

BIMINI CAPITAL MANAGEMENT, INC.  
Form 10-Q  
August 03, 2018  
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 June 30, 2018

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 72-1571637  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

---

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

Title of each Class	Latest Practicable Date	Shares Outstanding
Class A Common Stock, \$0.001 par value	August 3, 2018	12,704,598
Class B Common Stock, \$0.001 par value	August 3, 2018	31,938
Class C Common Stock, \$0.001 par value	August 3, 2018	31,938

---

## BIMINI CAPITAL MANAGEMENT, INC.

## TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Financial Statements	1
Condensed Consolidated Balance Sheets (unaudited)	1
Condensed Consolidated Statements of Operations (unaudited)	2
Condensed Consolidated Statement of Stockholders' Equity (unaudited)	3
Condensed Consolidated Statements of Cash Flows (unaudited)	4
Notes to Condensed Consolidated Financial Statements	5
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	48
ITEM 4. Controls and Procedures	48
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	49
ITEM 1A. Risk Factors	49
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	49
ITEM 3. Defaults Upon Senior Securities	49
ITEM 4. Mine Safety Disclosures	49
ITEM 5. Other Information	49
ITEM 6. Exhibits	50
SIGNATURES	51

PART I. FINANCIAL INFORMATION  
ITEM 1. CONDENSED FINANCIAL STATEMENTS

BIMINI CAPITAL MANAGEMENT, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	June 30, 2018	December 31, 2017
<b>ASSETS:</b>		
Mortgage-backed securities, at fair value		
Pledged to counterparties	\$ 184,436,105	\$ 209,269,791
Unpledged	89,470	422,341
Total mortgage-backed securities	184,525,575	209,692,132
Cash and cash equivalents	6,589,041	6,103,250
Restricted cash	2,203,070	2,649,610
Orchid Island Capital, Inc. common stock, at fair value	11,430,671	14,105,934
Retained interests in securitizations	-	653,380
Accrued interest receivable	670,212	746,121
Property and equipment, net	3,335,803	3,359,312
Deferred tax assets, net	45,334,086	44,524,584
Other assets	2,992,400	2,754,474
Total Assets	\$ 257,080,858	\$ 284,588,797

LIABILITIES AND STOCKHOLDERS' EQUITY

<b>LIABILITIES:</b>		
Repurchase agreements	\$ 175,422,479	\$ 200,182,751
Junior subordinated notes due to Bimini Capital Trust II	26,804,440	26,804,440
Accrued interest payable	320,860	346,444
Other liabilities	1,759,929	1,562,914
Total Liabilities	204,307,708	228,896,549

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 100,000 shares designated Series A Junior Preferred Stock, 9,900,000 shares undesignated; no shares issued and outstanding as of June 30, 2018 and December 31, 2017	-	-
Class A Common stock, \$0.001 par value; 98,000,000 shares designated: 12,712,687 shares issued and outstanding as of June 30, 2018 and 12,660,627 shares issued and outstanding as of December 31, 2017	12,713	12,661
Class B Common stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2018 and December 31, 2017	32	32
Class C Common stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2018 and December 31, 2017	32	32
Additional paid-in capital	335,011,115	334,878,779

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

Accumulated deficit	(282,250,742)	(279,199,256)
Stockholders' Equity	52,773,150	55,692,248
Total Liabilities and Stockholders' Equity	\$257,080,858	\$284,588,797

See Notes to Condensed Consolidated Financial Statements

-1-

---

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

For the Six and Three Months Ended June 30, 2018 and 2017

	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Advisory services	\$4,060,459	\$3,458,044	\$1,966,994	\$1,788,043
Interest income	4,080,776	2,561,649	2,000,510	1,268,974
Dividend income from Orchid Island Capital, Inc. common stock	881,621	1,241,830	410,410	638,415
Total revenues	9,022,856	7,261,523	4,377,914	3,695,432
<b>Interest expense</b>				
Repurchase agreements	(1,746,554 )	(606,755 )	(937,288 )	(323,561 )
Junior subordinated notes	(709,485 )	(597,879 )	(372,152 )	(305,695 )
Net revenues	6,566,817	6,056,889	3,068,474	3,066,176
<b>Other expense:</b>				
Unrealized losses on mortgage-backed securities	(6,813,783 )	(464,037 )	(1,933,977 )	(26,924 )
Realized losses on mortgage-backed securities	(103,356 )	(689 )	(103,356 )	-
Unrealized (losses) gains on Orchid Island Capital, Inc. common stock	(2,675,263 )	(1,324,920 )	228,005	(197,605 )
Gains (losses) on derivative instruments	2,610,422	(810,013 )	869,710	(831,513 )
(Losses) gains on retained interests in securitizations	(251,831 )	304,117	(169,167 )	498,059
Other income	915	857	308	402
Total other expense	(7,232,896 )	(2,294,685 )	(1,108,477 )	(557,581 )
<b>Expenses:</b>				
Compensation and related benefits	2,102,531	1,814,948	1,036,076	879,037
Directors' fees and liability insurance	321,225	333,100	160,613	165,925
Audit, legal and other professional fees	298,506	226,580	122,754	89,456
Administrative and other expenses	667,455	658,317	331,295	298,987
Total expenses	3,389,717	3,032,945	1,650,738	1,433,405
Net (loss) income before income tax (benefit) provision	(4,055,796 )	729,259	309,259	1,075,190
Income tax (benefit) provision	(1,004,310 )	294,100	86,980	425,816
Net (loss) income	\$(3,051,486 )	\$435,159	\$222,279	\$649,374
<b>Basic and Diluted Net (loss) income Per Share of:</b>				
<b>CLASS A COMMON STOCK</b>				
Basic and Diluted	\$(0.24 )	\$0.03	\$0.02	\$0.05
<b>CLASS B COMMON STOCK</b>				
Basic and Diluted	\$(0.24 )	\$0.03	\$0.02	\$0.05
<b>Weighted Average Shares Outstanding:</b>				
<b>CLASS A COMMON STOCK</b>				
Basic and Diluted	12,729,666	12,701,627	12,770,265	12,701,627

CLASS B COMMON STOCK

Basic and Diluted	31,938	31,938	31,938	31,938
See Notes to Condensed Consolidated Financial Statements				



BIMINI CAPITAL MANAGEMENT, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 (Unaudited)  
 For the Six Months Ended June 30, 2018

	Stockholders' Equity			
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balances, January 1, 2018	\$ 12,725	\$ 334,878,779	\$(279,199,256)	\$55,692,248
Net loss	-	-	(3,051,486 )	(3,051,486 )
Class A common shares sold directly to employees	83	199,914	-	199,997
Class A common shares repurchased and retired	(31 )	(73,316 )	-	(73,347 )
Amortization of stock based compensation	-	5,738	-	5,738
Balances, June 30, 2018	\$ 12,777	\$ 335,011,115	\$(282,250,742)	\$52,773,150

See Notes to Condensed Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 For the Six Months Ended June 30, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(3,051,486	) \$435,159
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock based compensation	5,738	14,343
Depreciation	38,901	39,253
Deferred income tax (benefit) provision	(809,502	) 236,748
Losses on mortgage-backed securities, net	6,917,139	464,726
Losses (gains) on retained interests in securitizations	251,831	(304,117
Unrealized losses on Orchid Island Capital, Inc. common stock	2,675,263	1,324,920
Realized and unrealized losses on TBA securities	330,078	-
Changes in operating assets and liabilities:		
Accrued interest receivable	75,909	(28,441
Other assets	(237,926	) 80,628
Accrued interest payable	(25,584	) 6,769
Other liabilities	(146,735	) (652,568
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,023,626</b>	<b>1,617,420</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
From mortgage-backed securities investments:		
Purchases	(5,080,712	) (19,219,818
Sales	9,089,456	1,654,834
Principal repayments	14,240,674	4,919,272
Payments received on retained interests in securitizations	401,549	773,725
Purchases of property and equipment	(15,392	) (10,299
Net settlement of forward settling TBA contracts	13,672	-
Purchases of Orchid Island Capital, Inc. common stock	-	(1,204,235
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>18,649,247</b>	<b>(13,086,521</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from repurchase agreements	848,802,237	488,295,370
Principal repayments on repurchase agreements	(873,562,509)	(475,490,435)
Class A common shares repurchased and retired	(73,347	) -
Class A common shares sold directly to employees	199,997	-
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(24,633,622</b>	<b>) 12,804,935</b>
<b>NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>39,251</b>	<b>1,335,834</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period</b>	<b>8,752,860</b>	<b>5,651,437</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period</b>	<b>\$8,792,111</b>	<b>\$6,987,271</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$2,481,623	\$1,197,865

Income taxes	\$303,458	\$209,916
See Notes to Condensed Consolidated Financial Statements		

---

BIMINI CAPITAL MANAGEMENT, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
June 30, 2018

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Description

Bimini Capital Management, Inc., a Maryland corporation ("Bimini Capital" or the "Company") formed in September 2003, is a holding company. The Company operates in two business segments through its principal operating subsidiaries, Bimini Advisors Holdings, LLC and Royal Palm Capital, LLC.

Bimini Advisors Holdings, LLC and its wholly-owned subsidiary, Bimini Advisors, LLC (a registered investment advisor), are collectively referred to as "Bimini Advisors." Bimini Advisors manages a residential mortgage-backed securities ("MBS") portfolio for Orchid Island Capital, Inc. ("Orchid") and receives fees for providing these services. Bimini Advisors also manages the MBS portfolio of Royal Palm Capital, LLC.

Royal Palm Capital, LLC maintains an investment portfolio, consisting primarily of MBS investments, for its own benefit. Royal Palm Capital, LLC and its wholly-owned subsidiaries are collectively referred to as "Royal Palm."

Consolidation

The accompanying consolidated financial statements include the accounts of Bimini Capital, Bimini Advisors and Royal Palm. All inter-company accounts and transactions have been eliminated from the consolidated financial statements.

Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation, requires the consolidation of a variable interest entity ("VIE") by an enterprise if it is deemed the primary beneficiary of the VIE. Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital's junior subordinated notes. See Note 9 for a description of the accounting used for this VIE.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six and three month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

## 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 consolidated financial statements include determining the fair values of MBS, investment in Orchid common shares, derivatives and retained interests, determining the amounts of asset valuation allowances, and the computation of the income tax provision or benefit and the deferred tax asset allowances recorded for each accounting period.

## Statement of Comprehensive Income

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

## Segment Reporting

The Company's operations are classified into two principal reportable segments: the asset management segment and the investment portfolio segment. These segments are evaluated by management in deciding how to allocate resources and in assessing performance. The accounting policies of the operating segments are the same as the Company's accounting policies with the exception that inter-segment revenues and expenses are included in the presentation of segment results. For further information see Note 16.

## 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 at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and derivative instruments. The following table presents the Company's cash, cash equivalents and restricted cash as of June 30, 2018 and December 31, 2017.

(in thousands)

	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$6,589,041	\$6,103,250
Restricted cash	2,203,070	2,649,610
Total cash, cash equivalents and restricted cash	\$8,792,111	\$8,752,860

The Company maintains cash balances at several banks and, at times, these balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to \$250,000 per depositor at each financial institution. At June 30, 2018, the Company's cash deposits exceeded federally insured limits by approximately \$5.3 million. The Company also maintains excess margin in accounts with derivative exchanges. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known banks and derivative counterparties and believes that it is not exposed to significant credit risk on cash and cash equivalents or restricted cash balances.

## Advisory Services

Orchid is externally managed and advised by Bimini Advisors pursuant to the terms of a management agreement. Under the terms of the management agreement, Orchid is obligated to pay Bimini Advisors a monthly management fee and a pro rata portion of certain overhead costs and to reimburse the Company for any direct expenses incurred on its behalf.

-6-

---

## Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through ("PT") certificates, collateralized mortgage obligations, and interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of mortgage-backed loans. The Company has elected to account for its investment in MBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the consolidated 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 Company records MBS transactions on the trade date. Security purchases that have not settled as of the balance sheet date are included in the MBS balance with an offsetting liability recorded, whereas securities sold that have not settled as of the balance sheet date are removed from the MBS balance with an offsetting receivable recorded.

The fair value of the Company's investment in MBS is governed by ASC Topic 820, Fair Value Measurement. The definition of fair value in 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 independent pricing sources and/or third-party broker quotes, 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. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains on MBS in the consolidated statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively for future reporting periods 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. Changes in fair value of MBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying consolidated statements of operations. The amount reported as unrealized gains or losses on mortgage backed securities thus captures the net effect of changes in the fair market value of securities caused by market developments and any premium or discount lost as a result of principal repayments during the period.

## Orchid Island Capital, Inc. Common Stock

The Company has elected the fair value option for its investment in Orchid common shares. The change in the fair value of this investment and dividends received on this investment are reflected in the consolidated statements of operations. We estimate the fair value of our investment in Orchid on a market approach using "Level 1" inputs based on the quoted market price of Orchid's common stock on a national stock exchange. Electing the fair value option requires the Company to record changes in fair value in the consolidated statements of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with how the investment is managed.

