with ADVEXIN therapy. These clinical biomarkers include prior chemotherapy consistent with ADVEXIN therapy s mechanism of action of inducing tumor death in cells, or apoptosis, with DNA damage from previous treatments.

The predictive biomarkers define target populations of patients with higher tumor response rates and increased survival following treatment with ADVEXIN therapy. In an analysis of 112 patients treated in the Phase 2 trial of recurrent head and neck cancer treated with the ADVEXIN therapy dose (high dose) proposed for regulatory approval, we identified clinical prognostic biomarkers that correlate with statistically significant increases in survival, partial and complete tumor responses and durable locoregional disease control (tumor responses or tumor growth arrest for two months or longer in duration) following treatment with ADVEXIN therapy. These clinical biomarkers include prior chemotherapy consistent with ADVEXIN therapy s mechanism of action of inducing death in tumor cells with DNA damage from previous treatments. Depending on the tumor response criteria and clinical biomarkers selected to define sub-populations, tumor responses in over 33% of the patients were observed. In addition, patients who achieved tumor responses defined by a greater than 50% reduction in tumor size had a median survival of approximately 40 months. Spontaneous tumor remissions generally are not observed in recurrent head and neck cancer. This median survival of over three years for these ADVEXIN therapy responders compares favorably with the approximate six month survival time typically expected for recurrent head and neck cancer patients who have failed prior therapies.

The targeted molecular therapy provided by ADVEXIN therapy is evidenced by its use to successfully treat a Li-Fraumeni Syndrome cancer patient on a compassionate use basis under a protocol authorized by the FDA. Li-Fraumeni Syndrome cancer patients have inherited defects in the p53 tumor suppressor gene that is the target of ADVEXIN therapy. Our treatment of a tumor in a Li-Fraumeni Syndrome patient with ADVEXIN therapy led to improvement of tumor-related symptoms and resulted in a complete response in the treated lesion as determined by positron emission tomography (PET) computerized tomography (CT) scans. PET-CT scans measure the metabolic activity of tumors and are being increasingly utilized in the management of cancer patients because they provide more sensitive assessments of treatment effects compared to conventional CT and magnetic resonance imaging scans.

This Li-Fraumeni Syndrome study defined important biomarkers to guide the administration of ADVEXIN therapy to patients with other cancers who display p53 pathway abnormalities. Our molecular analysis of biopsies of the Li-Fraumeni Syndrome tumor before and after treatment identified key markers of p53 pathway abnormalities that are used to predict and evaluate the effects of ADVEXIN therapy. These markers included detection of abnormal levels of p53 protein that identify aberrant p53 pathways and the induction of molecular markers of tumor growth control and tumor cell death that validate ADVEXIN therapy s mechanisms of action. We believe these biomarkers can be used to identify patients most likely to benefit from ADVEXIN therapy.

The EMEA Committee for Orphan Medicinal Products has granted ADVEXIN therapy an Orphan Medicinal Product Designation in Europe for the treatment of Li-Fraumeni Syndrome. This designation has been ratified by the European Commission. The Orphan Medicinal Product Designation in Europe confers a number of regulatory benefits to ADVEXIN therapy, including access to protocol assistance, reduced regulatory fees and a 10-year period of

marketing exclusivity from the date of approval. We received this designation through Gendux AB, our wholly-owned subsidiary.

We have an agreement with EMEA to file for marketing approval for ADVEXIN therapy under the EMEA s Exceptional Circumstances provisions. The application will be for the use of ADVEXIN therapy for the treatment of Li-Fraumeni Syndrome.

Table of Contents

Exceptional circumstances provisions are designed by EMEA to facilitate access to needed treatments for certain Orphan Medicinal Products. A Marketing Authorization Application filed with the EMEA under these provisions can be reviewed on an expedited basis. This registration approach is more streamlined than EMEA s Conditional Approval procedures, which are similar to the FDA s Accelerated Approval regulations. As a result of the encouraging clinical findings in treating Li-Fraumeni Syndrome, we have made ADVEXIN therapy available on a compassionate use basis to qualified Li-Fraumeni Syndrome patients with tumors refractory to standard treatment.

Li-Fraumeni Syndrome is an inherited genetic disorder that greatly increases the risk of developing several types of cancer typically with initial occurrence at a young age. The majority of Li-Fraumeni Syndrome families have inherited mutations in the p53 tumor suppressor gene. The findings described above have been presented at the annual meetings of the American Society of Gene Therapy (ASGT) and the American Society of Clinical Oncology (ASCO).

Other ADVEXIN Therapy Activities

We performed a Phase 2 clinical trial of ADVEXIN therapy combined with neoadjuvant chemotherapy and surgery in women with locally advanced breast cancer. The results of this study were published in the journal *Cancer.* Objective clinical responses were seen following the combined therapy in 100% of the patients with a median of 80% reduction in tumor size. Following tumor shrinkage, complete tumor removal by subsequent surgery was achieved in 100% of the patients. At a median follow-up of 37 months (range, 30-41 months), four patients (30%) developed systemic recurrence and two patients died. The estimate breast cancer-specific survival rate at three years was 84%. There was no increase in systemic toxicity. Neoadjuvant treatments are administered prior to surgery and represent a novel and increasingly applied approach to making surgical tumor resections less invasive, improving outcomes and facilitating breast conservation.

We completed a Phase 2 clinical trial of ADVEXIN therapy administered as a complement to radiation therapy in non-small cell lung cancer. In the 19 patients who participated in the trial, combined ADVEXIN therapy and radiation treatment resulted in 63% biopsy-proven complete responses at three months, which is approximately four times the expected rate using radiotherapy alone. The results of this study were published in *Clinical Cancer Research.*

We performed a Phase 1/early Phase 2 clinical trial of ADVEXIN therapy for the treatment of advanced, unresectable, squamous cell esophageal cancer. Results of this trial in patients with esophageal cancer refractory to chemotherapy and radiation indicate three of the ten patients treated, or 30%, had negative biopsies after receiving ADVEXIN therapy. The median survival of the patients treated with ADVEXIN therapy was approximately twelve months, which compared favorably to historical controls in which a median survival of less than ten months was observed for patients who did not respond to standard treatments. Six patients, or 60%, were still alive one year after beginning ADVEXIN therapy. This clinical trial was performed at Chiba University in Japan.

