

BIMINI CAPITAL MANAGEMENT, INC.  
Form 10-Q  
November 02, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32171

Bimini Capital Management, Inc.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

72-1571637  
(I.R.S. Employer  
Identification No.)

3305 Flamingo Drive, Vero Beach, Florida 32963  
(Address of principal executive offices) (Zip Code)

(772) 231-1400  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO



## BIMINI CAPITAL MANAGEMENT, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED BALANCE SHEETS

|   | (Unaudited)<br>September 30,<br>2012 | December 31,<br>2011 |
|---|--------------------------------------|----------------------|
| <b>ASSETS:</b>  |                                      |                      |
| Mortgage-backed securities, at fair value   |                                      |                      |
| Pledged to counterparties   | \$ 113,387,586                       | \$ 73,064,201        |
| Unpledged   | 12,351,390                           | 18,078,052           |
| Total mortgage-backed securities  | 125,738,976                          | 91,142,253           |
| Cash and cash equivalents   | 7,310,777                            | 4,300,785            |
| Restricted cash   | 264,969                              | 417,000              |
| Retained interests in securitizations   | 4,314,687                            | 3,495,471            |
| Accrued interest receivable   | 664,207                              | 901,385              |
| Property and equipment, net   | 3,804,647                            | 3,884,056            |
| Prepaid expenses and other assets, net  | 4,119,857                            | 5,113,346            |
| Total Assets  | \$ 146,218,120                       | \$ 109,254,296       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| <b>LIABILITIES:</b>   |                                      |                      |
| Repurchase agreements, net  | \$ 107,121,103                       | \$ 69,528,000        |
| Junior subordinated notes due to Bimini Capital Trust II  | 26,804,440                           | 26,804,440           |
| Accrued interest payable  | 86,814                               | 71,829               |
| Accounts payable, accrued expenses and other  | 6,826,134                            | 7,483,459            |
| Total Liabilities   | 140,838,491                          | 103,887,728          |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                      |                      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                                      |                      |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; designated,<br>1,800,000  |                                      |                      |
| shares as Class A Redeemable and 2,000,000 shares as Class B Redeemable; no<br>shares issued and outstanding as of September 30, 2012 and December 31, 2011 | -                                    | -                    |
| Class A Common Stock, \$0.001 par value; 98,000,000 shares designated:<br>10,329,421  |                                      |                      |
| shares issued and outstanding as of September 30, 2012 and 10,086,854 shares<br>issued and outstanding as of December 31, 2011                              | 10,329                               | 10,087               |
| Class B Common Stock, \$0.001 par value; 1,000,000 shares designated, 31,938<br>shares  |                                      |                      |
| issued and outstanding as of September 30, 2012 and December 31, 2011   | 32                                   | 32                   |
| Class C Common Stock, \$0.001 par value; 1,000,000 shares designated, 31,938<br>shares  |                                      |                      |
| issued and outstanding as of September 30, 2012 and December 31, 2011   | 32                                   | 32                   |
| Additional paid-in capital  | 334,201,928                          | 334,075,197          |

|  |                |                |
|--|----------------|----------------|
| Accumulated deficit                        | (328,832,692)  | (328,718,780)  |
| Total Stockholders' Equity                 | 5,379,629      | 5,366,568      |
| Total Liabilities and Stockholders' Equity | \$ 146,218,120 | \$ 109,254,296 |

See Notes to Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | Nine Months Ended<br>September 30, |               | Three Months Ended<br>September 30, |                |
|---|------------------------------------|---------------|-------------------------------------|----------------|
|   | 2012                               | 2011          | 2012                                | 2011           |
| Interest income   | \$ 3,487,913                       | \$ 4,046,746  | \$ 1,164,675                        | \$ 1,133,540   |
| Interest expense  | (285,315 )                         | (211,519 )    | (103,676 )                          | (52,714 )      |
| Net interest income, before interest on junior subordinated notes | 3,202,598                          | 3,835,227     | 1,060,999                           | 1,080,826      |
| Interest expense on junior subordinated notes                     | (791,891 )                         | (749,682 )    | (265,707 )                          | (250,052 )     |
| Net interest income   | 2,410,707                          | 3,085,545     | 795,292                             | 830,774        |
| (Losses) gains on mortgage-backed securities                      | (1,230,829 )                       | (342,624 )    | 318,817                             | (1,978,544)    |
| Losses on Eurodollar futures                                      | (763,037 )                         | (1,177,712)   | (337,700 )                          | (822,300 )     |
| Net portfolio income (deficiency)                                 | 416,841                            | 1,565,209     | 776,409                             | (1,970,070)    |
| Other income:   |                                    |               |                                     |                |
| Gains on retained interests in securitizations                    | 4,204,994                          | 3,891,631     | 737,567                             | 2,450,587      |
| Other income (expense)  | 36,002                             | (51,895 )     | 58,800                              | (15,013 )      |
| Total other income  | 4,240,996                          | 3,839,736     | 796,367                             | 2,435,574      |
| Expenses:   |                                    |               |                                     |                |
| Compensation and related benefits                                 | 1,231,139                          | 1,392,853     | 391,767                             | 443,041        |
| Directors' fees and liability insurance                           | 412,109                            | 453,201       | 138,215                             | 150,338        |
| Audit, legal and other professional fees                          | 2,116,029                          | 2,710,630     | 1,408,722                           | 1,432,921      |
| Direct REIT operating expenses                                    | 408,784                            | 403,252       | 136,406                             | 131,626        |
| Other administrative  | 603,688                            | 660,286       | 259,348                             | 220,786        |
| Total expenses  | 4,771,749                          | 5,620,222     | 2,334,458                           | 2,378,712      |
| Loss before income taxes  | (113,912 )                         | (215,277 )    | (761,682 )                          | (1,913,208)    |
| Income taxes  | -                                  | -             | -                                   | -              |
| Net loss  | \$ (113,912 )                      | \$ (215,277 ) | \$ (761,682 )                       | \$ (1,913,208) |
| Basic and Diluted Net loss Per Share of:                          |                                    |               |                                     |                |
| CLASS A COMMON STOCK  |                                    |               |                                     |                |
| Basic and Diluted   | \$ (0.01 )                         | \$ (0.02 )    | \$ (0.07 )                          | \$ (0.19 )     |
| CLASS B COMMON STOCK  |                                    |               |                                     |                |
| Basic and Diluted   | \$ (0.01 )                         | \$ (0.02 )    | \$ (0.07 )                          | \$ (0.19 )     |
| Weighted Average Shares Outstanding:                              |                                    |               |                                     |                |
| CLASS A COMMON STOCK  |                                    |               |                                     |                |
| Basic and Diluted   | 10,232,169                         | 9,852,956     | 10,329,421                          | 9,916,755      |
| CLASS B COMMON STOCK  |                                    |               |                                     |                |

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| Basic and Diluted                    | 31,938 | 31,938    | 31,938 | 31,938    |
|--------------------------------------|--------|-----------|--------|-----------|
| Dividends Declared Per Common Share: |        |           |        |           |
| CLASS A COMMON STOCK                 | \$ -   | \$ 0.0650 | \$ -   | \$ 0.0325 |
| CLASS B COMMON STOCK                 | \$ -   | \$ 0.0650 | \$ -   | \$ 0.0325 |

See Notes to Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(Unaudited)  
Nine Months Ended September 30, 2012

|   | Common Stock,<br>Amounts at par value |         |         | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total        |
|---|---------------------------------------|---------|---------|----------------------------------|------------------------|--------------|
|   | Class A                               | Class B | Class C |                                  |                        |              |
| Balances, January 1, 2012   | \$ 10,087                             | \$ 32   | \$ 32   | \$ 334,075,197                   | \$(328,718,780)        | \$ 5,366,568 |
| Net loss  | -                                     | -       | -       | -                                | (113,912 )             | (113,912 )   |
| Issuance of Class A common<br>shares for<br>board compensation and<br>equity plan exercises | 242                                   | -       | -       | 63,302                           | -                      | 63,544       |
| Amortization of equity plan<br>compensation   | -                                     | -       | -       | 63,429                           | -                      | 63,429       |
| Balances, September 30, 2012  | \$ 10,329                             | \$ 32   | \$ 32   | \$ 334,201,928                   | \$(328,832,692)        | \$ 5,379,629 |

See Notes to Consolidated Financial Statements



BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Nine Months Ended September<br>30, |                      |
|---|------------------------------------|----------------------|
|   | 2012                               | 2011                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                                    |                      |
| Net loss  | \$(113,912 )                       | \$(215,277 )         |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                    |                      |
| Stock based compensation and equity plan amortization                       | 126,973                            | 221,047              |
| Depreciation and amortization   | 89,333                             | 89,590               |
| Losses on mortgage-backed securities  | 1,230,829                          | 342,624              |
| Gains on retained interests in securitizations                              | (4,204,994 )                       | (3,891,631 )         |
| Changes in operating assets and liabilities:                                |                                    |                      |
| Accrued interest receivable   | 237,178                            | 34,025               |
| Prepaid expenses and other assets, net                                      | 978,154                            | 1,204,684            |
| Accrued interest payable  | 14,985                             | (49,326 )            |
| Accounts payable, accrued expenses and other                                | (657,325 )                         | (935,891 )           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                | <b>(2,298,779 )</b>                | <b>(3,200,155 )</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                                    |                      |
| From mortgage-backed securities investments:                                |                                    |                      |
| Purchases   | (177,679,884)                      | (46,317,169 )        |
| Sales   | 127,708,846                        | 73,326,473           |
| Principal repayments  | 14,158,821                         | 19,582,841           |
| Payments received on retained interests in securitizations                  | 3,385,778                          | 2,876,916            |
| Decrease in restricted cash   | 152,031                            | 1,801,317            |
| Purchases of property and equipment   | (9,924 )                           | (108,528 )           |
| <b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>                  | <b>(32,284,332 )</b>               | <b>51,161,850</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                                    |                      |
| Proceeds from repurchase agreements   | 662,456,590                        | 317,815,006          |
| Principal repayments on repurchase agreements                               | (624,863,487)                      | (364,010,848)        |
| Dividends paid in cash  | -                                  | (669,077 )           |
| Stock repurchases   | -                                  | (596 )               |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>                  | <b>37,593,103</b>                  | <b>(46,865,515 )</b> |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                            | <b>3,009,992</b>                   | <b>1,096,180</b>     |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period</b>                   | <b>4,300,785</b>                   | <b>2,830,584</b>     |
| <b>CASH AND CASH EQUIVALENTS, end of the period</b>                         | <b>\$7,310,777</b>                 | <b>\$3,926,764</b>   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                    |                                    |                      |
| Cash paid during the period for:  |                                    |                      |
| Interest  | \$1,062,221                        | \$1,010,527          |
| Income taxes  | \$-                                | \$17,706             |



BIMINI CAPITAL MANAGEMENT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
September 30, 2012

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Bimini Capital Management, Inc., a Maryland corporation (“Bimini Capital”), was formed in September 2003 for the purpose of creating and managing a leveraged investment portfolio consisting of residential mortgage-backed securities (“MBS”). Bimini Capital has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, Bimini Capital is generally not subject to federal income tax on its REIT taxable income provided that it distributes to its stockholders at least 90% of its REIT taxable income on an annual basis. In addition, a REIT must meet other provisions of the Code to retain its special tax status. Bimini Capital’s website is located at <http://www.biminicapital.com>.

On November 3, 2005, Bimini Capital acquired Opteum Financial Services, LLC (“OFS”), and at closing, OFS became a wholly-owned taxable REIT subsidiary (or “TRS”) of Bimini Capital. OFS was renamed Orchid Island TRS, LLC (“OITRS”) effective July 3, 2007 and then renamed MortCo TRS, LLC (“MortCo”) effective March 8, 2011. Hereinafter, any historical mention, discussion or references to Opteum Financial Services, LLC, Orchid Island TRS, LLC, OFS or to OITRS (such as in previously filed documents or Exhibits) now means MortCo TRS, LLC or “MortCo.”

As used in this document, discussions related to “Bimini Capital,” the parent company, the registrant, and to REIT qualifying activities or the general management of Bimini Capital’s portfolio of MBS refer to Bimini Capital Management, Inc. and its wholly-owned qualified REIT subsidiary, Orchid Island Capital, Inc. (“Orchid”). Discussions related to Bimini Capital’s taxable REIT subsidiaries or non-REIT eligible assets refer to Bimini Advisors, Inc. (“Bimini Advisors”) and MortCo and its consolidated subsidiaries. Discussions relating to “the Company” refer to the consolidated entity.

Liquidity

Material losses incurred by the Company in 2006 and 2007 attributable to the former mortgage origination operations of MortCo have significantly reduced Bimini Capital’s equity capital base and the size of its MBS portfolio when compared to pre-2006 levels. Ongoing litigation costs stemming from both the former operations of MortCo and Bimini Capital itself have caused the Company’s overhead to be high in relation to its portfolio size. The smaller capital base makes it difficult to generate sufficient net interest income to cover expenses.

In response, beginning in 2007, the Company has taken significant steps to reduce the leverage in its balance sheet, reduce its debt service costs, reduce expenses, settle various litigation matters, and alter its investment strategy for holding MBS securities. In addition, the Company has continued to evaluate capital raising opportunities for Orchid, its wholly-owned subsidiary. Attracting external capital to Orchid would allow the Company to receive fees for managing the Orchid portfolio, decrease the Company’s expenses by allocating certain overhead costs to Orchid, and share in distributions, if any, paid by Orchid to its shareholders.

At September 30, 2012, Bimini Capital had cash and cash equivalents of \$7.3 million, an equity capital base of \$5.4 million and an MBS portfolio of \$125.7 million. The Company generated cash flows of \$17.9 million from principal and interest payments on its MBS portfolio and \$3.4 million from retained interests in securitizations during the nine months ended September 30, 2012. However, if cash resources are, at any time, insufficient to satisfy the Company's liquidity requirements, such as when cash flow from operations are materially negative, the Company may be required to pledge additional assets to meet margin calls, liquidate assets, sell additional debt or equity securities or pursue other financing alternatives.

#### Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's consolidated financial position, results of operations and cash flows have been included and are of a normal and recurring nature.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the accompanying financial statements include the fair values of MBS, Eurodollar futures contracts, retained interests and asset valuation allowances.

#### Consolidation

The accompanying consolidated financial statements include the accounts of Bimini Capital and its wholly-owned subsidiaries, Orchid, Bimini Advisors and MortCo, as well as the wholly-owned subsidiaries of MortCo. All inter-company accounts and transactions have been eliminated from the consolidated financial statements.

As further described in Note 6, Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital's junior subordinated notes. Pursuant to the applicable accounting guidance for variable interest entities, Bimini Capital's common share investment in the trust has not been consolidated in the financial statements of Bimini Capital, and accordingly, this investment has been accounted for on the equity method.

#### Statement of Comprehensive Income (Loss)

In accordance with FASB ASC Topic 220, Comprehensive Income, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income. Comprehensive loss is the same as net loss for all periods presented.

#### Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less. Restricted cash represents cash held on deposit as collateral with the repurchase agreement counterparties, which may be used to make principal and interest payments on the related repurchase agreements, and cash held by a broker as margin on Eurodollar futures contracts.



Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. All noninterest-bearing cash balances were fully insured at September 30, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our noninterest-bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit that would have been in excess of the \$250,000 federally insured limit at September 30, 2012 approximated \$2.6 million.

#### Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through (“PT”) certificates, collateralized mortgage obligations, interest only (“IO”) securities and inverse interest only (“IIO”) securities representing interest in or obligations backed by pools of mortgage loans (collectively, MBS). MBS transactions are recorded on the trade date. The Company has elected to account for its investment in MBS under the fair value option. These investments meet the requirements to be classified as available for sale under ASC 320-10-25, Debt and Equity Securities, which requires the securities to be carried at fair value on the Consolidated Balance Sheet with changes in fair value charged to Other Comprehensive Income, a component of Stockholders’ Equity. Electing the fair value option allows the Company to record changes in fair value in the Statement of Operations, which, in management’s view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The fair value of the Company’s investment in MBS is governed by FASB ASC Topic 820, Fair Value Measurement. The definition of fair value in FASB ASC Topic 820 focuses on the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market for the asset or liability, or in the absence of a principal market, occurs in the most advantageous market for the asset or liability. Estimated fair values for MBS are based on the average of third-party broker quotes received and/or independent pricing sources when available.

Income on PT MBS is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. For interest only securities, the income is accrued based on the carrying value and the effective yield. Cash received is first applied to accrued interest and then to reduce the carrying value. At each reporting date, the effective yield is adjusted prospectively from the reporting period based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security.

#### Retained Interests

From 2005 to 2007, MortCo participated in securitization transactions as part of its mortgage origination business. Retained interests in the subordinated tranches of securities created in securitization transactions were initially recorded at their fair value when issued by MortCo. Subsequent adjustments to fair value are reflected in earnings. Quoted market prices for these assets are generally not available, so the Company estimates fair value based on the present value of expected future cash flows using management’s best estimates of key assumptions, which include expected credit losses, prepayment speeds, weighted-average life, and discount rates commensurate with the inherent risks of the asset.



#### Derivative Financial Instruments

The Company has entered into derivative financial instruments to manage interest rate risk, facilitate asset/liability strategies, and manage other exposures, and it may continue to do so in the future. The Company has elected to not treat any of its derivative financial instruments as hedges. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative investments be carried at fair value. Changes in fair value are recorded in earnings for each period.

#### Financial Instruments

FASB ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. MBS, Eurodollar futures contracts, mortgage loans held for sale and retained interests in securitization transactions are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 12 of the financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, repurchase agreements, accrued interest payable and accounts payable and other liabilities generally approximates their carrying value as of September 30, 2012 and December 31, 2011, due to the short-term nature of these financial instruments.

It is impractical to estimate the fair value of the Company's junior subordinated notes. Currently, there is a limited market for these types of instruments and the Company is unable to ascertain what interest rates would be available to the Company for similar financial instruments. Information regarding carrying amount, effective interest rate and maturity date for these instruments is presented in Note 6 to the financial statements.

#### Property and Equipment, net

Property and equipment, net, consists of computer equipment with a depreciable life of 3 years, office furniture and equipment with depreciable lives of 8 to 20 years, land which has no depreciable life, and buildings and improvements with depreciable lives of 30 years. Property and equipment is recorded at acquisition cost and depreciated using the straight-line method over the estimated useful lives of the assets.

Bimini Capital's property and equipment as of September 30, 2012 and December 31, 2011, is presented net of accumulated depreciation of approximately \$901,000 and \$811,000, respectively. Depreciation expense was approximately \$89,000 and \$30,000 for the nine and three months ended September 30, 2012, respectively, and \$90,000 and \$29,000 for the nine and three months ended September 30, 2011, respectively.



### Repurchase Agreements

The Company finances the acquisition of its PT MBS through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which securities are pledged as collateral to secure a short-term loan equal in value to a specified percentage (generally between 93 and 95 percent) of the market value of the pledged collateral. While used as collateral, the borrower retains beneficial ownership of the pledged collateral, including the right to distributions. At the maturity of a repurchase agreement, the borrower is required to repay the loan and concurrently receive the pledged collateral from the lender or, with the consent of the lender, renew such agreement at the then prevailing financing rate. Margin calls, whereby a lender requires that the Company pledge additional securities or cash as collateral to secure borrowings under its repurchase agreements with such a lender, are routinely experienced by the Company when the value of the MBS pledged as collateral declines or as a result of principal amortization or due to changes in market interest rates, spreads or other market conditions.

The Company's repurchase agreements typically have terms ranging from one month to six months at inception, with some having longer terms. Should a counterparty decide not to renew a repurchase agreement at maturity, the Company must either refinance with another lender or be in a position to satisfy the obligation. If, during the term of a repurchase agreement, a lender should file for bankruptcy, the Company might experience difficulty recovering its pledged assets which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender including accrued interest and cash posted as collateral. At September 30, 2012, the Company had outstanding balances under repurchase agreements with six lenders with a maximum amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of the collateral pledged by the Company, including accrued interest) of \$6.5 million.

### Share-Based Compensation

The Company follows the provisions of FASB ASC Topic 718, Compensation – Stock Compensation, to account for stock and stock-based awards. For stock and stock-based awards issued to employees, a compensation charge is recorded against earnings over the vesting period based on the fair value of the award. Payments pursuant to dividend equivalent rights, which are granted along with certain equity based awards, are charged to stockholders' equity when declared. The Company applies a zero forfeiture rate for its equity based awards, as such awards have been granted to a limited number of employees and historical forfeitures have been minimal. A significant forfeiture, or an indication that significant forfeitures may occur, would result in a revised forfeiture rate which would be accounted for prospectively as a change in an estimate. For transactions with non-employees in which services are performed in exchange for the Company's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date of issuance.

## Earnings Per Share

The Company follows the provisions of FASB ASC Topic 260, Earnings Per Share, which requires companies with complex capital structures, common stock equivalents or two (or more) classes of securities that participate in the declared dividends to present both basic and diluted earnings per share (“EPS”) on the face of the consolidated statement of operations. Basic EPS is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the “if converted” method for common stock equivalents. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Outstanding shares of Class B Common Stock, participating and convertible into Class A Common Stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Accordingly, shares of the Class B Common Stock are included in the computation of basic EPS using the two-class method and, consequently, are presented separately from Class A Common Stock.

The shares of Class C Common Stock are not included in the basic EPS computation as these shares do not have participation rights. The outstanding shares of Class B and Class C Common Stock are not included in the computation of diluted EPS for the Class A Common Stock as the conditions for conversion into shares of Class A Common Stock were not met.

## Income Taxes

Bimini Capital, including its wholly-owned qualified REIT subsidiary, has elected to be taxed as a REIT under the Code. Bimini Capital will generally not be subject to federal income tax on its REIT taxable income to the extent that Bimini Capital distributes its REIT taxable income to its stockholders and satisfies the ongoing REIT requirements, including meeting certain asset, income and stock ownership tests. A REIT must generally distribute at least 90% of its REIT taxable income to its stockholders, of which 85% generally must be distributed within the taxable year, in order to avoid the imposition of an excise tax. The remaining balance may be distributed up to the end of the following taxable year, provided the REIT elects to treat such amount as a prior year distribution and meets certain other requirements. At September 30, 2012, management believes that the Company has complied with Code requirements and Bimini Capital and its qualified REIT subsidiary continue to qualify as a REIT. As further described in Note 10, Income Taxes, Bimini Advisors and MortCo are taxpaying entities for income tax purposes and are taxed separately from the REIT.

The Company’s U.S. federal income tax returns for years ending on or after December 31, 2008 remain open for examination. Although management believes its calculations for tax returns are correct and the positions taken thereon are reasonable, the final outcome of tax audits could be materially different from the tax returns filed by the Company, and those differences could result in significant costs or benefits to the Company.

## Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2012-02 Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (“ASU 2012-02”). ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired before performing quantitative impairment testing. The more-likely-than-not threshold is defined as having a likelihood of greater than 50%. ASU 2012-02 is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not expect that

this ASU will have any impact on its consolidated financial statements.

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In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, deferring and superseding certain portions of ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassification adjustments out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The provisions of this amendment are effective for annual and interim periods beginning after December 15, 2011. The adoption of this ASU had no effect on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. The Company is required to apply the amendments for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures required will be provided retrospectively for all comparative periods presented. We anticipate that the adoption of this ASU will have no effect on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, amending the authoritative guidance to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of this amendment require retrospective application, and are effective for annual and interim periods beginning after December 15, 2011. The adoption of this ASU had no effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, further converging U.S. GAAP and International Financial Reporting Standards (IFRS). The ASU changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between GAAP and IFRSs as well as expand the disclosures for Level 3 measurements. The ASU is to be applied prospectively, and is effective for annual and interim periods beginning after December 15, 2011. The adoption of this ASU had no effect on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements, which changes the assessment of whether repurchase agreement transactions should be accounted for as sales or secured financings. In a typical repurchase agreement transaction, an entity transfers financial assets to the counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Prior to this ASU, one of the factors in determining whether sale treatment could be used was whether the transferor maintained effective control of the transferred assets and in order to do so, the transferor must have the ability to repurchase such assets. Based on this ASU, the FASB concluded that the assessment of effective control should focus on a transferor's contractual rights and obligations with respect to transferred financial assets, rather than whether the transferor has the practical ability to perform in accordance with those rights or obligations. Therefore, this ASU removes the transferor's ability to perform criterion from consideration of effective control. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011. Since the Company records repurchase agreements as secured borrowings and not sales, the adoption of this ASU had no effect on the Company's consolidated financial statements.

## NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's MBS portfolio as of September 30, 2012 and December 31, 2011:

(in thousands)

|  | September<br>30, 2012 | December<br>31, 2011 |
|--|-----------------------|----------------------|
| <b>Pass-Through Certificates:</b>      |                       |                      |
| Hybrid Adjustable-rate Mortgages       | \$49,026              | \$25,466             |
| Adjustable-rate Mortgages              | 21,603                | 12,181               |
| Fixed-rate Mortgages                   | 42,759                | 35,417               |
| <b>Total Pass-Through Certificates</b> | <b>113,388</b>        | <b>73,064</b>        |
| <b>Structured MBS Certificates:</b>    |                       |                      |
| Interest Only Securities               | 3,844                 | 7,074                |
| Inverse Interest Only Securities       | 8,507                 | 11,004               |
| <b>Total Structured Securities</b>     | <b>12,351</b>         | <b>18,078</b>        |
| <b>Totals</b>                          | <b>\$125,739</b>      | <b>\$91,142</b>      |

The following table summarizes the Company's MBS portfolio as of September 30, 2012 and December 31, 2011, according to their contractual maturities. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

|   | September<br>30, 2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
| Less than one year                              | \$-                   | \$102                |
| Greater than one year and less than five years  | 168                   | 263                  |
| Greater than five years and less than ten years | 11,252                | 8,507                |
| Greater than or equal to ten years              | 114,319               | 82,270               |
| <b>Totals</b>                                   | <b>\$125,739</b>      | <b>\$91,142</b>      |



## NOTE 3. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of September 30, 2012 and December 31, 2011:

(in thousands)

| Series      | Issue Date         | September<br>30, 2012 | December<br>31, 2011 |
|-------------|--------------------|-----------------------|----------------------|
| HMAC 2004-1 | March 4, 2004      | \$153                 | \$218                |
| HMAC 2004-2 | May 10, 2004       | 1,186                 | 878                  |
| HMAC 2004-3 | June 30, 2004      | 755                   | 865                  |
| HMAC 2004-4 | August 16, 2004    | 900                   | 532                  |
| HMAC 2004-5 | September 28, 2004 | 1,321                 | 1,002                |
| Total       |                    | \$4,315               | \$3,495              |

## NOTE 4. REPURCHASE AGREEMENTS

As of September 30, 2012, Bimini Capital had outstanding repurchase agreement obligations of approximately \$107.1 million with a net weighted average borrowing rate of 0.43%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$113.6 million. As of December 31, 2011, Bimini Capital had outstanding repurchase agreement obligations of approximately \$69.5 million with a net weighted average borrowing rate of 0.43%. These agreements were collateralized by MBS with a fair value of approximately \$73.3 million.

As of September 30, 2012 and December 31, 2011, Bimini Capital's repurchase agreements had remaining maturities as summarized below:

(in thousands)

|   | OVERNIGHT<br>(1 DAY OR<br>LESS) | BETWEEN<br>2<br>AND<br>30 DAYS | BETWEEN<br>31<br>AND<br>90 DAYS | GREATER<br>THAN<br>90 DAYS | TOTAL     |
|---|---------------------------------|--------------------------------|---------------------------------|----------------------------|-----------|
| September 30, 2012  |                                 |                                |                                 |                            |           |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$113,649                      | \$-                             | \$-                        | \$113,649 |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$107,121                      | \$-                             | \$-                        | \$107,121 |
| Net weighted average borrowing rate                                     | -                               | 0.43                           | % -                             | -                          | 0.43 %    |
| December 31, 2011   |                                 |                                |                                 |                            |           |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$73,305                       | \$-                             | \$-                        | \$73,305  |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$69,528                       | \$-                             | \$-                        | \$69,528  |
| Net weighted average borrowing rate                                     | -                               | 0.43                           | % -                             | -                          | 0.43 %    |





Summary information regarding the Company's amounts at risk with individual counterparties greater than 10% of the Company's equity at September 30, 2012 and December 31, 2011 is as follows:

(in thousands)

| Repurchase Agreement Counterparties   | Amount<br>at Risk(1) | Weighted<br>Average<br>Maturity of<br>Repurchase<br>Agreements in<br>Days |
|---------------------------------------|----------------------|---|
| September 30, 2012                    |                      |   |
| Citigroup Global Markets, Inc.        | \$ 1,699             | 23  |
| CRT Capital Group LLC                 | 1,491                | 18  |
| South Street Securities, LLC          | 1,026                | 20  |
| SunTrust Robinson Humphrey, Inc.      | 1,167                | 17  |
| KGS - Alpha Capital Markets, L.P.     | 651                  | 17  |
| December 31, 2011                     |                      |   |
| Nomura Securities International, Inc. | \$ 3,474             | 27  |

- (1) Equal to the fair value of securities sold, cash posted as collateral and accrued interest receivable, minus the sum of repurchase agreement liabilities and accrued interest payable.

On October 31, 2011, MF Global Holding Ltd. ("MF") filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. As of September 30, 2011, a subsidiary of MF, MF Global, Inc. was the Company's largest repurchase agreement funding provider and the Company had approximately \$2.3 million at risk under such agreements. As of December 31, 2011 and September 30, 2012, the Company had no outstanding funding arrangements in place with MF under repurchase agreements. All repurchase agreements in place at September 30, 2011, have been terminated and all pledged assets have been returned. As of November 2, 2012, one reverse-repurchase agreement with MF has yet to be fully unwound and the Company has not received funds which are owed by MF to the Company in the amount of approximately \$343,000. During 2011, the Company established a reserve of \$300,000 against this balance, which still exists at September 30, 2012. The Company believes it is entitled to these funds; however, given the fact that MF is in bankruptcy, it is not known if or when the funds will be received.

#### NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its overall risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. The Company does not elect hedging treatment under GAAP, and as such all gains and losses on these instruments are reflected in earnings for all periods presented.

As of September 30, 2012 and December 31, 2011, such instruments are comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains and losses credited or charged to the Company's account on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. The total amount of margin at September 30, 2012 and December 31, 2011 was approximately \$265,000 and \$285,000, respectively, and is reflected in restricted cash.



The Company's Eurodollar futures contracts with a notional amount ranging between \$21.0 million and \$26.0 million are used to attempt to achieve a fixed interest rate related to its junior subordinated notes. The junior subordinated notes had a 7.86% fixed-rate of interest until December 15, 2010, and thereafter, through maturity in 2035, the rate will float at a spread of 3.50% over the prevailing three-month LIBOR rate. The Eurodollar futures contracts serve to effectively lock in a fixed LIBOR rate for a specified period of time. As of September 30, 2012, the Company has effectively locked in a weighted-average fixed LIBOR rate of 0.55% on \$26.0 million of its junior subordinated notes through March 14, 2016. The effective interest rate for the junior subordinated notes is 4.05%. For the nine and three months ended September 30, 2012 the Company recorded losses of \$532,000 and \$238,000, respectively, on Eurodollar futures contracts held as part of its junior subordinated notes hedging strategy, compared to losses of \$746,000 and \$471,000 for the nine and three months ended September 30, 2011, respectively.

The Company also used Eurodollar futures contracts with a notional amount ranging between \$30.0 million and \$50.0 million to attempt to achieve a fixed interest rate related to a portion of its repurchase agreement obligations. As of September 30, 2012, the Company has effectively locked in a weighted-average fixed LIBOR rate of 0.34% on a portion of its repurchase agreement obligations through December 16, 2013. For the nine and three months ended September 30, 2012 the Company recorded losses of \$231,000 and \$100,000, respectively, on Eurodollar futures contracts held as part of its repurchase agreement hedging strategy, compared to losses of \$432,000 and \$351,000 for the nine and three months ended September 30, 2011, respectively.

#### NOTE 6. TRUST PREFERRED SECURITIES

During 2005, Bimini Capital sponsored the formation of a statutory trust, known as Bimini Capital Trust II ("BCTII") of which 100% of the common equity is owned by Bimini Capital. It was formed for the purpose of issuing trust preferred capital securities to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of Bimini Capital. The debt securities held by BCTII are the sole assets of BCTII.

As of September 30, 2012 and December 31, 2011, the outstanding principal balance on the junior subordinated debt securities owed to BCTII was \$26.8 million. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes have a rate of interest that floats at a spread of 3.50% over the prevailing three-month LIBOR rate. As of September 30, 2012, the interest rate was 3.89%. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes require quarterly interest distributions and are redeemable at Bimini Capital's option, in whole or in part and without penalty, beginning December 15, 2010. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment of all present and future senior indebtedness.

The trust is a variable interest entity pursuant to FASB ASC Topic 810 because the holders of the equity investment at risk do not have adequate decision making ability over the trust's activities. Since Bimini Capital's investment in the trust's common equity securities was financed directly by the applicable trust as a result of its loan of the proceeds to Bimini Capital, that investment is not considered to be an equity investment at risk. Since Bimini Capital's common share investments in BCTII are not a variable interest, Bimini Capital is not the primary beneficiary of BCTII. Therefore, Bimini Capital has not consolidated the financial statements of BCTII into its financial statements.

The accompanying consolidated financial statements present Bimini Capital's BCTII Junior Subordinated Notes issued to the trust as a liability and Bimini Capital's investment in the common equity securities of BCTII as an asset (included in prepaid expenses and other assets, net). For financial statement purposes, Bimini Capital records payments of interest on the Junior Subordinated Notes issued to BCTII as interest expense.



## NOTE 7. CAPITAL STOCK

## Issuances of Common Stock

The table below presents information related to the Company's Class A Common Stock issued to its independent directors for the payment of director fees and to employees pursuant to the terms of its stock incentive plan grants for the nine and three months ended September 30, 2012 and 2011.

| Shares Issued Related To:                   | Nine Months Ended |         | Three Months Ended |        |
|---|-------------------|---------|--------------------|--------|
|   | September 30,     |         | September 30,      |        |
|   | 2012              | 2011    | 2012               | 2011   |
| Directors' compensation                     | 242,567           | 188,128 | -                  | 72,052 |
| Vesting incentive plan shares               | -                 | 13,000  | -                  | -      |
| Total shares of Class A Common Stock issued | 242,567           | 201,128 | -                  | 72,052 |

There were no issuances of the Company's Class B Common Stock and Class C Common Stock during the nine and three months ended September 30, 2012 and 2011.

## NOTE 8. STOCK INCENTIVE PLANS

On December 18, 2003, Bimini Capital adopted the 2003 Long Term Incentive Compensation Plan (the "2003 Plan") to provide the Company with the flexibility to use stock options and other awards as part of an overall compensation package to provide a means of performance-based compensation to attract and retain qualified personnel. The 2003 Plan was amended and restated in March 2004. Key employees, directors and consultants are eligible to be granted stock options, restricted stock, phantom shares, dividend equivalent rights and other stock-based awards under the 2003 Plan. Subject to adjustment upon certain corporate transactions or events, a maximum of 1,448,050 shares of the Class A Common Stock (but not more than 10% of the Class A Common Stock outstanding on the date of grant) may be subject to stock options, shares of restricted stock, phantom shares and dividend equivalent rights under the 2003 Plan.

On August 12, 2011, the Company's shareholders approved the 2011 Long Term Compensation Plan (the "2011 Plan") to assist the Company in recruiting and retaining employees, directors and other service providers by enabling them to participate in the success of the Company and to associate their interest with those of the Company and its stockholders. The plan is intended to permit the grant of stock options, stock appreciation rights ("SARs"), stock awards, performance units and other equity-based and incentive awards. The maximum aggregate number of shares of Common Stock that may be issued under the 2011 Plan pursuant to the exercise of options and SARs, the grant of stock awards or other equity-based awards and the settlement of incentive awards and performance units is equal to 4,000,000 shares. As of September 30, 2012, no awards have been made under the 2011 Plan.

Phantom share awards represent a right to receive a share of Bimini's Class A Common Stock. These awards do not have an exercise price and are valued at the fair value of Bimini Capital's Class A Common Stock at the date of the grant. The grant date value is amortized to compensation expense on a straight-line basis over the vesting period of the respective award. The phantom shares vest, based on the employees' continuing employment, following a schedule as provided in the individual grant agreements, for periods through March 15, 2015. Compensation expense recognized for phantom shares was approximately \$63,000 and \$21,000 for the nine and three months ended September 30, 2012, respectively, and \$70,000 and \$22,000 for the nine and three months ended September 30, 2011, respectively. Dividends paid on unsettled awards are charged to stockholders' equity when declared.



A summary of phantom share activity during the nine months ended September 30, 2012 and 2011 is presented below:

|                            | Nine Months Ended September 30, |  | 2011      |  |
|----------------------------|---------------------------------|--|-----------|--|
|                            | 2012                            | Weighted-Average Grant-Date Fair Value | Shares    | Weighted-Average Grant-Date Fair Value |
| Nonvested, at January 1    | 367,844                         | \$1.11                                 | 401,000   | \$1.12                                 |
| Vested                     | -                               | -                                      | (13,000 ) | 0.97                                   |
| Cancellations              | -                               | -                                      | (20,156 ) | (1.37 )                                |
| Nonvested, at September 30 | 367,844                         | \$1.11                                 | 367,844   | \$1.11                                 |

As of September 30, 2012, there was approximately \$178,000 of unrecognized compensation cost related to nonvested phantom share awards. This cost is expected to be recognized over a remaining weighted-average period of 26.9 months. The intrinsic value of the outstanding phantom shares as of September 30, 2012 and December 31, 2011 is \$70,000 and \$136,000, respectively. All outstanding unvested awards at September 30, 2012 were granted with dividend participation rights.

#### NOTE 9. COMMITMENTS AND CONTINGENCIES

##### Outstanding Litigation

The Company is involved in various lawsuits and claims, both actual and potential, including some that it has asserted against others, in which monetary and other damages are sought. These lawsuits and claims relate primarily to contractual disputes arising out of the ordinary course of the Company's business. The outcome of such lawsuits and claims is inherently unpredictable. However, management believes that, in the aggregate, the outcome of all lawsuits and claims involving the Company will not have a material effect on the Company's consolidated financial position or liquidity; however, any such outcome may be material to the results of operations of any particular period in which costs, if any, are recognized.

A complaint by a note-holder in Preferred Term Securities XX ("PreTSL XX") was filed on July 16, 2010 in the Supreme Court of the State of New York, New York County, against Bimini Capital Management, Inc. ("Bimini"), the Bank of New York Mellon ("BNYM"), PreTSL XX, Ltd. and Hexagon Securities, LLC ("Hexagon"). The complaint, filed by Hildene Capital Management, LLC and Hildene Opportunities Fund, Ltd. ("Hildene"), alleges that Hildene suffered losses as a result of Bimini's repurchase of all outstanding fixed/floating rate capital securities of Bimini Capital Trust II for less than par value from PreTSL XX in October 2009. Hildene has alleged claims against BNYM for breach of the Indenture, breach of fiduciary duties and breach of covenant of good faith and fair dealing, and claims against Bimini for tortious interference with contract, aiding and abetting breach of fiduciary duty, unjust enrichment and "rescission/illegality". Plaintiff also alleges derivative claims brought in the name of Nominal Defendant BNYM. (On May 2, 2011, Hexagon and Nominal Defendant PreTSL XX were voluntarily dismissed without prejudice by Hildene.) On May 23, 2011, Bimini and BNYM moved to dismiss Hildene's derivative claims, and Bimini also moved to dismiss Hildene's claim for "rescission/illegality." On October 19, 2011, PreTSL XX moved to intervene as an additional plaintiff in the action, and Bimini and BNYM have opposed that motion.

On August 23, 2012, the court issued a Decision and Order granting PreTSL XX, Ltd.'s motion to intervene. Bimini and BNYM filed appeals in the Appellate Division, First Department in October 2012. It is expected that the joint appeal will be calendared for the Appellate Division's January 2013 term. Bimini and BNYM have requested that all proceedings in the trial court be stayed pending resolution of their joint appeal. That request is currently under consideration by the trial court, and all proceedings have been stayed in the interim. Bimini denies that the repurchase was improper and intends to continue to defend the suit vigorously.

On March 2, 2011, MortCo and Opteum Mortgage Acceptance Corporation ("Opteum Acceptance") (referred to together herein as "MortCo") received a letter dated March 1, 2011 from Massachusetts Mutual Life Insurance Company ("Mass Mutual") enclosing a draft complaint against MortCo. In summary, Mass Mutual alleges that it purchased residential mortgage-backed securities offered by MortCo in August 2005 and the first quarter of 2006 and that MortCo made false representations and warranties in connection with the sale of the securities in violation of Mass Gen. Laws Ch. 110A § 410(a)(2) (the "Massachusetts Blue Sky Law"). In its letter, Mass Mutual claims it is entitled to damages in excess of \$25 million. However, no monetary demand is contained in the draft complaint and the actual damages Mass Mutual claims to have incurred is uncertain.

Mass Mutual has not filed the complaint or initiated litigation. On March 14, 2011 Mass Mutual and MortCo entered into a Tolling Agreement through June 1, 2011 so that Mass Mutual could address its allegations against MortCo without incurring litigation costs. Mass Mutual has not yet contacted MortCo to schedule such discussions. The parties extended the Tolling Agreement through June 1, 2013.

MortCo denies it made false representations and warranties in connection with the sale of securities to Mass Mutual. Mass Mutual has taken no action to prosecute its claim against MortCo, and the range of loss or potential loss, if any, cannot reasonably be estimated. Should Mass Mutual initiate litigation, MortCo will defend such litigation vigorously.

#### Loans Sold to Investors.

Generally, MortCo was not exposed to significant credit risk on its loans sold to investors. In the normal course of business, MortCo provided certain representations and warranties during the sale of mortgage loans which obligated it to repurchase loans which are subsequently unable to be sold through the normal investor channels. The repurchased loans were secured by the related real estate properties, and can usually be sold directly to other permanent investors. There can be no assurance, however, that MortCo will be able to recover the repurchased loan value either through other investor channels or through the assumption of the secured real estate.

MortCo has recognized a liability, which is included in "Accounts payable, accrued expenses and other" in the accompanying consolidated balance sheets, for the estimated fair value of this obligation. Changes in this liability for the nine months ended September 30, 2012 and 2011 are presented in the table below:

(in thousands)

|                               | Nine Months Ended<br>September 30, |         |
|-------------------------------|------------------------------------|---------|
|                               | 2012                               | 2011    |
| Balance - Beginning of period | \$5,087                            | \$5,087 |
| Settlements                   | (175 )                             | -       |
| Balance - End of period       | \$4,912                            | \$5,087 |





## Consulting Agreement

During 2011, the Company, through Bimini Advisors, entered into an agreement with a consultant pursuant to which the consultant will continue to advise the Company with respect to financing alternatives, banking relationships and external asset management arrangements in connection with the formation, capitalization and operation of Orchid. Bimini Advisors paid the consultant a \$60,000 retainer in 2011. In addition, if Orchid raised at least \$50 million in equity investments by June 30, 2012, Bimini Advisors would have been obligated to pay the consultant 50% of any asset management fees that Bimini Advisors received from Orchid during the twelve months following the date on which Orchid has received the equity investments. If Orchid raised at least \$50 million in equity investments by June 30, 2012, then the minimum amount that would have been payable to the consultant under the management fee sharing arrangement would be \$487,500 and the maximum would be \$1.2 million. Orchid did not raise capital by June 30, 2012, and except for the \$60,000 retainer, the fees described above were not paid.

On February 6, 2012, the consulting agreement was amended. Under the terms of the amended agreement, Bimini Advisors agreed to pay the consultant an additional \$60,000 retainer fee. The additional fee was paid in six equal installments of \$10,000 through June of 2012. The amended agreement also provides that the obligation to pay the consultant 50% of any asset management fees that Bimini Advisors receives from Orchid following the date on which Orchid has received equity investments of at least \$50 million has been extended from June 30, 2012 to December 31, 2012. There is no longer an explicit minimum amount payable under the management fee sharing arrangement, but the maximum fee amount of \$1.2 million was retained.

## NOTE 10. INCOME TAXES

### REIT Activities

As a REIT, the Company is not subject to federal income tax on REIT taxable income distributed to its shareholders. REIT taxable income or loss, as generated by Bimini Capital's qualifying REIT activities, is computed in accordance with the Internal Revenue Code, which is different from the Company's financial statement net income or loss as computed in accordance with GAAP. Depending on the number and size of the various items or transactions being accounted for differently, the differences between the Company's REIT taxable income or loss and its financial statement net income or loss can be substantial and each item can affect several years.