## Retained Interests in Securitizations

Retained interests in the subordinated tranches of securities created in securitization transactions were initially recorded at their fair value when issued by Royal Palm. Subsequent adjustments to fair value are reflected in the consolidated statements of operations. Quoted market prices for these assets are generally not available, so the Company estimates fair value based on Level 3 inputs, as further discussed in Note 15.





## Derivative Financial Instruments

The Company uses derivative 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 principal instruments that the Company has used to date are Treasury Note ("T-Note") and Eurodollar futures contracts, and "to-be-announced" ("TBA") securities transactions, but it may enter into other derivatives in the future.

The Company purchases a portion of its MBS through forward settling transactions, including TBA securities transactions. At times when market conditions are conducive, the Company may choose to move the settlement of these TBA securities transactions out to a later date by entering into an offsetting short position, which is then net settled for cash, and simultaneously entering into a substantially similar TBA securities trade for a later settlement date. Such a set of transactions is referred to as a TBA "dollar roll" transaction. The TBA securities purchased at the later settlement date are typically priced at a discount to securities for settlement in the current month. This difference is referred to as the "price drop." The price drop represents compensation to the Company for foregoing net interest margin and is referred to as TBA "dollar roll income."

The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception of the TBA transaction, or throughout its term, that it will take physical delivery of the MBS for a long position, or make delivery of the MBS for a short position, upon settlement of the trade. The Company accounts for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with TBA securities transactions and dollar roll transactions are reported in gain (loss) on derivative instruments in the accompanying consolidated statements of operations. The fair value of TBA securities is estimated based on similar methods used to value MBS securities.

The Company does not account for any of its derivative financial instruments as hedges in order to align the accounting treatment of its derivative instruments with the treatment of its portfolio assets under the fair value option. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative instruments be carried at fair value. Changes in fair value are recorded in the consolidated operations for each period.

Holding derivatives creates exposure to credit risk related to the potential for failure by counterparties to honor their commitments. In addition, the Company may be required to post collateral based on any declines in the market value of the derivatives. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the agreement. To mitigate this risk, the Company uses only well-established commercial banks as counterparties.

## Financial Instruments

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, Orchid common stock, Eurodollar futures contracts, interest rate swaptions 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 15 of the consolidated financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, other assets, repurchase agreements, accrued interest payable and other liabilities generally approximates their carrying value as of June 30, 2018 and December 31, 2017, 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. Further Information regarding these instruments is presented in Note 9 to the consolidated 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.

#### Repurchase Agreements

The Company finances the acquisition of the majority of its PT MBS through the use of repurchase agreements under master repurchase agreements. Pursuant to ASC Topic 860, Transfers and Servicing, the Company accounts for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

#### Share-Based Compensation

The Company follows the provisions of 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. 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 the issuance of the common stock.

#### Earnings Per Share

The Company follows the provisions of 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 dividend distributions 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 treasury stock or two-class method, as applicable 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, if any, on each share of Class A Common Stock. 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

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on the Company's evaluation, it is more likely than not that they will not be realized.

The Company's U.S. federal income tax returns for years ended on or after December 31, 2014 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. For tax filing purposes, Bimini Capital and Bimini Advisors are consolidated as a single tax paying entity. Royal Palm files as a separate tax paying entity.

The Company measures, recognizes and presents its uncertain tax positions in accordance with ASC Topic 740, Income Taxes. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Company recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. The difference between the benefit recognized and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit and is recorded as a liability in the consolidated balance sheets. The Company records income tax-related interest and penalties, if applicable, within the income tax provision.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law by President Trump. The Tax Reform Act significantly revised the U.S. corporate income tax code by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. On the same date, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 which specifies, among other things, that reasonable estimates of the income tax effects of the Tax Reform Act should be used, if determinable. The Company has accounted for the effects of the Tax Reform Act using reasonable estimates based on currently available information and its interpretations thereof. This accounting may change due to, among other things, changes in interpretations the Company has made and the issuance of new tax or accounting guidance. GAAP requires that the effects of a change in tax rate on the value of deferred tax assets and deferred tax liabilities be recognized upon enactment.

## Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations.

## Recent Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows – (Topic 230): Restricted Cash. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company early adopted the ASU beginning with the first quarter of 2017.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). ASU 2016-13 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2019. Early application is permitted for fiscal periods beginning after December 15, 2018. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which implements a common revenue standard and clarifies the principles used for recognizing revenue. The amendments in the ASU clarify that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 became effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Interest income from MBS and dividend income from the investment in Orchid are scoped out of the new revenue recognition standard. Management fee income is within the scope of the new revenue recognition standard. As a result of the new revenue recognition standard there is no change to the recognition of management fees revenue as management fees are still recognized on a pro-rata basis during the period which the service is provided. Therefore the adoption of this ASU did not have a material impact on its consolidated financial statements.

## NOTE 2. ADVISORY SERVICES

Bimini Advisors serves as the manager and advisor for Orchid pursuant to the terms of a management agreement. As Manager, Bimini Advisors is responsible for administering Orchid's business activities and day-to-day operations. Pursuant to the terms of the management agreement, Bimini Advisors provides Orchid with its management team, including its officers, along with appropriate support personnel. Bimini Advisors is at all times subject to the supervision and oversight of Orchid's board of directors and has only such functions and authority as delegated to it. Bimini Advisors receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first \$250 million of the Orchid's equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Orchid's equity that is greater than \$250 million and less than or equal to \$500 million, and
- One-twelfth of 1.00% of the Orchid's equity that is greater than \$500 million.

Orchid is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf and to pay to Bimini Advisors an amount equal to Orchid's pro rata portion of certain overhead costs set forth in the management agreement. The management agreement has been renewed through February 20, 2019 and provides for automatic one-year extension options thereafter. Should Orchid terminate the management agreement without cause, it will pay

to Bimini Advisors a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the current automatic renewal term.

-11-

---

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

The following table summarizes the advisory services revenue from Orchid for the six and three months ended June 30, 2018 and 2017.

(in thousands)

	Six Months		Three Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Management fee	\$3,318	\$2,702	\$1,606	\$1,400
Allocated overhead	742	756	361	388
Total	\$4,060	\$3,458	\$1,967	\$1,788

At June 30, 2018 and December 31, 2017, the net amount due from Orchid was approximately \$0.7 million and \$0.8 million, respectively. These amounts are included in "other assets" in the consolidated balance sheets.

NOTE 3. MORTGAGE-BACKED SECURITIES

The following table presents the Company's MBS portfolio as of June 30, 2018 and December 31, 2017:

(in thousands)

	June 30, 2018	December 31, 2017
Pass-Through MBS:		
Fixed-rate Mortgages	\$182,342	\$207,179
Total Pass-Through MBS	182,342	207,179
Structured MBS:		
Interest-Only Securities	1,407	1,476
Inverse Interest-Only Securities	777	1,037
Total Structured MBS	2,184	2,513
Total	\$184,526	\$209,692

At June 30, 2018 and December 31, 2017, the portfolio consisted entirely of securities with contractual maturities in excess of ten years. 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.

NOTE 4. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of June 30, 2018 and December 31, 2017. The 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. Based on projected future cash flows, management has determined that the retained interests had no remaining fair value at June 30, 2018. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

(in thousands)

Series	Issue Date	June 30, 2018	December 31, 2017
HMAC 2004-3	June 30, 2004	\$ -	\$ 177
HMAC 2004-4	August 16, 2004	-	386
HMAC 2004-5	September 28, 2004	-	90

Total                                   \$ -   \$ 653

-12-

---



The Company is pursuing a potential transaction whereby certain securitizations associated with its retained interest positions would be terminated via the exercise of the optional early termination rights for such securitizations that the Company possesses. If such early termination transaction is executed the Company would likely receive distributions on the class C Certificates that support the retained interests. Such distributions are expected to be greater than the carrying value of the retained interests on the Company's balance sheet at June 30, 2018. If the transaction is consummated, these distributions could result in the Company recording gains on the retained interests, and such gains could be material. There are a number of conditions that must be met before such transaction can occur, many of which are beyond the Company's control. As a result, there is no assurance the transaction will be completed.

#### NOTE 5. REPURCHASE AGREEMENTS

As of June 30, 2018, the Company had outstanding repurchase agreement obligations of approximately \$175.4 million with a net weighted average borrowing rate of 2.13%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$185.1 million, and cash pledged to counterparties of approximately \$1.2 million. As of December 31, 2017, the Company had outstanding repurchase agreement obligations of approximately \$200.2 million with a net weighted average borrowing rate of 1.52%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$210.0 million, and cash pledged to counterparties of approximately \$2.2 million..

As of June 30, 2018 and December 31, 2017, the Company's repurchase agreements had remaining maturities as summarized below:

(\$ in thousands)

	OVERNIGHT 2 (1 DAY OR LESS)	BETWEEN AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
June 30, 2018					
Fair value of securities pledged, including accrued interest receivable	\$ -	\$ 90,638	\$ 94,464	\$ -	\$ 185,102
Repurchase agreement liabilities associated with these securities	\$ -	\$ 86,247	\$ 89,175	\$ -	\$ 175,422
Net weighted average borrowing rate	-	2.10	% 2.16	% -	2.13 %
December 31, 2017					
Fair value of securities pledged, including accrued interest receivable	\$ -	\$ 94,649	\$ 115,350	\$ -	\$ 209,999
Repurchase agreement liabilities associated with these securities	\$ -	\$ 90,686	\$ 109,497	\$ -	\$ 200,183
Net weighted average borrowing rate	-	1.47	% 1.56	% -	1.52 %

If, during the term of a repurchase agreement, a lender files 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 the accrued interest receivable, and cash posted by the Company as collateral, if any. At June 30, 2018 and December 31, 2017, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities and cash pledged (if any), including

accrued interest on such securities) with all counterparties of approximately \$10.6 million and \$11.7 million, respectively. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at June 30, 2018 or December 31, 2017.

-13-

---

## NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with its interest rate risk management strategy, the Company economically hedges a portion of the cost of its repurchase agreement funding and junior subordinated notes by entering into derivatives and other hedging contracts. To date the Company has entered into Eurodollar and T-Note futures contracts, but may enter into other contracts in the future. The Company has not elected hedging treatment under GAAP, and as such all gains or losses (realized and unrealized) on these instruments are reflected in earnings for all periods presented.

In addition, the Company utilizes TBA securities as a means of investing in and financing MBS or as a means of reducing its exposure to MBS. The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception and throughout the term of the TBA securities that it will take physical delivery of the MBS for a long position, or make delivery of the MBS for a short position, upon settlement of the trade.

## Derivative Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative assets and liabilities as of June 30, 2018 and December 31, 2017.

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	June 30, 2018	December 31, 2017
<b>Liabilities</b>			
TBA Securities	Other liabilities	\$ 344	\$ -
Total derivative liabilities, at fair value		\$ 344	\$ -
<b>Margin Balances Posted to Counterparties</b>			
Futures contracts	Restricted cash	\$ 617	\$ 442
TBA securities	Restricted cash	375	-
Total margin balances on derivative contracts		\$ 992	\$ 442

Eurodollar and T-Note futures are cash settled futures contracts on an interest rate, with gains and losses credited or charged to the Company's cash accounts on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The tables below present information related to the Company's Eurodollar positions at June 30, 2018 and December 31, 2017.

(\$ in thousands)

As of June 30, 2018

Expiration Year	Repurchase Agreement Funding Hedges			
	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity <sup>(1)</sup>
2018	\$80,000	2.11 %	2.57 %	\$ 185
2019	100,000	2.41 %	2.88 %	465
2020	100,000	2.64 %	2.98 %	335
2021	100,000	2.80 %	2.97 %	167
Total / Weighted Average	\$97,143	2.56 %	2.90 %	\$ 1,152



(\$ in thousands)

As of June 30, 2018

Expiration Year	Junior Subordinated Debt Funding Hedges				
	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity <sup>(1)</sup>	
	2018	\$26,000	1.39 %	2.55 %	\$ 151
	2019	26,000	1.63 %	2.88 %	323
2020	26,000	1.95 %	2.98 %	268	
2021	26,000	2.22 %	2.97 %	195	
Total / Weighted Average	\$26,000	1.85 %	2.88 %	\$ 937	

(\$ in thousands)

As of December 31, 2017

Expiration Year	Repurchase Agreement Funding Hedges				
	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity <sup>(1)</sup>	
	2018	\$60,000	1.90 %	1.97 %	\$ 41
	2019	60,000	2.32 %	2.27 %	(31 )
2020	60,000	2.60 %	2.36 %	(145 )	
2021	60,000	2.80 %	2.42 %	(230 )	
Total / Weighted Average	\$60,000	2.41 %	2.25 %	\$ (365 )	

(\$ in thousands)

As of December 31, 2017

Expiration Year	Junior Subordinated Debt Funding Hedges				
	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity <sup>(1)</sup>	
	2018	\$26,000	1.84 %	1.97 %	\$ 33
	2019	26,000	1.63 %	2.27 %	\$ 166
2020	26,000	1.95 %	2.36 %	\$ 107	
2021	26,000	2.22 %	2.42 %	\$ 51	
Total / Weighted Average	\$26,000	1.91 %	2.25 %	\$ 357	

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.