We have completed other clinical trials of ADVEXIN therapy, including Phase 1 studies in prostate cancer and bronchoalveolar carcinoma. To date, clinical investigators at sites in North America, Europe and Japan have treated over 600 patients with ADVEXIN therapy, establishing a large safety database. Findings from several of our clinical trials have been published in *Clinical Cancer Research* and *Proceedings of the American Society for Clinical Oncology* as well as presented at numerous conferences, including the San Antonio Breast Cancer Conference and various meetings of the ASCO, ASGT and the American Association for Cancer Research.

A growing body of data suggests ADVEXIN therapy demonstrates clinical activity in a variety of cancer indications. Safety data from our clinical trials suggest this activity may be achieved without the treatment-limiting side effects frequently associated with many other cancer therapies.

Our clinical trials indicate ADVEXIN therapy is well tolerated as a monotherapy. The addition of ADVEXIN therapy to standard chemotherapy, surgery or radiation does not appear to increase the frequency or severity of side effects normally associated with these treatment regimens.

Recent studies provide new insight into the molecular pathways by which the p53 tumor suppressor, the active component of ADVEXIN therapy, kills tumor cells. These studies were undertaken to provide additional molecular data supporting the activity observed during the clinical development of ADVEXIN therapy and to provide additional information regarding the specific pathways that mediate the observed clinical effects of ADVEXIN therapy. The studies were conducted by our collaborators at Okayama

Table of Contents

University in Japan and at The University of Texas M. D. Anderson Cancer Center and were published in *Molecular Cancer Therapeutics.*

Other data suggest the enhanced therapeutic effects of a combination of ADVEXIN and Erbitux® therapies in an animal model of human non-small cell lung cancer. Other pre-clinical studies conducted by our collaborators at Wayne State University, the Karmanos Cancer Institute located in Detroit, Michigan and the University of California-Irvine, as published in *The Laryngoscope*, show that the combination of ADVEXIN therapy and docetaxel resulted in increased levels of programmed cell death in head and neck tumor cells.

We hold a worldwide, exclusive license to a family of patent applications directed to combination therapy using ADVEXIN therapy with inhibitors of epidermal growth factor receptors (EGFr inhibitors) such as Erbitux®, Vectibix®, Tarceva® and Iressa®. We licensed this family of patents from M. D. Anderson Cancer Center. This important technology is based on the discovery by scientists at M. D. Anderson Cancer Center that p53 therapies (which is the basis for our ADVEXIN therapy) and mda7 therapies (which is the basis for our INGN 241 product candidate discussed below) can work synergistically with inhibitors of epidermal growth factor receptors to arrest tumor growth. Preclinical studies have shown that this therapeutic approach results in a greater level of cancer cell death than when either therapy is used alone.

We hold the worldwide rights for pre-clinical and clinical development, manufacturing, marketing and commercialization of ADVEXIN therapy.

INGN 241 (mda-7)

INGN 241 uses mda-7, a promising tumor suppressor, that we believe, like p53, has broad potential to induce apoptosis or cell death in many types of cancer. We have combined the mda-7 tumor suppressor with our adenoviral delivery system to form INGN 241. Our pre-clinical trials have shown the protein produced by INGN 241 suppresses the growth of many cancer cells, including those of the breast, lung, ovaries, colon, prostate and the central nervous system, while not affecting the growth of normal cells. Because INGN 241 kills cancer cells even if other tumor suppressors, including p53, are not functioning properly, it appears mda-7 functions via a novel mechanism of tumor suppression.

We have completed a Phase 1/early Phase 2 clinical trial using INGN 241 to evaluate safety, mechanism of action and efficacy in approximately 25 patients with solid tumors. This trial indicated that in patients with solid tumors, INGN 241 was well tolerated, was biologically active and displayed minimal toxicity associated with its use. We are conducting later stage clinical trials using INGN 241 in patients with metastatic melanoma. We are conducting a Phase 3 clinical trial using INGN 241 in combination with radiation therapy for solid tumors. We are currently designing a pivotal, clinical trial for INGN 241 combined with bevacizumab.

Data from our Phase 1 trial of INGN 241 in patients with solid tumors demonstrate that direct injection of INGN 241 induced programmed cell death in 100% of the tumors treated, even in patients who had failed prior therapy with other anti-cancer drugs. Clinical responses were observed in 44% of the treated lesions, including complete and partial responses in two patients with melanoma. Patients treated with INGN 241 had increases in a subset of T-cells that help to destroy cancer cells, which is consistent with the role of the mda-7 protein as a member of the interleukin family of immune stimulating proteins.

We have conducted pre-clinical work indicating that in addition to its known activity as a tumor suppressor, the protein produced by mda-7 may also stimulate the body s immune system to kill metastatic tumor cells and to protect the body against cancer, thereby offering the potential of providing an added advantage in treating various cancers because it may attack cancer using two different mechanisms. Because the mda-7 tumor suppressor may act as a cytokine, or immune system modulator, it is also known as interleukin 24, or IL-24. The mda-7 molecule may also work as a radiation sensitizer to make several types of human cancer cells more susceptible to radiation therapy. We have seen evidence of this effect in pre-clinical and clinical settings.

We have identified the molecular pathways by which mda-7, the active component of INGN 241, induces growth arrest and programmed cell death or apoptosis in cancer cells. Pre-clinical studies using lung cancer cells have demonstrated the mda-7 protein binds to a critical cellular enzyme known as PKR. The binding of mda-7 to PKR is essential for the anti-cancer activity of INGN 241. The identification of this binding partner demonstrates a significant advancement in understanding how this therapeutic can be effective against cancer. Additional studies have identified

bystander killing of pancreatic cancer cells by the mda-7 protein. Bystander killing involves the killing of neighboring tumor cells by the mda-7 protein released from adjacent INGN 241-treated tumor cells.

Table of Contents

Pre-clinical data indicate INGN 241 works synergistically with celecoxib, marketed by Pfizer as Celebrex®, to inhibit the growth and increase killing of breast cancer cells. The combination of celecoxib and INGN 241 showed greater than additive increases in cell death compared with either therapy alone and also resulted in the suppression of tumor cell growth.

