Cardium Therapeutics, Inc.
Form 10-K
March 26, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

001-33635

(Commission file number)

CARDIUM THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**27-0075787**
(State of incorporation)	**(IRS Employer Identification No.)**
12255 El Camino Real, Suite 250	
San Diego, California 92130	**(858) 436-1000**
(Address of principal executive offices)	**(Registrant s telephone number)**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Name of exchange on which registered**
Common Stock, $0.0001 par value per share	**NYSE Amex**

Securities registered under Section 12(g) of the Exchange Act:

None

Indicate by check mark if Cardium Therapeutics, Inc. (Cardium) is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if Cardium is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨ Yes x No

Indicate by check mark whether Cardium (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 Cardium was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

Indicate by check mark whether Cardium is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of Cardium s common stock held by non-affiliates of Cardium as of the last business day of Cardium s most recently completed second quarter (June 30, 2008) was approximately $86,208,000 (based on the closing sale price of $2.29 reported by AMEX on June 30, 2008). For this purpose, all of Cardium s officers and directors and their affiliates were assumed to be affiliates of Cardium.

As of March 23, 2009, 46,930,439 shares of Cardium s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K incorporates by reference portions of Cardium s definitive proxy statement for its Annual Meeting of Stockholders to be held June 4, 2009 to be filed on or before April 29, 2009.

Table of Contents

TABLE OF CONTENTS

Table of Contents

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information incorporated by reference, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as may, will, should, could, would, expects, plans, believes, anticipates, intends, estimates, ap projects, or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results and the development of our products, are forward-looking statements. Forward-looking statements in this report may include statements about:

future financial and operating results;

our ability to fund operations and business plans, and the timing of any funding or corporate development transactions we may pursue;

the timing, conduct and outcome of discussions with regulatory agencies, regulatory submissions and clinical trials, including the timing for completion of enrollment in clinical studies;

the performance of Innercool Therapies medical devices and related products, the safety and efficacy of Cardium s and Tissue Repair s biological product candidates, and their potential to attract development partners and/or generate revenues;

our beliefs and opinions about the safety and efficacy of our products and product candidates and the results of our clinical studies and trials;

the development or commercialization of competitive products or medical procedures;

our development or commercialization of new products and product candidates and the timing of any product launches;

our growth, expansion and acquisition strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

the outcome of litigation matters;

our intellectual property rights and those of others, including actual or potential competitors;

the ability to enter into acceptable relationships with one or more contract manufacturers or other service providers on which we may depend and the ability of such contract manufacturers or other service providers to manufacture biologics or devices or to provide services of an acceptable quality on a cost-effective basis;

our personnel, consultants and collaborators;

operations outside the United States;

current and future economic and political conditions;

overall industry and market performance;

the impact of accounting pronouncements;

management s goals and plans for future operations; and

other assumptions described in this report underlying or relating to any forward-looking statements.

Table of Contents

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (SEC).

Unless the context requires otherwise, all references in this report to the Company, Cardium, we, our, and us refer to Cardium Therapeutics, and, as applicable, Innercool Therapies, Inc. and Tissue Repair Company, each a wholly-owned subsidiary of Cardium.

PART I

ITEM 1. BUSINESS

Overview

Cardium Therapeutics, Inc. was organized as a Delaware corporation in December 2003. Cardium s business is focused on the acquisition and strategic development of product opportunities or businesses having the potential to address significant unmet medical needs, and definable pathways to commercialization, partnering or other monetization following the achievement of corresponding development objectives. In October 2005, we acquired a portfolio of biologic growth factors and related delivery techniques from the Schering AG Group, Germany (now part of Bayer AG), for potential use in treating ischemic and other cardiovascular conditions. In connection with this acquisition, we completed a reverse merger, whereby Cardium merged with a wholly-owned subsidiary of Aries Ventures, Inc. (Aries), a publicly traded company. In January 2006, Aries was merged with and into Cardium with Cardium as the surviving entity and successor issuer to Aries. As a result, we are now in our present form a publicly traded corporation.

In March 2006, we acquired the technologies and products of Innercool Therapies, Inc., a medical technology company in the emerging field of therapeutic hypothermia or patient temperature modulation, whose systems and products are designed to rapidly and controllably cool the body to reduce cell death and damage following acute ischemic events such as cardiac arrest and stroke, and to potentially lessen or prevent associated injuries such as adverse neurologic outcomes. In August 2006, we acquired rights to the assets and technologies of Tissue Repair Company, a company focused on the development of growth factor therapeutics for the potential treatment of tissue wounds such as chronic diabetic wounds, and whose product candidate, Excellarate™, is initially being developed as a single administration for the treatment of non-healing, neuropathic diabetic foot ulcers. Innercool Therapies and Tissue Repair Company are each operated as a wholly-owned subsidiary of Cardium.

Consistent with our overall business strategy, as our product opportunities and businesses are advanced and corresponding valuations established, we intend to consider various corporate development transactions designed to place our product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

In November 2008, we reported that we were focusing efforts on our Innercool Therapies and Tissue Repair subsidiaries, both of which we believe are nearing completion of their strategic development programs initiated in 2006. In the case of InnerCool, its new endovascular-based cooling system RapidBlue™ was cleared by the U.S. Food and Drug Administration (FDA) in late-2008, and an application for FDA clearance of its UroCool™ system was submitted in the first quarter of 2009. In the case of Tissue Repair Company, its MATRIX Phase 2b

Table of Contents

clinical study is principally designed to evaluate the ability of Excellarate™ to promote rapid closure of previously non-healing diabetic foot ulcers, and to gather additional information regarding safety and clinical use. Enrollment in the MATRIX clinical study is expected to be completed and select top line data announced shortly. In keeping with Cardium s business model, we expect to consider strategic partnering or other transactions designed to further advance these products to commercialization.

As we near completion of our strategic development of our InnerCool and Tissue Repair businesses, we expect to continue to pursue opportunistic acquisitions, strategic development and partnering or other monetization transactions designed to enhance long-term stockholder value. Of course, there can be no assurance that we will successfully implement our business model or strategy.

Cardium and Tissue Repair Company Biologics for Wound Healing and Other Indications

Tissue Repair Company Transaction

In August 2006, we obtained the rights to develop various technologies and products now part of the Tissue Repair Company (TRC), a San Diego-based biopharmaceutical company focused on the development of growth factor therapeutics for the potential treatment of chronic diabetic wounds. TRC s lead product candidate, Excellarate, is a DNA-activated collagen gel for topical treatment formulated with an adenovector delivery carrier encoding human platelet-derived growth factor-B (PDGF-B). Excellarate is initially being developed as a single administration for the treatment of non-healing diabetic foot ulcers.

The Excellarate topical gel is designed to stimulate angiogenesis and granulation tissue formation through the recruitment and proliferation of chemotactic cells such as monocytes and fibroblasts, which are necessary for the stimulation of a variety of wound healing processes. Other potential applications for TRC s Gene Activated Matrix (GAM) technology include therapeutic angiogenesis (cardiovascular ischemia, peripheral arterial disease) and orthopedic products, including hard tissue (bone) and soft tissue (ligament, tendon, and cartilage) repair. We initiated the Phase 2b clinical study for Excellarate during the second half of 2007, and expect to complete enrollment and announce select top line data shortly.

Incidence of Chronic Wounds

An estimated 12.5 million patients worldwide suffer from chronic wounds with the industrialized countries making up 8 million, of which the U.S. totals approximately 3.7 million.

Over 800,000 patients in the U.S. develop diabetic foot ulcers annually.

Approximately 1.7 million patients suffer from pressure wounds, 1 million from diabetic foot ulcers and 1 million from venous status ulcers.

Diabetic ulcers cost the U.S. healthcare system approximately $5 billion per year with treatment and subsequent lower limb amputations adding an additional $1 billion per year.

Of the approximately 15 million diabetic patients, approximately 15 to 20 percent of this patient population will go on to suffer at least one chronic foot ulcer and of those six percent will be hospitalized due to infection or other ulcer-related complications.

Diabetes is the leading cause of non-traumatic lower extremity amputations and approximately 14 to 24 percent of patients with diabetes who develop foot ulcers eventually have an amputation.

Current Treatment Approaches for Chronic Wounds

There are several treatment modalities currently used for severe chronic ulcers in diabetic patients, including topical dressings, off-loading, debridement and skin grafts. Regranex® Gel (becaplermin), which is marketed by Johnson & Johnson s Ethicon Wound Management Division, is considered to be the only FDA-approved

Table of Contents

prescription medicine to treat such wounds. Regranex® Gel is a recombinant human platelet-derived growth factor (rrPDGF-BB) protein that is used as an adjunct with other current treatment modalities described above and is used to treat lower extremity diabetic neuropathic ulcers. Based on Regranex® Gel s instructions for use, an estimated 70 administrations and 70 wound cleanings and redressings would be required over a 10-week treatment period (once daily administration followed by a subsequent wound cleaning and redressing without gel).

Gene Activated Matrix (GAM) Technology

We believe that patient compliance can be a major factor preventing or limiting improved medical outcomes, particularly when repeated administrations are required at a wound site. Gene Activated Matrix technology is designed to provide a therapeutic level of protein synthesis at a particular site in the body and can be used in soft tissue such as skin, ligament, tendons and cartilage, as well as hard tissue such as bone. The technology is distinctive in that it is an immobilized form of local gene delivery that allows for control of gene uptake. GAM consists of a biocompatible matrix comprising a gene or DNA vector encoding a growth factor or other therapeutic protein.

For tissue repair, the application method involves placement of a GAM gel directly onto a wound site. TRC s studies have shown that proliferative cells in the body can migrate into the GAM, take up the immobilized vector and gene and then transiently express the encoded therapeutic protein. Compared with topical applications of proteins, this *in situ* expression method significantly prolongs the availability of therapeutic protein to the cells involved in tissue repair. TRC s GAM technology may have potential utility in several clinical indications where protein therapeutics have had limited success, including treatment of dermal wounds (such as diabetic foot ulcers), therapeutic angiogenesis (pharmacologically inducing new blood vessel growth), and orthopedic products for repair of various tissues, including hard tissue (bone) and soft tissue (ligament, tendon, cartilage).

Tissue Repair Product Candidate Excellarate

Excellarate is being developed as a next-generation treatment to leverage the established medical utility of PDGF-B, and to simplify treatment by stimulating the body s own localized and sustained production of PDGF-B at the wound site over a six to 12-day period following a single dose administration. We believe that a one-time administration, or in more severe cases several once-a-week administrations, of the Excellarate topical gel, which is designed to mediate a sustained cellular-release of PDGF-B at the injury site, could substantially simplify the treatment regimen, thus potentially enhancing patient compliance and improving medical outcomes.

Excellarate was evaluated in an initial multi-center Phase 1-2 clinical trial that evaluated preliminary safety and included an assessment of healing in 15 patients with diabetic foot ulcers that did not heal using conventional techniques. Based on the data obtained, Excellarate appeared to be safe and well tolerated in patients with diabetic foot ulcers. In addition, in the 12 patients that completed the treatment protocol and follow-up, over 80% of the patients exhibited complete closure of previously non-healing wounds by 14 weeks. Single dose applications were administered in 70% of the patients and the remaining patients received a weekly dose application over a four-week period. Based on the prior pre-clinical and toxicology database, and results from the Phase 1-2 clinical study, we advanced Excellarate into a randomized, double-blind, placebo-controlled, multi-center Phase 2b clinical study in the second half of 2007. The MATRIX Phase 2b clinical study is principally designed to evaluate the ability of Excellarate™ to promote rapid closure of previously non-healing diabetic foot ulcers, and to gather additional information regarding safety and clinical use. Consistent with Cardium s overall business strategy, if the data from the Phase 2b study indicate that Excellarate™ appears to be safe and effective in promoting the healing of such ulcers, then we would expect to pursue strategic discussions with respect to potential development and commercialization partnerships for Excellarate™.

Table of Contents

Other Biologics Growth Factors for Regenerative Medicine

Biologics and Stem Cells for Regenerative Medicine

Cardium has also developed additional biologics for potential application in other areas of regenerative medicine. Generx® (alferminogene tadenovec, Ad5FGF-4) is designed to leverage the body s natural healing processes in response to repeated ischemic stress (insufficient blood flow and myocardial oxygen supply due to coronary heart disease). Corgentin (Ad5IGF-1) is designed to enhance myocardial healing in and around the infarct zone when used as an adjunct to existing vascular-directed pharmacologic and interventional therapies. In November 2008, Cardium announced that it was focusing efforts on its Tissue Repair and InnerCool Therapies subsidiaries, both of which we believe are nearing completion of their strategic development programs initiated in 2006, and that the principal focus of Cardium s biologics program is to advance the Excellarate product candidate through its current Phase 2b MATRIX study. Once the MATRIX study is completed, additional resources may be applied toward these other biologic candidates, potentially in collaboration with a strategic development partner.

A complementary approach to the development of therapeutics for regenerative medicine involves the use of stem cells that can be incorporated into injured tissue like the heart as a means of preventing further damage and promoting healing of the affected organ. In that regard, filings by Cardium related to Ad5IGF-1 also described the potential use of stem cells, such as mesenchymal stem cells or MSCs transfected with an Ad5IGF-1 vector (such as that used in Corgentin), for addressing coronary syndromes such as heart disease or heart attack.

In March 2009, Cardium reported that studies conducted by independent researchers at the University of Cincinnati showed in a preclinical model of heart attack that MSCs transfected with Ad5IGF-1 were effective at promoting angiogenesis within the heart and that the zone of heart attack related tissue damage (the infarct zone) was significantly reduced, and contractile function significantly improved, following administration of Ad5IGF-1 transfected MSCs highlighting the potential value of these therapeutic approaches.

InnerCool Therapies Patient Temperature Modulation for Reducing Ischemic Injury

InnerCool Therapies Transaction and Subsequent Product Development

In March 2006, we acquired the technologies and products of InnerCool Therapies, Inc., a San Diego-based medical technology company in the emerging field of therapeutic hypothermia or patient temperature modulation, which is designed to controllably cool the body in order to reduce cell death and damage following acute ischemic events such as cardiac arrest or stroke, and to potentially lessen or prevent associated injuries such as adverse neurological outcomes, as well as in the management of patients experiencing trauma or fever. Rapid cooling and rewarming of patients can be accomplished from inside the body, using an endovascular catheter which is selectively chilled or warmed. For less acute needs, cooling and rewarming of patients can also be accomplished by surface-based systems which are applied to the outside of the body, such as a vest applied to the upper body. InnerCool s Celsius Control System is a rapid endovascular-based system, which has received regulatory clearance in the U.S., Europe and Australia.

