

**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 **March 31, 2015**

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

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

Commission File Number: **001-32171**



**Bimini Capital Management, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer                       Accelerated filer                       Non-accelerated filer                       Smaller Reporting Company

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

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

| <b>Title of each Class</b>              | <b>Latest Practicable Date</b> | <b>Shares Outstanding</b> |
|---|--------------------------------|---------------------------|
| Class A Common Stock, \$0.001 par value | May 15, 2015                   | 12,346,376                |
| Class B Common Stock, \$0.001 par value | May 15, 2015                   | 31,938                    |
| Class C Common Stock, \$0.001 par value | May 15, 2015                   | 31,938                    |

BIMINI CAPITAL MANAGEMENT, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

BIMINI CAPITAL MANAGEMENT, INC.  
CONSOLIDATED BALANCE SHEETS

|  | (Unaudited)           | December 31,          |
|--|-----------------------|-----------------------|
|  | March 31, 2015        | 2014                  |
| <b>ASSETS:</b>   |                       |                       |
| Mortgage-backed securities, at fair value                |                       |                       |
| Pledged to counterparties                                | \$ 113,352,550        | \$ 116,026,180        |
| Unpledged  | 2,234,481             | 1,804,852             |
| Total mortgage-backed securities                         | 115,587,031           | 117,831,032           |
| Cash and cash equivalents                                | 4,514,148             | 4,699,059             |
| Restricted cash  | 764,980               | 733,660               |
| Orchid Island Capital, Inc. common stock, at fair value  | 12,997,244            | 12,810,728            |
| Retained interests in securitizations                    | 2,389,909             | 1,899,684             |
| Accrued interest receivable                              | 472,821               | 460,326               |
| Property and equipment, net                              | 3,560,807             | 3,584,603             |
| Deferred tax assets, net                                 | 1,699,970             | 1,900,064             |
| Other assets   | 2,914,557             | 2,960,042             |
| <b>Total Assets</b>                                      | <b>\$ 144,901,467</b> | <b>\$ 146,879,198</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>              |                       |                       |
| <b>LIABILITIES:</b>                                      |                       |                       |
| Repurchase agreements                                    | \$ 106,293,634        | \$ 109,963,995        |
| Junior subordinated notes due to Bimini Capital Trust II | 26,804,440            | 26,804,440            |
| Accrued interest payable                                 | 80,990                | 94,397                |
| Other liabilities  | 3,889,471             | 814,597               |
| <b>Total Liabilities</b>                                 | <b>137,068,535</b>    | <b>137,677,429</b>    |
| <b>STOCKHOLDERS' EQUITY:</b>                             |                       |                       |
| Preferred stock  | -                     | -                     |
| Common stock   | 12,397                | 12,388                |
| Additional paid-in capital                               | 334,542,933           | 334,522,850           |
| Accumulated deficit                                      | (326,722,398)         | (325,333,469)         |
| <b>Stockholders' equity</b>                              | <b>7,832,932</b>      | <b>9,201,769</b>      |
| <b>Total Liabilities and Stockholders' Equity</b>        | <b>\$ 144,901,467</b> | <b>\$ 146,879,198</b> |

See Notes to Consolidated Financial Statements

**BIMINI CAPITAL MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**For the Three Months Ended March 31, 2015 and 2014**