As of December 31, 2011, Bimini Capital had approximately \$52.1 million of remaining capital loss carryforwards available to offset future capital gains and a REIT tax net operating loss carryforward of approximately \$10.7 million that is immediately available to offset future REIT taxable income. The capital loss carryforwards will expire at the end of calendar year 2012 if not utilized to offset capital gains. The REIT tax net operating loss carryforwards will expire in years beginning in 2028 through 2031.

### Taxable REIT Subsidiaries

As taxable REIT subsidiaries ("TRS"), Bimini Advisors and MortCo are tax paying entities for income tax purposes and are taxed separately from Bimini Capital and from each other. Therefore, Bimini Advisors and MortCo each separately report an income tax provision or benefit based on their own taxable activities. For the nine and three months ended September 30, 2012 and 2011, MortCo had no taxable income primarily due to the utilization of NOL carryforwards; Bimini Advisors has losses from its inception for income tax purposes.



The TRS income tax provisions for the nine and three months ended September 30, 2012 and 2011 differ from the amount determined by applying the statutory Federal rate of 35% to the pre-tax income or loss due primarily to the recording of, and adjustments to, the deferred tax asset valuation allowance. During the nine and three months ended September 30, 2012 and 2011, a portion of the deferred tax asset valuation allowance was reversed, as the utilization of this portion of the deferred tax asset was deemed more likely than not, due to the utilization of NOLs to offset estimated taxable income. Therefore, there are no income tax provisions for any period related to the results of operations.

As of September 30, 2012, MortCo has estimated federal NOL carryforwards of approximately \$268.4 million, and estimated available Florida NOLs of approximately \$40.9 million, both of which begin to expire in 2025, and are fully available to offset future federal and Florida taxable income, respectively. All other MortCo state NOLs have been abandoned. Similar items for Bimini Advisors are insignificant.

The net deferred tax assets and offsetting valuation allowances for MortCo at September 30, 2012 are both approximately \$98.9 million. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income within MortCo. At September 30, 2012 and December 31, 2011, management believed that it was more likely than not that the Company will not realize the full benefits of all of the federal and Florida tax NOL carryforwards, which are the primary deferred tax assets of MortCo; therefore, an allowance for the full amount of the deferred tax assets has been recorded in both periods. Management considers the projected future taxable income or losses, and tax planning strategies in making this assessment.

#### NOTE 11. EARNINGS PER SHARE

Shares of Class B Common Stock, participating and convertible into Class A Common Stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, and when, authorized and declared by the Board of Directors. Following the provisions of FASB ASC 260, the Class B Common Stock is included in the computation of basic EPS using the two-class method, and consequently is presented separately from Class A Common Stock. Shares of Class B Common Stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A Common Stock were not met at September 30, 2012 and 2011.

Shares of Class C Common Stock are not included in the basic EPS computation as these shares do not have participation rights. Shares of Class C Common Stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A Common Stock were not met at September 30, 2012 and 2011.

The Company has dividend eligible stock incentive plan shares that were outstanding during the nine and three months ended September 30, 2012 and 2011. The basic and diluted per share computations include these unvested incentive plan shares if there is income available to Class A Common Stock, as they have dividend participation rights. The stock incentive plan shares have no contractual obligation to share in losses. Since there is no such obligation, the incentive plan shares are not included in the basic and diluted EPS computations when no income is available to Class A Common Stock even though they are considered participating securities.

The table below reconciles the numerators and denominators of the basic and diluted EPS.

(in thousands, except per-share information)

|   | Nine Months Ended<br>September 30, |           | Three Months Ended<br>September 30, |            |
|---|------------------------------------|-----------|-------------------------------------|------------|
|   | 2012                               | 2011      | 2012                                | 2011       |
| <b>Basic and diluted EPS per Class A common share:</b>      |                                    |           |                                     |            |
| Loss available to Class A common shares:                    |                                    |           |                                     |            |
| Basic and diluted   | \$(114 )                           | \$(214 )  | \$(759 )                            | \$(1,907 ) |
| Weighted average common shares:                             |                                    |           |                                     |            |
| Class A common shares outstanding at the balance sheet date |                                    |           |                                     |            |
|   | 10,329                             | 9,977     | 10,329                              | 9,977      |
| Effect of weighting   | (97 )                              | (124 )    | -                                   | (60 )      |
| Weighted average shares-basic and diluted                   | 10,232                             | 9,853     | 10,329                              | 9,917      |
| Loss per Class A common share:                              |                                    |           |                                     |            |
| Basic and diluted   | \$(0.01 )                          | \$(0.02 ) | \$(0.07 )                           | \$(0.19 )  |

(in thousands, except per-share information)

|   | Nine Months Ended<br>September 30, |           | Three Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|-------------------------------------|-----------|
|   | 2012                               | 2011      | 2012                                | 2011      |
| <b>Basic and diluted EPS per Class B common share:</b>      |                                    |           |                                     |           |
| Loss available to Class B common shares:                    |                                    |           |                                     |           |
| Basic and diluted   | \$-                                | \$(1 )    | \$(2 )                              | \$(6 )    |
| Weighted average common shares:                             |                                    |           |                                     |           |
| Class B common shares outstanding at the balance sheet date |                                    |           |                                     |           |
|   | 32                                 | 32        | 32                                  | 32        |
| Effect of weighting   | -                                  | -         | -                                   | -         |
| Weighted average shares-basic and diluted                   | 32                                 | 32        | 32                                  | 32        |
| Loss per Class B common share:                              |                                    |           |                                     |           |
| Basic and diluted   | \$(0.01 )                          | \$(0.02 ) | \$(0.07 )                           | \$(0.19 ) |

#### NOTE 12. FAIR VALUE

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of non-performance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These stratifications are:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and



- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Our MBS are valued using Level 2 valuations, and such valuations currently are determined by the Company based on the average of third-party broker quotes and/or by independent pricing sources when available. Because the price estimates may vary, the Company must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. Alternatively, the Company could opt to have the value of all of our positions in MBS determined by either an independent third-party or do so internally.

Mortgage-backed securities, retained interests, Eurodollar futures contracts and mortgage loans held for sale were recorded at fair value on a recurring basis during 2012 and 2011. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Fair value measurements for the retained interests are generated by a model that requires management to make a significant number of assumptions.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011:

(in thousands)

|                              | Fair Value<br>Measurements | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------|----------------------------|---|---|--|
| <b>September 30, 2012</b>    |                            |   |   |  |
| Mortgage-backed securities   | \$ 125,739                 | \$-   | \$125,739   | \$ -   |
| Eurodollar futures contracts | 265                        | 265   | -   | -  |
| Retained interests           | 4,315                      | -   | -   | 4,315  |
| <b>December 31, 2011</b>     |                            |   |   |  |
| Mortgage-backed securities   | \$ 91,142                  | \$-   | \$91,142  | \$ -   |
| Eurodollar futures contracts | 285                        | 285   | -   | -  |
| Mortgage loans held for sale | 40                         | -   | -   | 40   |
| Retained interests           | 3,495                      | -   | -   | 3,495  |

The following table illustrates a rollforward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2012 and 2011:

(in thousands)

|                                  | 2012               |                              | 2011               |                              |
|----------------------------------|--------------------|------------------------------|--------------------|------------------------------|
|                                  | Retained Interests | Mortgage Loans Held For Sale | Retained Interests | Mortgage Loans Held For Sale |
| Balances, January 1              | \$3,495            | \$40                         | \$3,928            | \$40                         |
| Gain (loss) included in earnings | 4,205              | (17 )                        | 3,892              | -                            |
| Collections                      | (3,385 )           | (23 )                        | (2,878 )           | -                            |
| Balances, September 30           | \$4,315            | \$-                          | \$4,942            | \$40                         |

During the nine months ended September 30, 2012 and 2011, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

Our retained interests are valued based on a discounted cash flow approach. These values are sensitive to changes in unobservable inputs, including: estimated prepayment speeds, default rates and loss severity, weighted-average life, and discount rates. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

The following table summarizes the significant quantitative information about our level 3 fair value measurements as of September 30, 2012.

|   |                      |   |  |
|---|----------------------|---|--|
| Retained interest fair value (in thousands) |                      | \$ 4,315                                |  |
| Prepayment Assumption                       |                      | CPR Range (Weighted Average)            |  |
| Constant Prepayment Rate                    |                      | 10% (10%)                               |  |
| Default Assumptions                         |                      | Severity Range (Weighted Average)       | Range Of Loss Timing                   |
| Probability of Default                      |                      | 34.7% - 52.12%                          |  |
| Real Estate Owned                           | 100%                 | (27.8%)                                 | Next 10 Months                         |
| Loans in Foreclosure                        | 100%                 | (27.8%)                                 | Month 4 - 13                           |
| Loans 90 Day Delinquent                     | 100%                 | 45%                                     | Month 13 - 30                          |
| Loans 60 Day Delinquent                     | 85%                  | 45%                                     | Month 13 - 30                          |
| Loans 30 Day Delinquent                     | 75%                  | 45%                                     | Month 13 - 30                          |
| Current Loans                               | 2.5% - 4.1%          | 45%                                     | Month 31 and Beyond                    |
| Cash Flow Recognition                       |                      | Remaining Life Range (Weighted Average) | Discount Rate Range (Weighted Average) |
| Nominal Cashflows                           | Valuation Technique  | 5.3 - 14.8 years (11.9)                 | 27.5% (27.5%)                          |
| Discounted Cashflows                        | Discounted Cash flow | 0.9 - 8.7 years (2.0)                   | 27.5% (27.5%)                          |

#### NOTE 13. RELATED PARTY TRANSACTIONS

Frank E. Jaumot is a shareholder in an accounting firm from which the Company receives accounting and tax services. Mr. Jaumot is both a director and a shareholder of Bimini Capital. Professional fees incurred with this firm were



\$102,000 and \$95,000 for the nine months ended September 30, 2012 and 2011, respectively.

NOTE 14. SUBSEQUENT EVENTS

On October 22, 2012, Orchid filed a Form S-11 Registration Statement (the “Registration Statement”) with the Securities and Exchange Commission (the “SEC”) in connection with a proposed initial public offering (the “Offering”) of its common stock (the “Shares”). The number of shares of common stock and the price range of the offering have not yet been determined. The net proceeds of the Offering are expected to be used to purchase pass-through Agency residential mortgage-backed securities and structured Agency residential mortgage-backed securities. Orchid intends to elect to be taxed as a real estate investment trust for federal income tax purposes.

The Company, through Bimini Advisors, Inc., its taxable REIT subsidiary (the “Manager”), expects to provide management services to Orchid pursuant to the terms of a Management Agreement that is expected to be entered into by Orchid and the Manager upon completion of the Offering (the “Management Agreement”). The terms of the Management Agreement have not yet been finalized.

The Registration Statement has been filed by Orchid with the SEC but has not yet become effective. There can be no assurance that the Offering will be completed, or if completed, the terms thereof. The securities of Orchid may not be sold nor may offers to buy be accepted prior to the time the Registration Statement becomes effective. The offering of the Shares will be made only by means of a prospectus when made available by the underwriters of the Offering to potential investors.

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

### FORWARD-LOOKING STATEMENTS

When used in this Quarterly Report on Form 10-Q, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

These forward-looking statements are subject to various risks and uncertainties, including, but not limited to, those described or incorporated by reference in "Part II - Item 1A - Risk Factors" of this Form 10-Q. These and other risks, uncertainties and factors, including those described in reports that the Company files from time to time with the SEC, could cause the Company's actual results to differ materially from those reflected in such forward-looking statements. All forward-looking statements speak only as of the date they are made and the Company does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

The following discussion of the financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this report.

### INTRODUCTION

As used in this document, references to "Bimini Capital," the parent company, the registrant, and to real estate investment trust ("REIT") qualifying activities or the general management of Bimini Capital's portfolio of MBS refer to Bimini Capital Management, Inc. and its wholly-owned qualified REIT subsidiary, Orchid Island Capital, Inc. ("Orchid"). Further, references to Bimini Capital's taxable REIT subsidiaries or non-REIT eligible assets refer to Bimini Advisors, Inc. ("Bimini Advisors") and to MortCo TRS, LLC ("MortCo") and its consolidated subsidiaries. MortCo, which was previously named Opteum Financial Services, LLC, (referred to as "OFS") was renamed Orchid Island TRS, LLC (referred to as "OITRS") effective July 3, 2007 and then renamed MortCo TRS, LLC effective March 8, 2011. Hereinafter, any historical mention, discussion or references to Opteum Financial Services, LLC, Orchid Island TRS, LLC, OFS or to OITRS (such as in previously filed documents or Exhibits) now means MortCo. References to the "Company" refer to the consolidated entity which is the combination of Bimini Capital, Orchid, Bimini Advisors, MortCo and MortCo's consolidated subsidiaries.

Bimini Capital was formed in September 2003 to invest primarily in but not limited to, residential mortgage related securities issued by the Federal National Mortgage Association (more commonly known as Fannie Mae), the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac) and the Government National Mortgage Association (more commonly known as Ginnie Mae). Bimini Capital will deploy its capital into two core strategies. The two strategies are a levered MBS portfolio and an unlevered structured MBS portfolio. The leverage applied to the MBS portfolio will typically be less than twelve to one. Bimini Capital manages its portfolio of agency MBS and structured MBS to generate income derived from the net interest margin of its MBS portfolio, levered predominantly under repurchase agreement funding, net of associated hedging costs, and the interest income derived from its unlevered portfolio of structured MBS. Bimini Capital treats its remaining junior subordinated notes as an equity capital equivalent. Bimini Capital is self-managed and self-advised and has elected to be taxed as a REIT for U.S. federal income tax purposes.



On April 18, 2007, the Company and MortCo decided to close MortCo's wholesale and conduit mortgage loan origination channels. Both channels ceased accepting new applications for mortgage loans on April 20, 2007. On May 7, 2007, MortCo signed a binding agreement, later amended, to sell its retail mortgage loan origination channel to a third party. The transaction closed on June 30, 2007, and MortCo has not operated a mortgage loan origination business since that date. From the second quarter of 2007 through September 30, 2010, MortCo was reported as a discontinued operation following applicable accounting standards, since most of the remaining assets and liabilities were considered to be contingent and were held by MortCo pursuant to the terms of the disposal of the operations. The disposal of the retained interests asset was not achieved as a result of the lingering effects of the financial market crisis and a significant lack of investor interest in such securities, even though the Company made efforts to market such securities to previously active market participants. Because MortCo continued to hold these net assets, the remnants of the old mortgage banking business were no longer classified as discontinued operations effective October 1, 2010, and the related assets and liabilities previously classified as held for sale were reclassified to held and used for all periods presented.

#### DIVIDENDS TO STOCKHOLDERS

In order to maintain its qualification as a REIT, Bimini Capital is required (among other provisions) to annually distribute dividends to its stockholders in an amount at least equal to, generally, 90% of Bimini Capital's REIT taxable income. REIT taxable income is a term that describes Bimini Capital's operating results calculated in accordance with rules and regulations promulgated pursuant to the Internal Revenue Code.