Following the acquisition, we expanded InnerCool s business and operations, and introduced a new CoolBlue surface temperature modulation system. With the introduction of CoolBlue, and our next-generation RapidBlue endovascular cooling system which received FDA 510(k) approval in October 2008, we believe we have positioned InnerCool Therapies as the first and only comprehensive provider of temperature modulation solutions for hospital and medical centers. In November 2008, we announced the development of InnerCool s UroCool targeted tissue cooling system, which is designed to induce localized cooling during surgery for prostate cancer. We submitted an application for FDA 510(k) clearance of UroCool in the first quarter of 2009. Following these product and strategic development accomplishments, our goal is to place our products and product candidates with larger corporations having existing sales and marketing organizations to more fully commercialize these products.

Table of Contents

Incidence of Ischemic Injuries and Potentially Related Applications

Cardiac Arrest:

In the United States, an estimated 500,000 people experience cardiac arrest each year, of which approximately 150,000 survive and are treated with advanced care.

Outside the United States, it is estimated that approximately 900,000 people experience cardiac arrest each year, of which 200,000 survive and are treated with advanced care.

The American Heart Association recently revised its guidelines to recommend the use of therapeutic cooling as part of the critical care procedures for patients with an out-of-hospital cardiac arrest following ventricular fibrillation.

Heart Attack or Acute Myocardial Infarction (AMI):

In the United States, an estimated 865,000 people experience a new or recurrent heart attack each year.

An estimated 325,000 people in the U.S., and approximately 375,000 people outside the United States, receive emergency angioplasty or anti-clotting treatment as first-line care following a heart attack.

Stroke:

In the United States, approximately 700,000 people experience a stroke each year, and a comparable number of patients are affected outside the United States.

The American Stroke Association has identified the treatment of stroke victims with therapeutic hypothermia as a promising area of research.

Cardiothoracic Surgery:

Approximately 500,000 patients in the U.S., and 300,000 patients outside the United States, undergo cardiothoracic surgery each year.

Major medical societies, such as the American Society of PeriAnesthesia Nurses, American Society of Anesthesiologists, American Association of Nurse Anesthetists and Association of Perioperative Registered Nurses have issued specific guidelines for temperature management during cardiothoracic surgeries.

Prostate Surgery and Other Surgical Procedures:

In the United States, approximately 90,000 radical prostatectomy procedures are performed each year to address prostate cancer.

Recent evidence suggests that cooling the prostate and surrounding tissue during surgery has the potential to improve and accelerate the recovery of associated functions after surgery, such as urinary continence.

Achieving or Maintaining Normal Body Temperature:

Potential applications for achieving or maintaining normal body temperature or normothermia include warming trauma patients whose temperatures have dropped below normal due to extensive blood loss and subsequent fluid replacement therapy, cooling heat stroke victims, re-warming patients with accidental hypothermia caused by exposure, and warming burn victims whose temperatures are below normal due to exposure in the intensive care unit.

Table of Contents

Treatment of Acute Ischemic Conditions Using Patient Temperature Modulation

Numerous articles have been published in scientific and medical journals describing the usefulness of therapeutic cooling, which is designed to protect endangered cells, prevent tissue death and preserve organ function following events associated with severe deprivation such as stroke or cardiac arrest. Therapeutic hypothermia is believed to work by protecting critical tissues and organs such as the brain, heart and kidneys following acute ischemic or inflammatory events, by lowering metabolism and preserving cellular energy stores, thereby potentially stabilizing cellular structure and preventing or reducing injuries at the cellular, tissue and organ level. Two international clinical trials on hypothermia after cardiac arrest published in The New England Journal of Medicine demonstrated that induced hypothermia reduced mortality and improved long-term neurological function. Based on these results, the American Heart Association (AHA) and the International Liaison Committee on Resuscitation (ILCOR) issued new guidelines recommending that cardiac arrest victims be treated with cooling or induced hypothermia. The AHA guidelines now recommend the use of therapeutic cooling as part of the critical care procedures for patients with an out-of-hospital cardiac arrest following ventricular fibrillation.

Endovascular Temperature Control the InnerCool Celsius Control System and RapidBlue

Endovascular cooling, provided by InnerCool s Celsius Control System, is believed to offer more rapid and precise temperature control and ease of administration, which are believed to be important requirements for the potential treatment of patients presenting with acute ischemic stroke in a hospital setting. In addition, it offers the ability to cool awake patients without the need to anesthetize them, avoiding a potentially confounding factor.

InnerCool s Celsius Control System is currently being used in surgical and intensive care hospital units. The Celsius Control System is designed to rapidly and controllably cool the body in order to reduce cell death and damage following acute ischemic events such as cardiac arrest or stroke, and to potentially lessen or prevent associated injuries such as adverse neurological outcomes.

InnerCool s approach to therapeutic hypothermia is based on a single-use flexible metallic catheter and a fully integrated endovascular cooling system, which allows for rapid and controlled cooling and re-warming. InnerCool s Celsius Control System integrates a number of desirable features including a slim catheter profile, a highly efficient flexible metallic heat transfer element, a built-in temperature monitoring sensor, and a programmable console capable of rapidly and controllably inducing, maintaining and reversing therapeutic cooling.

InnerCool s Celsius Control System has received FDA 510(k) clearance for use in inducing, maintaining and reversing mild hypothermia in neurosurgical patients, both in surgery and in recovery or intensive care. The system has also received FDA clearance for use in cardiac patients to achieve or maintain normal body temperatures during surgery and in recovery/intensive care, and as an adjunctive treatment for fever control in patients with cerebral infarction and intracerebral hemorrhage. InnerCool has also received a CE mark allowing the Celsius Control System to be marketed in the European Community, and a TGA approval allowing the system to be marketed in Australia.

The Celsius Control System is now being used at a number of leading U.S. medical centers, including those at Stanford University, Cornell, Columbia, the University of Michigan, Harborview Medical Center, San Francisco General Hospital, the University of California Medical Centers at San Diego and San Francisco, and at medical centers in Australia and Sweden.

InnerCool s next-generation RapidBlue system for high-performance endovascular temperature modulation, which was launched in the second half of 2008 after receiving FDA 510(k) approval, includes a programmable console with an enhanced user interface and a catheter designed to quickly modulate patient

Table of Contents

temperature in association with surgery or other medical procedures. The RapidBlue system powers InnerCool s Accutrol catheter, which has a flexible metallic temperature control element and a built-in temperature feedback sensor to provide fast and precise patient temperature control.

The RapidBlue endovascular system received FDA 510(k) clearance for the same indications as already obtained for the Celsius Control System. Studies for additional indications with InnerCool s endovascular cooling systems are expected to be conducted in collaboration with the National Institutes of Health, AHA and others. Potential future applications of the technology include endovascular cooling for cardiac arrest, acute ischemic stroke and myocardial infarction (heart attack), and acute traumatic injury.

Surface-Based Temperature Control CoolBlue

InnerCool s new CoolBlue surface temperature modulation system is designed to provide a complementary tool for use in less acute patients or in clinical settings best suited to prolonged temperature management. The CoolBlue system includes a console and a disposable vest with upper thigh pads.

Surface cooling devices are becoming one of several important therapies to help manage patients who experience fevers in association with severe neurologic injuries or other medical conditions. The American Society of Anesthesiologists (ASA) and the American Association of Neurological Surgeons (AANS), as well as other organizations internationally, now recommend proactive fever reduction following neurological injury. Innercool estimates that more than 450,000 hospital patients in the U.S. experience neurologic or non-neurologic fever conditions that either require or could benefit from proactive therapies to reduce patients body temperatures. Fever patients typically require treatment for multiple days, sometimes as long as a week.

Localized Cooling for Prostate Surgery UroCool

InnerCool is developing a new class of targeted organ-specific cooling applications, including the UroCool Targeted Tissue Cooling System, a pelvic cooling catheter system designed to induce localized cooling during surgery for prostate cancer. Dr. Thomas E. Ahlering and colleagues at the University of California, Irvine believe that therapeutic cooling during prostate surgery (which includes both traditional open surgical approaches and newer robotic-assisted techniques) can reduce tissue damage and inflammation and thereby provide a faster return of bladder control (continence) and possibly erectile function (potency). The specialized UroCool pelvic cooling catheter is being integrated with InnerCool s current Celsius Control Console which has been marketed and sold since 2003. A regulatory application for FDA 510(k) clearance of the UroCool catheter was submitted in the first quarter of 2009.

Therapeutic Hypothermia for Stroke the ICTuS-L Study

The ICTuS-L stroke study is sponsored by the National Institute of Neurological Disorders (NINDS), one of the National Institutes of Health (NIH). The NINDS sponsors and conducts research to learn about the healthy brain and to discover and disseminate information on ways to prevent, cure and treat neurological neuromuscular disorders and stroke. The NINDS leads the federal government s medical research effort to fight stroke. It funds research studies at universities, medical schools and hospitals across the country and conducts its own research on the grounds of the NIH campus in Bethesda, Maryland, as well as at the NIH Stroke Center at Suburban Hospital, Bethesda.

Positive Effects of Hypothermia Following Heart Attack

In October 2006, InnerCool announced preclinical data demonstrating a new and expanded benefit of early rapid cooling for the potential treatment of acute myocardial infarction (heart attack), as presented at the Transcatheter Cardiovascular Therapeutics (TCT) 2006 Annual Meeting in Washington, DC. Innercool also announced its plans for a new clinical study to further assess the safety and potential usefulness of early cooling for heart attack patients. The study began in 2007 and is being co-sponsored in Sweden.

Table of Contents

The research reported at TCT was conducted by a team of interventional cardiologists led by Drs. Goran Olivecrona and David Erlinge at the Lund University Hospital, Sweden. In the recently completed study in a preclinical porcine heart attack model, researchers evaluated rapid cooling, induced by a combination of cold saline infusion along with InnerCool s endovascular Celsius Control System, before or coincident with percutaneous coronary intervention (PCI) procedures, which are used to restore blood flow in the heart. The data showed that cooling before PCI reduced overall infarct size (reflecting tissue damage) by an additional 40%. These findings strongly support the use of early rapid cooling in planned clinical studies, and suggest that InnerCool s endovascular cooling system may have the potential to enable interventional cardiologists to dramatically reduce tissue damage following a heart attack.

Based on these findings, InnerCool is sponsoring a study on the use of early rapid cooling following heart attack, which is being co-sponsored and conducted by the interventional cardiology center at Lund University Hospital, Sweden. The study is a randomized human clinical trial designed to evaluate the potential use of InnerCool s hypothermia system in the treatment of heart attack patients. This study will randomize approximately twenty patients who present within six hours of their heart attack for PCI alone or PCI plus the new early rapid cooling protocol. The hypothermia arm will include iced saline infusion plus use of the InnerCool Celsius Control System catheter before reperfusion in patients undergoing PCI. The trial will employ cardiac magnetic resonance imaging (MRI) to provide an accurate assessment of the damage to the heart within days of the injury.

Benefits of Inducing Hypothermia During Aneurysm Surgery

In September 2006, Michael K. Morgan, M.D. reported on his direct experience and the benefits of the Celsius Control System in inducing hypothermia in cerebral vascular surgery patients at the Neurosurgical Society of Australasia (NSA) Annual Scientific Meeting in Cairns, Australia. It was reported by Dr. Morgan, a noted vascular neurosurgeon and Professor and Dean of the School of Advanced Medicine, Macquarie University, Sydney, that he had conducted retrospective review of over 600 aneurysms over a seven-year period, and found that patients with aneurysms greater than 12 millimeters are more likely to have over 20 minutes of temporary occlusion times. Temporary occlusion of arteries in the brain during aneurysm repair in such patients exposes the brain to ischemia (localized lack of oxygen), which can have negative consequences in terms of neurologic outcomes.

Dr. Morgan reported on the safety, efficient cooling and beneficial outcomes achieved using InnerCool s Celsius Control System in an open-label cohort of 26 patients with 33 aneurysms, and reported that based on his experience and the clinical data reviewed, aneurysms greater than 12 millimeters frequently require prolonged temporary occlusion times. It was also reported that the ability of InnerCool s Celsius Control System to safely and effectively cool patients with aneurysms provides an important new tool for protecting the brain from ischemic injury, especially in patients such as these who are at higher risk for tissue damage due to the prolonged lack of blood flow, and that, in addition to achieving positive outcomes, there were no clinically significant catheter-related complications.

Business Strategy

Strategic Goals

Building on our core products and product candidates, our strategic goal is to develop a portfolio of medical products at various stages of development and secure additional financial resources to commercialize these products in a timely and effective manner. The key elements of our strategy are to:

- complete the Phase 2b clinical study for Excellarate;

- accelerate the commercialization of Innercool s therapeutic hypothermia technology and products and continue to develop additional products and applications;

Table of Contents

evaluate partnering opportunities designed to support the advancement of the Generx and Corgentin product candidates;

broaden and expand our product base and financial resources through other corporate development transactions in an attempt to enhance stockholder value, which could include acquiring other medical-related companies or product opportunities and/or securing additional capital; and

monetize the economic value of our product portfolio by establishing strategic collaborations and selling businesses and assets at appropriate valuation inflection points.

Government Regulation

New drugs and biologics, including gene therapy and other DNA-based products, are subject to regulation under the federal Food, Drug, and Cosmetic Act. In addition, biologics are also regulated under the Public Health Service Act. We believe that the pharmaceutical products we are attempting to develop will be regulated either as biological products or as new drugs. Both statutes and their corresponding regulations govern, among other things, the testing, manufacturing, distribution, safety, efficacy, labeling, storage, record keeping, advertising and other promotional practices involving biologics or new drugs. FDA approval or other clearances must be obtained before clinical testing, and before manufacturing and marketing, of biologics and drugs. Obtaining FDA approval has historically been a costly and time-consuming process. Different regulatory regimes are applicable in other major markets.

In addition, any gene therapy and other DNA-based products we develop will require regulatory approvals before human trials and additional regulatory approvals before marketing. New biologics are subject to extensive regulation by the FDA and the Center for Biological Evaluation and Research and comparable agencies in other countries. Currently, each human-study protocol is reviewed by the FDA and, in some instances, the NIH, on a case-by-case basis. The FDA and the NIH have published guidance documents with respect to the development and submission of gene therapy protocols.

To commercialize our product candidates, we must sponsor and file an investigational new drug (IND) application and be responsible for initiating and overseeing the human studies to demonstrate the safety and efficacy and, for a biologic product, the potency, which are necessary to obtain FDA approval of any such products. For our newly sponsored investigational new drug applications, we will be required to select qualified investigators (usually physicians within medical institutions) to supervise the administration of the products, and we will be required to ensure that the investigations are conducted and monitored in accordance with FDA regulations and the general investigational plan and protocols contained in the IND application.