Pre-clinical data indicate INGN 241 and bevacizumab, marketed by Roche Holding AG and Genentech, Inc. (Genentech) as Avastin®, each inhibit tumor angiogenesis through distinct mechanisms in models of lung cancer. Study results demonstrate that the combination of INGN 241 and Avastin® significantly increases anti-tumor activity compared with either agent used separately. We have observed synergistic acti"background:#CCEEFF;padding:0in 0in 0in 0in;width:2.5%;">

(3,368

)

(585

)

Other (expense) income:

Other expense

(8

)

(18

)

Interest income

2

3

Interest expense

(1,075

)

(1,099

)

Other expense, net

(1,081

)

(1,114

)

Loss before income taxes	(4,449)	(1,699)
Income tax (expense) benefit	(7)	5
Net loss	$ (4,456)	$ (1,694

)

Net loss per share of common and Class B Stock:

Net loss per share-basic

$

(0.20

)

$

(0.08

)

Net loss per share-diluted

$

(0.20

)

$

(0.08

)

Dividends declared and paid per share of common and Class B Stock

$

0.13

$

0.17

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Baltic Trading Limited

Condensed Consolidated Statements of Shareholders Equity

For the Three Months Ended March 31, 2012 and 2011

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

	Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance January 1, 2012	$ 170	$ 57	$ 280,923	$ 453	$ 281,603
Net loss				(4,456)	(4,456)
Cash dividends paid ($0.13 per share)			(2,951)		(2,951)
Nonvested stock amortization			572		572
Balance March 31, 2012	$ 170	$ 57	$ 278,544	$ (4,003)	$ 274,768

	Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance January 1, 2011	$ 169	$ 57	$ 288,095	$ 1,114	$ 289,435
Net loss				(1,694)	(1,694)
Cash dividends paid ($0.17 per share)			(3,609)	(230)	(3,839)
Nonvested stock amortization			945		945
Balance March 31, 2011	$ 169	$ 57	$ 285,431	$ (810)	$ 284,847

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Baltic Trading Limited

Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011

(U.S. Dollars in Thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	$ (4,456)	$ (1,694)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	3,683	3,637
Amortization of deferred financing costs	117	111
Amortization of nonvested stock compensation expense	572	945
Change in assets and liabilities:		
Decrease in due from charterers	826	58
Increase in prepaid expenses and other current assets	(828)	(495)
Decrease in accounts payable and accrued expenses	(42)	(157)
Decrease in due to Parent	(43)	(603)
Decrease in deferred revenue	(5)	(99)
Net cash (used in) provided by operating activities	(176)	1,703
Cash flows from investing activities:		
Purchase of vessels, including deposits		(953)
Net cash used in investing activities		(953)
Cash flows from financing activities:		
Cash dividends paid	(2,951)	(3,840)
Payment of deferred financing costs		(54)
Net cash used in financing activities	(2,951)	(3,894)
Net decrease in cash and cash equivalents	(3,127)	(3,144)
Cash and cash equivalents at beginning of period	8,300	5,797
Cash and cash equivalents at end of period	$ 5,173	$ 2,653

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Baltic Trading Limited

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

Notes to Condensed Consolidated Financial Statements (unaudited)

1 - GENERAL INFORMATION

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

At March 31, 2012, the Company was the sole owner of all of the outstanding shares of the following ship-owning subsidiaries as set forth below:

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

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

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

As of March 31, 2012 and December 31, 2011, Genco s ownership of 5,699,088 shares of the Company s Class B stock represented 25.11% ownership interest in the Company, and 83.41% of the aggregate voting power of the Company s outstanding shares of voting stock, respectively.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Table of Contents

Basis of presentation

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

Vessels, net

Vessels, net is stated at cost less accumulated depreciation. Included in vessel costs are acquisition costs directly attributable to the acquisition of a vessel and expenditures made to prepare the vessel for its initial voyage. The Company also capitalizes interest costs for a vessel under construction as a cost which is directly attributable to the acquisition of a vessel. Vessels are depreciated on a straight-line basis over their estimated useful lives, determined to be 25 years from the date of initial delivery from the shipyard. Depreciation expense for vessels for the three months ended March 31, 2012 and 2011 was $3,680 and $3,635, respectively.

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

Fixed assets, net

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

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

Income taxes

The Company is incorporated in the Marshall Islands. Pursuant to the income tax laws of the Marshall Islands, the Company is not subject to Marshall Islands income tax. During the three months ended March 31, 2012 and 2011, the Company had United States operations which resulted in United States source income of $366 and $1,063, respectively. The Company s estimated United States income tax expense for the three months ended March 31, 2012 was $7. The Company s estimated United States income tax benefit for the three months ended March 31, 2011 was $5.

Deferred revenue

Deferred revenue primarily relates to cash received from charterers prior to it being earned. These amounts are recognized as income when earned. Additionally, deferred revenue includes estimated customer claims mainly due to time charter performance issues. As of March 31, 2012 and December 31, 2011, the Company had an accrual of $32 and $2, respectively, related to these estimated customer claims.

Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement (ASU 2011-04), to provide a consistent definition of fair value and

Table of Contents

ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This standard was effective for interim and annual periods beginning after December 15, 2011 and is applied on a prospective basis. The Company has adopted ASU 2011-04 and the impact of adoption is not material to the Company s condensed consolidated financial statements.

3 - CASH FLOW INFORMATION

For the three months ended March 31, 2012, the Company had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses of $6 for the purchase of fixed assets.

For the three months ended March 31, 2011, the Company had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses of $805 for the purchase of vessels, including deposits. For the three months ended March 31, 2011, the Company also had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in due to Parent of $712 for the purchase of vessels, including deposits. Additionally, for the three months ended March 31, 2011 the Company had non-cash investing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in prepaid expenses and other current assets as of March 31, 2011 consisting of $5 associated with the purchase of vessels, including deposits.

During the three months ended March 31, 2012 and 2011, cash paid for interest, net of amounts capitalized, was $960 and $986, respectively.

During the three months ended March 31, 2012 and 2011, cash paid for estimated income taxes was $0 and $11, respectively.