Bimini Capital's REIT taxable income is computed differently from net income as computed in accordance with generally accepted accounting principles ("GAAP net income"), as reported in the Company's accompanying consolidated financial statements. Depending on the number and size of the various items or transactions being accounted for differently, the differences between REIT taxable income and GAAP net income can be substantial and each item can affect several reporting periods. Generally, these items are timing or temporary differences between years; for example, an item that may be a deduction for GAAP net income in the current year may not be a deduction for REIT taxable income until a later year. The most significant differences are as follows: the results of the Company's taxable REIT subsidiaries do not impact REIT taxable income, unrealized gains or losses on the investment securities portfolio do not impact REIT taxable income, and interest income on MBS securities is computed differently for REIT taxable income and GAAP.

As a REIT, Bimini Capital may be subject to a federal excise tax if it distributes less than 85% of its REIT taxable income by the end of the calendar year. Accordingly, Bimini Capital's dividends are based on its REIT taxable income (after considering the possible impact of applying NOLs to the income as described below in "Net Operating Losses"), as determined for federal income tax purposes, as opposed to its net income computed in accordance with GAAP (as reported in the accompanying consolidated financial statements).

During the three months ended September 30, 2012, the Company made no dividend distributions. All distributions are made at the discretion of the Company's Board of Directors and will depend on the Company's results of operations, financial conditions, maintenance of REIT status, availability of net operating losses and other factors that may be deemed relevant. The Company declared a special dividend in December 2009 and a regular dividend in each of the six quarters thereafter. In August 2011, the Company announced that it would suspend its quarterly dividend until at least early 2012. The Company continues to evaluate its dividend payment policy. However, as more fully described below, due to net operating losses incurred in prior periods, the Company is unlikely to declare and pay dividends to stockholders until such net operating losses have been consumed.



## NET OPERATING LOSSES

As described above, a REIT may be subject to a federal excise tax if it distributes less than 85% of its REIT taxable income by the end of a calendar year. In calculating the amount of excise tax payable in a given year, if any, Bimini Capital reduces REIT taxable income by distributions made to stockholders in the form of dividends and/or net operating losses (“NOL’s”) carried-over from prior years, to the extent any are available. Since income subject to excise tax is REIT taxable income less qualifying dividends and the application of NOL’s (in that order), a REIT may avoid excise taxes solely by application of available NOL’s without paying qualifying dividends to stockholders. Because Bimini Capital had an estimated \$10.7 million of NOL’s available as of December 31, 2011, in the future it could avoid excise taxes by applying such NOL’s to offset REIT taxable income without making any distributions to stockholders. Further, the REIT could avoid the obligation to pay excise taxes through a combination of qualifying dividends and the application of NOL’s. In any case, future distributions to stockholders are expected to be less than REIT taxable income until the existing NOL’s are consumed.

## RESULTS OF OPERATIONS

Described below are the Company’s results of operations for the nine and three months ended September 30, 2012, as compared to the Company’s results of operations for the nine and three months ended September 30, 2011.

## Net Loss Summary

Consolidated net loss for the nine months ended September 30, 2012 was \$0.1 million, or \$0.01 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net loss of \$0.2 million, or \$0.02 basic and diluted loss per share of Class A Common Stock, for the nine months ended September 30, 2011.

Consolidated net loss for the three months ended September 30, 2012 was \$0.8 million, or \$0.07 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net loss of \$1.9 million, or \$0.19 basic and diluted loss per share of Class A Common Stock, for the three months ended September 30, 2011.

The components of net loss for the nine and three months ended September 30, 2012 and 2011, along with the changes in those components are presented in the table below:

(in thousands)

|   | Nine Months Ended<br>September 30, |          |          | Three Months Ended<br>September 30, |            |          |
|---|------------------------------------|----------|----------|-------------------------------------|------------|----------|
|   | 2012                               | 2011     | Change   | 2012                                | 2011       | Change   |
| Net portfolio interest                        | \$3,203                            | \$3,835  | \$(632 ) | \$1,061                             | \$1,081    | \$(20 )  |
| Interest expense on junior subordinated notes | (792 )                             | (750 )   | (42 )    | (266 )                              | (250 )     | (16 )    |
| Losses on MBS and Eurodollar futures          | (1,994 )                           | (1,520 ) | (474 )   | (19 )                               | (2,801 )   | 2,782    |
| Net portfolio income (deficiency)             | 417                                | 1,565    | (1,148 ) | 776                                 | (1,970 )   | 2,746    |
| Other income                                  | 4,241                              | 3,840    | 401      | 796                                 | 2,436      | (1,640 ) |
| Expenses                                      | (4,772 )                           | (5,620 ) | 848      | (2,334 )                            | (2,379 )   | 45       |
| Net loss                                      | \$(114 )                           | \$(215 ) | \$101    | \$(762 )                            | \$(1,913 ) | \$1,151  |





## Net Portfolio Income

During the nine months ended September 30, 2012, the REIT generated \$3.2 million of net portfolio interest income, consisting of \$3.5 million of interest income from MBS assets offset by \$0.3 million of interest expense on repurchase liabilities. For the comparable period ended September 30, 2011, the REIT generated \$3.8 million of net portfolio interest income, consisting of \$4.0 million of interest income from MBS assets offset by \$0.2 million of interest expense on repurchase liabilities.

For the three months ended September 30, 2012, the REIT generated \$1.1 million of net portfolio interest income, consisting of \$1.2 million of interest income from MBS assets offset by \$0.1 million of interest expense on repurchase liabilities. For the comparable period ended September 30, 2011, the REIT generated \$1.1 million of net portfolio interest income, consisting of \$1.1 million of interest income from MBS assets offset by \$0.1 million of interest expense on repurchase liabilities.

The table below provides information on our portfolio average balances, interest income, yield on assets, average repurchase agreement balances, interest expense, cost of funds, net interest income and net interest rate for each quarter in 2012 and 2011 and for the nine month periods ended September 30, 2012 and 2011.

(dollars in thousands)

|                            | Average<br>MBS<br>Securities<br>Held | Interest<br>Income | Yield on<br>Average<br>MBS<br>Securities |  | Average<br>Repurchase<br>Agreements | Interest<br>Expense | Average<br>Cost of<br>Funds |  | Net<br>Portfolio<br>Interest<br>Income | Net<br>Interest<br>Spread |  |
|----------------------------|--------------------------------------|--------------------|--|--|-------------------------------------|---------------------|-----------------------------|--|--|---------------------------|--|
| <b>Three Months Ended,</b> |                                      |                    |  |  |                                     |                     |                             |  |  |                           |  |
| September 30, 2012         | \$ 118,820                           | \$ 1,164           | 3.92 %                                   |  | \$ 99,473                           | \$ 104              | 0.42 %                      |  | \$ 1,060                               | 3.50 %                    |  |
| June 30, 2012              | 116,753                              | 1,084              | 3.71 %                                   |  | 96,778                              | 108                 | 0.45 %                      |  | 976                                    | 3.26 %                    |  |
| March 31, 2012             | 106,374                              | 1,238              | 4.66 %                                   |  | 85,629                              | 73                  | 0.34 %                      |  | 1,165                                  | 4.32 %                    |  |
| December 31, 2011          | 89,670                               | 1,039              | 4.64 %                                   |  | 68,462                              | 59                  | 0.35 %                      |  | 980                                    | 4.29 %                    |  |
| September 30, 2011         | 101,102                              | 1,133              | 4.48 %                                   |  | 79,750                              | 53                  | 0.26 %                      |  | 1,080                                  | 4.22 %                    |  |
| June 30, 2011              | 115,521                              | 1,301              | 4.51 %                                   |  | 93,516                              | 72                  | 0.31 %                      |  | 1,229                                  | 4.20 %                    |  |
| March 31, 2011             | 126,084                              | 1,608              | 5.10 %                                   |  | 104,259                             | 87                  | 0.33 %                      |  | 1,521                                  | 4.77 %                    |  |
| <b>Nine Months Ended,</b>  |                                      |                    |  |  |                                     |                     |                             |  |  |                           |  |
| September 30, 2012         | \$ 113,983                           | \$ 3,486           | 4.08 %                                   |  | \$ 93,960                           | \$ 285              | 0.40 %                      |  | \$ 3,201                               | 3.68 %                    |  |
| September 30, 2011         | 114,236                              | 4,042              | 4.72 %                                   |  | 92,509                              | 212                 | 0.30 %                      |  | 3,830                                  | 4.42 %                    |  |

Interest income presented in the table above includes only interest earned on the Company's MBS investments and excludes interest earned on cash balances. Interest income and net portfolio interest income may not agree with the information presented in the income statement. Portfolio yields and costs of borrowings presented in the table above and the tables on pages 29 and 30 are calculated based on the average balances of the underlying investment portfolio/repurchase agreement balances and are annualized for the quarterly periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

## Interest Income and Average Earning Asset Yield

Interest income was \$3.5 million for the nine months ended September 30, 2012 and \$4.0 million for the nine months ended September 30, 2011 on yields of 4.08% and 4.72%, respectively. Average MBS holdings were \$114.0 million and \$114.2 million for the nine months ended September 30, 2012 and 2011, respectively. The \$0.6 million decrease

in interest income was due to a 64 basis point decrease in yields, combined with a \$0.3 million decrease in average MBS holdings.

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Interest income was \$1.2 million for the three months ended September 30, 2012 and \$1.1 million for the three months ended September 30, 2011 on yields of 3.92% and 4.48%, respectively. Average MBS holdings were \$118.8 million and \$101.1 million for the three months ended September 30, 2012 and 2011, respectively. The \$0.03 million increase in interest income was due to a \$17.7 million increase in average MBS holdings, partially offset by a 56 basis point decrease in yields.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured MBS and PT MBS for each quarter in 2012 and 2011 and for the nine month periods ended September 30, 2012 and 2011.

(dollars in thousands)

|                     | Average MBS Held |                |            | Interest Income |                |          | Realized Yield on Average MBS |                |       |   |      |   |
|---------------------|------------------|----------------|------------|-----------------|----------------|----------|-------------------------------|----------------|-------|---|------|---|
|                     | PT MBS           | Structured MBS | Total      | PT MBS          | Structured MBS | Total    | PT MBS                        | Structured MBS | Total |   |      |   |
| Three Months Ended, |                  |                |            |                 |                |          |                               |                |       |   |      |   |
| September 30, 2012  | \$ 105,190       | \$ 13,630      | \$ 118,820 | \$ 696          | \$ 468         | \$ 1,164 | 2.65                          | %              | 13.75 | % | 3.92 | % |
| June 30, 2012       | 101,991          | 14,762         | 116,753    | 863             | 221            | 1,084    | 3.38                          | %              | 6.00  | % | 3.71 | % |
| March 31, 2012      | 90,026           | 16,348         | 106,374    | 774             | 464            | 1,238    | 3.44                          | %              | 11.35 | % | 4.66 | % |
| December 31, 2011   | 71,230           | 18,440         | 89,670     | 596             | 443            | 1,039    | 3.35                          | %              | 9.60  | % | 4.64 | % |
| September 30, 2011  | 83,004           | 18,098         | 101,102    | 588             | 545            | 1,133    | 2.84                          | %              | 12.03 | % | 4.48 | % |
| June 30, 2011       | 98,060           | 17,461         | 115,521    | 755             | 546            | 1,301    | 3.08                          | %              | 12.52 | % | 4.51 | % |
| March 31, 2011      | 108,382          | 17,702         | 126,084    | 927             | 681            | 1,608    | 3.42                          | %              | 15.39 | % | 5.10 | % |
| Nine Months Ended,  |                  |                |            |                 |                |          |                               |                |       |   |      |   |
| September 30, 2012  | \$ 99,069        | \$ 14,914      | \$ 113,983 | \$ 2,333        | \$ 1,153       | \$ 3,486 | 3.14                          | %              | 10.31 | % | 4.08 | % |
| September 30, 2011  | 96,482           | 17,754         | 114,236    | 2,270           | 1,772          | 4,042    | 3.14                          | %              | 13.31 | % | 4.72 | % |

#### Interest Expense on Repurchase Agreements and the Cost of Funds

Average outstanding repurchase agreements were \$94.0 million and total interest expense was \$0.3 million for the nine months ended September 30, 2012. During the nine months ended September 30, 2011, average outstanding repurchase agreements were \$92.5 million and total interest expense was \$0.2 million. Our average cost of funds was 0.40% and 0.30% for the nine months ended September 30, 2012 and 2011, respectively. There was a \$0.1 million increase in interest expense for the nine months ended September 30, 2012 when compared to the nine months ended September 30, 2011. This change was due to a 10 basis point increase in borrowing costs, combined with a \$1.5 million increase in average outstanding repurchase agreements for the nine months ended September 30, 2012 when compared to the same period ended September 30, 2011.

For the three month period ended September 30, 2012, average outstanding repurchase agreements were \$99.5 million and total interest expense was \$0.1 million. During the three months ended September 30, 2011, average outstanding repurchase agreements were \$79.8 million and total interest expense was \$0.1 million. Our average cost of funds was 0.42% and 0.26% for the three months ended September 30, 2012 and 2011, respectively. There was a \$0.1 million increase in interest expense for the three months ended September 30, 2012 when compared to the three months ended September 30, 2011. This change was due to a \$19.7 million increase in average outstanding repurchase agreements combined with a 16 basis point increase in borrowing costs for the three months ended September 30, 2012 when compared to the same period ended September 30, 2011.

Since all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. Our average cost of funds was 19 basis points above average one-month LIBOR and 28 basis points below average six-month LIBOR for the quarter ended September 30, 2012. The average term to maturity of the outstanding repurchase agreements decreased from 25 days at December 31, 2011 to 18 days at September 30, 2012.

The Company has not elected to designate its derivative holdings, specifically, its investment in Eurodollar futures contracts, for hedge accounting treatment under the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging. Changes in fair value of these investments are presented in a separate line item in the Company's Consolidated Statements of Operations. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the Company's investment in Eurodollar futures contracts.

The table below presents the average repurchase agreements outstanding, interest expense and average cost of funds, and average one-month and six-month LIBOR rates for each quarter in 2012 and 2011 and for the nine month periods ended September 30, 2012 and 2011.