The FDA receives reports on the progress of each phase of testing, and it may require the modification, suspension, or termination of trials if an unwarranted risk is present to patients. If the FDA imposes a clinical hold, trials may not recommence without FDA authorization and then only under terms authorized by the FDA. The IND application process can thus result in substantial delay and expense. Human gene therapy products, a primary area in which we are seeking to develop products, are a new category of therapeutics. Because this is a relatively new and expanding area of novel therapeutic interventions, there can be no assurance as to the length of the trial period, the number of patients the FDA will require to be enrolled in the trials to establish the safety, efficacy and potency of human gene therapy products, or that the data generated in these studies will be acceptable to the FDA to support marketing approval.

After the completion of trials of a new drug or biologic product, FDA marketing approval must be obtained. If the product is regulated as a biologic, the Center for Biological Evaluation and Research will require the submission and approval, depending on the type of biologic, of either a biologic license application or a product license application and a license application before commercial marketing of the biologic. If the product is classified as a new drug, we must file a new drug application with the Center for Drug Evaluation and Research

Table of Contents

and receive approval before commercial marketing of the drug. The new drug application or biologic license applications must include results of product development, laboratory, animal and human studies, and manufacturing information. The testing and approval processes require substantial time and effort and there can be no assurance that the FDA will accept the new drug application or biologic license applications for filing and, even if filed, that any approval will be granted on a timely basis, if at all. In the past, new drug applications and biologic license applications submitted to the FDA have taken, on average, one to two years to receive approval after submission of all test data. If questions arise during the FDA review process, approval can take more than two years.

Notwithstanding the submission of relevant data, the FDA may ultimately decide that the new drug application or biologic license application does not satisfy its regulatory criteria for approval and may require additional studies. In addition, the FDA may condition marketing approval on the conduct of specific post-marketing studies to further evaluate safety and effectiveness. Rigorous and extensive FDA regulation of pharmaceutical products continues after approval, particularly with respect to compliance with current good manufacturing practices (GMPs), reporting of adverse effects, advertising, promotion and marketing. Discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market, as well as possible civil or criminal sanctions.

Ethical, social and legal concerns about gene therapy, genetic testing and genetic research could result in additional regulations restricting or prohibiting the processes we or our suppliers may use. Federal and state agencies, congressional committees and foreign governments have expressed interest in further regulating biotechnology. More restrictive regulations or claims that our products are unsafe or pose a hazard could prevent us from commercializing any such products.

The approval and/or clearance for marketing of medical devices, such as those being developed by our Innercool Therapies subsidiary, is also subject to extensive controls by health regulatory and other authorities. Although some devices can be cleared for marketing pursuant to a procedure referred to as an FDA 501(k) clearance, other devices and/or indications may require additional clinical studies and may be subject to even more extensive regulatory and other controls.

In addition to the foregoing, state and federal laws regarding environmental protection and hazardous substances, including the Occupational Safety and Health Act, the Resource Conservancy and Recovery Act and the Toxic Substances Control Act, affect our business. These and other laws govern our use, handling and disposal of various biological, chemical and radioactive substances used in, and wastes generated by, our operations. If our operations result in contamination of the environment or expose individuals to hazardous substances, we could be liable for damages and governmental fines. We believe that we are in material compliance with applicable environmental laws and that continued compliance therewith will not have a material adverse effect on our business. We cannot predict, however, how changes in these laws may affect our future operations.

We are also subject to a variety of other regulations in the United States, including those relating to bioterrorism, taxes, labor and employment, import and export, and intellectual property.

To the extent we have operations outside the United States, any such operations would be similarly regulated by various agencies and entities in the countries in which we operate. The regulations of these countries may conflict with those in the United States and may vary from country to country. In markets outside the United States, we may be required to obtain approvals, licenses or certifications from a country s ministry of health or comparable agency before we begin operations or the marketing of products in that country. Approvals or licenses may be conditioned or unavailable for certain products. These regulations may limit our ability to enter certain markets outside the United States.

Table of Contents

Competition

The pharmaceutical, biotechnology and medical device industries are intensely competitive. Our products and any product candidates developed by us would compete with existing drugs, therapies and medical devices or procedures and with others under development. There are many pharmaceutical companies, biotechnology companies, medical device companies, public and private universities and research organizations actively engaged in research and development of products for the treatment of cardiovascular and related diseases, and/or products for temperature control therapy and the healing of chronic wounds. Many of these organizations have financial, technical, research, clinical, manufacturing and marketing resources that are greater than ours. If a competing company develops or acquires rights to a more efficient, more effective, or safer competitive therapy for treatment of the same or similar diseases we have targeted, or one that offers significantly lower costs of treatment, our business, financial condition and results of operations could be materially adversely affected. In view of the relatively early stage of the industry, we believe that the most significant competitive factor in the field of gene therapy and biologics is the effectiveness and safety of a product candidate, as well as its relative safety, efficacy and cost as compared to other products, product candidates or approaches that may be useful for treating a particular disease condition.

We believe that our product development programs will be subject to significant competition from companies using alternative technologies, some of which are described above, as well as to increasing competition from companies that develop and apply technologies similar to ours. Other companies may succeed in developing products earlier than we do, obtaining approvals for these products from the FDA more rapidly than we do or developing products that are safer, more effective or less expensive than those under development or proposed to be developed by us. We cannot assure you that research and development by others will not render our technology or product candidates obsolete or non-competitive or result in treatments superior to any therapy developed by us, or that any therapy developed by us will be preferred to any existing or newly developed technologies.

We are aware of products currently under development by competitors targeting the same or similar cardiovascular and vascular diseases as our Generx product development. These include biologic treatments using forms of genes and therapeutic proteins. For example, CardioVascular BioTherapeutics is developing injectable and topical forms of FGF-1 for the potential treatment of cardiovascular diseases. We will also face competition from entities using other traditional methods, including new drugs and mechanical therapies, to treat cardiovascular and vascular disease.

In the areas of tissue repair and wound healing, as being developed by our Tissue Repair subsidiary, there are a number of approaches being employed, including living skin equivalents, vacuum pumps and other devices, and biologics and small molecule drugs designed to promote repair and healing.

In the areas of temperature control therapy, as practiced by our Innercool Therapies subsidiary, there are a number of actual or potential competitive approaches including alternative endovascular approaches based on inflatable balloon devices, such as the CoolGard thermal regulating system developed by Alsius Corporation, and the Reprieve system developed by Radiant Medical Inc. Zoll Medical Corporation purchased the assets of Radiant Medical in 2007, and in 2009 announced plans to acquire the assets of Alsius Corporation. There are also a number of actual or potential competitive approaches including alternative surface-based cooling devices that include the use of specialized cooling pads such as those employed in the Artic Sun system being developed by Medivance, and other devices such as cooling blankets and helmets.

Manufacturing Strategy

To leverage our experience and available financial resources, except as noted below with respect to Innercool Therapies, we do not plan to develop company-owned and operated manufacturing facilities. We plan to outsource all product manufacturing to one or more contract manufacturers of clinical drug products that

Table of Contents

operate manufacturing facilities in compliance with current GMPs. We may also seek to refine the current manufacturing process and final product formulation to achieve improvements in storage temperatures and the like.

Our management team already has experience with the production of Adenovirus vector (Adenovector), DNA-based therapies, which is believed to be useful in understanding the unique requirements of our business. Schering, using their experience in the production of clinical grade, DNA-based drug products, has developed an adenovector manufacturing process employing the use of master viral banks and master cell banks. Technical transfer of process materials and methodologies from Schering to Cardium has taken place, combining the expertise of both companies.

The FDA has established guidelines and standards for the development and commercialization of molecular and gene-based drug products i.e.: *Guidance for Industry CMC for Human Gene Therapy INDs November 2004, Sterile Drug Products Produced by Aseptic Processing September 2004, Human Somatic Cell Therapy and Gene Therapy March 1998, PTC in the Characterization of Cell Lines Used to Produce Biologicals July 1993*. These industry guidelines, among others, provide essential oversight with regard to process methodologies, product formulations and quality control standards to ensure the safety, efficacy and quality of these drug products.

The disposable portions of Innercool s products, the catheter and administrative set, are currently assembled at our facilities in San Diego. The console s cooling sub-assembly is currently purchased from a single vendor, although we believe there are several vendors that could supply this component. Innercool currently integrates this sub-assembly with additional software, printed circuit boards, electrical isolation, and a user interface in order to create the final product. Our CoolBlue consoles and disposable pads are currently being assembled for us by a third party in the Midwest. In 2008 we completed the redesign of our Celsius Control System console to enhance functionality and manufacturability to allow for assembly at third party manufacturing facilities. The redesigned console, InnerCool s RapidBlue system, received FDA 510(K) clearance in October 2008.

Innercool s manufacturing operations are required to comply with certain quality assurance regulations. Specifically, Innercool must adhere to the FDA quality system regulations, comply with ISO 13485 requirements and maintain its CE mark. We believe Innercool s operations meet such requirements.

Marketing and Sales

Our product candidates must undergo testing and development in clinical trials and pre-clinical studies. Other than Innercool s Celsius Control System, RapidBlue endovascular cooling systems and CoolBlue surface cooling system, we do not currently have any products approved for marketing nor any present capacity to market and sell products that could be commercially developed based on our technology. If we should obtain any such marketing approvals, we expect that we would elect to engage in marketing or sales through or in collaboration with a commercialization partner, although we are not currently involved with such a partner.

Innercool is currently selling its products into neurosurgical and neurocritical care markets using a small prototype sales force. Representative accounts include medical centers at Stanford University, Cornell, Columbia, the University of Michigan, Seattle s Harborview and Swedish medical centers, San Francisco General Hospital, and the University of California medical centers at San Diego and San Francisco.

Innercool has received a CE mark allowing its products to be marketed in the European Community, and approval from the Therapeutic Goods Administration (TGA) that allows it to market its products in Australia. Innercool has used distributorship arrangements to commence sales efforts in Australia and Europe and has opened accounts at some of the country s premier hospitals.

Table of Contents

Intellectual Property

As part of our acquisition of Schering s portfolio of cardiovascular growth factor therapeutic assets, pursuant to a Technology Transfer Agreement entered into between Cardium and Schering, we acquired from Schering a portfolio of methods and compositions directed at the treatment of cardiovascular diseases. We also have exclusive licenses to methods for introducing DNA to the heart and for improving heart muscle function, as well as to various biologics. Our resulting portfolio of cardiovascular product candidates and associated intellectual property include methods and genes applicable to the treatment of heart diseases, the promotion of healing, and the treatment of peripheral vascular disease. In March 2006, we also acquired a portfolio of intellectual property related to devices and methods for endovascular temperature control therapy, in connection with our acquisition of the assets of Innercool Therapies. In August 2006, we acquired the rights to various technologies and products now part of TRC including Excellarate. There can be no assurance that our intellectual property assets will be sufficient to protect our commercialization opportunities, nor that our planned commercialization activities will not infringe any intellectual property rights held or developed by third parties.

Employees

As of December 31, 2008 we employed 43 full-time employees. We do not expect to hire additional employees during the next 12 months. Our employees are not represented by a collective bargaining agreement and we have not experienced any work stoppages as a result of labor disputes. We believe our relationship with our employees is good. We also rely on various consultants and advisors to provide services to us.

Available Information

Our website address is www.cardiumthx.com. We make available, free of charge, through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file or furnish such reports to the SEC.

For additional financial information, including financial information about our business, please see the consolidated financial statements and accompanying notes to the consolidated financial statements included under Item 8 of this report.

ITEM 1A. RISK FACTORS

You should carefully review and consider the risks described below, as well as the other information in this report and in other reports and documents we file with the SEC when evaluating our business and future prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, not presently known to us, or that we currently see as immaterial, may also occur. If any of the following risks or any additional risks and uncertainties actually occur, our business could be materially harmed, and our financial condition, results of operations and future growth prospects could be materially and adversely affected. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our stock. You should not draw any inference as to the magnitude of any particular risk from its position in the following discussion.

Risks Related to Our Business and Industry

We are a development stage company. We have incurred losses since our inception in December 2003 and expect to incur significant net losses in the foreseeable future and may never become profitable.

We have sustained operating losses to date and will likely continue to sustain losses as we seek to develop our products and product candidates . We expect these losses to be substantial because our product development and other costs, including significant amounts we expect to spend on development activities and clinical trials for

Table of Contents

Excellarate and other product candidates, cannot be offset by our limited revenues during our development stage. As of December 31, 2008, our accumulated deficit was approximately $74 million, and our cash and cash equivalents were approximately $1 million. To date, we have generated limited revenues, consisting of revenues from sales of our InnerCool Celsius Control System, RapidBlue and CoolBlue systems, and associated disposables, grant revenue, as well as interest income. A large portion of our expenses are fixed, including expenses related to facilities, equipment, contractual commitments and personnel. As a result, we expect our net losses from operations to continue for at least the next five years. Our ability to generate additional revenues and potential to become profitable will depend largely on our ability, alone or with potential collaborators, to efficiently and successfully complete the development of our product candidates, successfully complete pre-clinical and clinical tests, obtain necessary regulatory approvals, and manufacture and market our products. There can be no assurance that any such events will occur or that we will ever become profitable. Even if we do achieve profitability, we cannot predict the level of such profitability. If we sustain losses over an extended period of time, we may be unable to continue our business.

Our business prospects are difficult to evaluate because we are a development stage company and are developing complex and novel medical products.

Since we have a relatively short operating history and our product candidates rely on complex technologies, it may be difficult for you to assess our growth, monetization and earnings potential. We have faced and it is likely we will continue to face many of the difficulties new technology companies often face. These include, among others: limited financial resources; developing, testing and marketing new products for which a market is not yet established and may never become established; challenges related to the development, approval and acceptance of a new technology or product; delays in reaching our goals; lack of substantial revenues and cash flow; high product development costs; competition from larger, more established companies; and difficulty recruiting qualified employees for management and other positions. We will likely face these and other difficulties in the future, some of which may be beyond our control. If we are unable to successfully address these difficulties as they arise, our future growth and earnings will be negatively affected. We cannot be certain that our business strategies will be successful or that we will successfully address any problems that may arise.

We will need substantial additional capital to develop our products and for our future operations in the near term. If we are unable to obtain such funds when needed, we may have to delay, scale back or terminate our product development or our business.