The following table summarizes our contracts to purchase and sell TBA securities as of June 30, 2018.

(\$ in thousands)

	Notional Amount Long (Short) <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
June 30, 2018 30-Year TBA Securities:	3.0% \$(50,000)	\$48,063	\$47,719	\$(344)

(1) Notional amount represents the par value (or principal balance) of the underlying Agency MBS.

(2) Cost basis represents the forward price to be paid (received) for the underlying Agency MBS.

(3) Market value represents the current market value of the TBA securities (or of the underlying Agency MBS) as of period-end.

(4) Net carrying value represents the difference between the market value and the cost basis of the TBA securities as of period-end and is reported in derivative assets (liabilities), at fair value in our consolidated balance sheets.

#### Gains (Losses) On Derivative Instruments

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the six and three months ended June 30, 2018 and 2017.

(in thousands)

	Six Months Ended June 30, 2018		Three Months Ended June 30, 2017	
Eurodollar futures contracts (short positions)				
Repurchase agreement funding hedges	\$1,624	\$(565)	\$534	\$(580)
Junior subordinated debt funding hedges	557	(245)	142	(251)
T-Note futures contracts (short positions)				
Repurchase agreement funding hedges	759	-	-	-
Net TBA securities	(330)	-	194	-
Gains (losses) on derivative instruments	\$2,610	\$(810)	\$870	\$(831)

#### Credit Risk-Related Contingent Features

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. The Company attempts to minimize this risk in several ways. For instruments which are not centrally cleared on a registered exchange, the Company limits its counterparties to major financial institutions with acceptable credit ratings, and by monitoring positions with individual counterparties. In addition, the Company may be required to pledge assets as collateral for its derivatives, whose amounts vary over time based on the market value, notional amount and remaining term of the derivative contract. In the event of a default by a counterparty, the Company may not receive payments provided for under the terms of its derivative agreements, and may have difficulty recovering its assets pledged as

collateral for its derivatives. The cash and cash equivalents pledged as collateral for the Company's derivative instruments are included in restricted cash on the consolidated balance sheets.

-16-

---

## NOTE 7. PLEDGED ASSETS

## Assets Pledged to Counterparties

The tables below summarize Bimini's assets pledged as collateral under its repurchase agreements and derivative agreements as of June 30, 2018 and December 31, 2017.

(\$ in thousands)

	June 30, 2018			December 31, 2017		
	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
Assets Pledged to Counterparties						
PT MBS - at fair value	\$182,342	\$ -	\$182,342	\$207,179	\$ -	\$207,179
Structured MBS - at fair value	2,094	-	2,094	2,091	-	2,091
Accrued interest on pledged securities	666	-	666	730	-	730
Restricted cash	1,211	992	2,203	2,208	442	2,650
Total	\$186,313	\$ 992	\$187,305	\$212,208	\$ 442	\$212,650

## Assets Pledged from Counterparties

The table below summarizes assets pledged to Bimini from counterparties under our repurchase agreements as of June 30, 2018 and December 31, 2017. Cash received as margin is recognized in cash and cash equivalents with a corresponding amount recognized as an increase in repurchase agreements in the consolidated balance sheets.

(\$ in thousands)

	June 30, 2018	December 31, 2017
Assets Pledged to Bimini		
Cash	\$270	\$ -
Total	\$270	\$ -

## NOTE 8. OFFSETTING ASSETS AND LIABILITIES

The Company's derivatives and repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis. The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2018 and December 31, 2017.

(in thousands)

## Offsetting of Liabilities

	Gross Amount of Recognized	Offset in the Consolidated	Net Amount of Liabilities Presented in the Consolidated	Gross Amount Not Offset in the Consolidated Balance Sheet Financial Instruments Posted as	Cash Posted as Net



Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

	Liabilities	Balance Sheet	Balance Sheet	Collateral	Collateral	Amount
June 30, 2018						
Repurchase Agreements	\$ 175,422	\$ -	\$ 175,422	\$(174,211)	\$(1,211 )	\$ -
TBA securities	344	-	344	-	(344 )	-
	\$ 175,766	\$ -	\$ 175,766	\$(174,211)	\$(1,555 )	\$ -
December 31, 2017						
Repurchase Agreements	\$ 200,183	\$ -	\$ 200,183	\$(197,975)	\$(2,208 )	\$ -

-17-

---

The amounts disclosed for collateral received by or posted to the same counterparty are limited to the amount sufficient to reduce the asset or liability presented in the consolidated balance sheet to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Note 7 for a discussion of collateral posted for, or received against, repurchase obligations and derivative instruments.

#### NOTE 9. 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 June 30, 2018 and December 31, 2017, 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 June 30, 2018, the interest rate was 5.84%. 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. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment to all present and future senior indebtedness.

BCTII is a VIE because the holders of the equity investment at risk do not have adequate decision making ability over BCTII's activities. Since Bimini Capital's investment in BCTII's common equity securities was financed directly by BCTII 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 investment in BCTII is 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 consolidated financial statements, and this investment is accounted for on the equity method.

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

#### NOTE 10. COMMON STOCK

The table below presents information related to Bimini Capital's Class A Common Stock issued during the six and three months ended June 30, 2018 and 2017.

	Six Months Ended June 30,		Three Months Ended June 30,	
Shares Issued Related To:	2018	2017	2018	2017
Shares sold directly to employees	83,332	-	-	-
Total shares of Class A Common Stock issued	83,332	-	-	-

There were no issuances of Bimini Capital's Class B Common Stock and Class C Common Stock during the six months ended June 30, 2018 and 2017.



## Stock Repurchase Plan

On March 26, 2018, the Board of Directors of Bimini Capital Management, Inc. (the "Company") approved a Stock Repurchase Plan ("Repurchase Plan"). Pursuant to Repurchase Plan, the Company may purchase up to 500,000 shares of its Class A Common Stock from time to time, subject to certain limitations imposed by Rule 10b-18 of the Securities Exchange Act of 1934. Share repurchases may be executed through various means, including, without limitation, open market transactions. The Repurchase Plan does not obligate the Company to purchase any shares, and it expires on November 15, 2018. The authorization for the Share Repurchase Plan may be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time.

Through June 30, 2018, the Company repurchased a total of 31,272 shares at an aggregate cost of approximately \$73,000, including commissions and fees, for a weighted average price of \$2.35 per share. Subsequent to that date, and through August 3, 2018, the Company has repurchased 8,089 shares for a net cost of approximately \$20,000 and a weighted average price of \$2.50 per share.

## NOTE 11. STOCK INCENTIVE PLANS

On August 12, 2011, Bimini Capital'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 Bimini Capital and to associate their interests with those of the Company and its stockholders. The 2011 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.

### Performance Units

The Compensation Committee of the Board of Directors of Bimini Capital (the "Committee") may issue Performance Units under the 2011 Plan to certain officers and employees. "Performance Units" represent the participant's right to receive an amount, based on the value of a specified number of shares of common stock, if the terms and conditions prescribed by the Committee are satisfied. The Committee will determine the requirements that must be satisfied before Performance Units are earned, including but not limited to any applicable performance period and performance goals. Performance goals may relate to the Company's financial performance or the participant's performance or such other criteria determined by the Committee, including goals stated with reference to the performance measures discussed below. If Performance Units are earned, they will be settled in cash, shares of common stock or a combination thereof.

The following table presents the activity related to Performance Units during the six months ended June 30, 2018 and 2017:

(\$ in thousands, except per share data)

	Six Months Ended June 30,			
	2018		2017	
	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Unvested, beginning of period	41,000	\$ 0.84	70,000	\$ 1.23
Granted	-	-	-	-
Vested and issued	-	-	-	-
Unvested, end of period	41,000	\$ 0.84	70,000	\$ 1.23
Compensation expense during the period		\$ 6		\$ 14
Unrecognized compensation expense at period end		\$ 5		\$ 25
Weighted-average remaining vesting term (in years)		0.5		1.0
Intrinsic value of unvested shares at period end		\$ 97		\$ 196

#### NOTE 12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any significant reported or unreported contingencies at June 30, 2018.

#### NOTE 13. INCOME TAXES

The total income tax (benefit) provision recorded for the six months ended June 30, 2018 and 2017 was \$(1.0) million and \$0.3 million, respectively, on consolidated pre-tax book (loss) income of \$(4.1) million and \$0.7 million in the six months ended June 30, 2018 and 2017, respectively. The total income tax provision recorded for the three months ended June 30, 2018 and 2017 was \$0.1 million and \$0.4 million, respectively, on consolidated pre-tax book income of \$0.3 million and \$1.1 million in the three months ended June 30, 2018 and 2017, respectively.

On December 22, 2017, the Tax Reform Act was signed into law by President Trump. The Tax Reform Act significantly revised the U.S. corporate income tax code by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. On the same date, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 which specifies, among other things, that reasonable estimates of the income tax effects of the Tax Reform Act should be used, if determinable. The tax provision for the six and three months ended June 30, 2018 represents the Company's current best estimate based on management's current interpretation of the Tax Reform Act and may change as the Company receives additional clarification and implementation guidance.

The Company's tax provision is based on a projected effective rate based annualized amounts and includes the expected realization of a portion of the tax benefits of federal and state net operating losses carryforwards ("NOLs"). In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of capital loss and NOL carryforwards is dependent upon the generation of future capital gains and taxable income in periods prior to their expiration. The Company currently provides a valuation allowance against a portion of the NOLs since the Company

believes that it is more likely than not that some of the benefits will not be realized in the future. The Company will continue to assess the need for a valuation allowance at each reporting date.

-20-

---

## NOTE 14. 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 June 30, 2018 and 2017.

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 June 30, 2018 and 2017.

The Company has dividend eligible stock incentive plan shares that were outstanding during the six and three months ended June 30, 2018. 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. Because 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 numerator and denominator of EPS for the six and three months ended June 30, 2018 and 2017.

(in thousands, except per-share information)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Basic and diluted EPS per Class A common share:				
(Loss) income attributable to Class A common shares:				
Basic and diluted	\$(3,043 )	\$434	\$221	\$647
Weighted average common shares:				
Class A common shares outstanding at the balance sheet date	12,713	12,632	12,713	12,632
Unvested dividend-eligible stock incentive plan shares outstanding at the balance sheet date	-	70	41	70
Effect of weighting	17	-	16	-
Weighted average shares-basic and diluted	12,730	12,702	12,770	12,702
(Loss) income per Class A common share:				
Basic and diluted	\$(0.24 )	\$0.03	\$0.02	\$0.05

(in thousands, except per-share information)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Basic and diluted EPS per Class B common share:				
(Loss) income attributable to Class B common shares:				
Basic and diluted	\$(8 )	\$1	\$1	\$2
Weighted average common shares:				

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

Class B common shares outstanding at the balance sheet date	32	32	32	32
Weighted average shares-basic and diluted	32	32	32	32
(Loss) income per Class B common share:				
Basic and diluted	\$(0.24)	\$0.03	\$0.02	\$0.05

-21-

---



NOTE 15. 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.

The Company's MBS are valued using Level 2 valuations, and such valuations are determined by the Company based on independent pricing sources and/or third-party broker quotes, 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 its MBS positions determined by either an independent third-party or could do so internally.

MBS, Orchid common stock, retained interests and TBA securities were all recorded at fair value on a recurring basis during the six and three months ended June 30, 2018 and 2017. 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 June 30, 2018 and December 31, 2017:

(in thousands)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Mortgage-backed securities	\$ 184,526	\$-	\$ 184,526	\$ -
Orchid Island Capital, Inc. common stock	11,431	11,431	-	-
TBA securities	(344	) -	(344	) -
December 31, 2017				
Mortgage-backed securities	\$ 209,692	\$-	\$ 209,692	\$ -
Orchid Island Capital, Inc. common stock	14,106	14,106	-	-
Retained interests in securitizations	653	-	-	653

The following table illustrates a roll forward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2018 and 2017:

(in thousands)

	Retained Interests in Securitizations Six Months Ended June 30,	
	2018	2017
Balances, January 1	\$653	\$1,114
(Loss) gain included in earnings	(252)	304
Collections	(401)	(774 )
Balances, June 30	\$-	\$644

During the six months ended June 30, 2018 and 2017, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

The 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. Based on projected future cash flows, management has determined that the retained interests had no remaining fair value at June 30, 2018. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

As discussed in Note 4, the Company is pursuing a potential transaction whereby certain securitizations associated with its retained interest positions would be terminated via the exercise of the optional early termination rights for such securitizations that the Company possesses. If such early termination transaction is executed the Company

would likely receive distributions on the class C Certificates that support the retained interests. Such distributions are expected to be greater than the carrying value of the retained interests on the Company's balance sheet at June 30, 2018. If the transaction is consummated, these distributions could result in the Company recording gains on the retained interests, and such gains could be material. There are a number of conditions that must be met before such transaction can occur, many of which are beyond the Company's control. As a result, there is no assurance the transaction will be completed.

-23-

---

## NOTE 16. SEGMENT INFORMATION

The Company's operations are classified into two principal reportable segments: the asset management segment and the investment portfolio segment.