|  | 2015                  | 2014                |
|--|-----------------------|---------------------|
| Interest income  | \$ 1,207,134          | \$ 4,116,012        |
| Interest expense   | (100,192)             | (454,340)           |
| Net interest income, before interest on junior subordinated notes    | 1,106,942             | 3,661,672           |
| Interest expense on junior subordinated notes                        | (243,473)             | (243,182)           |
| <b>Net interest income</b>   | <b>863,469</b>        | <b>3,418,490</b>    |
| Unrealized gains on mortgage-backed securities                       | 829,297               | 1,568,311           |
| Realized gains on mortgage-backed securities                         | -                     | 1,069,356           |
| Losses on derivative instruments                                     | (1,014,700)           | (1,717,017)         |
| <b>Net portfolio income</b>  | <b>678,066</b>        | <b>4,339,140</b>    |
| <b>Other income:</b>   |                       |                     |
| Gains on retained interests in securitizations                       | 1,485,756             | 193,690             |
| Unrealized gains on Orchid Island Capital, Inc. common stock         | 186,516               | -                   |
| Orchid Island Capital, Inc. dividends                                | 530,099               | -                   |
| Management fees  | 854,800               | -                   |
| Other expense  | (11,980)              | (10,128)            |
| <b>Total other income</b>  | <b>3,045,191</b>      | <b>183,562</b>      |
| <b>Expenses:</b>   |                       |                     |
| Compensation and related benefits                                    | 668,790               | 446,173             |
| Directors' fees and liability insurance                              | 167,766               | 240,562             |
| Audit, legal and other professional fees                             | 334,777               | 400,251             |
| Direct REIT operating expenses                                       | 18,803                | 115,183             |
| Settlement of litigation   | 3,500,000             | -                   |
| Other administrative   | 84,955                | 154,722             |
| <b>Total expenses</b>  | <b>4,775,091</b>      | <b>1,356,891</b>    |
| Net (loss) income before income tax provision (benefit)              | (1,051,834)           | 3,165,811           |
| Income tax provision (benefit)                                       | 337,095               | (2,157,359)         |
| Net (loss) income  | (1,388,929)           | 5,323,170           |
| Less: income attributable to noncontrolling interests                | -                     | 2,953,959           |
| <b>Net (Loss) Income attributable to Bimini Capital stockholders</b> | <b>\$ (1,388,929)</b> | <b>\$ 2,369,211</b> |
| <b>Basic and Diluted Net (loss) income Per Share of:</b>             |                       |                     |
| <b>CLASS A COMMON STOCK</b>  |                       |                     |
| Basic and Diluted  | \$ (0.11)             | \$ 0.20             |
| <b>CLASS B COMMON STOCK</b>  |                       |                     |
| Basic and Diluted  | \$ (0.11)             | \$ 0.20             |
| <b>Weighted Average Shares Outstanding:</b>                          |                       |                     |
| <b>CLASS A COMMON STOCK</b>  |                       |                     |
| Basic and Diluted  | 12,332,416            | 11,846,598          |
| <b>CLASS B COMMON STOCK</b>  |                       |                     |
| Basic and Diluted  | 31,938                | 31,938              |

*See Notes to Consolidated Financial Statements*

**BIMINI CAPITAL MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**For the Three Months Ended March 31, 2015**

|  | Stockholders' Equity |                               |                         | Total               |
|--|----------------------|-------------------------------|-------------------------|---------------------|
|  | Common<br>Stock      | Additional<br>Paid-in Capital | Accumulated<br>Deficit  |                     |
| Balances, January 1, 2015                                | \$ 12,388            | \$ 334,522,850                | \$ (325,333,469)        | \$ 9,201,769        |
| Net loss   | -                    | -                             | (1,388,929)             | (1,388,929)         |
| Issuance of Class A common shares for board compensation | 9                    | 15,410                        | -                       | 15,419              |
| Amortization of equity plan compensation                 | -                    | 4,673                         | -                       | 4,673               |
| <b>Balances, March 31, 2015</b>                          | <b>\$ 12,397</b>     | <b>\$ 334,542,933</b>         | <b>\$ (326,722,398)</b> | <b>\$ 7,832,932</b> |

*See Notes to Consolidated Financial Statements*

**BIMINI CAPITAL MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**For the Three Months Ended March 31, 2015 and 2014**