Conducting the costly and time consuming research, pre-clinical and clinical testing necessary to obtain regulatory approvals and bring our products to market will require a commitment of substantial funds in excess of our current capital. Our future capital requirements will depend on many factors, including, among others: the progress of our current and new product development programs; the progress, scope and results of our pre-clinical and clinical testing; the time and cost involved in obtaining regulatory approvals; the cost of manufacturing our products and product candidates; the cost of prosecuting, enforcing and defending against patent claims and other intellectual property rights; competing technological and market developments; and our ability and costs to establish and maintain collaborative and other arrangements with third parties to assist in potentially bringing our products to market and/or to monetize the economic value of our product portfolio. We expect we will need to raise additional funds within the next four months. The audit opinion accompanying our consolidated financial statements for the year ended December 31, 2008, included under Item 8 of this report, includes an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern

We will need to raise substantial additional capital to fund our future operations. We cannot be certain that additional financing will be available on acceptable terms, or at all. In recent years, it has been difficult for companies to raise capital due to a variety of factors. To the extent we raise additional capital through the sale of equity securities or we issue securities in connection with another transaction, the ownership position of existing stockholders could be substantially diluted.Anti-dilution adjustments to our securities currently outstanding would cause further dilution. If additional funds are raised through the issuance of preferred stock or debt

Table of Contents

securities, these securities are likely to have rights, preferences and privileges senior to our common stock and may involve significant fees, interest expense, restrictive covenants and the granting of security interests in our assets. Fluctuating interest rates could also increase the costs of any debt financing we may obtain. Raising capital through a licensing or other transaction involving our intellectual property could require us to relinquish valuable intellectual property rights and thereby sacrifice long term value for short-term liquidity.

Our failure to successfully address ongoing liquidity requirements would have a substantially negative impact on our business. If we are unable to obtain additional capital on acceptable terms when needed, we may need to take actions that adversely affect our business, our stock price and our ability to achieve cash flow in the future, including possibly surrendering our rights to some technologies or product opportunities, delaying our clinical trials or curtailing or ceasing operations.

Our debt limits our ability to fund general corporate requirements, limits our flexibility in responding to competitive developments and increases our vulnerability to adverse economic and industry conditions.

The indebtedness we have incurred could have important adverse consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations;

reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

)

(3,740
)

(8,786
)

(9,697
)

Other (expense) income:

Other expense

(12
)

(15
)

(8
)

(22
)
Interest income

5

1

8

4

Interest expense

(1,132
)

(1,064
)

(3,171
)

(3,201
)

Other expense, net

(1,139
)

(1,078
)

(3,171
)

(3,219
)

Loss before income taxes

(2,262
)

(4,818
)

(11,957
)

(12,916

)
Income tax expense

(8
)

(4
)

(22
)

(26
)

Net loss

$
(2,270
)

$
(4,822
)

$
(11,979
)

$
(12,942
)

Net loss per share of common and Class B Stock:

Net loss per share-basic

$
(0.08
)

$
(0.22
)

$
(0.46
)

$
(0.58
)
Net loss per share-diluted

$
(0.08
)

$
(0.22
)

$
(0.46
)

$
(0.58
)
Dividends declared and paid per share of common and Class B Stock

$
0.01

$
0.05

$
0.03

$
0.23

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Baltic Trading Limited
Condensed Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2013 and 2012
(U.S. Dollars in Thousands, Except for Share and Per Share Data)
(Unaudited)

	Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance — January 1, 2013	$ 173	$ 57	$ 277,249	$ (16,817)	$ 260,662
Net loss				(11,979)	(11,979)
Cash dividends paid ($0.03 per share)			(756)		(756)
Issuance of 20,219,217 shares of common stock	202		80,839		81,041
Issuance of 404,383 shares of Class B stock		4	(4)		—
Issuance of 59,680 shares of nonvested common stock	1		(1)		—
Nonvested stock amortization			1,156		1,156
Balance —September 30, 2013	$ 376	$ 61	$ 358,483	$ (28,796)	$ 330,124

	Common Stock Par Value	Class B Stock Par Value	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
Balance — January 1, 2012	$ 170	$ 57	$ 280,923	$ 453	$ 281,603
Net loss				(12,942)	(12,942)
Cash dividends paid ($0.23 per share)			(5,221)		(5,221)
Issuance of 12,500 shares of nonvested common stock	—		—		—
Nonvested stock amortization			1,377		1,377
Balance — September 30, 2012	$ 170	$ 57	$ 277,079	$ (12,489)	$ 264,817

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Baltic Trading Limited
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012
(U.S. Dollars in Thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	$(11,979)	$(12,942)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	11,172	11,090
Amortization of deferred financing costs	411	350
Amortization of nonvested stock compensation expense	1,156	1,377
Change in assets and liabilities:		
(Increase) decrease in due from charterers	(3,022)	1,058
Increase in prepaid expenses and other current assets	(424)	(708)
Increase (decrease) in accounts payable and accrued expenses	25	(157)
Increase (decrease) in due to Parent	32	(30)
(Decrease) increase in deferred revenue	(33)	149
Net cash (used in) provided by operating activities	(2,662)	187
Cash flows from investing activities:		
Purchase of vessels	(41,447)	—
Purchase of fixed assets	(123)	(5)
Net cash used in investing activities	(41,570)	(5)
Cash flows from financing activities:		
Proceeds from the 2010 Credit Facility	1,000	—
Proceeds from the 2013 Credit Facility	22,000	—
Proceeds from issuance of common stock	81,700	—
Payment of common stock issuance costs	(379)	—
Payment of deferred financing costs	(696)	—
Cash dividends paid	(756)	(5,221)
Net cash provided by (used in) financing activities	102,869	(5,221)
Net increase (decrease) in cash and cash equivalents	58,637	(5,039)
Cash and cash equivalents at beginning of period	3,280	8,300
Cash and cash equivalents at end of period	$61,917	$3,261

See accompanying notes to condensed consolidated financial statements.
4

Table of Contents
Baltic Trading Limited
Notes to Condensed Consolidated Financial Statements (unaudited)
(U.S. Dollars in Thousands, Except Per Share and Share Data)

1 - GENERAL INFORMATION

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

At September 30, 2013, the Company was the sole owner of all of the outstanding shares of the following ship-owning subsidiaries as set forth below:

Wholly Owned Subsidiaries	Vessels	Dwt	Delivery Date	Year Built
Baltic Leopard Limited	Baltic Leopard	53,447	April 8, 2010	2009
Baltic Panther Limited	Baltic Panther	53,351	April 29, 2010	2009
Baltic Cougar Limited	Baltic Cougar	53,432	May 28, 2010	2009
Baltic Jaguar Limited	Baltic Jaguar	53,474	May 14, 2010	2009
Baltic Bear Limited	Baltic Bear	177,717	May 14, 2010	2010
Baltic Wolf Limited	Baltic Wolf	177,752	October 14, 2010	2010
Baltic Wind Limited	Baltic Wind	34,409	August 4, 2010	2009
Baltic Cove Limited	Baltic Cove	34,403	August 23, 2010	2010
Baltic Breeze Limited	Baltic Breeze	34,386	October 12, 2010	2010
Baltic Fox Limited	Baltic Fox	31,883	September 6, 2013	2010
Baltic Hare Limited	Baltic Hare	31,887	September 5, 2013	2009
Baltic Lion Limited	Baltic Lion	179,185	Q4 2013 (1)	2012
Baltic Tiger Limited	Baltic Tiger	179,185	Q4 2013 (1)	2011

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

On May 28, 2013, the Company closed an equity offering of 6,419,217 shares of common stock at an offering price of $3.60 per share. The Company received net proceeds of $21,560 after deducting underwriters' fees and expenses. On September 25, 2013, the Company closed an equity offering of 13,800,000 shares of common stock at an offering price of $4.60 per share. The Company received net proceeds of $59,481 after deducting underwriters' fees and expenses. Pursuant to the subscription agreement between the Company and Genco, for so long as Genco directly or indirectly holds at least 10% of the aggregate number of outstanding shares of the Company's common stock and Class B stock, Genco will be entitled to receive at no cost an additional number of shares of Class B stock equal to 2% of the number of common shares issued, other than shares issued under the Company's 2010 Equity Incentive Plan. As a result of the equity offerings on May 28, 2013 and September 25, 2013, Genco was issued 128,383 and 276,000 shares of Class B stock, respectively, which represents 2% of the number of common shares issued.

As of September 30, 2013 and December 31, 2012, Genco Shipping & Trading Limited's ("Genco" or "Parent") ownership of 6,103,471 and 5,699,088 shares, respectively, of the Company's Class B stock represented a 13.97% and 24.78% ownership interest in the Company, respectively, and 70.90% and 83.17% of the aggregate voting power of the Company's outstanding shares of voting stock, respectively. Pursuant to an amendment to Genco's $1.4 billion credit facility entered into on August 1, 2012, all of the Company's Class B stock is pledged as security for Genco's

obligations under such facility.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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, 2012 (the "2012 10-K"). The results of operations for the three and nine month periods ended September 30, 2013 and 2012 are not necessarily indicative of the operating results for the full year.

Vessels, net

Vessels, net is stated at cost less accumulated depreciation. Included in vessel costs are acquisition costs directly attributable to the acquisition of a vessel and expenditures made to prepare the vessel for its initial voyage. The Company also capitalizes interest costs for a vessel under construction as a cost which is directly attributable to the acquisition of a vessel. Vessels are depreciated on a straight-line basis over their estimated useful lives, determined to be 25 years from the date of initial delivery from the shipyard. Depreciation expense for vessels for the three months ended September 30, 2013 and 2012 was $3,844 and $3,720, respectively. Depreciation expense for vessels for the nine months ended September 30, 2013 and 2012 was $11,163 and $11,079, respectively.

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

Income taxes

The Company is incorporated in the Marshall Islands. Pursuant to the income tax laws of the Marshall Islands, the Company is not subject to Marshall Islands income tax. During the three months ended September 30, 2013 and 2012, the Company had United States operations which resulted in United States source income of $420 and $200, respectively. The Company's estimated United States income tax expense for the three months ended September 30, 2013 and 2012 was $8 and $4, respectively. Additionally, during the nine months ended September 30, 2013 and 2012, the Company had United States operations which resulted in United States source income of $1,059 and $1,321, respectively. The Company's estimated United States income tax expense for the nine months ended September 30, 2013 and 2012 was $22 and $26, respectively.

Deferred revenue

Deferred revenue primarily relates to cash received from charterers prior to it being earned. These amounts are recognized as income when earned. Additionally, deferred revenue includes estimated customer claims mainly due to time charter performance issues. As of September 30, 2013 and December 31, 2012, the Company had an accrual of $72 and $7, respectively, related to these estimated customer claims.

Voyage expense recognition

In spot market-related time charters, time charters and pool agreements, operating costs including crews, maintenance and insurance are typically paid by the owner of the vessel and specified voyage costs such as fuel and port charges are paid by the charterer. There are certain other non-specified voyage expenses such as commissions which are typically borne by the Company. At the inception of a time charter, the Company records the difference between the cost of bunker fuel delivered by the terminating charterer and the bunker fuel sold to the new charterer as a gain or loss within voyage expenses. These differences in bunkers resulted in net losses of $87 and $119 during the three months ended September 30, 2013 and 2012, respectively, and $79 and $45 during the nine months ended September 30, 2013 and 2012, respectively. Additionally, voyage expenses include the cost of bunkers consumed during short-term time charters pursuant to the terms of the time charter agreement.

Table of Contents

3 - CASH FLOW INFORMATION

For the nine months ended September 30, 2013, 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 $69 for the purchase of vessels and $33 for the purchase of fixed assets. For the nine months ended September 30, 2013, the Company had non-cash financing activities not included in the Condensed Consolidated Statement of Cash Flows for items included in accounts payable and accrued expenses of $123 for the payment of deferred financing costs and $280 for the payment of common stock issuance costs. For the nine months ended September 30, 2013, 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 $36 for the purchase of fixed assets.

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

During the nine months ended September 30, 2013 and 2012, cash paid for interest was $2,700 and $2,843 respectively.

During the nine months ended September 30, 2013 and 2012, cash paid for estimated income taxes was $22 and $22, respectively.

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

On May 17, 2012, the Company made grants of nonvested common stock in the amount of 12,500 shares in the aggregate to directors of the Company. The fair value of such nonvested stock was $48. The shares vested on May 16, 2013.

4 - VESSEL ACQUISITIONS

On July 2, 2013, the Company entered into agreements to purchase two Handysize drybulk vessels from subsidiaries of Clipper Group for an aggregate purchase price of $41,000. The Baltic Hare, a 2009 built Handysize vessel, was delivered on September 5, 2013 and the Baltic Fox, a 2010 built Handysize vessel, was delivered on September 6, 2013. The Company financed the vessel purchases with proceeds from its May 28, 2013 common stock offering and borrowings under its 2013 Credit Facility entered into on August 30, 2013. Refer to Note 7 – Debt below for further information regarding the 2013 Credit Facility.

Refer to Note 1 — General Information for a listing of the vessel delivery dates for the vessels in the Company's fleet. Additionally, refer to Note 17 – Subsequent Events regarding the agreements entered into by the Company on October 31, 2013 to purchase two additional Capesize drybulk vessels.

5 - NET LOSS PER COMMON AND CLASS B SHARE

The computation of net loss per share of common stock and Class B shares is in accordance with the Accounting Standards Codification ("ASC") 260 — "Earnings Per Share" ("ASC 260"), using the two-class method. Under these provisions, basic net loss per share is computed using the weighted-average number of common shares and Class B shares outstanding during the year, except that it does not include nonvested stock awards subject to repurchase or cancellation. Diluted net loss per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of nonvested stock awards (see Note 14 — Nonvested Stock Awards) for the common shares, for which the assumed proceeds upon vesting

are deemed to be the amount of compensation cost attributable to future services and not yet recognized using the treasury stock method, to the extent dilutive. Of the 557,429 nonvested shares outstanding at September 30, 2013 (see Note 14 — Nonvested Stock Awards), all are anti-dilutive. The computation of the diluted net loss per share of common stock assumes the conversion of Class B shares, while the diluted net loss per share of Class B stock does not assume the conversion of those shares.

Table of Contents

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

	For the Three Months Ended September 30, 2013	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$(1,827)	$(443)
Denominator:		
Weighted-average shares outstanding, basic	24,122,467	5,845,471
Basic net loss per share	$(0.08)	$(0.08)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$(1,827)	$(443)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(501)	—
Reallocation of dividends paid as a result of conversion of Class B to common shares	58	—
Allocation of loss	$(2,270)	$(443)
Denominator:		
Weighted-average shares outstanding used in basic computation	24,122,467	5,845,471
Add:		
Conversion of Class B to common shares	5,845,471	—
Weighted-average shares outstanding, diluted	29,967,938	5,845,471
Diluted net loss per share	$(0.08)	$(0.08)

Table of Contents

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

	For the Nine Months Ended September 30, 2013	
	Common	Class B
Basic net loss per share:		
Numerator:		
Allocation of loss	$(9,300)	$(2,679)
Denominator:		
Weighted-average shares outstanding, basic	20,013,385	5,764,408
Basic net loss per share	$(0.46)	$(0.46)
Diluted net loss per share:		
Numerator:		
Allocation of loss	$(9,300)	$(2,679)
Reallocation of undistributed loss as a result of conversion of Class B to common shares	(2,851)	—
Reallocation of dividends paid as a result of conversion of Class B to common shares	172	—
Allocation of loss	$(11,979)	$(2,679)
Denominator:		

Weighted-average shares outstanding used in basic computation	20,013,385	5,764,408
Add:		
Conversion of Class B to common shares	5,764,408	—
Weighted-average shares outstanding, diluted	25,777,793	5,764,408
Diluted net loss per share	$(0.46)	$(0.46)

Table of Contents

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

6 - 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 the nine months ended September 30, 2013 and 2012, the Company incurred legal services aggregating $20 and $0, respectively, from Constantine Georgiopoulos, the father of Peter C. Georgiopoulos, Chairman of the Board. At September 30, 2013 and December 31, 2012, $20 and $0, respectively, was outstanding to Constantine Georgiopoulos.