4 - NET LOSS PER COMMON AND CLASS B SHARES

The computation of net (loss) income per share of common stock and Class B shares is in accordance with the Accounting Standards Codification (ASC) 260 Earnings Per Share (ASC 260), using the two-class method. Under these provisions, basic net (loss) income per share is computed using the weighted-average number of common shares and Class B shares outstanding during the year, except that it does not include nonvested stock awards subject to repurchase or cancellation. Diluted net (loss) income per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of nonvested stock awards (see Note 13 Nonvested Stock Awards) for the common shares, for which the assumed proceeds upon vesting are deemed to be the amount of compensation cost attributable to future services and not yet recognized using the treasury stock method, to the extent dilutive. Of the 429,250 nonvested shares outstanding at March 31, 2012 (see Note 13 Nonvested Stock Awards), all are anti-dilutive. The computation of the diluted net (loss) income per share of common stock assumes the conversion of Class B shares, while the diluted net (loss) income per share of Class B stock does not assume the conversion of those shares.

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

	Three Months Ended March 31, 2012	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$ (3,312)	$ (1,144)
Denominator:		
Weighted-average shares outstanding, basic	16,477,014	5,699,088
Basic net loss per share	$ (0.20)	$ (0.20)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$ (3,312)	$ (1,144)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(1,885)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	741	
Allocation of loss	$ (4,456)	$ (1,144)
Denominator:		
Weighted-average shares outstanding used in basic computation	16,477,014	5,699,088
Add:		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,176,102	5,699,088
Diluted net loss per share	$ (0.20)	$ (0.20)

Table of Contents

	Three Months Ended March 31, 2011	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$ (1,256)	$ (438)
Denominator:		
Weighted-average shares outstanding, basic	16,324,367	5,699,088
Basic net loss per share	$ (0.08)	$ (0.08)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$ (1,256)	$ (438)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(1,407)	
Reallocation of dividends paid as a result of conversion of Class B to common shares	969	
Allocation of loss	$ (1,694)	$ (438)
Denominator:		
Weighted-average shares outstanding used in basic computation	16,324,367	5,699,088
Add:		
Conversion of Class B to common shares	5,699,088	
Weighted-average shares outstanding, diluted	22,023,455	5,699,088
Diluted net loss per share	$ (0.08)	$ (0.08)

5 - RELATED PARTY TRANSACTIONS

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

During 2010, the Company entered into an agreement with Aegean Marine Petroleum Network, Inc. (Aegean) to purchase lubricating oils for certain vessels in the Company s fleet. Peter C. Georgiopoulos, Chairman of the Board of the Company, is also the Chairman of the Board of Aegean. During the three months ended March 31, 2012 and 2011, Aegean supplied lubricating oils to the Company s vessels aggregating $242 and $226, respectively. At March 31, 2012 and December 31, 2011, $110 and $101 remained outstanding to Aegean, respectively.

The Company receives internal audit services from employees of Genco, the Company s Parent. For the three months ended March 31, 2012 and 2011, the Company incurred internal audit service fees of $10 and $5, respectively, which are reimbursable to Genco pursuant to the Management Agreement (Refer to Note 15 Commitments and Contingencies for further information regarding the Management Agreement). At March 31, 2012 and December 31, 2011, the amount due to Genco from the Company was $2 and $11, respectively, for such services and is included in due to Parent.

During the three months ended March 31, 2012 and 2011, Genco, the Company s parent, incurred costs of $2 and $14 on the Company s behalf to be reimbursed to Genco pursuant to the Management Agreement. At March 31, 2012, the amount due to the Company from Genco was $1 and

is a reduction in due to Parent. At December 31, 2011, the amount due to Genco from the Company was $1 and is included in due to Parent.

Table of Contents

Genco also provides the Company with commercial, technical, administrative and strategic services pursuant to the Management Agreement. During the three months ended March 31, 2012 and 2011, the Company incurred costs of $695 and $729 pursuant to the Management Agreement. At March 31, 2012, the amount due to Genco of $16 consisted of commercial service fees and is included in due to Parent. At December 31, 2011, the amount due to Genco of $47 consisted of commercial service fees and is included in due to Parent.

6 - DEBT

On April 16, 2010, the Company entered into a $100,000 senior secured revolving credit facility with Nordea Bank Finland plc, acting through its New York branch (as amended, the 2010 Credit Facility). The Company entered into an amendment to this facility effective November 30, 2010 which, among other things, increased the commitment amount from $100,000 to $150,000. As of March 31, 2012, total available working capital borrowings were $23,500, as $1,500 was drawn down during 2010 for working capital purposes. As of March 31, 2012, $38,750 remained available under the 2010 Credit Facility, as the total commitment under this facility was reduced to $140,000 on November 30, 2011. The total commitment will reduce in 11 consecutive semi-annual reductions of $5,000 which commenced on May 31, 2011. On the maturity date, November 30, 2016, the total commitment will reduce to zero and all borrowings must be repaid in full.

As of March 31, 2012, the Company believes it is in compliance with all of the financial covenants under the 2010 Credit Facility.

The following table sets forth the repayment of the outstanding debt of $101,250 at March 31, 2012 under the 2010 Credit Facility:

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

Interest rates

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

	Three months ended March 31,	
	2012	**2011**
	3.27%	3.30%

Effective Interest Rate (excluding impact of unused commitment fees)		
Range of Interest Rates (excluding impact of unused commitment fees)	3.24% to 3.30%	3.26% to 3.31%

7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 5,173	$ 5,173	$ 8,300	$ 8,300
Floating rate debt	101,250	101,250	101,250	101,250

The fair value of floating rate debt under the 2010 Credit Facility is based on management s estimate of rates the Company could obtain for similar debt of the same remaining maturities. Additionally, the Company considers its creditworthiness in determining the fair value of the floating rate debt under the revolving credit facility. The carrying value approximates the fair market value for this floating rate loan. The carrying amounts of the Company s other financial instruments at March 31, 2012 and

Table of Contents

December 31, 2011 (principally Due from charterers and Accounts payable and accrued expenses), approximate fair values because of the relatively short maturity of these instruments.