The asset management segment includes the investment advisory services provided by Bimini Advisors to Orchid and Royal Palm. As discussed in Note 2, the revenues of the asset management segment consist of management fees and overhead reimbursements received pursuant to a management agreement with Orchid. Total revenues received under this management agreement for the six months ended June 30, 2018 and 2017, were approximately \$4.1 million and \$3.5 million, respectively, accounting for approximately 45% and 48% of consolidated revenues, respectively.

The investment portfolio segment includes the investment activities conducted by Bimini Capital and Royal Palm. The investment portfolio segment receives revenue in the form of interest and dividend income on its investments.

Segment information for the six months ended June 30, 2018 and 2017 is as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate Eliminations	Total
2018				
Advisory services, external customers	\$ 4,060	\$ -	\$ -	\$ 4,060
Advisory services, other operating segments <sup>(1)</sup>	120	-	(120)	-
Interest and dividend income	-	4,962	-	4,962
Interest expense	-	(1,746)	(709) <sup>(2)</sup>	(2,455)
Net revenues	4,180	3,216	(709)	6,567
Other	-	(7,539)	306 <sup>(3)</sup>	(7,233)
Operating expenses <sup>(4)</sup>	(1,498)	(1,892)	-	(3,390)
Intercompany expenses <sup>(1)</sup>	-	(120)	-	120
Income (loss) before income taxes	\$ 2,682	\$ (6,335)	\$(403)	\$ (4,056)

	Asset Management	Investment Portfolio	Corporate Eliminations	Total
2017				
Advisory services, external customers	\$ 3,458	\$ -	\$ -	\$ 3,458
Advisory services, other operating segments <sup>(1)</sup>	94	-	(94)	-
Interest and dividend income	-	3,803	1	3,804
Interest expense	-	(607)	(598) <sup>(2)</sup>	(1,205)
Net revenues	3,552	3,196	(597)	6,057
Other	-	(2,355)	60 <sup>(3)</sup>	(2,295)
Operating expenses <sup>(4)</sup>	(1,444)	(1,589)	-	(3,033)
Intercompany expenses <sup>(1)</sup>	-	(94)	-	94
Income (loss) before income taxes	\$ 2,108	\$ (842)	\$(537)	\$ 729

(1) Includes fees paid by Royal Palm to Bimini Advisors for advisory services.

(2) Includes interest on junior subordinated note.

(3) Includes gains (losses) on Eurodollar futures contracts entered into as a hedge on junior subordinated notes and fair value adjustments on retained interests in securitizations.

(4) Corporate expenses are allocated based on each segment's proportional share of total revenues.



Assets in each reportable segment were as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Total
June 30, 2018	\$ 1,578	\$ 241,110	\$ 14,393	\$ 257,081
December 31, 2017	1,632	267,429	15,528	284,589
June 30, 2017	2,067	212,752	20,659	235,478

#### NOTE 17. RELATED PARTY TRANSACTIONS

##### Relationships with Orchid

At both June 30, 2018 and December 31, 2017, the Company owned 1,520,036 shares of Orchid common stock, representing approximately 2.9% of the outstanding shares. The Company received dividends on this common stock investment of approximately \$0.9 million and \$0.4 million during the six and three months ended June 30, 2018, respectively, and approximately \$1.2 million and \$0.6 million during the six and three months ended June 30, 2017, respectively.

Robert Cauley, the Chief Executive Officer and Chairman of the Board of Directors of the Company, also serves as Chief Executive Officer and Chairman of the Board of Directors of Orchid, receives compensation from Orchid, and owns shares of common stock of Orchid. In addition, Hunter Haas, the Chief Financial Officer, Chief Investment Officer and Treasurer of the Company, also serves as Chief Financial Officer, Chief Investment Officer and Secretary of Orchid, is a member of Orchid's Board of Directors, receives compensation from Orchid, and owns shares of common stock of Orchid. Robert J. Dwyer and Frank E. Jaumot, our independent directors, each own shares of common stock of Orchid.

-25-

---

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included in Item 1 of this Form 10-Q. The discussion may contain certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are those that are not historical in nature. As a result of many factors, such as those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, our actual results may differ materially from those anticipated in such forward-looking statements.

### Overview

Bimini Capital Management, Inc. ("Bimini Capital" or the "Company") is a holding company that was formed in September 2003. The Company's principal operating subsidiaries are Bimini Advisors Holdings, LLC and Royal Palm Capital, LLC. We operate in two business segments: the asset management segment, which includes the investment advisory services provided by Bimini Advisors to Orchid, and the investment portfolio segment, which includes the investment activities conducted by Bimini Capital and Royal Palm.

Bimini Advisors Holdings, LLC and its wholly-owned subsidiary, Bimini Advisors, LLC (a registered investment advisor), are collectively referred to as "Bimini Advisors." Bimini Advisors serves as the external manager of the portfolio of Orchid Island Capital, Inc. ("Orchid"). From this arrangement, the Company receives management fees and expense reimbursements. As manager, Bimini Advisors is responsible for administering Orchid's business activities and day-to-day operations. Pursuant to the terms of the management agreement, Bimini Advisors provides Orchid with its management team, including its officers, along with appropriate support personnel. Bimini Advisors is at all times subject to the supervision and oversight of Orchid's board of directors and has only such functions and authority as delegated to it. In addition, the Company receives dividends from its investment in Orchid common shares.

Royal Palm Capital, LLC (collectively with its wholly-owned subsidiaries referred to as "Royal Palm") maintains an investment portfolio, consisting primarily of residential mortgage-backed securities ("MBS") issued and guaranteed by a federally chartered corporation or agency ("Agency MBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency MBS: (i) traditional pass-through Agency MBS ("PT MBS") and (ii) structured Agency MBS, such as collateralized mortgage obligations ("CMOs"), interest only securities ("IOs"), inverse interest only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency MBS.

### Stock Repurchase Plan

On March 26, 2018, the Board of Directors of Bimini Capital Management, Inc. (the "Company") approved a Stock Repurchase Plan ("Repurchase Plan"). Pursuant to Repurchase Plan, the Company may purchase up to 500,000 shares of its Class A Common Stock from time to time, subject to certain limitations imposed by Rule 10b-18 of the Securities Exchange Act of 1934. Share repurchases may be executed through various means, including, without limitation, open market transactions. The Repurchase Plan does not obligate the Company to purchase any shares, and it expires on November 15, 2018. The authorization for the Share Repurchase Plan may be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time.

Through June 30, 2018, the Company repurchased a total of 31,272 shares at an aggregate cost of approximately \$73,000, including commissions and fees, for a weighted average price of \$2.35 per share. Subsequent to that date, and through August 3, 2018, the Company has repurchased 8,089 shares for a net cost of approximately \$20,000 and a weighted average price of \$2.50 per share.





### Factors that Affect our Results of Operations and Financial Condition

A variety of industry and economic factors may impact our results of operations and financial condition. These factors include:

- interest rate trends;
- the difference between Agency MBS yields and our funding and hedging costs;
- competition for investments in Agency MBS;
- actions taken by the U.S. government, including the presidential administration, the Federal Reserve (the "Fed"), the Federal Open Market Committee (the "FOMC") and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency MBS, and credit trends insofar as they affect prepayment rates; and
- the equity markets and the ability of Orchid to raise additional capital; and
- other market developments.

In addition, a variety of factors relating to our business may also impact our results of operations and financial condition. These factors include:

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments;
- the requirements to qualify for a registration exemption under the Investment Company Act;
- our ability to use net operating loss carryforwards and net capital loss carryforwards to reduce our taxable income;
- the impact of possible future changes in tax laws; and
- our ability to manage the portfolio of Orchid and maintain our role as manager.

### Results of Operations

Described below are the Company's results of operations for the six and three months ended June 30, 2018, as compared to the six and three months ended June 30, 2017.

#### Net (Loss) Income Summary

Consolidated net loss for the six months ended June 30, 2018 was \$3.1 million, or \$0.24 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net income of \$0.4 million, or \$0.03 basic and diluted income per share of Class A Common Stock, for the six months ended June 30, 2017.

Consolidated net income for the three months ended June 30, 2018 was \$0.2 million, or \$0.02 basic and diluted income per share of Class A Common Stock, as compared to consolidated net income of \$0.6 million, or \$0.05 basic and diluted income per share of Class A Common Stock, for the three months ended June 30, 2017.

The components of net (loss) income for the six and three months ended June 30, 2018 and 2017, along with the changes in those components are presented in the table below:

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Advisory services revenues	\$4,060	\$3,458	\$602	\$1,967	\$1,788	\$ 179
Interest and dividend income	4,962	3,804	1,158	2,411	1,907	504
Interest expense	(2,455)	(1,205)	(1,250)	(1,310)	(629)	(681)
Net revenues	6,567	6,057	510	3,068	3,066	2
Other expense	(7,233)	(2,295)	(4,938)	(1,108)	(558)	(550)
Expenses	(3,390)	(3,033)	(357)	(1,651)	(1,433)	(218)
Net (loss) income before income tax (benefit) provision	(4,056)	729	(4,785)	309	1,075	(766)
Income tax (benefit) provision	(1,005)	294	(1,299)	87	426	(339)
Net (loss) income	\$(3,051)	\$435	\$(3,486)	\$222	\$649	\$(427)

#### GAAP and Non-GAAP Reconciliation

##### Economic Interest Expense and Economic Net Interest Income

We use derivative instruments, specifically Eurodollar and Treasury Note ("T-Note") futures contracts, interest rate swaps and swaptions, to hedge a portion of the interest rate risk on repurchase agreements in a rising rate environment.

We have not elected to designate our derivative holdings 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 instruments are presented in a separate line item in our consolidated statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, GAAP interest expense has been adjusted to reflect the realized gains or losses on specific derivative instruments that pertain to each period presented. We believe that adjusting our interest expense for the periods presented by the gains or losses on all derivative instruments would not accurately reflect our economic interest expense for these periods. For each period presented, we have combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on borrowings to reflect total economic interest expense for the applicable period. Interest expense, including the effect of derivative instruments for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of derivative instruments for the period, is referred to as economic net interest income. This presentation includes gains or losses on all contracts in effect during the reporting period, covering the current period as well as periods in the future.

We believe that economic interest expense and economic net interest income provide meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help management to evaluate its financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio or operations. The unrealized gains or losses on derivative instruments presented in our consolidated statements of operations are not necessarily representative of the total interest rate expense that we will ultimately realize. This is because as interest rates move up or down in the future, the gains or losses we ultimately realize, and which will affect our total interest rate expense in future periods, may differ from the unrealized gains or losses recognized as of the reporting date.



Our presentation of the economic value of our hedging strategy has important limitations. First, other market participants may calculate economic interest expense and economic net interest income differently than the way we calculate them. Second, while we believe that the calculation of the economic value of our hedging strategy described above helps to present our financial position and performance, it may be of limited usefulness as an analytical tool. Therefore, the economic value of our investment strategy should not be viewed in isolation and is not a substitute for interest expense and net interest income computed in accordance with GAAP.

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the consolidated statements of operations line item, gains (losses) on derivative instruments, calculated in accordance with GAAP for each quarter in 2018 and 2017.

Gains (Losses) on Derivative Instruments - Recognized in Consolidated Statement of Operations (GAAP)  
(in thousands)

	Recognized in Statement of Operations (GAAP)	TBA		Junior	
		Securities Income (Loss)	Repurchase Agreements	Subordinated Debt	
Three Months Ended					
June 30, 2018	\$ 870	\$ 194	\$ 534	\$ 142	
March 31, 2018	1,741	(523 )	1,849	415	
December 31, 2017	783	-	546	237	
September 30, 2017	(19 )	-	(13 )	(6 )	
June 30, 2017	(832 )	-	(581 )	(251 )	
March 31, 2017	22	-	15	7	

(in thousands)

	Recognized in Statement of Operations (GAAP)	TBA		Junior	
		Securities Income (Loss)	Repurchase Agreements	Subordinated Debt	
Six Months Ended					
June 30, 2018	\$ 2,610	\$ (329 )	\$ 2,383	\$ 557	
June 30, 2017	(810 )	-	(566 )	(244 )	

Losses on Derivative Instruments - Attributed to Current Period (Non-GAAP)  
(in thousands)

	Attributed to Current Period (Non-GAAP)			Attributed to Future Periods (Non-GAAP)		
	Junior		Total	Junior		Total
	Repurchase Agreements	Subordinated Debt		Repurchase Agreements	Subordinated Debt	
Three Months Ended						
June 30, 2018	\$ (108)	\$ (19 )	\$ (127)	\$ 642	\$ 161	\$ 803
March 31, 2018	(154)	(33 )	(187)	2,003	448	2,451
December 31, 2017	(170)	(42 )	(212)	716	279	995
September 30, 2017	(162)	(40 )	(202)	149	34	183

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

June 30, 2017	(152)	(37	)	(189)	(429 )	(214	)	(643 )
March 31, 2017	(115)	(60	)	(175)	130	67		197

(in thousands)

Six Months Ended	Junior			Junior		
	Repurchase	Subordinated	Total	Repurchase	Subordinated	Total
	Agreement	Debt		Agreement	Debt	
June 30, 2018	\$(262)	\$ (52	) \$(314)	\$2,645	\$ 609	\$3,254
June 30, 2017	(267)	(97	) (364)	(299 )	(147	) (446 )

-29-

---

Economic Net Portfolio Interest Income  
 (in thousands)

Three Months Ended	Interest Expense on Repurchase Agreements				Net Portfolio Interest Income	
	Interest Income	GAAP Basis	Effect of Non-GAAP Hedges <sup>(1)</sup>	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(3)</sup>
June 30, 2018	\$2,001	\$937	\$ (108 )	\$ 1,045	\$1,064	\$ 956
March 31, 2018	2,080	809	(154 )	963	1,271	1,117
December 31, 2017	1,978	685	(170 )	855	1,293	1,123
September 30, 2017	1,514	504	(162 )	666	1,010	848
June 30, 2017	1,269	324	(152 )	476	945	793
March 31, 2017	1,293	283	(115 )	398	1,010	895

(in thousands)

Six Months Ended	Interest Expense on Repurchase Agreements				Net Portfolio Interest Income	
	Interest Income	GAAP Basis	Effect of Non-GAAP Hedges <sup>(1)</sup>	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(3)</sup>
June 30, 2018	\$4,081	\$1,747	\$ (262 )	\$ 2,009	\$2,334	\$ 2,072
June 30, 2017	2,562	607	(267 )	874	1,955	1,688

(1) Reflects the effect of derivative instrument hedges for only the period presented.