During 2010, the Company entered into an agreement with Aegean Marine Petroleum Network, Inc. (“Aegean”) to purchase lubricating oils for certain vessels in the Company’s fleet. Peter C. Georgiopoulos, Chairman of the Board of the Company, is also the Chairman of the Board of Aegean. During the nine months ended September 30, 2013 and 2012, Aegean supplied lubricating oils to the Company’s vessels aggregating $323 and $458, respectively. At September 30, 2013 and December 31, 2012, $35 and $83 remained outstanding to Aegean, respectively.

During the nine months ended September 30, 2013 and 2012, the Company incurred other expenses totaling $0 and $1, respectively, reimbursable to General Maritime Corporation (“GMC”), where the Company’s Chairman, Peter C. Georgiopoulos, also serves as Chairman of the Board of GMC. At September 30, 2013 and December 31, 2012, the amount due to GMC from the Company was $0.

The Company receives internal audit services from employees of Genco, the Company's Parent. For the nine months ended September 30, 2013 and 2012, the Company incurred internal audit service fees of $23 and $30, respectively, which are reimbursable to Genco pursuant to the Management Agreement (Refer to Note 16 — Commitments and Contingencies for further information regarding the Management Agreement). At September 30, 2013 and December 31, 2012, the amount due to Genco from the Company was $7 and $18, respectively, for such services and is included in due to Parent.

Table of Contents

During the nine months ended September 30, 2013 and 2012, Genco, the Company's parent, incurred costs of $106 and $22 on the Company's behalf to be reimbursed to Genco pursuant to the Management Agreement. At September 30, 2013, the amount due to Genco from the Company was $44. At December 31, 2012, the amount due to the Company from Genco was $7 and was a reduction in due to Parent.

Genco also provides the Company with commercial, technical, administrative and strategic services pursuant to the Management Agreement. During the nine months ended September 30, 2013 and 2012, the Company incurred costs of $2,563 and $2,109 pursuant to the Management Agreement. Of the total costs incurred during the nine months ended September 30, 2013, $410 was related to the 1% purchase fee and was capitalized as part of the vessel assets. At September 30, 2013, the amount due to Genco of $51 consisted of commercial service fees and is included in due to Parent. At December 31, 2012, the amount due to Genco of $23 consisted of commercial service fees and is included in due to Parent.

7 - DEBT

2010 Credit Facility

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"). An amendment to the 2010 Credit Facility was entered into by the Company effective November 30, 2010. Among other things, this amendment increased the commitment amount of the 2010 Credit Facility from $100,000 to $150,000. An additional amendment to the 2010 Credit Facility was entered into by the Company effective August 29, 2013 (the "August 2013 Amendment"). Among other things, the August 2013 Amendment implemented the following modifications to the 2010 Credit Facility:

- The requirement that certain additional vessels acquired by the Company be mortgaged as collateral under the 2010 Credit Facility was eliminated.

- Restrictions on the incurrence of indebtedness by the Company and its subsidiaries were amended to apply only to those subsidiaries acting as guarantors under the 2010 Credit Facility.

- The total commitment under this facility was reduced to $110,000 and will be further reduced in three consecutive semi-annual reductions of $5,000 commencing on May 30, 2015.

- Borrowings bear interest at an applicable margin over LIBOR of 3.00% per annum if the ratio of the maximum facility amount of the aggregate appraised value of vessels mortgaged under the facility is 55% or less, measured quarterly; otherwise, the applicable margin is 3.35% per annum.

- Financial covenants corresponding to the liquidity and leverage under the 2013 Credit Facility (as defined below) have been incorporated into the 2010 Credit Facility.

As of September 30, 2013, $7,750 remained available under the 2010 Credit Facility as the total commitment was reduced to $110,000 on August 29, 2013. The total available working capital borrowings of $25,000 are subject to the total remaining availability under the 2010 Baltic Trading Credit Facility; therefore, only $7,750 is available for working capital purposes as of September 30, 2013.

As of September 30, 2013, the Company believes it is in compliance with all of the financial covenants under the 2010 Credit Facility, as amended.

The following table sets forth the repayment of the outstanding debt of $102,250 at September 30, 2013 under the 2010 Credit Facility:

Period Ending December 31,	Total
2013 (October 1, 2013 — December 31, 2013)	$—
2014	—
2015	2,250
2016	100,000
Total debt	$102,250

Table of Contents

2013 Credit Facility

On August 30, 2013, Baltic Hare Limited and Baltic Fox Limited wholly-owned subsidiaries of the Company, entered into a secured loan agreement with DVB Bank SE for a term loan facility of up to $22,000 (the "2013 Credit Facility"). Amounts borrowed and repaid under the 2013 Credit Facility may not be reborrowed. This facility has a maturity date of the sixth anniversary of the drawdown date for borrowings for the second vessel to be purchased, or September 4, 2019. Borrowings under the 2013 Credit Facility bear interest at the three-month LIBOR rate plus an applicable margin of 3.35% per annum. A commitment fee of 1.00% is payable on the unused daily portion of the credit facility, which began accruing on August 30, 2013 and ended on September 4, 2013, the date which the entire $22,000 was borrowed. Borrowings are to be repaid in 23 quarterly installments of $375 each commencing three months after the last vessel delivery date, or December 4, 2013, and a final payment of $13,375 due on the maturity date. Amounts repaid under the 2013 Credit Facility may not be reborrowed.

Borrowings under the 2013 Credit Facility are secured by liens on the Company's vessels purchased with borrowings under the facility, namely the Baltic Fox and the Baltic Hare, and other related assets.Under a Guarantee and Indemnity entered into concurrently with the 2013 Credit Facility, the Company agreed to guarantee the obligations of its subsidiaries under the 2013 Credit Facility.

The 2013 Credit Facility also requires the Company, Baltic Hare Limited and Baltic Fox Limited to comply with a number of covenants, including financial covenants related to liquidity, leverage, consolidated net worth, and collateral maintenance; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; limitations on changes in the manager of the Company's vessels; limitations on changes to the Management Agreement with Genco; limitations on liens and additional indebtedness; prohibitions on paying dividends if an event of default has occurred or would occur as a result of payment of a dividend; restrictions on transactions with affiliates; and other customary covenants. The liquidity covenants under the facility require Baltic Hare Limited and Baltic Fox Limited to maintain $500 in its earnings account and the Company to maintain $750 per vessel in its fleet in cash or cash equivalents plus undrawn working capital lines of credit. The facility's leverage covenant requires that the ratio of Baltic Trading's total financial indebtedness to the value of its total assets as adjusted based on vessel appraisals not exceed 70%. The facility also requires that the Company maintains a minimum consolidated net worth of $232,796 plus fifty percent of the value of the Company's equity offering completed on or after May 28, 2013. The facility's collateral maintenance covenant requires that the minimum fair market value of vessels mortgaged under the facility be 130% of the amount outstanding under the facility through August 30, 2016 and 135% of such amount thereafter.

On September 4, 2013, the Company made two drawdowns of $10,730 and $11,270 for the Baltic Hare and the Baltic Fox, respectively. As of September 30, 2013, the Company has utilized its maximum borrowing capacity of $22,000 and there was no further availability.

As of September 30, 2013, the Company believes it is in compliance with all of the financial covenants under the 2013 Baltic Trading Credit Facility.

The following table sets forth the repayment of the outstanding debt of $22,000 at September 30, 2013 under the 2013 Credit Facility:

Period Ending December 31,	Total
2013 (October 1, 2013 — December 31, 2013)	$375
2014	1,500
2015	1,500

2016	1,500
2017	1,500
Thereafter	15,625
Total debt	$22,000

Interest rates

The following table sets forth the effective interest rate associated with the interest expense for the 2010 Credit Facility and the 2013 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:

Table of Contents

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Effective Interest Rate (excluding impact of unused commitment fees)	3.21%	3.24 %	3.21%	3.25 %
Range of Interest Rates (excluding impact of unused commitment fees)	3.18% to 3.61%	3.22% to 3.25%	3.18% to 3.61%	3.22% to 3.30%

8 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values and carrying values of the Company's financial instruments at September 30, 2013 and December 31, 2012 which are required to be disclosed at fair value, but not recorded at fair value, are as follows:

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$61,917	$61,917	$3,280	$3,280
Floating rate debt	124,250	124,250	101,250	101,250

The fair value of floating rate debt under the 2010 Credit Facility and the 2013 Credit Facility is based on rates that the Company has recently obtained pursuant to the amendment to the existing 2010 Credit Facility on August 29, 2013, as well as per the debt agreement for the 2013 Credit Facility that was effective on August 30, 2013. Refer to Note 7 – Debt for further information. 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 these floating rate loan. The carrying amounts of the Company's other financial instruments at September 30, 2013 and December 31, 2012 (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—Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

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

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

Cash and cash equivalents is considered a Level 1 item as it represents liquid assets with short-term maturities. Floating rate debt is considered to be a Level 2 item as the Company considers the estimate of rates it could obtain for similar debt. The Company did not have any Level 3 financial assets or liabilities during the nine months ended

September 30, 2013 and 2012.

9 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	September 30, 2013	December 31, 2012
Lubricant inventory, fuel oil and diesel oil inventory and other stores	$ 1,643	$ 1,767
Prepaid items	1,054	861
Insurance receivable	66	126
Other	553	138
Total	$ 3,316	$ 2,892

Table of Contents

10 - DEFERRED FINANCING COSTS

Deferred financing costs include fees, commissions and legal expenses associated with securing loan facilities and amending existing loan facilities. Total net deferred financing costs consist of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
2010 Credit Facility	$ 3,339	$ 3,027
2013 Credit Facility	507	—
Total deferred financing costs	3,846	3,027
Less: accumulated amortization	1,615	1,204
Total	$ 2,231	$ 1,823

Amortization expense of deferred financing costs for the three months ended September 30, 2013 and 2012 was $180 and $117, respectively. Amortization expense of deferred financing costs for the nine months ended September 30, 2013 and 2012 was $411 and $350, respectively.

11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	September 30, 2013	December 31, 2012
Accounts payable	$ 460	$ 430
Accrued vessel operating expenses	1,813	1,622
Accrued general and administrative expenses	420	111
Total	$ 2,693	$ 2,163

12 - FIXED ASSETS

Fixed assets consist of the following:

	September 30, 2013	December 31, 2012
Fixed assets, at cost:		
Computer equipment	$ 43	$ 43
Vessel equipment	196	5
Total cost	239	48
Less: accumulated depreciation	44	36
Total	$ 195	$ 12

Depreciation expense for fixed assets for the three months ended September 30, 2013 and 2012 was $3 and $4, respectively. Depreciation expense for fixed assets for the nine months ended September 30, 2013 and 2012 was $8 and $12, respectively.

13 - REVENUE FROM SPOT MARKET-RELATED TIME CHARTERS

Total revenue earned on spot market-related time charters, short-term time charters and in vessel pools, as well as the sale of bunker consumed during short-term time charters, during the three months ended September 30, 2013 and 2012 was $9,102 and $6,291, respectively, and for the nine months ended September 30, 2013 and 2012 was $21,467 and $20,188, respectively. Future minimum time charter revenue attributable to the Baltic Wind, which is committed to a non-cancelable short-term time charter, is expected to be $351 for the remainder of 2013 and $201 during 2014. Future minimum time charter revenue for the Company's remaining vessels cannot be estimated as the vessels are currently on spot market-related time charters or in vessel pools, and future spot rates cannot be estimated. The spot market-related time charters and pool arrangements that the Company's vessels are currently employed on have estimated expiration dates that range from January 2014 to September 2015.

14 - NONVESTED STOCK AWARDS

Table of Contents

The following table presents a summary of the Company's nonvested stock awards for the nine months ended September 30, 2013:

	Number of Shares	Weighted Average Grant Date Price
Outstanding at January 1, 2013	664,249	$ 7.70
Granted	59,680	3.77
Vested	(166,500)	10.76
Forfeited	—	—
Outstanding at September 30, 2013	557,429	$ 6.37

The total fair value of shares that vested under the Plan during the nine months ended September 30, 2013 and 2012 was $643 and $505, respectively. The total fair value is calculated as the number of shares vested during the period multiplied by the fair value on the vesting date.

For the three and nine months ended September 30, 2013 and 2012, the Company recognized nonvested stock amortization expense for the Plan, which is included in general, administrative and technical management fees, as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
General, administrative and technical management fees	$341	$403	$1,156	$1,377

The Company is amortizing these grants over the applicable vesting periods, net of anticipated forfeitures. As of September 30, 2013, unrecognized future compensation cost of $964 related to nonvested stock will be recognized over a weighted-average period of 1.97 years.

15 - 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.

16 - 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 if Genco terminates the agreement for the Company's material

breach or change of control, the Company must make a termination payment to Genco in a single lump sum within 30 days of the termination date. The termination payment is generally calculated as five times the average annual management fees payable to Genco for the last five completed years of the term of the Management Agreement, or such lesser number of years as may have been completed at the time of termination. As of September 30, 2013, the termination payment that would be due to Genco is approximately $19,816. Refer to Note 6 — Related Party Transactions for any costs incurred during the nine months ended September 30, 2013 and 2012 pursuant to the Management Agreement.

17 - SUBSEQUENT EVENTS

On October 31, 2013, the Company declared a dividend of $0.02 per share to be paid on or about November 22, 2013 to shareholders of record as of November 18, 2013. The aggregate amount of the dividend is expected to be approximately $874, which the Company anticipates will be funded from cash on hand at the time payment is to be made.

On October 31, 2013, the Company entered into agreements to purchase a 2012 built 179,185 dwt Capesize drybulk vessel and a 2011 built 179,185 dwt Capesize drybulk vessel from affiliates of SK Shipping Co. Ltd. for an aggregate purchase price of $103,000. These vessels are to be renamed the Baltic Lion and the Baltic Tiger, respectively. The purchases are subject to completion of customary additional documentation and closing conditions. The vessels are expected to be delivered to the Company by the end of

Table of Contents

the fourth quarter of 2013. The Company plans to finance this acquisition in part through the proceeds from its common stock offering completed on September 25, 2013 and in part through commercial bank debt financing. The Company is in negotiations to obtain a commitment for commercial bank financing from a global lending institution.