|  | 2015                | 2014                 |
|--|---------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                      |
| Net (loss) income  | \$ (1,388,929)      | \$ 5,323,170         |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: |                     |                      |
| Stock based compensation   | 20,092              | 190,000              |
| Depreciation   | 23,796              | 29,054               |
| Deferred income tax provision (benefit)  | 200,094             | (2,179,626)          |
| Gains on mortgage-backed securities  | (829,297)           | (2,637,667)          |
| Gains on retained interests in securitizations                                       | (1,485,756)         | (193,690)            |
| Fair value adjustment on Orchid Island Capital, Inc. common stock                    | (186,516)           | -                    |
| Realized and unrealized losses on interest rate swaptions                            | -                   | 156,479              |
| Changes in operating assets and liabilities:   |                     |                      |
| Accrued interest receivable  | (12,495)            | (1,419,920)          |
| Other assets   | 45,485              | (156,220)            |
| Accrued interest payable   | (13,407)            | 31,551               |
| Other liabilities  | 3,074,874           | (291,422)            |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(552,059)</b>    | <b>(1,148,291)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                      |
| From mortgage-backed securities investments:   |                     |                      |
| Purchases  | (986,194)           | (548,231,274)        |
| Sales  | -                   | 155,112,062          |
| Principal repayments   | 4,059,492           | 11,062,224           |
| Payments received on retained interests in securitizations                           | 995,531             | 869,490              |
| Increase in restricted cash  | (31,320)            | (1,641,665)          |
| Purchases of property and equipment  | -                   | (16,950)             |
| Purchase of interest rate swaptions, net of margin cash received                     | -                   | (200,000)            |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>                           | <b>4,037,509</b>    | <b>(383,046,113)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                      |
| Proceeds from repurchase agreements  | 234,227,774         | 1,824,362,982        |
| Principal repayments on repurchase agreements  | (237,898,135)       | (1,465,139,473)      |
| Issuance of common shares of Orchid Island Capital, Inc.                             | -                   | 62,498,803           |
| Cash dividends paid to noncontrolling interests                                      | -                   | (2,919,600)          |
| Class A common shares sold directly to employees                                     | -                   | 98,000               |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                           | <b>(3,670,361)</b>  | <b>418,900,712</b>   |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                          | <b>(184,911)</b>    | <b>34,706,308</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period</b>                            | <b>4,699,059</b>    | <b>11,959,292</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of the period</b>                                  | <b>\$ 4,514,148</b> | <b>\$ 46,665,600</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                            |                     |                      |
| Cash paid during the period for:   |                     |                      |
| Interest   | \$ 357,072          | \$ 665,971           |
| Income taxes   | \$ 137,001          | \$ 22,267            |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:</b>                      |                     |                      |
| Securities acquired settled in later period  | \$ -                | \$ 39,502,694        |

*See Notes to Consolidated Financial Statements*

**BIMINI CAPITAL MANAGEMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**March 31, 2015**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business Description**

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

On February 20, 2013, Orchid Island Capital, Inc. (“Orchid”) completed the initial public offering (“IPO”) of its common stock. Prior to the completion of its IPO, Orchid was a wholly-owned qualified REIT subsidiary of Bimini Capital. During 2013 and 2014, and until December 31, 2014, Orchid continued to be consolidated as a variable interest entity (“VIE”). Effective December 31, 2014, Orchid was deconsolidated.

As used in this document, discussions related to REIT qualifying activities include the MBS portfolios of Bimini Capital and Orchid for 2014, and only the MBS portfolio of Bimini Capital for 2015. Discussions related to the “Company”, refer to the consolidated entity, including Bimini Capital, our wholly-owned subsidiaries, and, through December 31, 2014, our VIE. References to “Bimini Capital” and the “parent” refer to Bimini Capital Management, Inc. as a separate entity. Discussions related to Bimini Capital’s taxable REIT subsidiaries or non-REIT eligible assets refer to Bimini Advisors, Inc. and its wholly-owned subsidiary, Bimini Advisors, LLC (together “Bimini Advisors”) and MortCo TRS, LLC (“MortCo”) and its consolidated subsidiaries.

**Consolidation**

The accompanying consolidated financial statements include the accounts of Bimini Capital, Bimini Advisors and MortCo, as well as the wholly-owned subsidiaries of MortCo. The accounts of Orchid are included in the consolidated statements of operations and cash flows for the three months ended March 31, 2014. 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 VIE by an enterprise if it is deemed the primary beneficiary of the VIE. Further, ASC 810 requires a qualitative assessment to determine the primary beneficiary of a VIE, an ongoing assessment of whether an enterprise is the primary beneficiary of a VIE, and additional disclosures for entities that have variable interests in VIEs.

From the effective date of Orchid’s IPO and until December 31, 2014, management concluded, pursuant to ASC 810, that Orchid was a VIE. As a result, subsequent to Orchid’s IPO and until December 31, 2014, the Company consolidated Orchid in its financial statements. The results of operations of Orchid were included in the Company’s 2014 consolidated statements of operations and cash flows, however, net income attributable to Bimini Capital stockholders did not include the portion of net income attributable to noncontrolling interests.

In December 2014, management re-evaluated the conditions resulting in the consolidation of Orchid and concluded that, due to Bimini's decreased percentage ownership interest in Orchid, there was no longer a variable interest requiring consolidation. As a result, in accordance with ASC 810, the Company deconsolidated Orchid from the consolidated balance sheet as of December 31, 2014. However, as a VIE which was deconsolidated on December 31, 2014, Orchid's results of operations were included in the consolidated statements of operations and cash flows through December 31, 2014, and have been excluded in subsequent periods.