(2) Calculated by subtracting the effect of derivative instrument hedges attributed to the period presented from GAAP interest expense.

(3) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net portfolio interest income.

 Economic Net Interest Income  
 (in thousands)

Three Months Ended	Net Portfolio Interest Income		Interest Expense on Junior Subordinated Notes			Net Interest Income	
	GAAP Basis	Economic Basis <sup>(1)</sup>	GAAP Basis	Effect of Non-GAAP Hedges <sup>(2)</sup>	Economic Basis <sup>(3)</sup>	GAAP Basis	Economic Basis <sup>(4)</sup>
June 30, 2018	\$1,064	\$ 956	\$372	\$ (19 )	\$ 391	\$692	\$ 565
March 31, 2018	1,271	1,117	337	(33 )	370	934	747
December 31, 2017	1,293	1,123	324	(42 )	366	969	757
September 30, 2017	1,010	848	316	(40 )	356	694	492
June 30, 2017	945	793	306	(37 )	343	639	450
March 31, 2017	1,010	895	292	(60 )	352	718	543

(in thousands)

Net Portfolio Interest Income	Interest Expense on Junior Subordinated Notes			Net Interest Income		
	GAAP	Economic	GAAP	Effect of Non-GAAP Hedges <sup>(2)</sup>	Economic	GAAP

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

Six Months Ended	Basis	Basis <sup>(1)</sup>	Basis	Hedges <sup>(2)</sup>	Basis <sup>(3)</sup>	Basis	Basis <sup>(4)</sup>
June 30, 2018	\$2,334	\$ 2,072	\$709	\$ (52 )	\$ 761	\$1,625	\$ 1,311
June 30, 2017	1,955	1,688	598	(97 )	695	1,357	993

(1) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net portfolio interest income.

(2) Reflects the effect of derivative instrument hedges for only the period presented.

(3) Calculated by subtracting the effect of derivative instrument hedges attributed to the period presented from GAAP interest expense.

(4) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net interest income.

-30-

---

## Segment Information

We have two operating segments. The asset management segment includes the investment advisory services provided by Bimini Advisors to Orchid and Royal Palm. The investment portfolio segment includes the investment activities conducted by Bimini Capital and Royal Palm. Segment information for the six months ended June 30, 2018 and 2017 is as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate Eliminations	Total
2018				
Advisory services, external customers	\$ 4,060	\$ -	\$ -	\$ 4,060
Advisory services, other operating segments <sup>(1)</sup>	120	-	-	(120)
Interest and dividend income	-	4,962	-	4,962
Interest expense	-	(1,746)	(709) <sup>(2)</sup>	(2,455)
Net revenues	4,180	3,216	(709)	(120)
Other	-	(7,539)	306 <sup>(3)</sup>	-
Operating expenses <sup>(4)</sup>	(1,498)	(1,892)	-	-
Intercompany expenses <sup>(1)</sup>	-	(120)	-	120
Income (loss) before income taxes	\$ 2,682	\$ (6,335)	\$(403)	\$ -
				\$ (4,056)
2017				
Advisory services, external customers	\$ 3,458	\$ -	\$ -	\$ 3,458
Advisory services, other operating segments <sup>(1)</sup>	94	-	-	(94)
Interest and dividend income	-	3,803	1	-
Interest expense	-	(607)	(598) <sup>(2)</sup>	-
Net revenues	3,552	3,196	(597)	(94)
Other	-	(2,355)	60 <sup>(3)</sup>	-
Operating expenses <sup>(4)</sup>	(1,444)	(1,589)	-	-
Intercompany expenses <sup>(1)</sup>	-	(94)	-	94
Income (loss) before income taxes	\$ 2,108	\$ (842)	\$(537)	\$ -
				\$ 729

(1) Includes advisory services revenue received by Bimini Advisors from Royal Palm.

(2) Includes interest on junior subordinated note.

(3) Includes gains (losses) on Eurodollar futures contracts entered into as a hedge on junior subordinated notes and fair value adjustments on retained interests in securitizations.

(4) Corporate expenses are allocated based on each segment's proportional share of total revenues..

Assets in each reportable segment were as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Total
June 30, 2018	\$ 1,578	\$ 241,110	\$ 14,393	\$ 257,081
December 31, 2017	1,632	267,429	15,528	284,589
June 30, 2017	2,067	212,752	20,659	235,478





Asset Management Segment

## Advisory Services Revenue

Advisory services revenue consists of management fees and overhead reimbursements charged to Orchid for the management of its portfolio pursuant to the terms of a management agreement. We receive a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first \$250 million of the Orchid's equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Orchid's equity that is greater than \$250 million and less than or equal to \$500 million, and
- One-twelfth of 1.00% of the Orchid's equity that is greater than \$500 million.

In addition, Orchid is obligated to reimburse us for any direct expenses incurred on its behalf and to pay to us an amount equal to Orchid's pro rata portion of certain overhead costs set forth in the management agreement. The management agreement has been renewed through February 2019 and provides for automatic one-year extension options. Should Orchid terminate the management agreement without cause, it will pay to us a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the automatic renewal term.

(in thousands)

	Average Orchid MBS	Average Orchid Equity	Advisory Services Management Fee	Overhead Allocation	Total
Three Months Ended					
June 30, 2018	\$3,717,690	\$469,974	\$ 1,606	\$ 361	\$1,967
March 31, 2018	3,745,298	488,906	1,712	381	2,093
December 31, 2017	3,837,575	459,322	1,625	408	2,033
September 30, 2017	3,834,083	441,193	1,528	412	1,940
June 30, 2017	3,499,922	406,395	1,400	388	1,788
March 31, 2017	3,142,095	371,691	1,302	368	1,670

(in thousands)

	Average Orchid MBS	Average Orchid Equity	Advisory Services Management Fee	Overhead Allocation	Total
Six Months Ended					
June 30, 2018	3,731,494	479,440	3,318	742	4,060
June 30, 2017	3,321,009	389,043	2,702	756	3,458

Investment Portfolio Segment

## Net Portfolio Interest Income

We define net portfolio interest income as interest income on MBS less interest expense on repurchase agreement funding. During the six months ended June 30, 2018, we generated \$2.3 million of net portfolio interest income, consisting of \$4.1 million of interest income from MBS assets offset by \$1.7 million of interest expense on repurchase liabilities. For the comparable period ended June 30, 2017, we generated \$2.0 million of net portfolio interest income, consisting of \$2.6 million of interest income from MBS assets offset by \$0.6 million of interest expense on repurchase liabilities. The \$1.5 million increase in interest income for the six months ended June 30, 2018 was due to a \$69.9 million increase in average MBS balances, combined with a 15 basis point increase in yields earned on the portfolio. The \$1.1 million increase in interest expense for the six months ended June 30, 2018 was due to a combination of a

\$67.7 million increase in average repurchase liabilities and a 84 basis point increase in cost of funds.

-32-

---

Our economic interest expense on repurchase liabilities for the six months ended June 30, 2018 and 2017 was \$2.0 million and \$0.9 million, respectively, resulting in \$2.1 million and \$1.7 million of economic net portfolio interest income, respectively.

During the three months ended June 30, 2018, we generated \$1.1 million of net portfolio interest income, consisting of \$2.0 million of interest income from MBS assets offset by \$0.9 million of interest expense on repurchase liabilities. For the three months ended June 30, 2017, we generated \$0.9 million of net portfolio interest income, consisting of \$1.3 million of interest income from MBS assets offset by \$0.3 million of interest expense on repurchase liabilities. The \$0.7 million increase in interest income for the three months ended June 30, 2018 was due to a \$60.5 million increase in average MBS balances, combined with a 33 basis point increase in yields earned on the portfolio. The \$0.6 million increase in interest expense for the three months ended June 30, 2018 was due to a combination of a \$58.3 million increase in average repurchase liabilities and a 101 basis point increase in cost of funds.

Our economic interest expense on repurchase liabilities for the three months ended June 30, 2018 and 2017 was \$1.0 million and \$0.5 million, respectively, resulting in \$1.0 million and \$0.8 million of economic net portfolio interest income, respectively.

The tables below provide 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 spread for the six months ended June 30, 2018 and 2017 and each quarter in 2018 and 2017 on both a GAAP and economic basis.

(\$ in thousands)

Three Months Ended	Average		Yield on Average MBS	Average Repurchase Agreements <sup>(1)</sup>	Interest Expense		Average Cost of Funds			
	MBS Held <sup>(1)</sup>	Interest Income <sup>(2)</sup>			GAAP Basis	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(3)</sup>		
June 30, 2018	\$194,677	\$ 2,001	4.11 %	\$ 184,621	\$937	\$ 1,045	2.03 %	2.27 %	%	
March 31, 2018	207,261	2,080	4.01 %	197,001	809	963	1.64 %	1.96 %	%	
December 31, 2017	203,841	1,978	3.88 %	193,778	685	855	1.41 %	1.77 %	%	
September 30, 2017	170,237	1,514	3.56 %	161,003	504	666	1.25 %	1.66 %	%	
June 30, 2017	134,188	1,269	3.78 %	126,341	324	476	1.02 %	1.51 %	%	
March 31, 2017	128,098	1,293	4.04 %	119,938	283	398	0.94 %	1.33 %	%	

(\$ in thousands)

Six Months Ended	Average		Yield on Average MBS	Average Repurchase Agreements <sup>(1)</sup>	Interest Expense		Average Cost of Funds			
	MBS Held <sup>(1)</sup>	Interest Income <sup>(2)</sup>			GAAP Basis	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(3)</sup>		
June 30, 2018	\$200,969	\$ 4,081	4.06 %	\$ 190,811	\$1,746	\$ 2,008	1.83 %	2.11 %	%	
June 30, 2017	131,143	2,562	3.91 %	123,140	607	874	0.99 %	1.42 %	%	

(\$ in thousands)

Three Months Ended	Net Portfolio Interest Income		Net Portfolio Interest Spread		
	GAAP Basis	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(4)</sup>	
June 30, 2018	\$1,064	\$ 956	2.08 %	1.84 %	%
March 31, 2018	1,271	1,117	2.37 %	2.05 %	%
December 31, 2017	1,293	1,123	2.47 %	2.11 %	%
September 30, 2017	1,010	848	2.31 %	1.90 %	%

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

June 30, 2017	945	793	2.76%	2.27	%
March 31, 2017	1,010	894	3.10%	2.71	%

-33-

---

(\$ in thousands)

Six Months Ended	Net Portfolio Interest Income		Net Portfolio Interest Spread		
	GAAP Basis	Economic Basis <sup>(2)</sup>	GAAP Basis	Economic Basis <sup>(4)</sup>	
	June 30, 2018	\$2,335	\$ 2,073	2.23%	
June 30, 2017	1,955	1,687	2.92%	2.49%	%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 34 and 35 are calculated based on the average balances of the underlying investment portfolio/repurchase agreement balances and are annualized for the periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

(2) Economic interest expense and economic net interest income presented in the tables above and the tables on pages 34 and 35 include the effect of derivative instrument hedges for only the period presented.

(3) Represents interest cost of our borrowings and the effect of derivative instrument hedges attributed to the period related to hedging activities divided by average MBS.

(4) Economic net interest spread is calculated by subtracting average economic cost of funds from yield on average MBS.

#### Interest Income and Average Earning Asset Yield

Our interest income was \$4.1 million for the six months ended June 30, 2018 and \$2.6 million for the six months ended June 30, 2017. Average MBS holdings were \$201.0 million and \$131.1 million for the six months ended June 30, 2018 and 2017, respectively. The \$1.5 million increase in interest income was due to combination of a 15 basis point increase in yields and a \$69.9 million increase in average MBS holdings.

Our interest income was \$2.0 million for the three months ended June 30, 2018 and \$1.3 million for the three months ended June 30, 2017. Average MBS holdings were \$194.7 million and \$134.2 million for the three months ended June 30, 2018 and 2017, respectively. The \$0.7 million increase in interest income was due to a \$60.5 million increase in average MBS holdings, combined with a 33 basis point increase in yields.