(dollars in thousands)

|                            | Average<br>Balance of<br>Repurchase<br>Agreements | Interest<br>Expense | Average<br>Cost of<br>Funds |   | Average<br>One-Month<br>LIBOR |   | Average<br>Six-Month<br>LIBOR |   | Average<br>Cost of<br>Funds<br>Relative to<br>Average<br>One-<br>Month<br>LIBOR |   | Average<br>Cost of<br>Funds<br>Relative to<br>Average<br>Six-<br>Month<br>LIBOR |    |
|----------------------------|---|---------------------|-----------------------------|---|-------------------------------|---|-------------------------------|---|---|---|---|----|
| <b>Three Months Ended,</b> |   |                     |                             |   |                               |   |                               |   |   |   |   |    |
| September 30, 2012         | \$99,473  | \$104               | 0.42                        | % | 0.23                          | % | 0.70                          | % | 0.19  | % | (0.28)  | )% |
| June 30, 2012              | 96,778  | 108                 | 0.45                        | % | 0.24                          | % | 0.74                          | % | 0.21  | % | (0.29)  | )% |
| March 31, 2012             | 85,629  | 73                  | 0.34                        | % | 0.26                          | % | 0.76                          | % | 0.08  | % | (0.42)  | )% |
| <b>December 31, 2011</b>   | 68,462  | 59                  | 0.35                        | % | 0.26                          | % | 0.65                          | % | 0.09  | % | (0.30)  | )% |
| September 30, 2011         | 79,750  | 53                  | 0.26                        | % | 0.21                          | % | 0.46                          | % | 0.05  | % | (0.20)  | )% |
| June 30, 2011              | 93,516  | 72                  | 0.31                        | % | 0.22                          | % | 0.43                          | % | 0.09  | % | (0.12)  | )% |
| March 31, 2011             | 104,259   | 87                  | 0.33                        | % | 0.26                          | % | 0.46                          | % | 0.07  | % | (0.13)  | )% |
| <b>Years Ended,</b>        |   |                     |                             |   |                               |   |                               |   |   |   |   |    |
| September 30, 2012         | \$93,960  | \$285               | 0.40                        | % | 0.25                          | % | 0.73                          | % | 0.15  | % | (0.33)  | )% |
| September 30, 2011         | 92,509  | 212                 | 0.30                        | % | 0.23                          | % | 0.45                          | % | 0.07  | % | (0.15)  | )% |

#### Junior Subordinated Notes

The junior subordinated debt securities had a fixed-rate of interest until December 15, 2010 of 7.86%, and thereafter, through maturity in 2035, the rate floats at a spread of 3.50% over the prevailing three-month LIBOR rate. As of September 30, 2012, the interest rate was 3.89%.

Interest expense on the Company's junior subordinated debt securities was \$0.79 million and \$0.75 million for the nine months ended September 30, 2012 and 2011, respectively. The average rate of interest for the nine months ended September 30, 2012 was 4.06% compared to 3.84% for the comparable period in 2011. Interest expense increased \$0.04 million for the nine months ended September 30, 2012 when compared to the same period in 2011 due to the 22 basis point increase in interest rates.

Interest expense on the Company's junior subordinated debt securities was \$0.27 million and \$0.25 million for the three months ended September 30, 2012 and 2011, respectively. The average rate of interest for the three months ended September 30, 2012 was 4.09% compared to 3.85% for the comparable period in 2011. Interest expense increased \$0.02 million for the three months ended September 30, 2012 when compared to the same period in 2011 due to the 24 basis point increase in interest rates.

## Gains and Losses

The table below presents the Company's gains and losses for the nine months ended September 30, 2012 and 2011.

(in thousands)

|                                | Nine Months Ended September 30, |         |         | Three Months Ended September 30, |         |         |
|--------------------------------|---------------------------------|---------|---------|----------------------------------|---------|---------|
|                                | 2012                            | 2011    | Change  | 2012                             | 2011    | Change  |
| Realized gains on sales of MBS | \$174                           | \$937   | \$(763) | \$3                              | \$394   | \$(391) |
| Fair value adjustments on MBS  | (1,405)                         | (1,280) | (125)   | 316                              | (2,373) | 2,689   |
| Total losses on MBS            | (1,231)                         | (343)   | (888)   | 319                              | (1,979) | 2,298   |
| Losses on Eurodollar futures   | (763)                           | (1,178) | 415     | (338)                            | (822)   | 484     |
| Gains on residual interests    | 4,205                           | 3,892   | 313     | 738                              | 2,451   | (1,713) |

During the nine months ended September 30, 2012 and 2011, the Company received proceeds of \$127.7 million and \$73.3 million, respectively, from the sales of MBS.

The retained interests in securitizations represent residual interests in loans originated or purchased by MortCo prior to securitization. Fluctuations in value of retained interests are primarily driven by projections of future interest rates (the forward LIBOR curve) and loss estimates on the underlying mortgage loans. During the nine and three months ended September 30, 2012, the Company recorded gains on retained interests of \$4.2 million and \$0.7 million, respectively, primarily because the loans underlying the securitizations performed better than expected.

## Operating Expenses

For the nine and three months ended September 30, 2012, Bimini Capital's total operating expenses were approximately \$4.8 million and \$2.3 million, compared to approximately \$5.6 million and \$2.4 million for the nine and three months ended September 30, 2011.

Included in legal fees for the nine months ended September 30, 2011 was approximately \$0.7 million of charges related to the defense of a lawsuit filed against the Company in connection with its repurchase of capital securities of Bimini Capital Trust II for less than par value. The lawsuit was settled in March 2011.

During the third quarter of 2011, Orchid withdrew its S-11 Registration Statement related to a proposed public offering of its common stock. The Registration Statement was withdrawn due to several market factors, most significantly the Federal debt ceiling extension crisis that played out in Congress in late July and early August of 2011. Included in other professional fees for the nine and three months ended September 30, 2011 are approximately \$1.0 million of expenses related to this attempted public offering.

On July 26, 2012, the Company and Orchid entered into an Agreement and Plan of Reorganization with FlatWorld Acquisition Corp. (“FlatWorld”). The proposed business transaction, which was structured as the merger of Orchid into a wholly owned subsidiary of FlatWorld, was expected to be completed in early September 2012. As a condition to closing the merger, FlatWorld provided its current shareholders with the opportunity to redeem their ordinary shares for cash by way of a tender offer without a shareholder vote and pursuant to the tender offer rules of the Securities and Exchange Commission. The tender offer, which expired on September 6, 2012 (the “Expiration Date”), was conditioned on, among other things, no more than 825,000 ordinary shares of FlatWorld being validly tendered and not validly withdrawn prior to the Expiration Date. The actual number of shares validly tendered and not validly withdrawn as of the Expiration Date exceeded the 825,000 threshold. As a result, on September 6, 2012, FlatWorld terminated the tender offer, the condition to closing the proposed merger was not met and the merger was not consummated. Included in other professional fees for the nine and three months ended September 30, 2012 are approximately \$0.9 million of expenses related to this attempted transaction.

The table below provides a breakdown of operating expenses for the periods ended September 30, 2012 and 2011.

(in thousands)

|  | Nine Months Ended September 30, |         |        | Three Months Ended September 30, |         |        |
|--|---------------------------------|---------|--------|----------------------------------|---------|--------|
|  | 2012                            | 2011    | Change | 2012                             | 2011    | Change |
| Direct REIT operating expenses                   | \$409                           | \$403   | \$6    | \$136                            | \$132   | \$4    |
| Compensation and benefits                        | 1,231                           | 1,393   | (162)  | 392                              | 443     | (51)   |
| Legal fees                                       | 650                             | 1,161   | (511)  | 372                              | 196     | 176    |
| Accounting, auditing and other professional fees | 1,466                           | 1,550   | (84)   | 1,037                            | 1,237   | (200)  |
| Directors’ fees and liability insurance          | 412                             | 453     | (41)   | 138                              | 150     | (12)   |
| Other G&A expenses                               | 604                             | 660     | (56)   | 259                              | 221     | 38     |
|  | \$4,772                         | \$5,620 | (848)  | \$2,334                          | \$2,379 | \$(45) |

Financial Condition:

#### Mortgage-Backed Securities

As of September 30, 2012, the MBS portfolio consisted of \$125.7 million of agency or government MBS at fair value and had a weighted average coupon on assets of 3.19%. During the nine months ended September 30, 2012, we received principal repayments of \$14.2 million compared to \$19.6 million for the comparable period ended September 30, 2011. The average prepayment speeds for the quarters ended September 30, 2012 and 2011 were 26.7% and 20.9%, respectively. (See table below for additional prepayment data).

The following table presents the constant prepayment rate (“CPR”) experienced on our structured and PT MBS sub-portfolios, on an annualized basis, for the quarterly periods presented. Assets that were not owned for the entire period have been excluded from the calculation. The exclusion of certain assets during periods of high trading activity, such as the PT MBS portfolio for the three months ended June 30, 2012, can create a very high, and often volatile, reliance on a small sample of underlying loans.

|   | PT MBS<br>Portfolio<br>(%) | Structured<br>MBS<br>Portfolio<br>(%) | Total<br>Portfolio<br>(%) |
|---|----------------------------|---------------------------------------|---------------------------|
| Three Months Ended,<br>September 30, 2012 | 8.8                        | 34.9                                  | 26.7                      |



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|                    |      |      |      |
|--------------------|------|------|------|
| June 30, 2012      | 1.1  | 36.4 | 34.7 |
| March 31, 2012     | 6.5  | 28.9 | 23.0 |
| December 31, 2011  | 14.1 | 33.7 | 31.1 |
| September 30, 2011 | 13.4 | 22.8 | 20.9 |
| June 30, 2011      | 11.8 | 13.0 | 12.7 |
| March 31, 2011     | 12.0 | 19.1 | 17.2 |

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The following tables summarize certain characteristics of the Company's agency and government mortgage related securities as of September 30, 2012 and December 31, 2011:

(in thousands)

| Asset Category                     | Fair Value | Percentage of Entire Portfolio | Weighted Average Coupon | Weighted Average Maturity in Months | Longest Maturity | Weighted Average Coupon Reset in Months | Weighted Average Lifetime Cap | Weighted Average Periodic Cap |
|------------------------------------|------------|--------------------------------|-------------------------|-------------------------------------|------------------|---|-------------------------------|-------------------------------|
| <b>September 30, 2012</b>          |            |                                |                         |                                     |                  |   |                               |                               |
| Adjustable Rate MBS                | \$ 21,603  | 17.2%                          | 3.26%                   | 270                                 | 1-Sep-35         | 8.52                                    | 9.72%                         | 2.00%                         |
| Fixed Rate MBS                     | 42,759     | 34.0%                          | 3.01%                   | 179                                 | 1-Dec-40         | NA                                      | NA                            | NA                            |
| Hybrid Adjustable Rate MBS         | 49,026     | 39.0%                          | 2.77%                   | 355                                 | 1-Jun-42         | 77.9                                    | 7.77%                         | 1.96%                         |
| Total Mortgage-backed Pass-through | 113,388    | 90.2%                          | 2.95%                   | 272                                 | 1-Jun-42         | 56.68                                   | 8.37%                         | 1.97%                         |
| Structured MBS                     | 12,351     | 9.8%                           | 5.36%                   | 301                                 | 25-Nov-40        | NA                                      | NA                            | NA                            |
| Total Mortgage Assets              | \$ 125,739 | 100.0%                         | 3.19%                   | 275                                 | 1-Jun-42         | NA                                      | NA                            | NA                            |
| <b>December 31, 2011</b>           |            |                                |                         |                                     |                  |   |                               |                               |
| Adjustable Rate MBS                | \$ 12,181  | 13.4%                          | 2.89%                   | 233                                 | 1-Jan-41         | 4.36                                    | 11.07%                        | 2.00%                         |
| Fixed Rate MBS                     | 35,417     | 38.9%                          | 4.84%                   | 178                                 | 1-Nov-40         | NA                                      | NA                            | NA                            |
| Hybrid Adjustable Rate MBS         | 25,466     | 27.9%                          | 3.57%                   | 354                                 | 1-Dec-41         | 95.21                                   | 8.83%                         | 2.00%                         |
| Total Mortgage-backed Pass-through | 73,064     | 80.2%                          | 4.07%                   | 249                                 | 1-Dec-41         | 65.82                                   | 9.55%                         | 2.00%                         |
| Structured MBS                     | 18,078     | 19.8%                          | 5.61%                   | 300                                 | 25-Nov-40        | NA                                      | NA                            | NA                            |
| Total Mortgage Assets              | \$ 91,142  | 100.0%                         | 4.37%                   | 259                                 | 1-Dec-41         | NA                                      | NA                            | NA                            |

(in thousands)

| Agency                                       | September 30, 2012 |                                |   | December 31, 2011  |                                |   |
|--|--------------------|--------------------------------|---|--------------------|--------------------------------|---|
|  | Fair Value         | Percentage of Entire Portfolio |   | Fair Value         | Percentage of Entire Portfolio |   |
| Fannie Mae                                   | \$117,385          | 93.36                          | % | \$58,628           | 64.32                          | % |
| Freddie Mac                                  | 6,631              | 5.27                           | % | 27,267             | 29.92                          | % |
| Ginnie Mae                                   | 1,723              | 1.37                           | % | 5,247              | 5.76                           | % |
| Total Portfolio                              | \$125,739          | 100.00                         | % | \$91,142           | 100.0                          | % |
| <b>Entire Portfolio</b>                      |                    |                                |   |                    |                                |   |
| Weighted Average Pass Through Purchase Price |                    |                                |   | September 30, 2012 | December 31, 2011              |   |
| Weighted Average Structured Purchase Price   |                    |                                |   | \$104.9            | \$104.43                       |   |
| Weighted Average Pass Through Current Price  |                    |                                |   | \$6.21             | \$6.13                         |   |
| Weighted Average Structured Current Price    |                    |                                |   | \$106.59           | \$106.13                       |   |
| Effective Duration (1)                       |                    |                                |   | \$6.55             | \$6.50                         |   |
|  |                    |                                |   | 2.654              | (3.492)                        | ) |

(1) Effective duration of 2.654 indicates that an interest rate increase of 1.0% would be expected to cause a 2.654% decrease in the value of the MBS in the Company's investment portfolio at September 30, 2012. An effective duration

of (3.492) indicates that an interest rate increase of 1.0% would be expected to cause a 3.492% increase in the value of the MBS in the Company's investment portfolio at December 31, 2011. These figures include the structured securities in the portfolio.

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The following table presents details related to portfolio assets acquired during the nine months ended September 30, 2012 and 2011.

(in thousands)

|                  | 2012       |               |                        | 2011       |               |                        |
|------------------|------------|---------------|------------------------|------------|---------------|------------------------|
|                  | Total Cost | Average Price | Weighted Average Yield | Total Cost | Average Price | Weighted Average Yield |
| Pass-through MBS | \$ 172,624 | 104.65        | 1.79 %                 | \$ 26,631  | 105.69        | 1.95 %                 |
| Structured MBS   | 5,056      | 9.49          | 16.87 %                | 19,686     | 11.14         | 15.91 %                |

The Company's portfolio of PT MBS will typically be comprised of adjustable-rate MBS, fixed-rate MBS and hybrid adjustable-rate MBS. The Company seeks to acquire low duration assets that offer high levels of protection from mortgage prepayments. Although the duration of an individual asset can change as a result of changes in interest rates, the Company strives to maintain a PT MBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying the Company's portfolio of PT MBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from the Company's investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

The duration of the Company's interest only ("IO") and inverse interest only ("IIO") portfolio will vary greatly depending on the structural features of the securities. While prepayment activity will always affect the cash flows associated with the securities, the interest only nature of IO's may cause their durations to become extremely negative when prepayments are high, and less negative when prepayments are low. With respect to IIO's, prepayments affect their durations in a similar fashion to that of IO's, but the floating rate nature of their coupon (which is inversely related to the level of one month LIBOR) cause their price movements – and model duration - to be affected by changes in both prepayments and one month LIBOR – both current and anticipated levels. As a result, the duration of IIO securities will also vary greatly.