Assets recognized as a result of consolidating Orchid in prior periods did not represent additional assets that could be used to satisfy claims against Bimini Capital's assets. Conversely, liabilities recognized as a result of consolidating Orchid did not represent additional claims on Bimini Capital's assets; rather, they represented claims against the assets of Orchid. Creditors and stockholders of Orchid have no recourse to the assets of Bimini Capital.

As further described in Note 7, Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital's junior subordinated notes. Pursuant to ASC 810, Bimini Capital's common share investment in the trust has not been consolidated in the financial statements of Bimini Capital, and accordingly, this investment has been accounted for on the equity method.

## **Liquidity**

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

Beginning in 2007, the Company began a series of actions to respond to the losses and their impact on our capital base. One of these actions was to evaluate and pursue capital raising opportunities for Orchid. Orchid completed its initial public offering of common stock on February 20, 2013. In accordance with the management agreement between Bimini Advisors and Orchid, Bimini Advisors began to allocate certain overhead costs to Orchid on a pro rata basis commencing on July 1, 2014. As a stockholder of Orchid, Bimini Capital will share in distributions when paid by Orchid to its stockholders.

At March 31, 2015, the Company had cash and cash equivalents of approximately \$4.5 million, an MBS portfolio of approximately \$115.6 million and an equity capital base of approximately \$7.8 million. The Company generated cash flows of approximately \$5.3 million from principal and interest payments on its MBS portfolio and approximately \$1.0 million from retained interests in securitizations during the three months ended March 31, 2015. In addition, during the three months ended March 31, 2015, the Company received approximately \$1.0 million in management fees and expense reimbursements as manager of Orchid and approximately \$0.5 in dividends from its investment in Orchid common shares. However, if cash resources are, at any time, insufficient to satisfy the Company's liquidity requirements, such as when cash flows from operations are materially negative, the Company may be required to pledge additional assets to meet margin calls, liquidate assets, sell additional debt or equity securities or pursue other financing alternatives.

In May 2015, Bimini Capital reached an agreement in principle to settle a legal action as more fully described in Note 10. In connection with the anticipated settlement and in accordance with GAAP, a provision for loss of \$3.5 million has been charged to operations for the three months ended March 31, 2015. Although payments under the anticipated settlement agreement will reduce the Company's liquidity, management believes that the Company will be able to generate sufficient cash from its operations to meet the payment obligations as they come due.



## **Basis of Presentation**

The accompanying unaudited 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 three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The consolidated balance sheet at December 31, 2014 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, 2014.

## **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 the fair values of MBS, investment in Orchid common shares, Eurodollar futures contracts, interest rate swaptions, retained interests and asset valuation allowances.

## **Statement of Comprehensive (Loss) Income**

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

## **Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. At March 31, 2015, restricted cash consisted of approximately \$0.5 million of cash held by a broker as margin on Eurodollar futures contracts and \$0.2 million of cash held on deposit as collateral with repurchase agreement counterparties. At December 31, 2014, restricted cash consisted of approximately \$0.5 million of cash held by a broker as margin on Eurodollar futures contracts and \$0.3 million of cash held on deposit as collateral with repurchase agreement counterparties.

The Company maintains cash balances at four banks, and, at times, 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 March 31, 2015, the Company’s cash deposits exceeded federally insured limits by approximately \$3.7 million. 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.

## **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 (collectively, “MBS”). 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 from the reporting period based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. 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**

At the date of Orchid’s deconsolidation, the Company elected the fair value option for its continuing investment in Orchid common shares. The change in the fair value of this investment and dividends received on this investment are reflected in other income in the consolidated statement of operations for the three months ended March 31, 2015. 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. 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 how the investment is managed.

## **Retained Interests in Securitizations**

From 2004 to 2006, MortCo participated in securitization transactions as part of its mortgage origination business. Retained interests in the securitization transactions were initially recorded at their fair value when issued by MortCo. Subsequent adjustments to fair value are reflected in earnings. Quoted market prices for these assets are generally not available, so the Company estimates fair value based on the present value of expected future cash flows using management’s best estimates of key assumptions, which include expected credit losses, prepayment speeds, weighted-average life, and discount rates commensurate with the inherent risks of the asset.