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 and terms of similar meaning in connection with a discussion of potential future events, circumstances or future operating or financial performance. These forward-looking statements are based on 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 amount of offhire time needed to complete repairs on vessels and the timing and amount of any reimbursement by our insurance carriers for insurance claims, including offhire days; (xii) our acquisition or disposition of vessels; (xiii) our ability to leverage Genco's relationships in the shipping industry; (xiv) the completion of definitive documentation with respect to charters; (xv) charterers' compliance with the terms of their charters in the current market environment; (xvi) the fulfillment of the closing conditions under, or the execution of additional documentation for, the Company's agreements to acquire vessels; and (xvii) completion of definitive documentation for and funding of financing for the vessel acquisitions on acceptable terms; 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, 2012 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. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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 five Handysize vessels with an aggregate carrying capacity of approximately 736,000 dwt and the average age of our fleet is approximately 3.9 years, as compared to the average age for the world fleet of approximately 10 years for the drybulk shipping segments in which

we compete. Our fleet contains three groups of sister ships, which are vessels of virtually identical sizes and specifications. We believe that maintaining a fleet that includes sister ships reduces costs by creating economies of scale in the maintenance, supply and crewing of our vessels.

On July 2, 2013, we entered into agreements to purchase a 2010-built, 31,883 dwt Handysize drybulk vessel and a 2009-built, 31,887 dwt Handysize drybulk vessel from subsidiaries of Clipper Group for an aggregate purchase price of $41,000 renamed the Baltic Fox and the Baltic Hare, respectively. The Baltic Fox and Baltic Hare were delivered on September 6, 2013 and September 5, 2013, respectively. We funded a portion of the purchase price of the vessels using proceeds from our registered follow-on common stock offering completed on May 28, 2013. For the remainder of the purchase price, we drew down $22,000 on our secured loan agreement with DVB Bank SE (the “2013 Credit Facility”). Refer to Note 7 – Debt in our condensed consolidated financial statements for further information regarding this credit facility.

Table of Contents

On October 31, 2013, we entered into agreements to purchase a 2012-built 179,185 dwt Capesize drybulk vessel and a 2011-built 179,185 dwt Capesize drybulk vessel from affiliates of SK Shipping Co. Ltd. for an aggregate purchase price of $103,000. These vessels are to be renamed the Baltic Lion and the Baltic Tiger, respectively. The purchases are subject to completion of customary additional documentation and closing conditions. The vessels are expected to be delivered by the end of the fourth quarter of 2013. We plan to finance this acquisition in part through the proceeds from our common stock offering completed on September 25, 2013 and in part through commercial bank debt financing. We are in negotiations to obtain a commitment for commercial bank financing from a global lending institution. We are seeking to raise additional cash through commercial bank debt financing in order to fulfill our payment obligations under the agreements relating to the Capesize vessel acquisitions. There can be no assurance that we will be able to obtain the proposed commercial bank financing or any other financing, or that if we do so, that we will be able to borrow all or any of the amounts committed thereunder. We need to raise additional capital in order to fulfill these obligations. If we breach or do not fully perform our obligations under such agreements, we may forfeit the deposits and other amounts we have paid to the sellers in connection with the Capesize vessel acquisitions, and we may be liable to the sellers for any additional damages resulting from our actions.

We seek to leverage the expertise of Genco and its management to pursue growth opportunities in the drybulk shipping spot market. To pursue these opportunities, we operate a fleet of drybulk ships that transport iron ore, coal, grain, steel products and other drybulk cargoes along worldwide shipping routes. We currently operate all of our vessels on spot market-related time charters, short-term time charters or in pool agreements. We may also consider operating vessels in the spot market directly based on our view of market conditions. We have financed our fleet with equity capital and our 2010 Credit Facility and 2013 Credit Facility. We aim to grow our fleet through timely and selective acquisitions of vessels. We expect to fund acquisitions of additional vessels using equity and debt financing. 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.” We have declared dividends for the past eight quarters even though the application of the formula in our policy would not have resulted in a dividend, although we may not continue to do so.

Refer to page 23 for a table of all vessels that have been or are expected to be 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.

On May 28, 2013, we closed an equity offering of 6,419,217 shares of common stock at an offering price of $3.60 per share. We received net proceeds of $21,560 after deducting underwriters’ fees and expenses. Additionally, on September 25, 2013, we closed an equity offering of 13,800,000 shares of common stock at an offering price of $4.60 per share. We received net proceeds of $59,481 after deducting underwriters’ fees and expenses. Pursuant to the Management Agreement, for so long as Genco directly or indirectly holds at least 10% of the aggregate number of outstanding shares of our common stock and Class B stock, Genco will be entitled to receive at no cost an additional number of shares of Class B stock equal to 2% of the number of common shares issued, other than shares issued under the our 2010 Equity Incentive Plan. As a result of the equity offerings on May 28, 2013 and September 25, 2013, Genco was issued 128,383 and 276,000 shares, respectively, of Class B stock, which represents 2% of the number of common shares issued.

Table of Contents

Factors Affecting Our Results of Operations

We believe that the following table reflects important measures for analyzing trends in our results of operations. The table reflects our ownership days, available days, operating days, fleet utilization, Time Charter Equivalent ("TCE") rates and daily vessel operating expenses for the three and nine months ended September 30, 2013 and 2012.

	For the Three Months Ended September 30,		Increase	
	2013	2012	(Decrease)	% Change
Fleet Data:				
Ownership days (1)				
Capesize	184.0	184.0	—	—
Supramax	368.0	368.0	—	—
Handysize	326.1	276.0	50.1	18.2 %
Total	878.1	828.0	50.1	6.1 %
Available days (2)				
Capesize	184.0	184.0	—	—
Supramax	368.0	368.0	—	—
Handysize	324.0	276.0	48.0	17.4 %
Total	876.0	828.0	48.0	5.8 %
Operating days (3)				
Capesize	184.0	184.0	—	—
Supramax	365.2	361.7	3.5	1.0 %
Handysize	317.8	276.0	41.8	15.1 %
Total	867.0	821.7	45.3	5.5 %
Fleet utilization (4)				
Capesize	100.0 %	100.0%	—	—
Supramax	99.2 %	98.3 %	0.9 %	0.9 %
Handysize	98.1 %	100.0%	(1.9)%	(1.9)%
Fleet average	99.0 %	99.2 %	(0.2)%	(0.2)%
Average Daily Results:				
Time Charter Equivalent (5)				
Capesize	$18,135	$4,701	$ 13,434	285.8 %
Supramax	7,356	6,991	365	5.2 %
Handysize	8,340	9,124	(784)	(8.6)%
Fleet average	9,984	7,193	2,791	38.8 %
Daily vessel operating expenses (6)				
Capesize	$5,227	$5,579	$ (352)	(6.3)%

Supramax	4,933	5,400	(467)	(8.6)%	
Handysize	4,423	4,593	(170)	(3.7)%	
Fleet average	4,805	5,171	(366)	(7.1)%	

Table of Contents

	For the Nine Months Ended September 30,		Increase (Decrease)	% Change
	2013	2012		
Fleet Data:				
Ownership days (1)				
Capesize	546.0	548.0	(2.0)	(0.4)%
Supramax	1,092.0	1,096.0	(4.0)	(0.4)%
Handysize	869.1	822.0	47.1	5.7 %
Total	2,507.1	2,466.0	41.1	1.7 %
Available days (2)				
Capesize	546.0	548.0	(2.0)	(0.4)%
Supramax	1,074.1	1,086.7	(12.6)	(1.2)%
Handysize	867.0	822.0	45.0	5.5 %
Total	2,487.1	2,456.7	30.4	1.2 %
Operating days (3)				
Capesize	546.0	548.0	(2.0)	(0.4)%
Supramax	1,070.9	1,070.9	—	—
Handysize	859.3	820.4	38.9	4.7 %
Total	2,476.2	2,439.3	36.9	1.5 %
Fleet utilization (4)				
Capesize	100.0 %	100.0 %	—	—
Supramax	99.7 %	98.5 %	1.2 %	1.2 %
Handysize	99.1 %	99.8 %	(0.7)%	(0.7)%
Fleet average	99.6 %	99.3 %	0.3 %	0.3 %
Average Daily Results:				
Time Charter Equivalent (5)				
Capesize	$10,056	$5,722	$ 4,334	75.7 %
Supramax	7,242	8,222	(980)	(11.9)%
Handysize	8,015	8,725	(710)	(8.1)%
Fleet average	8,129	7,833	296	3.8 %
Daily vessel operating expenses (6)				
Capesize	$5,381	$5,225	$ 156	3.0 %
Supramax	5,037	5,318	(281)	(5.3)%
Handysize	4,481	4,600	(119)	(2.6)%
Fleet average	4,919	5,058	(139)	(2.7)%

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

Table of Contents

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 September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Voyage revenues (in thousands)	$9,102	$6,291	$21,467	$20,188
Voyage expenses (in thousands)	238	254	977	686
Voyage expenses to Parent (in thousands)	118	82	272	260
	$8,746	$5,955	$20,218	$19,242
Total available days	876.0	828.0	2,487.1	2,456.7
Total TCE rate	$9,984	$7,193	$8,129	$7,833

(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 and nine months ended September 30, 2013 and 2012:

	For the Three Months Ended September 30,			
	2013	2012	Change	% Change
	(U.S. dollars in thousands, except for per share amounts)			
Revenues	$9,102	$6,291	$2,811	44.7 %
Operating Expenses:				
Voyage expenses	238	254	(16)	(6.3)%
Voyage expenses to Parent	118	82	36	43.9 %
Vessel operating expenses	4,219	4,281	(62)	(1.4)%
General, administrative and technical management fees	1,144	1,069	75	7.0 %
Management fees to Parent	659	621	38	6.1 %
Depreciation	3,847	3,724	123	3.3 %
Total operating expenses	10,225	10,031	194	1.9 %
Operating loss	(1,123)	(3,740)	2,617	(70.0)%
Other expense	(1,139)	(1,078)	(61)	5.7 %
Loss before income taxes	(2,262)	(4,818)	2,556	(53.1)%
Income tax expense	(8)	(4)	(4)	100.0 %
Net loss	$(2,270)	$(4,822)	$2,552	(52.9)%
Net loss per share of common and Class B Stock:				
Net loss per share - basic	$(0.08)	$(0.22)	$0.14	(63.6)%
Net loss per share - diluted	$(0.08)	$(0.22)	$0.14	(63.6)%
Dividends declared and paid per share	$0.01	$0.05	$(0.04)	(80.0)%
EBITDA (1)	$2,712	$(31)	$2,743	(8,848.4)%

Table of Contents

	For the Nine Months Ended September 30,			
	2013	2012	Change	% Change
	(U.S. dollars in thousands, except for per share amounts)			
Revenues	$21,467	$20,188	$1,279	6.3 %
Operating Expenses:				
Voyage expenses	977	686	291	42.4 %
Voyage expenses to Parent	272	260	12	4.6 %
Vessel operating expenses	12,332	12,474	(142)	(1.1)%
General, administrative and technical management fees	3,619	3,525	94	2.7 %
Management fees to Parent	1,881	1,850	31	1.7 %
Depreciation	11,172	11,090	82	0.7 %
Total operating expenses	30,253	29,885	368	1.2 %
Operating loss	(8,786)	(9,697)	911	(9.4)%
Other expense	(3,171)	(3,219)	48	(1.5)%
Loss before income taxes	(11,957)	(12,916)	959	(7.4)%
Income tax expense	(22)	(26)	4	(15.4)%
Net loss	$(11,979)	$(12,942)	$963	(7.4)%
Net loss per share of common and Class B Stock:				
Net loss per share - basic	$(0.46)	$(0.58)	$0.12	(20.7)%
Net loss per share - diluted	$(0.46)	$(0.58)	$0.12	(20.7)%
Dividends declared and paid per share	$0.03	$0.23	$(0.20)	(87.0)%
EBITDA (1)	$2,378	$1,371	$1,007	73.5 %

(1) EBITDA represents net (loss) income plus net interest expense, taxes and depreciation. EBITDA is included because it is used by management and certain investors as a measure of operating performance. EBITDA is used by analysts in the shipping industry as a common performance measure to compare results across peers. Our management uses EBITDA as a performance measure in our consolidated internal financial statements, and it is presented for review at our board meetings. We believe that EBITDA is useful to investors as the shipping industry is capital intensive which often results in significant depreciation and cost of financing. EBITDA presents investors with a measure in addition to net income (loss) to evaluate our performance prior to these costs.

EBITDA is not an item recognized by U.S. GAAP and should not be considered as an alternative to net income (loss), operating income or any other indicator of a company's operating performance required by U.S. GAAP. EBITDA is not a measure of liquidity or cash flows as shown in our consolidated statement of cash flows. The definition of EBITDA used here may not be comparable to that used by other companies. The following table demonstrates our calculation of EBITDA and provides a reconciliation of EBITDA to net loss for each of the periods presented above:

For the Three Months Ended September 30,	For the Nine Months Ended September 30,

	2013	2012	2013	2012
Net loss	$(2,270)	$(4,822)	$(11,979)	$(12,942)
Net interest expense	1,127	1,063	3,163	3,197
Income tax expense	8	4	22	26
Depreciation	3,847	3,724	11,172	11,090
EBITDA (1)	$2,712	$(31)	$2,378	$1,371

Results of Operations

Our revenues consist 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

Table of Contents

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.

The following table reflects the current employment of our current fleet as well as the employment of vessels expected to join our fleet as of November 6, 2013:

Vessel	Year Built	Charterer	Charter Expiration(1)	Employment Structure	Expected Delivery (2)
Capesize Vessels					
Baltic Bear	2010	Swissmarine Services S.A.	February 2015	101.5% of BCI (3)	
Baltic Wolf	2010	Cargill International S.A.	July 2014	100% of BCI (4)	
Baltic Lion	2012	TBD	TBD	TBD	Q4 2013
Baltic Tiger	2011	TBD	TBD	TBD	Q4 2013
Supramax Vessels					
Baltic Leopard	2009	Resource Marine PTE Ltd. (part of the Macquarie group of companies)	February 2014	95% of BSI (5)	
Baltic Panther	2009	Bulkhandling Handymax A/S	May 2014	Spot Pool (6)	
Baltic Jaguar	2009	Resource Marine PTE Ltd. (part of the Macquarie group of companies)	April 2014	95% of BSI (7)	
Baltic Cougar	2009	Bulkhandling Handymax A/S	May 2014	Spot Pool (8)	
Handysize Vessels					
Baltic Wind	2009	Pioneer Navigation Ltd.	January 2014	$ 8,785 (9)	
Baltic Cove	2010	Cargill International S.A.	February 2014	115% of BHSI (10)	
Baltic Breeze	2010	Cargill International S.A.	July 2014	115% of BHSI (10)	
Baltic Fox	2010	Clipper Logger Pool	September 2015	Spot Pool (11)	
Baltic Hare	2009	Clipper Logger Pool	September 2015	Spot Pool (11)	

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

(3) 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 minimum and maximum expiration dates of the time charter are February 1, 2015 and April 15, 2015, respectively.