The tables below present the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured MBS and PT MBS, for the six months ended June 30, 2018 and 2017, and for each quarter during 2018 and 2017.

(\$ in thousands)

Three Months Ended	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
	June 30, 2018	\$192,368	\$ 2,309	\$194,677	\$1,959	\$ 42	\$2,001	4.07%	7.16%
March 31, 2018	204,786	2,475	207,261	2,054	26	2,080	4.01%	4.29%	4.01%
December 31, 2017	201,165	2,676	203,841	1,955	23	1,978	3.89%	3.55%	3.88%
September 30, 2017	167,081	3,156	170,237	1,524	(10)	1,514	3.65%	(1.28)%	3.56%
June 30, 2017	130,519	3,669	134,188	1,220	49	1,269	3.74%	5.33%	3.78%
March 31, 2017	123,163	4,935	128,098	1,210	83	1,293	3.93%	6.67%	4.04%

(\$ in thousands)

Average MBS Held	Interest Income	Realized Yield on Average MBS
------------------	-----------------	-------------------------------

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

Six Months Ended	PT			Structured			PT			Structured		
	MBS	MBS	Total	MBS	MBS	Total	MBS	MBS	Total	MBS	MBS	Total
June 30, 2018	\$198,577	\$ 2,392	\$200,969	\$4,013	\$ 68	\$4,081	4.04%	5.68	%	4.06%		
June 30, 2017	126,841	4,302	131,143	2,430	132	2,562	3.83%	6.10	%	3.91%		

-34-

---

Interest Expense on Repurchase Agreements and the Cost of Funds

Our average outstanding balances under repurchase agreements were \$190.8 million and \$123.1 million, generating interest expense of \$1.7 million and \$0.6 million for the six months ended June 30, 2018 and 2017, respectively. Our average cost of funds was 1.83% and 0.99% for six months ended June 30, 2018 and 2017, respectively. There was a 84 basis point increase in the average cost of funds and a \$67.7 million increase in average outstanding repurchase agreements during the six months ended June 30, 2018, compared to the six months ended June 30, 2017.

Our economic interest expense was \$2.0 million and \$0.9 million for the six months ended June 30, 2018 and 2017, respectively. There was a 69 basis point increase in the average economic cost of funds to 2.11% for the six months ended June 30, 2018 from 1.42% for the six months ended June 30, 2017. The \$1.1 million increase in economic interest expense was due to the \$67.7 million increase in average outstanding repurchase agreements during the six months ended June 30, 2018, combined with the negative performance of our derivative holdings attributed to the current period.

Our average outstanding balances under repurchase agreements were \$184.6 million and \$126.3 million, generating interest expense of \$0.9 million and \$0.3 million for the three months ended June 30, 2018 and 2017, respectively. Our average cost of funds was 2.03% and 1.02% for three months ended June 30, 2018 and 2017, respectively. There was a 101 basis point increase in the average cost of funds and a \$58.3 million increase in average outstanding repurchase agreements during the three months ended June 30, 2018, compared to the three months ended June 30, 2017.

Our economic interest expense was \$1.0 million and \$0.5 million for the three months ended June 30, 2018 and 2017, respectively. There was a 76 basis point increase in the average economic cost of funds to 2.27% for the three months ended June 30, 2018 from 1.51% for the three months ended June 30, 2017. The \$0.5 million increase in economic interest expense was due to the \$58.3 million increase in average outstanding repurchase agreements during the three months ended June 30, 2018, combined with the negative performance of our derivative agreements attributed to the current period.

Because all of our repurchase agreements are short-term, changes in market rates have a more immediate impact on our interest expense. Our average cost of funds calculated on a GAAP basis was 4 basis points above the average one-month LIBOR and 45 basis points below the average six-month LIBOR for the quarter ended June 30, 2018. Our average economic cost of funds was 28 basis points above the average one-month LIBOR and 21 basis points below the average six-month LIBOR for the quarter ended June 30, 2018. The average term to maturity of the outstanding repurchase agreements increased from 38 days at December 31, 2017 to 46 days at June 30, 2018.

The tables below present the average outstanding balances under our repurchase agreements, interest expense and average economic cost of funds, and average one-month and six-month LIBOR rates for the six months ended June 30, 2018 and 2017, and for each quarter in 2018 and 2017, on both a GAAP and economic basis.

(\$ in thousands)

	Average		Average Cost of		
	Balance of Repurchase Agreements	Interest Expense GAAP Economic Basis Basis	Funds GAAP Basis	Economic Basis	
Three Months Ended					
June 30, 2018	\$ 184,621	\$937 \$ 1,045	2.03 %	2.27 %	%
March 31, 2018	197,001	809 963	1.64 %	1.96 %	%
December 31, 2017	193,778	685 855	1.41 %	1.77 %	%
September 30, 2017	161,003	504 666	1.25 %	1.66 %	%



Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

June 30, 2017	126,341	324	476	1.02%	1.51	%
March 31, 2017	119,938	283	398	0.94%	1.33	%

-35-

---

(\$ in thousands)

Six Months Ended	Average			Average Cost of Funds		
	Balance of Repurchase Agreements	Interest Expense GAAP Basis	Economic Basis	GAAP Basis	Economic Basis	
June 30, 2018	\$ 190,811	\$ 1,747	\$ 2,008	1.83%	2.11%	
June 30, 2017	123,140	607	874	0.99%	1.42%	

  

Three Months Ended	Average LIBOR		Average GAAP Cost of Funds			Average Economic Cost of Funds		
	One-Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR	Relative to Average One-Month LIBOR	Relative to Average Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
June 30, 2018	1.99%	2.48%	0.04%	(0.45)%	0.28%	(0.21)%		
March 31, 2018	1.69%	2.11%	(0.05)%	(0.47)%	0.27%	(0.15)%		
December 31, 2017	1.36%	1.62%	0.05%	(0.21)%	0.41%	0.15%		
September 30, 2017	1.20%	1.45%	0.05%	(0.20)%	0.46%	0.21%		
June 30, 2017	1.05%	1.43%	(0.03)%	(0.41)%	0.46%	0.08%		
March 31, 2017	0.82%	1.37%	0.12%	(0.43)%	0.51%	(0.04)%		

  

Six Months Ended	Average LIBOR		Average GAAP Cost of Funds			Average Economic Cost of Funds		
	One-Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR	Relative to Average One-Month LIBOR	Relative to Average Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
June 30, 2018	1.84%	2.30%	(0.01)%	(0.47)%	0.27%	(0.19)%		
June 30, 2017	0.94%	1.40%	0.05%	(0.41)%	0.48%	0.02%		

### Dividend Income

At December 31, 2016, we owned 1,395,036 shares of Orchid common stock. We acquired 125,000 additional shares in March 2017, bringing the total number of shares owned to 1,520,036 at June 30, 2017, December 31, 2017 and June 30, 2018. Orchid paid total dividends of \$0.58 per share and \$0.27 per share during the six and three months ended June 30, 2018, respectively, and \$0.84 per share and \$0.42 per share during the six and three months ended June 30, 2017, respectively. During the six and three months ended June 30, 2018, we received dividends on this common stock investment of approximately \$0.9 million and \$0.4 million, respectively, compared to \$1.2 million and \$0.6 million during the six and three months ended June 30, 2017, respectively.

### Junior Subordinated Notes

Interest expense on our junior subordinated debt securities was \$0.7 million and \$0.6 million for the six months ended June 30, 2018 and 2017, respectively. The average rate of interest paid for the six months ended June 30, 2018 was 5.43% compared to 4.57% for the comparable period in 2017.

Interest expense on our junior subordinated debt securities was \$0.4 million and \$0.3 million for the three month periods ended June 30, 2018 and 2017, respectively. The average rate of interest paid for the three months ended June

30, 2018 was 5.66% compared to 4.65% for the comparable period in 2017.

The junior subordinated debt securities pay interest at a floating rate. The rate is adjusted quarterly and set at a spread of 3.50% over the prevailing three-month LIBOR rate on the determination date. As of June 30, 2018, the interest rate was 5.84%.

-36-

---

## Gains or Losses and Other Income

The table below presents our gains or losses and other income for the six and three months ended June 30, 2018 and 2017.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Realized losses on sales of MBS	\$(103 )	\$(1 )	\$(102 )	\$(103 )	\$-	\$(103 )
Unrealized losses on MBS	(6,814)	(464 )	(6,350)	(1,934)	(27 )	(1,907)
Total losses on MBS	(6,917)	(465 )	(6,452)	(2,037)	(27 )	(2,010)
Gains (losses) on derivative instruments	2,610	(810 )	3,420	870	(832)	1,702
(Losses) gains on retained interests in securitizations	(252 )	304	(556 )	(169 )	498	(667 )
Unrealized (losses) gains on Orchid Island Capital, Inc. common stock	(2,675)	(1,325)	(1,350)	228	(197)	425

We invest in MBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for the purpose of making short term gains from trading in these securities. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the six and three months ended June 30, 2018, the Company received proceeds of \$9.1 million from the sales of MBS.

During the six months ended June 30, 2017, the Company received proceeds of \$1.7 million. There were no sales of MBS during the three months ended June 30, 2017.

The fair value of our MBS portfolio and derivative instruments, and the gains (losses) reported on those financial instruments, are sensitive to changes in interest rates. The table below presents historical interest rate data for each quarter end during 2018 and 2017.

	5 Year U.S. Treasury Rate <sup>(1)</sup>	10 Year U.S. Treasury Rate <sup>(1)</sup>	15 Year Fixed-Rate Mortgage Rate <sup>(2)</sup>	30 Year Fixed-Rate Mortgage Rate <sup>(2)</sup>	Three Month Libor <sup>(3)</sup>
June 30, 2018	2.73 %	2.85 %	4.04 %	4.57 %	2.34 %
March 31, 2018	2.56 %	2.74 %	3.91 %	4.44 %	2.31 %
December 31, 2017	2.21 %	2.40 %	3.39 %	3.95 %	1.61 %
September 30, 2017	1.93 %	2.33 %	3.11 %	3.81 %	1.32 %
June 30, 2017	1.88 %	2.30 %	3.17 %	3.90 %	1.26 %
March 31, 2017	1.93 %	2.40 %	3.41 %	4.20 %	1.13 %

(1) Historical 5 Year and 10 Year U.S. Treasury Rates are obtained from quoted end of day prices on the Chicago Board Options Exchange.

(2) Historical 30 Year and 15 Year Fixed Rate Mortgage Rates are obtained from Freddie Mac's Primary Mortgage Market Survey.

(3) Historical LIBOR are obtained from the Intercontinental Exchange Benchmark Administration Ltd.

The retained interests in securitizations represent the residual net interest spread remaining after payments on the notes issued through the securitization. Fluctuations in value of retained interests are primarily driven by projections

of future interest rates (the forward LIBOR curve), the discount rate used to determine the present value of the residual cash flows and prepayment and loss estimates on the underlying mortgage loans. During the six and three months ended June 30, 2018, we recorded losses on retained interests of \$0.3 million and \$0.2 million, respectively, compared to gains of \$0.3 million and \$0.5 million, respectively, for the six and three months ended June 30, 2017. The lower value in the current period is primarily due to lower projected future cash flows.

-37-

---

## Operating Expenses

For the six and three months ended June 30, 2018, our total operating expenses were approximately \$3.4 million and \$1.7 million, respectively, compared to approximately \$3.0 million and \$1.4 million for the six and three months ended June 30, 2017, respectively. The table below presents a breakdown of operating expenses for the six and three months ended June 30, 2018 and 2017.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Compensation and related benefits	\$2,103	\$1,815	\$ 288	\$1,036	\$879	\$ 157
Legal fees	106	40	66	40	13	27
Accounting, auditing and other professional fees	193	186	7	83	77	6
Directors' fees and liability insurance	321	333	(12 )	161	166	(5 )
Administrative and other expenses	667	659	8	331	298	33
	\$3,390	\$3,033	\$ 357	\$1,651	\$1,433	\$ 218

## Financial Condition:

## Mortgage-Backed Securities

As of June 30, 2018, our MBS portfolio consisted of \$184.5 million of agency or government MBS at fair value and had a weighted average coupon of 4.18%. During the six months ended June 30, 2018, we received principal repayments of \$14.2 million compared to \$4.9 million for the comparable period ended June 30, 2017. The average prepayment speeds for the quarters ended June 30, 2018 and 2017 were 13.1% and 9.9%, respectively.

The following table presents the 3-month constant prepayment rate ("CPR") experienced on our structured and PT MBS sub-portfolios, on an annualized basis, for the quarterly periods presented. CPR is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the CPR in the chart below represents the three month prepayment rate of the securities in the respective asset category. Assets that were not owned for the entire quarter have been excluded from the calculation. The exclusion of certain assets during periods of high trading activity can create a very high, and often volatile, reliance on a small sample of underlying loans.