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

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

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

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

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

8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	March 31, 2012	December 31, 2011
Lubricant inventory, fuel oil and diesel oil inventory and other stores	$ 2,362	$ 1,603
Prepaid items	737	730
Insurance receivable	14	16
Other	182	118
Total	$ 3,295	$ 2,467

9 - DEFERRED FINANCING COSTS

Deferred financing costs include fees, commissions and legal expenses associated with securing loan facilities and amending existing loan facilities. These costs are being amortized over the life of the related loan facility, and are included in interest expense. Upon the effective date of the amendment to the 2010 Credit Facility on November 30, 2010, the net unamortized deferred financing costs of $1,294 associated with securing the original 2010 Credit Facility began being amortized over the remaining life of the amended 2010 Credit Facility. Refer to Note 6 Debt for further information regarding the amendment to the 2010 Credit Facility. The additional fees associated with securing the amendment to the 2010 Credit Facility are being amortized over the life of the amended credit facility.

The Company has unamortized deferred financing costs of $2,174 and $2,290 at March 31, 2012 and December 31, 2011, respectively, associated with the 2010 Credit Facility. Accumulated amortization of deferred financing costs as of March 31, 2012 and December 31, 2011 was $853 and $737, respectively. The Company has incurred deferred financing costs of $3,027 for the existing 2010 Credit Facility as of March 31, 2012 and December 31, 2011, which includes fees incurred in order to negotiate the amendment to the 2010 Credit Facility. Amortization expense of deferred financing costs for the three months ended March 31, 2012 and 2011 was $117 and $111, respectively.

10 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	March 31, 2012	December 31, 2011
Accounts payable	$ 530	$ 447
Accrued vessel operating expenses	1,335	1,442
Accrued general and administrative expenses	70	83
Total	$ 1,935	$ 1,972

11 - FIXED ASSETS

Fixed assets consist of the following:

	March 31, 2012	December 31, 2011
Fixed assets:		
Computer equipment, at cost	$ 43	$ 43
Vessel equipment, at cost	6	
	49	43
Less: accumulated depreciation	24	20
Total	$ 25	$ 23

Table of Contents

Depreciation expense for fixed assets for the three months ended March 31, 2012 and 2011 was $4 and $2, respectively.

12 - REVENUE FROM SPOT MARKET-RELATED TIME CHARTERS

Total revenue earned on spot market-related time charters for the three months ended March 31, 2012 was $6,294. Total revenue earned on spot market-related time charters and the short-term time charter for the Baltic Leopard for the three months ended March 31, 2011 was $9,543. Future minimum time charter revenue based on the Baltic Leopard, which is committed to a noncancelable short-term time charter as of March 31, 2012, is expected to be $1,035. Future minimum time charter revenue for the remaining vessels cannot be estimated as these vessels are currently on spot market-related time charters, and future spot rates cannot be estimated. The spot market-related time charters that the Company s vessels are currently employed on have estimated expiration dates that range from June 2012 to July 2014.

13 - NONVESTED STOCK AWARDS

The following table presents a summary of the Company s restricted stock awards for the three months ended March 31, 2012:

	Number of Shares	Weighted Average Grant Date Price
Outstanding at January 1, 2012	545,750	$ 11.60
Granted		
Vested	(116,500)	14.00
Forfeited		
Outstanding at March 31, 2012	429,250	$ 10.95

The total fair value of shares that vested under the Plan during the three months ended March 31, 2012 and 2011 was $457 and $1,131, respectively. The total fair value is calculated as the number of shares vested during the period multiplied by the fair value on the vesting date.

For the three months ended March 31, 2012 and 2011, the Company recognized nonvested stock amortization expense for the Plan, which is included in general, administrative and technical management fees, as follows:

	Three Months Ended March 31,	
	2012	2011
General, administrative and technical management fees	$ 572	$ 945

The Company is amortizing these grants over the applicable vesting periods, net of anticipated forfeitures. As of March 31, 2012, unrecognized compensation cost of $2,190 related to nonvested stock will be recognized over a weighted-average period of 2.43 years.

14 - LEGAL PROCEEDINGS

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

15 - COMMITMENTS AND CONTINGENCIES

Genco, the Company s parent, provides the Company with commercial, technical, administrative and strategic services necessary to support the Company s business pursuant to the Company s Management Agreement with Genco. If the Company terminates the agreement without cause or for Genco s change of control, or if Genco terminates the agreement for the Company s material breach or change of control, the Company must make a termination payment to Genco in a single lump sum within 30 days of the termination date. The termination payment is generally calculated as five times the average annual management fees payable to Genco for the last five completed years of the term of the Management Agreement, or such lesser number of years as may have been completed at the time of termination. As of March 31, 2012, the termination payment that would be due to Genco is approximately

Table of Contents

$22,698. Refer to Note 5 Related Party Transactions for any costs incurred during the three months ended March 31, 2012 and 2011 pursuant to the Management Agreement.

16 - SUBSEQUENT EVENTS

On April 26, 2012, the Company declared a dividend of $0.05 per share to be paid on or about May 17, 2012 to shareholders of record as of May 10, 2012. The aggregate amount of the dividend is expected to be approximately $1.1 million, which the Company anticipates will be funded from cash on hand at the time payment is to be made.

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

This report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements use words such as anticipate, estimate, expect, project, intend, plan, believe, and other words a of similar meaning in connection with a discussion of potential future events, circumstances or future operating or financial performance. These forward-looking statements are based on management s current expectations and observations. Included among the factors that, in our view, could cause actual results to differ materially from the forward looking statements contained in this report are the following: (i) declines in demand or rates in the drybulk shipping industry; (ii) prolonged weakness in drybulk shipping rates; (iii) changes in the supply of or demand for drybulk products, generally or in particular regions; (iv) changes in the supply of drybulk carriers, including newbuilding of vessels or lower than anticipated scrapping of older vessels; (v) changes in rules and regulations applicable to the cargo industry, including, without limitation, legislation adopted by international organizations or by individual countries and actions taken by regulatory authorities; (vi) increases in costs and expenses including but not limited to: crew wages, insurance, provisions, lube oil, bunkers, repairs, maintenance and general, administrative and management fee expenses; (vii) whether our insurance arrangements are adequate; (viii) changes in general domestic and international political conditions; (ix) acts of war, terrorism, or piracy; (x) changes in the condition of our vessels or applicable maintenance or regulatory standards (which may affect, among other things, our anticipated drydocking or maintenance and repair costs) and unanticipated drydock expenditures; (xi) the ability to leverage Genco s relationships and reputation in the shipping industry; (xii) the completion of definitive documentation with respect to charters; (xiii) charterers compliance with the terms of their charters in the current market environment; and other factors listed from time to time in our filings with the Securities and Exchange Commission, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2011 and subsequent reports on Form 8-K and Form 10-Q. Our ability to pay dividends in any period will depend upon various factors, including the limitations under any credit agreements to which we may be a party, applicable provisions of Marshall Islands law and the final determination by the Board of Directors each quarter after its review of our financial performance. The timing and amount of dividends, if any, could also be affected by factors affecting cash flows, results of operations, required capital expenditures, or reserves. As a result, the amount of dividends actually paid may vary.