(4) We have reached an agreement 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 21.5 to 26.5 months.

(5) We have reached an agreement with Resource Marine PTE Ltd. on a spot market-related time charter for a minimum of 18.5 months to a maximum end date of May 30, 2014 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. Hire is 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 to enter the vessel into the Bulkhandling Handymax A/S Pool, a vessel pool trading in the spot market of which Torvald Klaveness acts as the pool manager. The vessel has to remain in the pool for a minimum of six months, after which we can withdraw the vessel with three months' notice. The vessel entered the pool on August 4, 2013.

(7) We have reached an agreement with Resource Marine PTE Ltd. on a spot market-related time charter for a minimum of 20.5 months to a maximum end date of July 11, 2014 based on 95% 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.

(8) We have reached an agreement to enter the vessel into the Bulkhandling Handymax A/S Pool, a vessel pool trading in the spot market of which Torvald Klaveness acts as the pool manager. The vessel has to remain in the pool for a minimum of six months, after which we can withdraw the vessel with three months' notice. The vessel entered the pool on August 6, 2013.

(9) We have reached an agreement with Pioneer Navigation Ltd. on a short term spot market-related time charter for 3.5 to 5.5 months in order to position the vessel for its upcoming drydocking. Hire is paid in arrears net of a 6.25% brokerage commission which includes the 1.25% commission payable to Genco. The vessel delivered to charterers on October 4, 2013.

(10) The rate for each of these spot market-related time charters is based on 115% of the average 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.

(11) We have reached an agreement to enter these vessels into the Clipper Logger Pool, a vessel pool trading in the spot market of which Clipper Group acts as the pool manager. The vessels will remain in the pool for a minimum period of two years.

Three months ended September 30, 2013 and 2012

VOYAGE REVENUES-

Table of Contents

For the three months ended September 30, 2013 and 2012, voyage revenues were $9,102 and $6,291, respectively. The increase in voyage revenues was primarily due to higher spot market rates achieved by our Capesize vessels as well as the increase in the size of our fleet during the third quarter of 2013.

The average TCE rate of our fleet was $9,984 a day for the three months ended September 30, 2013 as compared to $7,193 a day for the three months ended September 30, 2012. The increase was primarily due to higher spot rates achieved by the Capesize vessels in our fleet during the third quarter of 2013 as compared to the third quarter of 2012. Although we believe there still remains excess vessel supply in the market, we believe the declining pace of fleet growth has caused freight rates to be more correlated to increases in cargo demand. We believe that during the third quarter, reduced supply growth in combination with increased shipments of iron ore volumes from Brazil and Australia as a result of higher Chinese steel production contributed to the Baltic Capesize Index reaching its highest point since 2010.

For the three months ended September 30, 2013 and 2012, we had 878.1 and 828.0 ownership days, respectively. The increase was due to the delivery of the Baltic Fox and Baltic Hare during the three months ended September 30, 2013. Fleet utilization decreased to 99.0% during the three months ended September 30, 2013 as compared to 99.2% during the three months ended September 30, 2012 due to additional offhire periods during the third quarter of 2013 for some of our 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. Additionally, voyage expenses include the cost of bunkers consumed during short-term time charters pursuant to the terms of the time charter agreement.

For the three months ended September 30, 2013 and 2012, voyage expenses were $238 and $254, respectively. The decrease is primarily due to a decrease in bunker consumption during the third quarter of 2013 partially offset by an increase in broker commissions as a result of an increase in voyage revenue earned during the third quarter of 2013 as compared to the third quarter of 2012.

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent increased by $36 to $118 during the three months ended September 30, 2013 as compared to $82 during the three months ended September 30, 2012. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The increase was primarily a result of the increase in voyage revenue due to higher spot market rates achieved by our Capesize vessels during the third quarter of 2013.

VESSEL OPERATING EXPENSES-

Vessel operating expenses decreased marginally by $62 to $4,219 during the three months ended September 30, 2013 as compared to $4,281 during the three months ended September 30, 2012 primarily due to the timing of purchases of stores.

Daily vessel operating expenses decreased to $4,805 per vessel per day during the three months ended September 30, 2013 from $5,171 per vessel per day during the three months ended September 30, 2012 primarily due to lower crew related expenses as well as the timing of purchases of stores and spare parts. 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 September 30, 2013 were $595 below the budgeted rate of $5,400 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-
24

Table of Contents

For the three months ended September 30, 2013 and 2012, general, administrative and technical management fees were $1,144 and $1,069, respectively. The increase was primarily due to an increase in professional fees. 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 marginally increased due to the delivery of the Baltic Fox and Baltic Hare during the third quarter of 2013.

MANAGEMENT FEES TO PARENT-

Management fees to Parent for the three months ended September 30, 2013 and 2012 marginally increased to $659 from $621 due to the delivery of the Baltic Fox and Baltic Hare during the three months ended September 30, 2013. This amount represents the technical services fees of $750 per vessel per day payable to Genco pursuant to the Management Agreement.

DEPRECIATION-

Depreciation expense increased to $3,847 during the three months ended September 30, 2013 from $3,724 during the three months ended September 30, 2012 due to the delivery of the Baltic Fox and Baltic Hare during the third quarter of 2013.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For the three months ended September 30, 2013 and 2012, net interest expense was $1,127 and $1,063, respectively. The increase in net interest expense is primarily due to an increase in the amortization of deferred financing costs during the three months ended September 30, 2013 due to the write-off of deferred financing fees associated with the amendment to the 2010 Credit Facility which was effective August 29, 2013 and reduced the total facility amount from $150,000 to $110,000. The increase in net interest expense was also due to interest expense and the amortization of deferred financing fees related to the 2013 Credit Facility which was entered into effective August 30, 2013. The net interest expense during both periods consisted of interest expense and unused commitment fees related to our 2010 Credit Facility, 2013 Credit Facility and the amortization of deferred financing fees associated with these facilities, as well as interest income earned on our cash balances. Refer to Note 7 – Debt in the condensed consolidated financial statements for further information.

INCOME TAX EXPENSE-

During the three months ended September 30, 2013 and 2012, we had United States operations which resulted in United States source income of $420 and $200, respectively, which resulted in income tax expense of $8 and $4, respectively.

Nine months ended September 30, 2013 and 2012

VOYAGE REVENUES-

For the nine months ended September 30, 2013 and 2012, voyage revenues were $21,467 and $20,188, respectively. The increase in voyage revenues was due to higher spot market rates achieved by our Capesize vessels and the increase in the size of our fleet during the nine months ended September 30, 2013.

The average TCE rate of our fleet was $8,129 a day for the nine months ended September 30, 2013 as compared to $7,833 for the nine months ended September 30, 2012. The increase was due to higher spot rates achieved by the Capesize vessels in our fleet during the nine months ended September 30, 2013 as compared to the same period last year.

For the nine months ended September 30, 2013 and 2012, we had 2,507.1 and 2,466.0 ownership days, respectively. The increase in ownership days is due to the delivery of the Baltic Fox and the Baltic Hare during the nine months ended September 30, 2013 offset by a decrease due to an additional day during the nine months ended September 30, 2012 due to the leap year. Fleet utilization increased to 99.6% during the nine months ended September 30, 2013 as compared to 99.3% during the nine months ended September 30, 2012 due to a decrease in available days during the nine months ended September 30, 2013 for some of our Supramax vessels.

VOYAGE EXPENSES-

For the nine months ended September 30, 2013 and 2012, voyage expenses were $977 and $686, respectively. The increase is primarily due to an increase in the cost of bunkers consumed during short-term time charters.

Table of Contents

VOYAGE EXPENSES TO PARENT-

Voyage expenses to Parent increased by $12 to $272 during the nine months ended September 30, 2013 as compared to $260 during the nine months ended September 30, 2012. This amount represents the commercial service fee equal to 1.25% of gross charter revenues generated by each vessel due to Genco pursuant to the Management Agreement. The increase is primarily a result of the increase in voyage revenue due to higher spot market rates achieved by our Capesize vessels during the nine months ended September 30, 2013.

VESSEL OPERATING EXPENSES-

Vessel operating expenses decreased marginally by $142 to $12,332 during the nine months ended September 30, 2013 as compared to $12,474 during the nine months ended September 30, 2012 primarily due to the timing of purchases of stores.

Daily vessel operating expenses decreased to $4,919 per vessel per day during the nine months ended September 30, 2013 from $5,058 per vessel per day during the nine months ended September 30, 2012. The decrease in daily vessel operating expense was mainly due to lower crew related expense and the timing of purchases of stores and spare parts. 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 nine months ended September 30, 2013 were $481 below the budgeted rate of $5,400 per vessel per day.

GENERAL, ADMINISTRATIVE AND TECHNICAL MANAGEMENT FEES-

For the nine months ended September 30, 2013 and 2012, general, administrative and technical management fees marginally increased to $3,619 from $3,525, respectively. The increase was primarily due to an increase in professional fees. 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 marginally increased due to the delivery of the Baltic Fox and Baltic Hare during the third quarter of 2013.

MANAGEMENT FEES TO PARENT-

Management fees to Parent for the nine months ended September 30, 2013 and 2012 marginally increased to $1,881 from $1,850, respectively. The increase was due to the delivery of the Baltic Fox and Baltic Hare during the third quarter of 2013. This amount represents the technical services fees of $750 per vessel per day payable to Genco pursuant to the Management Agreement.

DEPRECIATION-

Depreciation expense increased to $11,172 during the nine months ended September 30, 2013 from $11,090 during the nine months ended September 30, 2012 due to the delivery of the Baltic Fox and Baltic Hare during the third quarter of 2013.

OTHER (EXPENSE) INCOME-

NET INTEREST EXPENSE-

For the nine months ended September 30, 2013 and 2012, net interest expense was $3,163 and $3,197, respectively. The decrease in net interest expenses is primarily due to a decrease in interest expense for the 2010 Credit Facility as a

result of a decrease in LIBOR rates during the nine months ended September 30, 2013 as compared to the same period last year. This decrease was partially offset by an increase in the amortization of deferred financing costs during the three months ended September 30, 2013 due to the write-off of deferred financing fees associated with the amendment to the 2010 Credit Facility, which was effective August 29, 2013 and reduced the total facility amount from $150,000 to $110,000. Also, there was an increase in net interest expense due to the interest expense and the amortization of deferred financing fees related to the 2013 Credit Facility which was entered into effective August 30, 2013. Refer to Note 7 – Debt in the condensed consolidated financial statements for further information.

INCOME TAX EXPENSE-

During the nine months ended September 30, 2013 and 2012, we had United States operations which resulted in United States source income of $1,059 and $1,321, respectively, which resulted in net income tax expense of $22 and $26, respectively.

Liquidity and Capital Resources
26

Table of Contents

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 have also borrowed $102,250 to date under our 2010 Credit Facility. We anticipate that internally generated cash flow, together with borrowing that we may make under our 2010 Credit Facility for working capital purposes, 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 $100,000 senior secured revolving credit facility with Nordea Bank Finland plc, acting through its New York branch (the "2010 Credit Facility"), which was subsequently amended effective November 30, 2010 which increased the borrowing capacity from $100,000 to $150,000. The amended 2010 Credit Facility matures on November 30, 2016. Refer to the 2012 10-K for a description of this facility as well as a description of the amendment entered into effective November 30, 2010. There was an additional amendment entered into effective August 29, 2013 which reduced the borrowing capacity to $110,000 and allowed us to incur additional indebtedness under new credit facilities. Refer to Note 7 – Debt of our condensed consolidated financial statements for a description of this amendment. As of September 30, 2013, to remain in compliance with a net worth covenant in the 2010 Credit Facility, we need to maintain a net worth of $273,317.

Borrowings of up to $25,000 subject to the total remaining availability under the 2010 Credit Facility are available for working capital purposes. As noted in Note 7 – Debt of our condensed consolidated financial statements, the repayment structure under the amended 2010 Credit Facility has been modified effective August 29, 2013 which reduced the total commitment to $110,000 on August 29, 2013 and there will be three consecutive semi-annual commitment reduction of $5,000 each commencing on May 30, 2015 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 September 30, 2013, total borrowings, including $2,500 for working capital purposes, under the 2010 Credit Facility were $102,250. Additionally, as of September 30, 2013, $7,750 million remained available under the 2010 Credit Facility as the total commitment under this facility decreased to $110,000. Of the $7,750 available under the 2010 Credit Facility, all was available for working capital purposes as of September 30, 2013. The total available working capital borrowings are subject to the total remaining availability under the 2010 Credit Facility. To the extent we expand our fleet in the future, we plan to finance potential expansions primarily through use of equity and debt financing. We may use equity financing to repay indebtedness from time to time, including indebtedness under the 2010 Credit Facility.

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 September 30, 2013, we believe we are in compliance with all of the financial covenants under the 2010 Credit Facility.

On July 2, 2013, we entered into agreements to purchase a 2010 built, 31,883 dwt Handysize drybulk vessel and a 2009 built, 31,887 dwt Handysize drybulk vessel from subsidiaries of Clipper Group for an aggregate purchase price of $41,000. These vessels, the Baltic Fox and Baltic Hare, were delivered on September 6, 2013 and September 5, 2013, respectively. Baltic Trading funded a portion of the purchase price of the vessels using proceeds from its registered follow-on common stock offering completed on May 28, 2013. For the remainder of the purchase price, Baltic Trading drew down $22,000 on its secured loan agreement with DVB Bank SE on September 4, 2013 as described below.

On August 30, 2013, Baltic Hare Limited ("Baltic Hare") and Baltic Fox Limited ("Baltic Fox"), our wholly-owned subsidiaries, entered into a secured loan agreement with DVB Bank SE for a term loan facility of up to $22,000 (the "2013 Credit Facility"). Amounts borrowed and repaid under the 2013 Credit Facility may not be reborrowed. This facility has a maturity date of the sixth anniversary of the drawdown date for borrowings for the second vessel to be purchased, or September 4, 2019. Borrowings under the 2013 Credit Facility bear interest at the three-month LIBOR rate plus an applicable margin of 3.35% per annum. A commitment fee of 1.00% is payable on the unused daily portion of the credit facility, which began accruing on August 30, 2013 and ended on September 4, 2013, the date which the entire $22,000 was borrowed. Borrowings are to be repaid in 23 quarterly

Table of Contents

installments of $375 each commencing three months after the last vessel delivery date, or December 4, 2013, and a final payment of $13,375 due on the maturity date.

Borrowings under the 2013 Credit Facility are to be secured by liens on our vessels to be purchased with borrowings under the facility, namely the Baltic Fox and the Baltic Hare, and other related assets. Under a Guarantee and Indemnity entered into concurrently with the 2013 Credit Facility, we have agreed to guarantee the obligations of our subsidiaries under the 2013 Credit Facility.