Prepayments on the loans underlying the Company's MBS can alter the timing of the cash flows from the underlying loans to the Company. As a result, the Company gauges the interest rate sensitivity of its assets by measuring their effective duration. While modified duration measures the price sensitivity of a bond to movements in interest rates, effective duration captures both the movement in interest rates and the fact that cash flows to a mortgage related security are altered when interest rates move. Accordingly, when the contract interest rate on a mortgage loan is substantially above prevailing interest rates in the market, the effective duration of securities collateralized by such loans can be quite low because of expected prepayments. Although some of the fixed-rate MBS in the Company's portfolio are collateralized by loans with a lower propensity to prepay when the contract rate is above prevailing rates, their price movements track securities with like contract rates and therefore exhibit similar effective duration.

The Company faces the risk that the market value of its assets will increase or decrease at different rates than that of its liabilities, including its hedging instruments. Accordingly, the Company assesses its interest rate risk by estimating the duration of its assets and the duration of its liabilities. The Company generally calculates duration using various third party models. However, empirical results and various third party models may produce different duration numbers for the same securities.

The following sensitivity analysis shows the estimated impact on the fair value of the Company's interest rate-sensitive investments as of September 30, 2012, assuming rates instantaneously fall 100 basis points (“bps”), rise 100 bps and rise 200 bps:

(in thousands)

|                 | Fair Value | \$ Change in Fair Value |           |           | % Change in Fair Value |          |          |
|-----------------|------------|-------------------------|-----------|-----------|------------------------|----------|----------|
|                 |            | -100BPS                 | +100BPS   | +200BPS   | -100BPS                | +100BPS  | +200BPS  |
| Adjustable Rate |            |                         |           |           |                        |          |          |
| MBS             | \$21,603   | \$487                   | \$(487)   | \$(975)   | 2.26                   | % (2.26) | )(4.52)  |
| Hybrid          |            |                         |           |           |                        |          |          |
| Adjustable Rate |            |                         |           |           |                        |          |          |
| MBS             | 49,026     | 3,321                   | (3,321)   | (6,642)   | 6.77                   | % (6.77) | )(13.54) |
| Fixed Rate MBS  | 42,759     | 1,742                   | (1,742)   | (3,485)   | 4.07                   | % (4.07) | )(8.14)  |
| Structured MBS  | 12,351     | (2,214)                 | 2,214     | 4,428     | (17.93)                | )% 17.93 | )% 35.86 |
| Portfolio Total | \$125,739  | \$3,336                 | \$(3,336) | \$(6,674) | 2.65                   | % (2.65) | )(5.30)  |

The table below reflects the same analysis presented above but with the figures in the columns that indicate the estimated impact of a 100 bps fall or rise adjusted to reflect the impact of convexity.

(in thousands)

|                 | Fair Value | \$ Change in Fair Value |           |           | % Change in Fair Value |          |          |
|-----------------|------------|-------------------------|-----------|-----------|------------------------|----------|----------|
|                 |            | -100BPS                 | +100BPS   | +200BPS   | -100BPS                | +100BPS  | +200BPS  |
| Adjustable Rate |            |                         |           |           |                        |          |          |
| MBS             | \$21,603   | \$279                   | \$(502)   | \$(1,036) | 1.29                   | % (2.32) | )(4.80)  |
| Hybrid          |            |                         |           |           |                        |          |          |
| Adjustable Rate |            |                         |           |           |                        |          |          |
| MBS             | 49,026     | 2,869                   | (3,476)   | (7,012)   | 5.85                   | % (7.09) | )(14.30) |
| Fixed Rate MBS  | 42,759     | 1,177                   | (1,947)   | (4,136)   | 2.75                   | % (4.55) | )(9.67)  |
| Structured MBS  | 12,351     | (2,246)                 | 3,252     | 8,357     | (18.18)                | )% 26.33 | )% 67.66 |
| Portfolio Total | \$125,739  | \$2,079                 | \$(2,673) | \$(3,827) | 1.65                   | % (2.13) | )(3.04)  |

The Company has economically hedged a portion of its interest rate risk by entering into Eurodollar futures contracts. The Company did not elect hedging treatment under the applicable accounting standards, and as such, all gains and losses on these instruments are reflected in earnings. The table below reflects the impact on operations as of September 30, 2012, assuming rates fall 100 bps, rise 100 bps and rise 200 bps:

(in thousands)

|                      | Notional Amount (1) | \$ Change in Fair Value |         |         | % Change in Fair Value |         |         |
|----------------------|---------------------|-------------------------|---------|---------|------------------------|---------|---------|
|                      |                     | -100BPS                 | +100BPS | +200BPS | -100BPS                | +100BPS | +200BPS |
| Repurchase Agreement |                     |                         |         |         |                        |         |         |
| Hedges               | \$170,000           | \$(144)                 | \$425   | \$850   | (0.34)                 | )% 1.00 | )% 2.01 |
| Junior Subordinated  |                     |                         |         |         |                        |         |         |
| Debt Hedges          | 339,000             | (468)                   | 848     | 1,695   | (0.56)                 | )% 1.01 | )% 2.01 |
| Portfolio Total      | \$509,000           | \$(612)                 | \$1,273 | \$2,545 | (0.48)                 | )% 1.00 | )% 2.01 |

(1) Represents the total cumulative contract/notional amount of Eurodollar futures contracts outstanding.

In addition to changes in interest rates, other factors impact the fair value of Bimini Capital's interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of Bimini Capital's assets would likely differ from that shown above and such difference might be material and adverse to Bimini Capital's stockholders.

## Repurchase Agreements

As of September 30, 2012, the Company had established borrowing facilities in the repurchase agreement market with eight counterparties which we believe provide borrowing capacity in excess of our needs. None of these lenders are affiliated with the Company. As of September 30, 2012, we had funding in place with six of those counterparties. These borrowings are secured by the Company's MBS and bear interest rates that are based on a spread to LIBOR.

As of September 30, 2012, the Company had obligations outstanding under the repurchase agreements of approximately \$107.1 million with a net weighted average borrowing cost of 0.43%. The remaining maturity of the Company's outstanding repurchase agreement obligations ranged from 4 to 24 days, with a weighted average maturity of 18 days. Securing the repurchase agreement obligation as of September 30, 2012, are MBS with an estimated fair value, including accrued interest, of \$113.6 million and a weighted average maturity of 282 months. Through November 2, 2012, the Company has been able to maintain its repurchase facilities with comparable terms to those that existed at September 30, 2012 with maturities through January 29, 2013.

On October 31, 2011, MF Global Holding Ltd. ("MF") filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. As of September 30, 2011, a subsidiary of MF, MF Global, Inc. was the Company's largest repurchase agreement funding provider and the Company had approximately \$2.3 million at risk under such agreements. As of December 31, 2011 and September 30, 2012, the Company had no outstanding funding arrangements in place with MF under repurchase agreements. All repurchase agreements in place at September 30, 2011, have been terminated and all pledged assets have been returned. One reverse-repurchase agreement with MF has yet to be fully unwound and the Company has not received funds which are owed by MF to the Company in the amount of approximately \$343,000. During 2011, the Company established a reserve of \$300,000 against this balance, which still exists at September 30, 2012. The Company believes it is entitled to these funds; however, given the fact that MF is in bankruptcy, it is not known if or when the funds will be received.

The table below presents information about our period end and average repurchase agreement obligations for each quarter in 2012 and 2011.

(dollars in thousands)

| Three Months Ended, | Ending<br>Balance of<br>Repurchase<br>Agreements | Average<br>Balance of<br>Repurchase<br>Agreements | Difference Between Ending<br>Repurchase Agreements and<br>Average Repurchase<br>Agreements |             |
|---------------------|--|---|--|-------------|
|                     |  |   | Amount   | Percent     |
|                     |  |   | September 30, 2012   | \$ 107,121  |
| June 30, 2012       | 91,825   | 96,778  | (4,953)  | (5.12)%     |
| March 31, 2012      | 101,730  | 85,629  | 16,101   | 18.80%(a)   |
| December 31, 2011   | 69,528   | 68,462  | 1,066  | 1.56%       |
| September 30, 2011  | 67,396   | 79,750  | (12,354)   | (15.49%(b)) |
| June 30, 2011       | 92,105   | 93,516  | (1,411)  | (1.51)%     |
| March 31, 2011      | 94,927   | 104,259   | (9,332)  | (8.95%(c))  |

(a) The higher ending balance relative to the average balance reflects a shift in the portfolio allocation towards PT MBS that the Company funds through the repo market. During the quarter ended March 31, 2012, the Company's investment in PT MBS increased \$33.9 million.

(b) The lower ending balance relative to the average balance reflects a shift in the portfolio allocation towards assets that the Company does not fund through the repo market. During the quarter ended September 30, 2011, the Company's investment in PT MBS decreased \$27.2 million.

(c) The lower ending balance relative to the average balance reflects a shift in the portfolio allocation towards assets that the Company does not fund through the repo market. During the quarter ended March 31, 2011, the Company's investment in PT MBS decreased \$17.7 million.



## Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. Our principal immediate sources of liquidity include cash balances, unencumbered assets and borrowings under repurchase agreements. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our MBS portfolio, and from cash flows received from the retained interests and the collection of servicing advances. Management believes that we currently have sufficient liquidity and capital resources available for (a) the acquisition of additional investments consistent with the size and nature of our existing MBS portfolio, (b) the repayments on borrowings and (c) the payment of dividends to the extent required for Bimini's continued qualification as a REIT.

Because our PT MBS portfolio consists entirely of government and agency securities, we do not anticipate having difficulty converting our assets to cash should our liquidity needs ever exceed our immediately available sources of cash. Our structured MBS portfolio also consists entirely of governmental agency securities, although they typically do not trade with comparable bid / ask spreads as PT MBS. However, we anticipate that we would be able to liquidate such securities readily, even in distressed markets, albeit with potential haircuts.

Bimini Capital's master repurchase agreements have no stated expiration, but can be terminated at any time at Bimini Capital's option or at the option of the counterparty. However, once a definitive repurchase agreement under a master repurchase agreement has been entered into, it generally may not be terminated by either party. A negotiated termination can occur, but may involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction.

At September 30, 2012, the weighted average haircut our repurchase agreement counterparties required us to hold was approximately 5.5% of the estimated fair value of the underlying collateral.

Under our repurchase agreement funding arrangements we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we could then call our repo counterparty and have excess margin returned to us. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis.

As a result of losses incurred during and after the period when MortCo operated a mortgage loan origination business, the Company was forced to materially downsize its investment portfolio to raise cash, and was left with a depleted capital base. This period covered the years 2006, 2007 and 2008. These losses reduced the Company's access to funding via repurchase agreements. In order to augment its existing leveraged MBS portfolio with alternative sources of income, the Company developed an alternative investment strategy utilizing structured MBS with comparable borrower and prepayment characteristics to the securities historically held in the portfolio. Such securities are not funded in the repurchase market but instead are purchased directly, thus reducing – but not eliminating - the Company's reliance on access to repurchase agreement funding. The leverage inherent in the securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured MBS strategy has been a core element of the Company's overall investment strategy since 2008.



As of September 30, 2012, the Company had cash and cash equivalents of \$7.3 million. We generated cash flows of \$17.9 million from principal and interest payments on our MBS portfolio and \$3.4 million from retained interests during the nine months ended September 30, 2012. The table below summarizes the effect on our liquidity and cash flows from certain contractual obligations as of September 30, 2012.

(in thousands)

|  | Obligations Maturing |                    |                     |                      | Total     |
|--|----------------------|--------------------|---------------------|----------------------|-----------|
|  | Within One Year      | One to Three Years | Three to Five Years | More than Five Years |           |
| Repurchase agreements                            | \$107,121            | \$-                | \$-                 | \$-                  | \$107,121 |
| Interest expense on repurchase agreements(1)     | 69                   | -                  | -                   | -                    | 69        |
| Junior subordinated notes(2)                     | -                    | -                  | -                   | 26,000               | 26,000    |
| Interest expense on junior subordinated notes(1) | 920                  | 1,762              | 1,762               | 16,340               | 20,784    |
| Totals   | \$108,110            | \$1,762            | \$1,762             | \$42,340             | \$153,974 |

(1) Interest expense on repurchase agreements and junior subordinated notes are based on current interest rates as of September 30, 2012 and the remaining term of liabilities existing at that date.

(2) The Company holds a common equity interest in Bimini Capital Trust II. The amount presented represents the net cash outlay of the Company.

In October 2005, Bimini Capital completed a private offering of \$51.5 million of trust preferred securities of Bimini Capital Trust II ("BCTII") resulting in the issuance by Bimini Capital of an additional \$51.5 million of junior subordinated notes. On October 21, 2009, the Company purchased \$24 million of trust preferred capital securities issued by BCT II. The total cost for the transaction, including fees was approximately \$14.5 million. The Company cancelled the trust preferred capital securities and the \$24.74 million of its junior subordinated notes issued to BCT II. As of September 30, 2012, \$26.8 million of the trust preferred securities of BCT II remain outstanding.

## Outlook

As disclosed above, MortCo, in previous years, incurred significant losses in the operation of a mortgage loan origination business. The Company materially downsized its investment portfolio to raise cash to fund the MortCo operations, leaving the Company with a significantly smaller capital base. This smaller capital base makes it difficult to generate sufficient net interest income to cover expenses. Since MortCo terminated its operations in 2007, the Company has taken several significant steps designed to increase its probability of generating profits going forward, including a re-structuring of the portfolio, reducing expenses, retiring debt, and settling various litigation matters. In general, the Company still needs to increase its capital base, and/or create alternative sources of revenues, to ensure the generation of profits over the long-term. However, primarily because of litigation arising out of MortCo's prior mortgage business, raising capital directly into the Company has not been possible to date.

In an attempt to create an alternative source of revenue, during the second quarter of 2011, the Company took steps related to a proposed public offering of common stock by its qualified REIT subsidiary, Orchid. The Company would have been the manager of the portfolio of Orchid after the public offering, creating a new revenue stream to the Company. The Company would also have remained a significant owner of Orchid common shares. The offering was expected to be completed in July 2011. However, due to several market factors and economic events beyond the Company's control, the offering was withdrawn. The Company's loss for the year ended December 31, 2011 included approximately \$1.1 million of expenses related to this attempted public offering, which further depleted the Company's capital base.