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

General

We are a New York City-based company incorporated in October 2009 in the Marshall Islands to conduct a shipping business focused on the drybulk industry spot market. We were formed by Genco Shipping & Trading Limited (NYSE: GNK) (Genco), an international drybulk shipping company that also serves as our Manager. Our fleet currently consists of two Capesize vessels, four Supramax vessels and three Handysize vessels with an aggregate carrying capacity of approximately 672,000 dwt and the average age of our fleet is approximately 2.4 years, as compared to the average age for the world fleet of approximately 11 years for the drybulk shipping segments in which we compete. Our fleet contains three groups of sister ships, which are vessels of virtually identical sizes and specifications. We believe that maintaining a fleet that includes sister ships reduces costs by creating economies of scale in the maintenance, supply and crewing of our vessels.

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

Table of Contents

Refer to page 18 for a table of all vessels that have been delivered to us.

Our operations are managed, under the supervision of our Board of Directors, by Genco as our Manager. We entered into a long-term management agreement (the Management Agreement) pursuant to which our Manager and its affiliates apply their expertise and experience in the drybulk industry to provide us with commercial, technical, administrative and strategic services. The Management Agreement is for an initial term of approximately fifteen years and will automatically renew for additional five-year periods unless terminated in accordance with its terms. We pay our Manager fees for the services it provides us as well as reimburse our Manager for its costs and expenses incurred in providing certain of these services.

Factors Affecting Our Results of Operations

We believe that the following table reflects important measures for analyzing trends in our results of operations. The table reflects our ownership days, available days, operating days, fleet utilization, Time Charter Equivalent (TCE) rates and daily vessel operating expenses for the three months ended March 31, 2012 and 2011.

	For the Three Months Ended March 31, 2012	2011	Increase (Decrease)	% Change
Fleet Data:				
Ownership days (1)				
Capesize	182.0	180.0	2.0	1.1%
Supramax	364.0	360.0	4.0	1.1%
Handysize	273.0	270.0	3.0	1.1%
Total	819.0	810.0	9.0	1.1%
Available days (2)				
Capesize	182.0	180.0	2.0	1.1%
Supramax	364.0	360.0	4.0	1.1%
Handysize	273.0	270.0	3.0	1.1%
Total	819.0	810.0	9.0	1.1%
Operating days (3)				
Capesize	182.0	180.0	2.0	1.1%
Supramax	360.2	359.1	1.1	0.3%
Handysize	271.4	270.0	1.4	0.5%
Total	813.6	809.1	4.5	0.6%
Fleet utilization (4)				
Capesize	100.0%	100.0%		
Supramax	99.0%	99.8%	(0.8)%	(0.8)%
Handysize	99.4%	100.0%	(0.6)%	(0.6)%
Fleet average	99.3%	99.9%	(0.6)%	(0.6)%
Average Daily Results:				

Time Charter Equivalent (5)				
Capesize	$ 6,558	$ 8,097	$ (1,539)	(19.0)%
Supramax	7,968	13,158	(5,190)	(39.4)%
Handysize	7,568	11,647	(4,079)	(35.0)%
Fleet average	7,521	11,530	(4,009)	(34.8)%
Daily vessel operating expenses (6)				
Capesize	$ 5,141	$ 4,984	$ 157	3.2%
Supramax	5,049	5,321	(272)	(5.1)%
Handysize	4,206	4,126	80	1.9%
Fleet average	4,788	4,848	(60)	(1.2)%

Table of Contents

Definitions

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

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

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

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

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

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

	For the Three Months Ended March 31,	
	2012	2011
Voyage revenues (in thousands)	$ 6,294	$ 9,543
Voyage expenses (in thousands)	53	83
Voyage expenses to Parent (in thousands)	81	122
	$ 6,160	$ 9,338
Total available days	819.0	810.0
Total TCE rate	$ 7,521	$ 11,530

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

Table of Contents

Operating Data

The following discusses our financial results for the three months ended March 31, 2012 and 2011:

	For the Three Months Ended March 31,			
	2012	2011	Change	% Change
	(U.S. dollars in thousands, except for per share amounts)			
Revenues	$ 6,294	$ 9,543	$ (3,249)	(34.0)%
Operating Expenses:				
Voyage expenses	53	83	(30)	(36.1)%
Voyage expenses to Parent	81	122	(41)	(33.6)%
Vessel operating expenses	3,922	3,927	(5)	(0.1)%
General, administrative and technical management fees	1,309	1,752	(443)	(25.3)%
Management fees to Parent	614	607	7	1.2%
Depreciation	3,683	3,637	46	1.3%
Total operating expenses	9,662	10,128	(466)	(4.6)%
Operating loss	(3,368)	(585)	(2,783)	475.7%
Other expense	(1,081)	(1,114)	33	(3.0)%
Loss before income taxes	(4,449)	(1,699)	(2,750)	161.9%
Income tax (expense) benefit	(7)	5	(12)	(240.0)%
Net loss	$ (4,456)	$ (1,694)	$ (2,762)	163.0%
Net loss per share of common and Class B Stock:				
Net loss per share - basic	$ (0.20)	$ (0.08)	$ (0.12)	150.0%
Net loss per share - diluted	$ (0.20)	$ (0.08)	$ (0.12)	150.0%
Dividends declared and paid per share	$ 0.13	$ 0.17	$ (0.04)	(23.5)%
EBITDA (1)	$ 307	$ 3,034	$ (2,727)	(89.9)%

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

	For the Three Months Ended March 31,	
	2012	2011

Net loss	$	(4,456)	$	(1,694)
Net interest expense		1,073		1,096
Income tax expense (benefit)		7		(5)
Depreciation		3,683		3,637
EBITDA (1)	$	307	$	3,034

Table of Contents

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 March 31, 2012 and December 31, 2011.