The 2013 Credit Facility also requires us and the Baltic Hare and Baltic Fox to comply with a number of covenants, including financial covenants related to liquidity, leverage, consolidated net worth, and collateral maintenance; delivery of quarterly and annual financial statements and annual projections; maintaining adequate insurances; compliance with laws (including environmental); maintenance of flag and class of the initial vessels; restrictions on consolidations, mergers or sales of assets; limitations on changes in the manager of our vessels; limitations on changes to the Management Agreement; limitations on liens and additional indebtedness; prohibitions on paying dividends if an event of default has occurred or would occur as a result of payment of a dividend; restrictions on transactions with affiliates; and other customary covenants. The liquidity covenants under the facility require Baltic Hare and Baltic Fox to maintain $500 in its earnings account and us to maintain $750 per vessel in its fleet in cash or cash equivalents plus undrawn working capital lines of credit. The facility's leverage covenant requires that the ratio of our total financial indebtedness to the value of its total assets as adjusted based on vessel appraisals not exceed 70%. The facility also requires that we maintain a minimum consolidated net worth of $232,796 plus fifty percent of the value of our equity offering completed on or after May 28, 2013. The facility's collateral maintenance covenant requires that the minimum fair market value of vessels mortgaged under the facility be 130% of the amount outstanding under the facility through August 30, 2016 and 135% of such amount thereafter.

On September 4, 2013, we made two drawdowns of $10,730 and $11,270 for the Baltic Hare and Baltic Fox, respectively. As of September 30, 2013, we have utilized our maximum borrowing capacity of $22,000 and there is no availability under this facility.

As of September 30, 2013, we believe we are in compliance with all of the financial covenants under the 2013 Credit Facility.

On May 28, 2013, we closed on an equity offering of 6,419,217 shares of common stock at an offering price of $3.60 per share. We received net proceeds of $21,560 after deducting underwriters' fees and expenses. On September 25, 2013, we closed on an equity offering of 13,800,000 shares of common stock at an offering price of $4.60 per share. We received net proceeds of $59,481 after deducting underwriters' fees and expenses. Additionally, pursuant to the Management Agreement, for so long as Genco directly or indirectly holds at least 10% of the aggregate number of outstanding shares of our common stock and Class B stock, Genco will be entitled to receive at no cost an additional number of shares of Class B stock equal to 2% of the number of common shares issued, other than shares issued under the our 2010 Equity Incentive Plan. As a result of these equity offerings, Genco was issued 128,383 and 276,000 shares, respectively, of Class B stock which represents 2% of the number of common shares issued.

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.

On October 31, 2013, we entered into agreements to purchase a 2012 built 179,185 dwt Capesize drybulk vessel and a 2011 built 179,185 dwt Capesize drybulk vessel from affiliates of SK Shipping Co. Ltd. for an aggregate purchase price of $103,000. The purchases are subject to completion of customary additional documentation and closing conditions. The vessels are expected to be delivered by the end of the fourth quarter of 2013. We plan to finance this

acquisition in part through the proceeds from our common stock offering completed on September 25, 2013 and in part through commercial bank debt financing. We are in negotiations to obtain a commitment for commercial bank financing from a global lending institution.

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. We have declared dividends for the past eight quarters even though the application of the formula in our policy would not have resulted in a dividend, although we may not continue to do so.

Dividend Policy
28

Table of Contents

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 (loss) less cash expenditures for capital items related to our fleet, such as drydocking or special surveys, other than vessel acquisitions and related expenses, plus non-cash compensation. For purposes of calculating Cash Available for Distribution, we may disregard non-cash adjustments to our net income (loss), 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 have resulted in a lesser dividend or no dividend for each quarter during 2012 and the first, second and third quarter of 2013; however, based on our cash flow, liquidity and capital resources, our Board of Directors determined to declare a dividend. While our Board of Directors may consider declaring future dividends that exceed the amount determined by our policy, we cannot assure you that they will do so, and the recent dividend declarations do not represent a change in our policy.

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, 2013		
3rd Quarter	$ 0.02	10/31/2013
2nd Quarter	$ 0.01	7/30/2013
1st Quarter	$ 0.01	4/30/2013
FISCAL YEAR ENDED DECEMBER 31, 2012		
4th Quarter	$ 0.01	2/14/2013
3rd Quarter	$ 0.01	10/31/2012
2nd Quarter	$ 0.05	7/26/2012
1st Quarter	$ 0.05	4/26/2012

Cash Flow

Net cash used in operating activities for the nine months ended September 30, 2013 was $2.7 million as compared to net cash provided by operating activities of $0.2 million for the nine months ended September 30, 2012. The change of approximately $2.9 million in cash from operating activities was primarily a result of an increase of receivables in the amount of $4.1 million for the nine months ended September 30, 2013 when compared to the nine months ended September 30, 2012 mainly due to the timing of payments from charterers and the higher rates achieved by our fleet towards the end of the quarter ended September 30, 2013. This was partially offset by a lower recorded net loss in the amount of $12.0 million for the nine months ended September 30, 2013 compared to a net loss of $12.9 million for the nine months ended September 30, 2012.

Net cash used in investing activities for the nine months ended September 30, 2013 was $41.6 million and primarily related to the purchase of two Handysize vessels. For the nine months ended September 30, 2012, net cash used in investing activities was $5,000 for the purchase of fixed assets.

Net cash provided by financing activities for the nine months ended September 30, 2013 was $102.9 million as compared to net cash used in financing activities of $5.2 million for the nine months ended September 30, 2012. The increase in net cash provided by financing activities was primarily a result of $81.3 million of net proceeds from our follow-on offerings in May and September 2013, $22.0 million of proceeds from our 2013 Credit Facility as well as a $1.0 million draw down under our 2010 Credit Facility. Cash dividends paid during the first nine months of 2013 were $0.8 million compared to $5.2 million for the same period last year.

Contractual Obligations
29

Table of Contents

The following table sets forth our contractual obligations and their maturity dates as of September 30, 2013. The table reflects the agreements to acquire a 2012-built and a 2011-built Capesize vessel from affiliates of SK Shipping Co. Ltd. for an aggregate purchase price of $103,000. We plan to finance this acquisition in part through the proceeds from our common stock offering completed on September 25, 2013 and in part through commercial bank debt financing as discussed above under "Liquidity and Capital Resources." This table also incorporates sale and purchase fees payable to Genco pursuant to the Management Agreement which is equivalent to 1% of the gross purchase or sale price of any vessel acquisitions or disposals due upon the consummation of any purchase or sale of one of our vessels. The interest and borrowing fees in the table incorporate the unused fees and interest expense related to the amended 2010 Credit Facility and the 2013 Credit Facility, as well as other fees associated with these facilities. Refer to Note 7 – Debt in our condensed consolidated financial statements for further information regarding the amendment to the 2010 Credit Facility as well as the terms of the 2013 Credit Facility.

	Total	Less Than One Year (1)	One to Three Years	Three to Five Years	More than Five Years
Credit Agreements	$124,250	$375	$5,250	$103,000	$15,625
Interest and borrowing fees	15,412	1,066	8,479	4,538	1,329
Remainder of purchase price of vessels (2)	103,000	103,000	—	—	—
Sales and purchase fees (2)	1,030	1,030	—	—	—
Total	$243,692	$105,471	$13,729	$107,538	$16,954

(1) Represents the three-month period ending December 31, 2013.

(2) The timing of this obligation is based on the estimated delivery dates for the Baltic Lion and Baltic Tiger which are expected to be delivered during the fourth quarter of 2013.

Interest expense has been estimated using 0.19% plus the applicable margin for the amended 2010 Credit Facility of 3.00%. For the 2013 Credit Facility, interest expense has been estimated using 0.25% plus the applicable margin of 3.35%.

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 five Handysize drybulk carriers. After the expected delivery of the two Capesize vessels that Baltic Trading has agreed to acquire, we will own 13 drybulk vessels, consisting of four Capesize drybulk carriers, four Supramax drybulk carriers and five 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. In our continuous effort to provide superior service to customers and enhance our long-term commercial prospects, we have initiated a fuel efficiency upgrade program for certain of our vessels. We believe this program will generate fuel savings of approximately 8-10% going forward and increase the future earnings potential for these vessels. The cost of the upgrades, which will be performed under the planned drydocking schedule for each of the vessels, is expected to be approximately $250,000 per vessel and is included in our estimated drydocking costs below. We estimate our drydocking costs and scheduled off-hire days for our fleet through 2014 to be:

Year

	Estimated Drydocking Cost (U.S. dollars in millions)	Estimated Off-hire Days
2013 (October 1 – December 31, 2013)	$ 1.0	20
2014	$ 4.5	100

The costs reflected are estimates based on drydocking our vessels in China. Actual costs will vary based on various factors, including where the drydockings are actually performed. We expect to fund these costs with cash from operations.

We estimate that each drydock will result in 20 days of off-hire. Actual length will vary based on the condition of the vessel, yard schedules and other factors.

We did not incur any drydocking costs during the nine months ended September 30, 2013 and 2012.

We estimate that one of our vessels will be drydocked during the remainder of 2013 and five of our vessels will be drydocked during 2014.

Off-Balance Sheet Arrangements
30

Table of Contents

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 2012 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 2012 10-K. We have never sold any of our vessels.

Pursuant to our 2010 Credit Facility and 2013 Credit Facility, we are required to 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 these facilities. 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 and our 2013 Credit Facility at September 30, 2013. 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 September 30, 2013 and December 31, 2012.

At September 30, 2013 and December 31, 2012, the vessel valuations of all of our vessels for covenant compliance purposes as of the most recent compliance testing date, with the exception of the Baltic Fox and Baltic Hare, were lower than their carrying values at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012, the most recent compliance testing dates were June 30, 2013 and December 31, 2012, respectively, for the 2010 Credit Facility. For the Baltic Fox and Baltic Hare, we utilized the vessel valuations on July 8, 2013 as the vessels were not acquired until September 2013 in accordance with the terms of the 2013 Credit Facility.

The amount by which the carrying value at September 30, 2013 of all the vessels in our fleet , with the exception of the Baltic Fox and Baltic Hare, exceeded the valuation of such vessels for covenant compliance purposes ranged, on an individual vessel basis, from $9.7 million to $28.8 million per vessel, and $130.1 million on an aggregate fleet basis. The amount by which the carrying value at December 31, 2012 of all the vessels in our fleet exceeded the valuation of such vessels for covenant compliance purposes ranged, on an individual vessel basis, from $11.0 million to $32.7 million per vessel, and $150.8 million on an aggregate fleet basis. The average amount by which the carrying value of our vessels exceeded the valuation of such vessels for covenant compliance purposes was $14.5 million as of September 30, 2013 and $16.8 million as of December 31, 2012. However, neither such valuation nor the carrying value in the table below reflects the value of time charters related to some of our vessels.

Table of Contents

Vessels	Year Built	Year Acquired	Carrying Value (U.S. Dollars in Thousands) as of September 30, 2013	December 31, 2012
2010 Credit Facility				
Baltic Leopard	2009	2009	$30,954	$31,981
Baltic Panther	2009	2010	31,032	32,059
Baltic Cougar	2009	2010	31,184	32,211
Baltic Jaguar	2009	2010	31,100	32,121
Baltic Bear	2010	2010	65,065	67,103
Baltic Wolf	2010	2010	64,683	66,670
Baltic Wind	2009	2010	29,698	30,685
Baltic Cove	2010	2010	30,048	31,011
Baltic Breeze	2010	2010	30,615	31,577
TOTAL			$344,379	$355,418
2013 Credit Facility				
Baltic Fox	2010	2013	21,180	—
Baltic Hare	2009	2013	20,212	—
TOTAL			$41,392	$
Consolidated Total			$385,771	$355,418

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. Additionally, effective August 30, 2013, we entered into the 2013 Credit Facility. 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 and is based on three-month LIBOR plus an applicable margin of 3.35% per annum on the outstanding debt under the 2013 Credit Facility. A 1% increase in LIBOR would result in an increase of $0.8 million in interest expense for the nine months ended September 30, 2013.

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.

Table of Contents

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.

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)
10.1	Amendment No. 3 to Management Agreement by and between Baltic Trading Limited and Genco Shipping & Trading Limited dated as of August 21, 2013.*
10.2	Memorandum of Agreement dated July 2, 2013 between Clipper Bulk Shipinvest I Ltd. and Baltic Trading Limited.*
10.3	Memorandum of Agreement dated July 2, 2013 between Harmony Maritime Co. Ltd. and Baltic Trading Limited.*
10.4	Loan Agreement by and among Baltic Hare Limited and Baltic Fox limited as borrowers, the banks listed therein as lenders, and DVB Bank SE, as agent, arranger, and security agent, dated as of August 30, 2013.(2)
10.5	Guarantee and Indemnity from Baltic Trading Limited to DVB Bank SE dated as of August 30, 2013.(2)
10.6	Amendment No. 1 to Amended and Restated Credit Agreement by and among Baltic Trading Limited, various lenders named therein, and Nordea Bank Finland plc, New York Branch, as Administrative Agent and Security Trustee, dated as of August 29, 2013.(2)
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 September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 (Unaudited), (ii) Condensed Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2013 and 2012 (Unaudited), (iii) Condensed Consolidated Statements of Shareholders' Equity for the Nine Months ended September 30, 2013 and 2012 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2013 and 2012 (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.

(2) Incorporated by reference to Baltic Trading Limited's Report on Form 8-K, filed with the Securities and Exchange Commission on September 5, 2013.

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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: November 7, 2013	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

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)
10.1	Amendment No. 3 to Management Agreement by and between Baltic Trading Limited and Genco Shipping & Trading Limited dated as of August 21, 2013.*
10.2	Memorandum of Agreement dated July 2, 2013 between Clipper Bulk Shipinvest I Ltd. and Baltic Trading Limited.*
10.3	Memorandum of Agreement dated July 2, 2013 between Harmony Maritime Co. Ltd. and Baltic Trading Limited.*
10.4	Loan Agreement by and among Baltic Hare Limited and Baltic Fox limited as borrowers, the banks listed therein as lenders, and DVB Bank SE, as agent, arranger, and security agent, dated as of August 30, 2013.(2)
10.5	Guarantee and Indemnity from Baltic Trading Limited to DVB Bank SE dated as of August 30, 2013.(2)
10.6	Amendment No. 1 to Amended and Restated Credit Agreement by and among Baltic Trading Limited, various lenders named therein, and Nordea Bank Finland plc, New York Branch, as Administrative Agent and Security Trustee, dated as of August 29, 2013.(2)
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 September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 (Unaudited), (ii) Condensed Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2013 and 2012 (Unaudited), (iii) Condensed Consolidated Statements of Shareholders' Equity for the Nine Months ended September 30, 2013 and 2012 (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2013 and 2012 (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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