Three Months Ended	PT MBS	Structured	Total
	Portfolio	MBS Portfolio	
	(%)	(%)	(%)
June 30, 2018	13.4	11.6	13.1
March 31, 2018	7.2	16.8	8.6
December 31, 2017	7.2	16.9	8.8
September 30, 2017	5.2	18.8	8.3
June 30, 2017	5.9	20.4	9.9
March 31, 2017	4.8	18.8	8.8

The following tables summarize certain characteristics of our PT MBS and structured MBS as of June 30, 2018 and December 31, 2017:

(\$ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted	Longest Maturity
				Average	
June 30, 2018					
Fixed Rate MBS	\$182,342	98.8%	4.18%	314	1-Jan-48
Interest-Only MBS	1,407	0.8%	3.45%	224	25-Dec-39
Inverse Interest-Only MBS	777	0.4%	4.47%	272	25-Apr-41
Total MBS Portfolio	\$184,526	100.0%	4.18%	313	1-Jan-48
December 31, 2017					
Fixed Rate MBS	\$207,179	98.8%	4.21%	321	1-Dec-47
Interest-Only MBS	1,476	0.7%	3.43%	229	25-Dec-39
Inverse Interest-Only MBS	1,037	0.5%	5.01%	278	25-Apr-41
Total MBS Portfolio	\$209,692	100.0%	4.21%	320	1-Dec-47

(\$ in thousands)

Agency	June 30, 2018		December 31, 2017		
	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio	
Fannie Mae	\$161,197	87.4	% \$178,581	85.2	%
Freddie Mac	23,131	12.5	% 30,896	14.7	%
Ginnie Mae	198	0.1	% 215	0.1	%
Total Portfolio	\$184,526	100.0	% \$209,692	100.0	%

	June 30, 2018	December 31, 2017
Weighted Average Pass-through Purchase Price	\$108.98	\$109.06
Weighted Average Structured Purchase Price	\$6.02	\$6.02
Weighted Average Pass-through Current Price	\$103.78	\$107.13
Weighted Average Structured Current Price	\$7.09	\$7.06
Effective Duration <sup>(1)</sup>	4.975	3.832

Effective duration is the approximate percentage change in price for a 100 basis point change in rates. An effective duration of 4.975 indicates that an interest rate increase of 1.0% would be expected to cause a 4.975% decrease in the value of the MBS in our investment portfolio at June 30, 2018. An effective duration of 3.832 indicates that an (1) interest rate increase of 1.0% would be expected to cause a 3.832% decrease in the value of the MBS in our investment portfolio at December 31, 2017. These figures include the structured securities in the portfolio but do not include the effect of our funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of our portfolio assets acquired during the six months ended June 30, 2018 and 2017.

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

(\$ in thousands)

	Six Months Ended June 30, 2018			2017			
	Total Cost	Average Price	Weighted Average Yield	Total Cost	Average Price	Weighted Average Yield	
PT MBS	\$5,081	\$106.17	2.65	% \$19,220	\$109.62	2.68	%

-39-

---



Our portfolio of PT MBS is typically comprised of adjustable-rate MBS, fixed-rate MBS and hybrid adjustable-rate MBS. We generally seek to acquire low duration assets that offer high levels of protection from mortgage prepayments provided they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, we strive to maintain a hedged PT MBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying our 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 our investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

The duration of our IO and 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. Prepayments affect the durations of IIO's similarly, but the floating rate nature of the coupon of IIOs (which is inversely related to the level of one month LIBOR) causes 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 our MBS can alter the timing of the cash flows received by us. As a result, we gauge 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.

We face the risk that the market value of our PT MBS assets will increase or decrease at different rates than that of our structured MBS or liabilities, including our hedging instruments. Accordingly, we assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. We generally calculate duration and effective duration using various third-party models or obtain these quotes from third parties. 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 our interest rate-sensitive investments and hedge positions as of June 30, 2018, assuming rates instantaneously fall 100 bps, rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency MBS' effective duration to movements in interest rates.

(\$ in thousands)

MBS Portfolio	Fair Value	\$ Change in Fair Value			% Change in Fair Value		
		-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
Fixed Rate MBS	\$182,342	\$7,782	\$(10,462)	\$(22,071)	4.27 %	(5.74)%	(12.10)%
Interest-Only MBS	1,407	(391)	231	393	(27.84)%	16.40 %	27.95 %
Inverse Interest-Only MBS	777	2	(123)	(294)	0.30 %	(15.82)%	(37.80)%
Total MBS Portfolio	\$184,526	\$7,393	\$(10,354)	\$(21,972)	4.01 %	(5.61)%	(11.91)%

-40-

(\$ in thousands)

	Notional Amount <sup>(1)</sup>	\$ Change in Fair Value			% Change in Fair Value		
		-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
Eurodollar Futures Contracts							
Repurchase Agreement Hedges	\$ 1,360,000	\$(1,852)	\$ 3,400	\$ 6,800	(0.56)%	1.03 %	2.06 %
Junior Subordinated Debt Hedges	364,000	(484 )	910	1,820	(0.55)%	1.03 %	2.06 %
TBA Contracts	50,000	(2,676)	3,530	7,220	(5.71)%	7.53 %	15.41 %
	\$ 1,774,000	\$(5,012)	\$ 7,840	\$ 15,840	(0.26)%	0.40 %	0.82 %
Gross Totals		\$2,381	\$(2,514 )	\$(6,132 )			

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

In addition to changes in interest rates, other factors impact the fair value of our 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 our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

#### Repurchase Agreements

As of June 30, 2018, we had established borrowing facilities in the repurchase agreement market with a number of commercial banks and other financial institutions and had borrowings in place with six of these counterparties. We believe these facilities provide borrowing capacity in excess of our needs. None of these lenders are affiliated with us. These borrowings are secured by our MBS.

As of June 30, 2018, we had obligations outstanding under the repurchase agreements of approximately \$175.4 million with a net weighted average borrowing cost of 2.13%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 2 to 86 days, with a weighted average maturity of 46 days. Securing the repurchase agreement obligation as of June 30, 2018 are MBS with an estimated fair value, including accrued interest, of \$185.1 million and a weighted average maturity of 314 months. Through August 3, 2018, we have been able to maintain our repurchase facilities with comparable terms to those that existed at June 30, 2018 with maturities through October 23, 2018.

The table below presents information about our period-end and average repurchase agreement obligations for each quarter in 2018 and 2017.

(\$ in thousands)

Three Months Ended	Ending Balance of Repurchase Agreements	Average Balance of Repurchase Agreements	Difference Between Ending Repurchase Agreements and Average Repurchase Agreements	
			Amount	Percent
June 30, 2018	\$ 175,422	\$ 184,621	\$(9,199 )	(4.98 )%
March 31, 2018	193,820	197,001	(3,181 )	(1.61 )%
December 31, 2017	200,183	193,778	6,405	3.31 %
September 30, 2017	187,374	161,003	26,371	16.38 % <sup>(1)</sup>

Edgar Filing: BIMINI CAPITAL MANAGEMENT, INC. - Form 10-Q

June 30, 2017	134,633	126,341	8,292	6.56	%
March 31, 2017	118,049	119,938	(1,889)	(1.57)	%

The higher ending balance relative to the average balance during the quarter ended September 30, 2017 reflects the (1) growth of the portfolio, on a leveraged basis. During the quarter ended September 30, 2017, our investment in PT MBS increased \$56.1 million.

-41-

---

## 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 and fulfill margin calls. Our principal immediate sources of liquidity include cash balances, unencumbered assets, the availability to borrow under repurchase agreements, and fees and dividends received from Orchid. 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, (c) the payment of overhead and operating expenses, and (d) the payment of other accrued obligations.

Our strategy for hedging our funding costs typically involves taking short positions in Eurodollar futures, T-Note futures, swaptions or other instruments. Since inception we have primarily used short positions in Eurodollar futures. When the market causes these short positions to decline in value we are required to meet margin calls with cash. This can reduce our liquidity position to the extent other securities in our portfolio move in price in such a way that we do not receive enough cash through margin calls to offset the Eurodollar related margin calls. If this were to occur in sufficient magnitude, the loss of liquidity might force us to reduce the size of the levered portfolio, pledge additional structured securities to raise funds or risk operating the portfolio with less liquidity.

Our master repurchase agreements have no stated expiration, but can be terminated at any time at our 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.

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 would be entitled to have excess margin returned to us by the counterparty. 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 discussed above, we invest a portion of our capital in structured MBS. We do not apply leverage to this portion of our portfolio. The leverage inherent in the structured 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. However, we have and may continue to pledge a portion of our structured MBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

In future periods we expect to continue to finance our activities through repurchase agreements. As of June 30, 2018, we had cash and cash equivalents of \$6.6 million. We generated cash flows of \$18.4 million from principal and interest payments on our MBS portfolio and \$0.4 million from retained interests and had average repurchase agreements outstanding of \$190.8 million during the six months ended June 30, 2018. In addition, during the six months ended June 30, 2018, we received approximately \$4.1 million in management fees and expense reimbursements as manager of Orchid and approximately \$0.9 million in dividends from our investment in Orchid common stock.



The table below summarizes the effect that certain future contractual obligations existing as of June 30, 2018 will have on our liquidity and cash flows.

(in thousands)

	Obligations Maturing				Total
	Within One Year	One to Three Years	Three to Five Years	More than Five Years	
Repurchase agreements	\$ 175,422	\$-	\$-	\$-	\$ 175,422
Interest expense on repurchase agreements <sup>(1)</sup>	726	-	-	-	726
Junior subordinated notes <sup>(2)</sup>	-	-	-	26,000	26,000
Interest expense on junior subordinated notes <sup>(1)</sup>	1,607	3,084	3,079	19,197	26,967
Other	250	250	-	-	500
Totals	\$ 178,005	\$ 3,334	\$ 3,079	\$ 45,197	\$ 229,615

(1) Interest expense on repurchase agreements and junior subordinated notes are based on current interest rates as of June 30, 2018 and the remaining term of liabilities existing at that date.

(2) We hold a common equity interest in Bimini Capital Trust II. The amount presented represents our net cash outlay.

## Outlook

### Orchid Island Capital Inc.

To the extent Orchid is able to increase its capital base over time, we will benefit via increased management fees. In addition, Orchid is obligated to reimburse us for direct expenses paid on its behalf and to pay to us Orchid's pro rata share of overhead as defined in the management agreement. As a stockholder of Orchid, we will also continue to share in distributions, if any, paid by Orchid to its stockholders. Our operating results are also impacted by changes in the market value of our holdings of Orchid common shares, although these market value changes do not impact our cash flows from Orchid.

The independent Board of Directors of Orchid has the ability to terminate the management agreement and thus end our ability to collect management fees and share overhead costs. Should Orchid terminate the management agreement without cause, it will pay us a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the current automatic renewal term.

### Interest Rates and the MBS Market

The domestic economy of the United States during the second quarter of 2018, and the first half of 2018 generally, has been quite strong. The economy had clear momentum in late 2017 before the Tax Cuts and Jobs Act of 2017 was passed in December, and the Bipartisan Budget Act of 2018 was signed into law on February 9, 2018. The latter is projected to increase deficit spending by approximately \$300 billion over the next two years. This is in addition to the Tax Cuts and Jobs Act that is projected to add \$1.5 trillion to the deficit over the next ten years – or approximately \$150 billion per year on average. Combined, these two acts represent a significant source of fiscal stimulus for the economy. Economic data released year to date points to broad based strength as various measures of employment, business fixed investment, consumer spending and business activity are at very high levels. Continued strong growth will likely keep the Federal Reserve (the "Fed") on track to continue to remove monetary stimulus from the economy in an effort to engineer a soft landing. Per the Fed's own forecasts, as evidenced by their "dot plot" released after the June 2018 FOMC meeting, the Fed expects to raise rates twice more in 2018 and three times in 2019. On July 17,

2018, the Fed Chairman spoke to the Senate financial services committee in what used to be referred to as the semi-annual Humphry-Hawkins testimony. The Chairman reiterated the Fed's view that gradual rate hikes appeared to be the appropriate path of monetary policy for now. If the markets were affected by the current strength of the economy alone, movements in interest rates and risk markets would be easy to predict. However, that is not the case. The first half of 2018, and the second quarter specifically, have been impacted by a host of factors that have outweighed the economy in their ability to drive the markets.

-43-

---

One of the factors countering the positive developments in the economy has been the specter of a global trade war. This first emerged in the first quarter but intensified during the second. President Trump, having fulfilled a significant campaign promise when the Tax Cuts and Job Act was passed, has shifted the administration's focus to trade. The President has long held that the United States has been taken advantage of by our various trading partners, whether it be Mexico or Canada in the case of NAFTA, or China and the European Union. The administration initiated its effort to meaningfully change the trading relationships the U.S. has with its major trading partners during the first quarter. As these efforts did not seem to bring about sufficient progress, the administration has increased its efforts, not just the rhetoric, but also the size of tariffs that will be imposed. Like the initial tariffs announced – which were quite small and mostly symbolic – the latest announcements have been met with counter threats and/or additional tariffs. It is clear the administration is eager to make progress on trade and reconfigure the trade landscape, eliminating practices that it sees as disadvantaging the U.S. The markets initially appeared to see through the threats as negotiating ploys and doubted they would ever come to fruition, or if they did, not be permanent. The market appears to be wavering on this view. The rates and risk assets markets have reacted to these developments negatively and interest rates retreated after moving above three percent in mid-May. Developments on the trade front often come via Twitter messages from President Trump, and occur without warning and at almost any time of day or the week. The markets appear to react in a "risk off" fashion when the events occur, as interest rates decrease as risk assets are sold and safe-haven assets are acquired.