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

- the number of vessels in our fleet and their charter rates;

- the number of days that our vessels are utilized and not subject to drydocking, special surveys or otherwise off-hire; and

- our ability to control our fixed and variable expenses, including our ship management fees, our operating costs and our general, administrative and other expenses, including insurance. Operating costs may vary from month to month depending on a number of factors, including the timing of purchases of lube oil, crew changes and delivery of spare parts.

The following table reflects the current employment of our fleet as of May 10, 2012:

Vessel	Year Built	Charterer	Charter Expiration (1)	Employment Structure
Capesize Vessels				
Baltic Bear	2010	Swissmarine Services S.A.	June 2012/May 2013	101.5% of BCI (2)
Baltic Wolf	2010	Cargill International S.A.	August 2012	100% of BCI (3)
Supramax Vessels				
Baltic Leopard	2009	D/S Norden	July 2012	$10,050 (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)	June 2012	97% of BSI (6)
Baltic Cougar	2009	AMN Bulkcarriers Inc.	August 2012	96% of BSI (7)
Handysize Vessels				
Baltic Wind	2009	Cargill International S.A.	May 2013	115% of BHSI (8)
Baltic Cove	2010	Cargill International S.A.	February 2014	115% of BHSI (8)
Baltic Breeze	2010	Cargill International S.A.	July 2014	115% of BHSI (8)

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

(2) We have agreed to an extension with Swissmarine Services S.A. on a spot market-related time charter at a rate based on 101.5% of the average of the daily rates of the Baltic Capesize Index (BCI), published by the Baltic Exchange, as reflected in daily reports. Hire is paid in arrears net of a 6.25% brokerage commission which includes the 1.25% commission payable to Genco. The duration of the extension is 10.5 to 13.5 months beginning on or about June 15, 2012.

(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.

Table of Contents

(4) We have reached an agreement with D/S Norden on a time charter for 3.5 to 6.5 months at a rate of $10,050 per day. Hire is paid every 15 days in advance net of a 6.25% brokerage commission, which includes the 1.25% commission payable to Genco. The vessel delivered to charterers on April 8, 2012.

(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 Baltic Supramax Index (BSI), published by the Baltic Exchange, 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 reached an agreement with Resource Marine PTE Ltd. on a spot market-related time charter for 11 to 13.5 months based on 97% 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 6.25% brokerage commission, which includes the 1.25% commission payable to Genco.

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

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

Three months ended March 31, 2012 and 2011

VOYAGE REVENUES-

For the three months ended March 31, 2012 and 2011, voyage revenues were $6,294 and $9,543, respectively. The decrease in voyage revenues was due to lower spot market rates achieved by our vessels during the first quarter of 2012.

The average TCE rate of our fleet was $7,521 a day for the three months ended March 31, 2012 as compared to $11,530 for the three months ended March 31, 2011. The decrease was due to lower spot rates achieved by the vessels in our fleet during the first quarter of 2012 as compared to the first quarter of 2011. The reduction of iron ore cargoes due to the celebration of the Chinese New Year combined with increased deliveries of newbuilding vessels through March of this year contributed to a weakened freight rate environment for the first quarter of 2012.

For the three months ended March 31, 2012 and 2011, we had 819.0 and 810.0 ownership days, respectively. The increase in ownership days is a result of an additional day during the first quarter of 2012 due to the leap year. Fleet utilization decreased to 99.3% during the three months ended March 31, 2012 as compared to 99.9% during the three months ended March 31, 2011 due to additional offhire periods during the first quarter of 2012 for some of our Supramax and Handysize vessels.

VOYAGE EXPENSES-

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

For the three months ended March 31, 2012 and 2011, voyage expenses were $53 and $83, respectively, and consisted primarily of brokerage commission due to third parties. Brokerage commission due to third parties decreased as a result of a decrease in voyage revenue earned during the first quarter of 2012 as compared to the first quarter of 2011.

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent decreased by $41 to $81 during three months ended March 31, 2012 as compared to $122 during the three months ended March 31, 2011. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The decrease was a result of the decrease in voyage revenue due to lower spot market rates achieved by our vessels during the first quarter of 2012.

Table of Contents

VESSEL OPERATING EXPENSES-

Vessel operating expenses remained relatively stable at $3,922 during the three months ended March 31, 2012 as compared to $3,927 during the three months ended March 31, 2011. These costs remained stable as our fleet has not expanded.

Daily vessel operating expenses marginally decreased to $4,788 per vessel per day during the three months ended March 31, 2012 from $4,848 per vessel per day during the three months ended March 31, 2011. We believe daily vessel operating expenses are best measured for comparative purposes over a 12-month period in order to take into account all of the expenses that each vessel in our fleet will incur over a full year of operation. Our actual daily vessel operating expenses per vessel for the three months ended March 31, 2012 were $512 below the budgeted rate of $5,300 per vessel per day.

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

GENERAL, ADMINISTRATIVE AND TECHNICAL MANAGEMENT FEES-

For the three months ended March 31, 2012 and 2011, general, administrative and technical management fees were $1,309 and $1,752, respectively. The decrease is primarily due to lower non-cash compensation. We incur management fees to third-party technical management companies for the day-to-day management of our vessels, including performing routine maintenance, attending to vessel operations and arranging for crews and supplies. Management fees did not fluctuate significantly during the first quarter of 2012 as compared to the first quarter of 2011.

MANAGEMENT FEES TO PARENT-

Management fees to Parent for the three months ended March 31, 2012 and 2011 remained stable at $614 and $607, respectively. This amount represents the technical services fees of $750 per vessel per day payable to Genco pursuant to the Management Agreement.