The Company has since taken additional steps to launch Orchid and increase assets under management. On July 26, 2012, Orchid entered into an Agreement and Plan of Reorganization with FlatWorld Acquisition Corp. (“FlatWorld”). The proposed business transaction, which was structured as the merger of Orchid into a wholly owned subsidiary of FlatWorld, was expected to be completed in early September 2012. However, certain conditions of the merger were not met and the merger was not consummated. The Company’s loss for the nine and three months ended September 31, 2012 included approximately \$0.9 million of expenses related to this attempted transaction. On October 22, 2012, the Company filed a Form S-11 Registration Statement with the Securities and Exchange Commission related to a proposed initial public offering of common equity for Orchid. At this time, it is not known when or if such offering will be consummated. The Company, through Bimini Advisors, Inc., its taxable REIT subsidiary, would provide management services to Orchid following the completion of the proposed offering, thereby creating a new revenue stream for the Company.

For the year ended December 31, 2011, Bimini Capital generated a REIT taxable loss. As more fully described in footnote 10 to the accompanying financial statements, REIT taxable income or loss generated by qualifying REIT activities is computed in accordance with the Internal Revenue Code, which is different from the Company’s financial statement income or loss as computed in accordance with GAAP. In addition, Bimini Capital had REIT tax net operating loss carryovers of approximately \$10.7 million as of December 31, 2011 which are immediately available to offset future REIT taxable income.

The Company has used the term “REIT taxable income” throughout this document as being the amount available for distribution to its stockholders before any NOLs are applied, and before any distributions. In arriving at income that could be subjected to taxation at the REIT entity level for a given year, dividends paid in the current year and any NOL’s carried-over from prior periods are deducted (in that order) from current period income first. Net operating losses expire 20 years from the year they are incurred. Since the REIT currently has NOL’s from prior periods available to offset income in 2012 and in future periods, the Company has the option, but not the obligation, to apply such NOL’s against REIT taxable income. As a result, the REIT could have income in 2012 and in future years, but not make distributions to stockholders. This would occur if the REIT had sufficient NOL’s available to entirely offset the REIT income earned in a given year and chose to apply such NOL’s. The Company could also apply available NOL’s against a portion of future period earnings and reduce the distributions to stockholders. The Company is unlikely to declare and pay dividends to stockholders until existing NOL’s have been consumed.

#### Recent Developments – HARP (Home Affordable Refinancing Program)

In 2011 the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac announced changes to the Home Affordable Refinancing Program (HARP) which became effective on December 1, 2011. The changes to the program were designed to increase the number of loans currently eligible to be refinanced under existing guidelines and extend the term of the program through the end of 2013. The changes to the original HARP program were expected to increase refinancing activity of eligible loans – predominantly fixed rate mortgages with higher coupons (ranging from 5.5% to 6.5%) originated between 2006 and 2008. Only loans originated before May 31, 2009 are eligible for refinancing under HARP. To date the impact of the new HARP program terms has been an increase in prepayment speeds with respect to loans eligible for the program, however, the increase has been within management’s expectations and has not had a material impact on the Company’s portfolio and results of operations.

The table below provides details of the securities in our two portfolios that are eligible to be refinanced under the new HARP guidelines:

(\$ in thousands)

| Market Value of Securities where Underlying Pools were issued Prior to May 31, 2009 |                    |                  |             |                  |                         |          |   |
|---|--------------------|------------------|-------------|------------------|-------------------------|----------|---|
| Underlying Current Gross WAC (Borrower Mortgage Rate)                               |                    |                  |             |                  |                         |          |   |
|   | Less Than<br>4.00% | 4.0% -<br>4.99 % | 5.0%-5.99 % | 6.0% -<br>6.99 % | Greater<br>Than<br>7.0% | Total    | Total<br>Securities in<br>Sub-Portfolio |
| Pass-through portfolio  | \$18,241           | \$-              | \$-         | \$-              | \$-                     | \$18,241 | \$ 113,388                              |
| Structured security portfolio   | \$330              | \$-              | \$2,291     | \$4,992          | \$591                   | \$8,204  | \$ 12,351                               |
| Total   | \$18,571           | \$-              | \$2,291     | \$4,992          | \$591                   | \$26,445 | \$ 125,739                              |

| Percent of Securities where Underlying Pools were Issued Prior to May 31, 2009 |                       |                  |             |                  |                         |        |  |  |  |
|--|-----------------------|------------------|-------------|------------------|-------------------------|--------|--|--|--|
|  | Less<br>Than<br>4.00% | 4.0% -<br>4.99 % | 5.0%-5.99 % | 6.0% -<br>6.99 % | Greater<br>Than<br>7.0% | Total  |  |  |  |
| Pass-through portfolio   | 16.1 %                | -                | -           | -                | -                       | 16.1 % |  |  |  |
| Structured security portfolio  | 2.7 %                 | -                | 18.5 %      | 40.4 %           | 4.8 %                   | 66.4 % |  |  |  |
| Total  | 14.8 %                | -                | 1.8 %       | 4.0 %            | 0.5 %                   | 21.0 % |  |  |  |

#### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in our financial statements. These financial statements are prepared in accordance with GAAP. The Company's significant accounting policies are described in Note 1 to the Company's accompanying Consolidated Financial Statements.

GAAP requires the Company's management to make complex and subjective decisions and assessments. The Company's most critical accounting policies involve decisions and assessments which could significantly affect reported assets and liabilities, as well as reported revenues and expenses. The Company believes that all of the decisions and assessments upon which its financial statements are based were reasonable at the time made based upon information available to it at that time. There have been no changes to our accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2011.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.



#### ITEM 4. CONTROLS AND PROCEDURES.

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the “evaluation date”), the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer (“the CEO”) and Chief Financial Officer (“the CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures, as designed and implemented, were effective as of the evaluation date (1) in ensuring that information regarding the Company and its subsidiaries is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) in providing reasonable assurance that information the Company must disclose in its periodic reports under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC’s rules and forms.

##### Changes in Internal Controls over Financial Reporting

There were no significant changes in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.



PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in various lawsuits and claims, both actual and potential, including some that we have asserted against others, in which monetary and other damages are sought. Except as described below, these lawsuits and claims relate primarily to contractual disputes arising out of the ordinary course of our business. The outcome of such lawsuits and claims is inherently unpredictable. However, we believe that, in the aggregate, the outcome of all lawsuits and claims involving us will not have a material effect on our consolidated financial position or liquidity; however, any such outcome may be material to the results of operations of any particular quarterly reporting period in which costs, if any, are recognized. See also Note 9 to our accompanying consolidated financial statements.

A complaint by a note-holder in Preferred Term Securities XX (“PreTSL XX”) was filed on July 16, 2010 in the Supreme Court of the State of New York, New York County, against Bimini Capital Management, Inc. (“Bimini”), the Bank of New York Mellon (“BNYM”), PreTSL XX, Ltd. and Hexagon Securities, LLC (“Hexagon”). The complaint, filed by Hildene Capital Management, LLC and Hildene Opportunities Fund, Ltd. (“Hildene”), alleges that Hildene suffered losses as a result of Bimini’s repurchase of all outstanding fixed/floating rate capital securities of Bimini Capital Trust II for less than par value from PreTSL XX in October 2009. Hildene has alleged claims against BNYM for breach of the Indenture, breach of fiduciary duties and breach of covenant of good faith and fair dealing, and claims against Bimini for tortious interference with contract, aiding and abetting breach of fiduciary duty, unjust enrichment and “rescission/illegality”. Plaintiff also alleges derivative claims brought in the name of Nominal Defendant BNYM. (On May 2, 2011, Hexagon and Nominal Defendant PreTSL XX were voluntarily dismissed without prejudice by Hildene.) On May 23, 2011, Bimini and BNYM moved to dismiss Hildene’s derivative claims, and Bimini also moved to dismiss Hildene’s claim for “rescission/illegality.” On October 19, 2011, PreTSL XX moved to intervene as an additional plaintiff in the action, and Bimini and BNYM have opposed that motion.

On August 23, 2012, the court issued a Decision and Order granting PreTSL XX, Ltd.’s motion to intervene. Bimini and BNYM filed appeals in the Appellate Division, First Department in October 2012. It is expected that the joint appeal will be calendared for the Appellate Division’s January 2013 term. Bimini and BNYM have requested that all proceedings in the trial court be stayed pending resolution of their joint appeal. That request is currently under consideration by the trial court, and all proceedings have been stayed in the interim. Bimini denies that the repurchase was improper and intends to continue to defend the suit vigorously.

On March 2, 2011, MortCo and Opteum Mortgage Acceptance Corporation (“Opteum Acceptance”) (referred to together herein as “MortCo”) received a letter dated March 1, 2011 from Massachusetts Mutual Life Insurance Company (“Mass Mutual”) enclosing a draft complaint against MortCo. In summary, Mass Mutual alleges that it purchased residential mortgage-backed securities offered by MortCo in August 2005 and the first quarter of 2006 and that MortCo made false representations and warranties in connection with the sale of the securities in violation of Mass Gen. Laws Ch. 110A § 410(a)(2) (the “Massachusetts Blue Sky Law”). In its letter, Mass Mutual claims it is entitled to damages in excess of \$25 million. However, no monetary demand is contained within the enclosed draft complaint and the actual damages Mass Mutual claims to have incurred is uncertain.

Mass Mutual has not filed the complaint or initiated litigation. On March 14, 2011 Mass Mutual and MortCo entered into a Tolling Agreement through June 1, 2011 so that Mass Mutual could address its allegations against MortCo without incurring litigation costs. Mass Mutual has not yet contacted MortCo to schedule such discussions. The parties extended the Tolling Agreement through June 1, 2013.



MortCo denies it made false representations and warranties in connection with the sale of securities to Mass Mutual. Mass Mutual has taken no action to prosecute its claim against MortCo, and the range of loss or potential loss, if any, cannot reasonably be estimated. Should Mass Mutual initiate litigation, MortCo will defend such litigation vigorously.

#### ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The materialization of any risks and uncertainties identified in our forward looking statements contained in this report together with those previously disclosed in the Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows.

#### RISKS RELATED TO OUR BUSINESS

Substantial expenses could be incurred in exploring capital raising or other transactions for Orchid Island Capital that are not completed, which could have a material adverse effect on our stockholders' equity.

The investigation process prior to a potential capital raise, merger or spin-off of Orchid and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention as well as substantial fees payable to accountants, attorneys, investment bankers and other third parties. If we decide not to enter into an agreement with respect to a specific proposed transaction we have investigated, the costs incurred up to that point related to the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a proposed transaction, we may fail to complete the transaction for any number of reasons including those beyond our control. Any such event will result in an expense to us for the related costs incurred which could further deplete our capital base and limit our liquidity.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

##### UNREGISTERED SALES OF EQUITY SECURITIES

The Company did not have any unregistered sales of its equity securities during the three months ended September 30, 2012.

##### ISSUER PURCHASES OF EQUITY SECURITIES

The Company did not repurchase any shares of its stock during the three months ended September 30, 2012.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

#### ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.



ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS.

Exhibit No.

- 2.1 Agreement and Plan of Merger, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, dated September 29, 2005, filed with the SEC on September 30, 2005
- 3.1 Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Form S-11/A, filed with the SEC on April 29, 2004
- 3.2 Articles Supplementary, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated November 3, 2005, filed with the SEC on November 8, 2005
- 3.3 Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated February 10, 2006, filed with the SEC on February 15, 2006
- 3.4 Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
- 3.5 Certificate of Notice, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated January 28, 2008, filed with the SEC on February 1, 2008
- 3.6 Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
- †10.1 Employment Agreement between Bimini Mortgage Management, Inc. and Jeffrey J. Zimmer, incorporated by reference to Exhibit 10.3 to the Company's Form S-11/A, dated April 12, 2004, filed with the SEC on April 29, 2004
- †10.2 Employment Agreement between Bimini Mortgage Management, Inc. and Robert E. Cauley, incorporated by reference to Exhibit 10.4 to the Company's Form S-11/A, dated April 12, 2004, filed with the SEC on April 29, 2004
- †10.3 Bimini Capital Management, Inc. 2003 Long Term Incentive Compensation Plan, as amended September 28, 2007
- †10.4 Bimini Capital Management, Inc. 2004 Performance Bonus Plan, as amended September 28, 2007
- †10.5 Form of Phantom Share Award Agreement
- †10.6 Form of Restricted Stock Award Agreement
- †10.7 Separation Agreement and General Release, dated as of June 29, 2007, by and among Opteum Inc., Opteum Financial Services, LLC and Peter R. Norden, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated June 30, 2007, filed with the SEC on July 5, 2007
- 10.8 Voting Agreement, among certain stockholders of Bimini Mortgage Management, Inc., Jeffrey J. Zimmer, Robert E. Cauley, Amber K. Luedke, George H. Haas, IV, Kevin L. Bespolka, Maureen A. Hendricks, W. Christopher Mortenson, Buford H. Ortale, Peter Norden, certain of Mr. Norden's affiliates, Jason Kaplan, certain of Mr. Kaplan's affiliates and other former owners of Opteum Financial Services,

LLC, incorporated by reference to Exhibit 99(D) to the Schedule 13D, dated November 3, 2005, filed with the SEC on November 14, 2005

- 10.9 Membership Interest Purchase, Option and Investor Rights Agreement among Opteum Inc., Opteum Financial Services, LLC and Citigroup Global Markets Realty Corp. dated as of December 21, 2006, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated December 21, 2006, filed with the SEC on December 21, 2006
- 10.10 Seventh Amended and Restated Limited Liability Company Agreement of Orchid Island TRS, LLC, dated as of July 20, 2007, made and entered into by Opteum Inc. and Citigroup Global Markets Realty Corp., incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed with the SEC on August 14, 2007
- 10.11 Asset Purchase Agreement, dated May 7, 2007, by and among Opteum Financial Services, LLC, Opteum Inc. and Prospect Mortgage Company, LLC, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated May 7, 2007, filed with the SEC on May 7, 2007
- 10.12 First Amendment to Purchase Agreement, dated June 30, 2007, by and among Metrocities Mortgage, LLC – Opteum Division, Opteum Financial Services, LLC and Opteum Inc., incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 30, 2007, filed with the SEC on July 5, 2007
- 10.13 Bimini Capital Management, Inc. 2011 Long Term Incentive Compensation Plan, incorporated by reference to Exhibit 10.23 to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 29, 2011
- 10.14 Settlement Agreement and Mutual Release by an among First Bank (as successor to Coast Bank of Florida) and MortCo TRS, LLC dated January 20, 2012, incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed with the SEC on May 7, 2012
- \*31.1 Certification of the Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31.2 Certification of the Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*\*101.INS Instance Document

\*\*101.SCH Taxonomy Extension Schema Document

\*\*101.CAL Taxonomy Extension Calculation Linkbase Document

\*\*101.DEF Additional Taxonomy Extension Definition Linkbase Document

\*\*101.LAB Taxonomy Extension Label Linkbase Document

\*\*101.PRE Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\*Furnished electronically herewith

† Management compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.





Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIMINI CAPITAL MANAGEMENT, INC.

Date: November 2, 2012

By: /s/ Robert E. Cauley  
Robert E. Cauley  
Chairman and Chief Executive Officer

Date: November 2, 2012

By: /s/ G. Hunter Haas IV  
G. Hunter Haas IV  
President, Chief Financial Officer, Chief Investment  
Officer and Treasurer (Principal Financial Officer and  
Principal Accounting Officer)