Another development to impact the markets is a byproduct of the strong U.S. economy. As the Fed raises rates and frequent public pronouncements by Fed officials indicate rate hikes will continue, the dollar has strengthened. This has caused the currencies of many emerging economies to weaken versus the dollar. This impacts the economies of these countries in multiple ways. To the extent they have issued debt denominated in dollars, the cost to repay this debt, in local currency terms, has increased. Also, to the extent these nations export domestically produced goods to the U.S., these goods now bring back fewer dollars to their respective local economies. In either case, the securities markets in these nations have been negatively impacted.

In late May 2018, elections in Italy brought a Populists government to power, and the markets feared the new government would fulfill their campaign promises to either leave the EU or deviate from Italy's previously professed commitment to fiscal austerity and discipline. The rates market reacted substantially to these developments as the 10-year U.S. treasury yield decreased from over 3.112% on May 17, 2018 to below 2.80% on May 29, 2018.

As we entered the third quarter, the sum of the developments discussed above appeared to be outweighing the consistently strong economic data and has kept interest rates rangebound with a flattening bias. The 10-year U.S. treasury traded between 2.80% and 2.95% since initially breaking below 2.80% in late May. The spread between the 2-year U.S. treasury and 10-year U.S. treasury continued to compress as the Fed is perceived to be intent on continuing to raise short-term rates while a potential trade war or other developments in Europe or emerging economies could slow growth and act to contain inflation – thus preventing longer-term rates from moving higher. In late July it appeared there may have been some progress with the trade negotiations – in this case with the European Union – and the market appears relieved with the prospect a trade war may be averted. This has allowed longer term rates to move back towards 3.00% in the case of the ten-year U.S. treasury note and the curve to re-steepen modestly. The market will likely remain focused on developments on the trade front going forward.

Volatility in the market has subsided as the rates market has become range-bound and risk markets continue to trade within year-to-date ranges as well. Another positive development for levered investors has been a reversal in the pressures seen in the short-term funding markets earlier in the year. Both LIBOR and repurchase agreement funding rates have stabilized, albeit at higher levels as the Fed has increased the target range for the Federal Funds rate twice so far this year.



The Agency MBS market had a small positive return for the second quarter while the spread between the current coupon, thirty-year fixed rate mortgage and a comparable duration U.S. treasury widened slightly from approximately 72 bps to approximately 74 bps. The Bloomberg Agency MBS index had a total return of approximately (1.0%) for the first six months of 2018 and 0.24% for the second quarter. The Fed continues to taper its reinvestment of pay-downs from its MBS portfolio, but this reduced supply has been mostly offset by reduced supply of new mortgages owing to higher rates and strong home price appreciation, muting demand somewhat as affordability becomes a problem for many borrowers. The price appreciation is driven to some extent by insufficient supply of both new and existing homes. Refinancing activity has dropped to multi-year lows and does not appear to respond to the modest decreases in market rates seen during the second quarter.

#### Recent Regulatory Developments

The scope and nature of the actions the U.S. government or the Fed will ultimately undertake are unknown and will continue to evolve. Although the Trump administration has made statements of its intentions to reform housing finance and tax policy, many of these potential policy changes will require congressional action. In addition, the Fed has made statements regarding additional increases to the Federal Funds Rate in 2018 and beyond.

In September 2017, the FOMC announced that it would implement a balance sheet normalization policy by gradually decreasing the Fed's reinvestment of U.S. Treasuries and Agency MBS. More specifically, principal payments received by the Fed will be reinvested only to the extent they exceed gradually rising caps until the FOMC determines that the Fed is holding no more securities than necessary to implement monetary policy efficiently and effectively. In October 2017, the FOMC commenced this balance sheet normalization program. During the January 2018 meeting, the FOMC reaffirmed this plan.

#### Effect on Us

Regulatory developments, movements in interest rates and prepayment rates as well as loan modification programs affect us in many ways, including the following:

#### Effects on our Assets

A change in or elimination of the guarantee structure of Agency MBS may increase our costs (if, for example, guarantee fees increase) or require us to change our investment strategy altogether. For example, the elimination of the guarantee structure of Agency MBS may cause us to change our investment strategy to focus on non-Agency MBS, which in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

Lower long-term interest rates can affect the value of our Agency MBS in a number of ways. If prepayment rates are relatively low (due, in part, to the refinancing problems described above), lower long-term interest rates can increase the value of higher-coupon Agency MBS. This is because investors typically place a premium on assets with yields that are higher than market yields. Although lower long-term interest rates may increase asset values in our portfolio, we may not be able to invest new funds in similarly-yielding assets.

If prepayment levels increase, the value of our Agency MBS affected by such prepayments may decline. This is because a principal prepayment accelerates the effective term of an Agency MBS, which would shorten the period during which an investor would receive above-market returns (assuming the yield on the prepaid asset is higher than market yields). Also, prepayment proceeds may not be able to be reinvested in similar-yielding assets. Agency MBS backed by mortgages with high interest rates are more susceptible to prepayment risk because holders of those mortgages are most likely to refinance to a lower rate. IOs and IIOs, however, may be the types of Agency MBS most sensitive to increased prepayment rates. Because the holder of an IO or IIO receives no principal payments, the values of IOs and IIOs are entirely dependent on the existence of a principal balance on the underlying mortgages. If the principal balance is eliminated due to prepayment, IOs and IIOs essentially become worthless. Although increased prepayment rates can negatively affect the value of our IOs and IIOs, they have the opposite effect on POs. Because POs act like zero-coupon bonds, meaning they are purchased at a discount to their par value and have an effective interest rate based on the discount and the term of the underlying loan, an increase in prepayment rates would reduce the effective term of our POs and accelerate the yields earned on those assets, which would increase our net income.

Higher long-term rates can also affect the value of our Agency MBS. As long-term rates rise, rates available to borrowers also rise. This tends to cause prepayment activity to slow and extend the expected average life of mortgage cash flows. As the expected average life of the mortgage cash flows increases, coupled with higher discount rates, the value of Agency MBS declines. Some of the instruments the Company uses to hedge our Agency MBS assets, such as Euro Dollar futures, swaps, interest rate futures and swaptions, are stable average life instruments. This means that to the extent we use such instruments to hedge our Agency MBS assets, our hedges may not adequately protect us from price declines, and therefore may negatively impact our book value. It is for this reason we use interest only securities in our portfolio. As interest rates rise, the expected average life of these securities increases, causing generally positive price movements as the number and size of the cash flows increase the longer the underlying mortgages remain outstanding. This makes interest only securities desirable hedge instruments for pass-through Agency MBS.

As the economy has rebounded from the financial crisis, the Fed has taken steps to remove the considerable accommodation that was employed to combat the crisis. At the conclusion of its meeting in September 2017, the Fed announced it would implement caps on the amount of Agency MBS assets it would allow to run off, or not be re-invested, starting in October 2017. Previously the Fed would re-invest all of the principal repayments it received each month on the Agency MBS assets it had acquired during its quantitative easing programs. By capping the amount they would allow to run off each month, the Fed was effectively limiting the amount it would re-invest. Per the Fed's September 2017 announcement, the cap would eventually reach \$20 billion per month by the end of 2018. At the time of the Fed's announcement in September 2017, its monthly re-investments were approximately \$20 billion per month as well, so this implied the Fed would stop, or nearly stop, re-investing its monthly pay-downs by the end of 2018. The purchases each month by the Fed have been a significant source of demand in the Agency MBS market and as it is reduced slowly over the course of 2018 and essentially eliminated beyond 2018, the removal of this source of demand could negatively impact Agency MBS prices. The extent this negatively impacts the Agency MBS market will be a function of the level of supply each month – as the supply/demand balance affects the price of any asset – and whether or not another source of demand emerges to replace the Fed.

Because we base our investment decisions on risk management principles rather than anticipated movements in interest rates, in a volatile interest rate environment we may allocate more capital to structured Agency MBS with shorter durations, such as short-term fixed and floating rate CMOs. We believe these securities have a lower sensitivity to changes in long-term interest rates than other asset classes. We may attempt to mitigate our exposure to changes in long-term interest rates by investing in IOs and IIOs, which typically have different sensitivities to changes in long-term interest rates than PT MBS, particularly PT MBS backed by fixed-rate mortgages.

If Fannie Mae and Freddie Mac were to modify or end their repurchase programs, our investment portfolio could be negatively impacted.



### Effects on our borrowing costs

We leverage our PT MBS portfolio and a portion of our structured Agency MBS with principal balances through the use of short-term repurchase agreement transactions. The interest rates on our debt are determined by market levels of both the Federal Funds Rate and LIBOR. An increase in the Federal Funds Rate or LIBOR would increase our borrowing costs, which could affect our interest rate spread if there is no corresponding increase in the interest we earn on our assets. This would be most prevalent with respect to our Agency MBS backed by fixed rate mortgage loans because the interest rate on a fixed-rate mortgage loan does not change even though market rates may change.

In order to protect our net interest margin against increases in short-term interest rates, we may enter into interest rate swaps, which effectively convert our floating-rate repurchase agreement debt to fixed-rate debt, or utilize other hedging instruments such as Eurodollar and T-Note futures contracts or interest rate swaptions.

### Summary

The U.S. economy appears to be very strong. Growth in the second quarter of 2018 exceeded 4% on an annualized basis and, given the extent of fiscal stimulus introduced by the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018, is likely to remain strong for the next few quarters. The Fed expects to continue to remove accommodation by raising the target range for the Federal Funds rate two more times in 2018 and three more times in 2019. By any measure, economic activity is robust and the employment market in particular appears to be overheating. Importantly, while inflation has returned to, or near, the Fed target level of 2%, it does not appear to be at risk of meaningfully exceeding this level in the near term. This should keep the Fed from raising rates beyond their current gradual pace.

One threat to the economy the market fears is a meaningful trade war. The Trump administration appears determined to reverse what the President sees as years of unfair trade that has weakened the United States. The administration has aggressively introduced tariffs in an apparent attempt to force our various trading counter-parties to agree to more even trade terms. It remains to be seen if the administration's tactics will work and market fears of a protracted trade war will likely remain until a resolution is found or the trade war escalates meaningfully. Developments with our trading partners will also impact the flattening of the yield curve that has taken place over the last few quarters. Fear of a trade war and the anticipated negative impact it would have on economic activity has kept longer term rates from rising meaningfully and, coupled with consistent rate increases by the Federal Reserve, driven the spread between long and short rates lower. This appears likely to continue.

The Agency MBS market has generated a modest positive return of 0.24% for the second quarter and (1.0%) for 2018 to date. The reduction in asset purchases by the Fed has been offset by reduced supply of Agency MBS, negating the negative effect of the former on the performance of the asset class. A continued slowing of prepayment behavior has benefited higher coupon mortgages as well, further negating the effect of reduced purchases by the Fed. Going forward, the continued compression of the yield curve should put downward pressure on both returns for Agency MBS as well as demand for the asset class.

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in our condensed consolidated financial statements. These condensed consolidated financial statements are prepared in accordance with GAAP. The Company's significant accounting policies are described in Note 1 to the Company's accompanying condensed 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 critical accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2017.

#### Capital Expenditures

At June 30, 2018, we had no material commitments for capital expenditures.

#### Off-Balance Sheet Arrangements

At June 30, 2018, we did not have any off-balance sheet arrangements.

#### Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

### 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"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on this evaluation, the CEO and CFO concluded our 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 we must disclose in our periodic reports under the 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.

-48-

---

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings as described in Item 103 of Regulation S-K.

## ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on March 9, 2018.

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

The table below presents share repurchase activity for the three months ended June 30, 2018.

	Total Number of Shares Repurchased	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization <sup>(1)</sup>
April	11,000	\$ 2.20	11,000	489,000
May	5,400	2.35	5,400	483,600
June	14,872	2.45	14,872	468,728
Totals / Weighted Average	31,272	\$ 2.35	31,272	468,728

On March 26, 2018, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of the (1)Company's Class A common stock. Unless modified or extended by the Board, the authorization expires on November 15, 2018.

The Company did not have any unregistered sales of its equity securities during the three months ended June 30, 2018.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

## ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No

- 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 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
- 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\*\*\*

Taxonomy

101.SCH Extension

Schema

Document\*\*\*

Taxonomy

Extension

101.CAL Calculation

Linkbase

Document\*\*\*

Additional

Taxonomy

Extension

101.DEF Definition

Linkbase

Document\*\*\*

Taxonomy

Extension

101.LAB Label

Linkbase

Document\*\*\*

Taxonomy

Extension

101.PRE Presentation

Linkbase

Document\*\*\*

\* Filed herewith.

\*\* Furnished herewith

\*\*\* Submitted electronically herewith.

-50-

---



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: August 3, 2018 By: /s/ Robert E. Cauley  
Robert E. Cauley  
Chairman and Chief  
Executive Officer

Date: August 3, 2018 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)