DEPRECIATION-

Depreciation expense remained relatively stable at $3,683 during the three months ended March 31, 2012 as compared to $3,637 during the three months ended March 31, 2011.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For the three months ended March 31, 2012 and 2011, net interest expense was $1,073 and $1,096, respectively. The decrease in net interest expense is primarily a result of the decrease in unused commitment fees as the total commitment under the 2010 Credit Facility was reduced by $5,000 on May 31, 2011 and November 30, 2011. Refer to Note 6 Debt in the condensed consolidated financial statements for further information. The net interest expense during both periods consisted of interest expense and unused commitment fees related to our 2010 Credit Facility, the amortization of deferred financing fees associated with this facility as well as interest income earned on our cash balances.

INCOME TAX (EXPENSE) BENEFIT-

For the three months ended March 31, 2012 and 2011, income tax (expense) benefit was ($7) and $5, respectively. During the three months ended March 31, 2012, we had United States operations which resulted in United States source income of $366, which resulted in income tax expense of $7. However, during the three months ended March 31, 2011, we had an estimated United States income tax benefit of $5.

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

Table of Contents

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. Refer to the 2011 10-K for further information regarding our 2010 Credit Facility. A commitment fee of 1.25% per annum is payable on the unused daily portion of the 2010 Credit Facility which began accruing on March 18, 2010 under the terms of the commitment letter entered into on February 25, 2010. In connection with the commitment letter, we paid an upfront fee of $0.3 million. Additionally upon executing the 2010 Credit Facility, we paid the remaining upfront fee of $0.9 million, for total upfront fees of $1.3 million, which has been capitalized as Deferred financing costs in the consolidated balance sheets.

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

Borrowings of up to $25 million under the 2010 Credit Facility are available for working capital purposes. At March 31, 2012, we have borrowed $1.5 million of the total $25 million available for working capital. As noted above, the repayment structure under the amended 2010 Credit Facility has been modified to provide for 11 semi-annual commitment reductions of $5 million beginning on May 31, 2011 with a balloon payment at the end of the facility on November 30, 2016. We do not anticipate that borrowings under the 2010 Credit Facility will be used to satisfy our long-term capital needs. As of March 31, 2012, total borrowings, including those for working capital purposes, under the 2010 Credit Facility were $101.3 million. Additionally, as of March 31, 2012, $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 March 31, 2012, 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.

Table of Contents

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

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

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

Cash Available for Distribution

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

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, 2012		
1st Quarter	$ 0.05	4/26/2012
FISCAL YEAR ENDED 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

Cash Flow

Net cash used in operating activities for the three months ended March 31, 2012 was $0.2 million as compared to net cash provided by operating activities of $1.7 million for the three months ended March 31, 2011. The decrease in cash provided by operating activities was primarily a result of a recorded net loss of $4.5 million as compared to a net loss of $1.7 million for the quarter ending March 31, 2011. Lower net income was primarily due to lower charter rates achieved in the 2012 period versus the prior year for the vessels in our fleet.

No cash was used in investing activities during the three months ended March 31, 2012 as our entire fleet was delivered to us by the end of 2011. For the three months ended March 31, 2011, cash used in investing activities was $1.0 million which was for purchases of vessel related equipment.

Net cash used in financing activities for the quarter ended March 31, 2012 was $3.0 million and consisted of cash dividends paid during the quarter. For the three months ended March 31, 2011, cash used in financing activities was $3.9 million and primarily consisted of $3.8 million of cash dividends paid.

Contractual Obligations

The following table sets forth our contractual obligations and their maturity dates as of March 31, 2012. The interest and borrowing fees in the table incorporate the unused fees and interest expense related to the amended 2010 Credit Facility, as well as other fees associated with the amended 2010 Credit Facility.

	Total	Less Than One Year (1)	One to Three Years	Three to Five Years
2010 Credit Agreement	$ 101,250	$	$	$ 101,250
Interest and borrowing fees	16,647	2,858	7,323	6,466
Total	$ 117,897	$ 2,858	$ 7,323	$ 107,716

Table of Contents

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

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

Capital Expenditures

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

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

We did not incur any drydocking costs during the three months ended March 31, 2012 and 2011.

Off-Balance Sheet Arrangements

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

Inflation

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

CRITICAL ACCOUNTING POLICIES

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

Vessels and Depreciation

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

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

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 March 31, 2012. In the chart below, we list each of our vessels, the year it was built, the year we acquired it, and its carrying value at March 31, 2012. At March 31, 2012, the vessel valuations of all of our vessels for covenant compliance purposes under our 2010 Credit Facility as of the most recent compliance testing date were lower than their carrying values at March 31, 2012. The amount by which the carrying value at March 31, 2012 of our vessels exceeded the valuation of such vessels for covenant compliance purposes ranged, on an individual

Table of Contents

vessel basis, from $7.1 million to $23.5 million per vessel. The average amount by which the carrying value of our vessels exceeded the valuation of such vessels for covenant compliance purposes was $10.9 million.

Vessels	Year Built	Year Acquired	Carrying Value (U.S. Dollars in thousands)
Baltic Leopard	2009	2010	$ 33,016
Baltic Panther	2009	2010	33,094
Baltic Cougar	2009	2010	33,246
Baltic Jaguar	2009	2010	33,148
Baltic Bear	2010	2010	69,156
Baltic Wolf	2010	2010	68,671
Baltic Wind	2009	2010	31,679
Baltic Cove	2010	2010	31,985
Baltic Breeze	2010	2010	32,547
TOTAL			$ 366,542

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

The international shipping industry is a capital intensive industry, requiring significant amounts of investment. Effective April 16, 2010, we entered into the 2010 Credit Facility, which has provided us with bridge financing for potential vessel acquisitions. Our interest expense under any such credit facility will be affected by changes in LIBOR rates as outstanding debt on the amended 2010 Credit Facility is based on LIBOR plus an applicable margin of 3.00% per annum. Increasing interest rates could adversely impact our future earnings. A 1% increase in LIBOR would result in an increase of $0.3 million in interest expense for the three months ended March 31, 2012.

Currency and exchange rates risk

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Table of Contents

Item 6. EXHIBITS

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

(*) Filed with this report.

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

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

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Table of Contents

SIGNATURES

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

BALTIC TRADING LIMITED

DATE: May 10, 2012

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

Table of Contents

Exhibit Index

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