## **Derivative Financial Instruments**

The Company 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 Eurodollar and T-Note futures contracts and options to enter in interest rate swaps (“interest rate swaptions”), but it may enter into other transactions in the future.

The Company has elected to not treat 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 earnings for each period.

Holding derivatives creates exposure to credit risk related to the potential for failure on the part of 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 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 Island Capital, Inc. common stock, Eurodollar futures contracts 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 13 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 March 31, 2015 and December 31, 2014, due to the short-term nature of these financial instruments.

It is impractical to estimate the fair value of the Company’s junior subordinated notes. Currently, there is a limited market for these types of instruments and the Company is unable to ascertain what interest rates would be available to the Company for similar financial instruments. Information regarding carrying amount, effective interest rate and maturity date for these instruments is presented in Note 7 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. Payments pursuant to dividend equivalent rights, which are granted along with certain equity based awards, are charged to stockholders' equity when dividends are declared. The Company applies a zero forfeiture rate for its equity based awards, as such awards have been granted to a limited number of employees and historical forfeitures have been minimal. A significant forfeiture, or an indication that significant forfeitures may occur, would result in a revised forfeiture rate which would be accounted for prospectively as a change in an estimate. For transactions with non-employees in which services are performed in exchange for the Company's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date of issuance.

## Earnings Per Share

The Company follows the provisions of 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 on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Accordingly, shares of the Class B Common Stock are included in the computation of basic EPS using the two-class method and, consequently, are presented separately from Class A Common Stock.

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

## Income Taxes

Bimini Capital has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders at least 90% of their REIT taxable income on an annual basis. In addition, a REIT must meet other provisions of the Code to retain its tax status. At March 31, 2015, management believes that the Company has complied with the Code requirements and Bimini Capital continues to qualify as a REIT. As further described in Note 11, Income Taxes, Bimini Advisors and MortCo are taxpaying entities for income tax purposes and are taxed separately from Bimini Capital.

The Company's U.S. federal income tax returns for years ended on or after December 31, 2011 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.

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.

## Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-12, *Compensation-Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires that performance targets that affect vesting and that could be achieved after the requisite service period be treated as performance conditions. The effective date of ASU 2014-12 is for interim and annual reporting periods beginning after December 15, 2015. The ASU is not expected to materially impact the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. ASU 2014-11 amends the accounting guidance for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings, and requires additional disclosure about certain transactions by the transferor. ASU 2014-11 is effective for certain transactions that qualify for sales treatment for the first interim or annual period beginning after December 15, 2014. The new disclosure requirements for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that qualify for secured borrowing treatment is effective for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2015. We currently record our repurchase arrangements as secured borrowings and do not anticipate that ASU 2014-11 will have any impact on the Company’s consolidated financial statements.

## NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company’s MBS portfolio as of March 31, 2015 and December 31, 2014:

(in thousands)

|                                  | March 31, 2015    | December 31, 2014 |
|----------------------------------|-------------------|-------------------|
| <b>Pass-Through MBS:</b>         |                   |                   |
| Hybrid Adjustable-rate Mortgages | \$ 441            | \$ 442            |
| Fixed-rate Mortgages             | 109,014           | 112,174           |
| Total Pass-Through MBS           | 109,455           | 112,616           |
| <b>Structured MBS:</b>           |                   |                   |
| Interest-Only Securities         | 3,320             | 2,276             |
| Inverse Interest-Only Securities | 2,812             | 2,939             |
| Total Structured MBS             | 6,132             | 5,215             |
| <b>Total</b>                     | <b>\$ 115,587</b> | <b>\$ 117,831</b> |

The following table summarizes the Company’s MBS portfolio as of March 31, 2015 and December 31, 2014, according to the contractual maturities of the securities in the portfolio. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

|   | March 31, 2015    | December 31, 2014 |
|---|-------------------|-------------------|
| Greater than five years and less than ten years | \$ 11             | \$ 16             |
| Greater than or equal to ten years              | 115,576           | 117,815           |
| <b>Total</b>                                    | <b>\$ 115,587</b> | <b>\$ 117,831</b> |

### NOTE 3. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of March 31, 2015 and December 31, 2014:

(in thousands)

| Series      | Issue Date         | March 31, 2015 | December 31, 2014 |
|-------------|--------------------|----------------|-------------------|
| HMAC 2004-2 | May 10, 2004       | \$ 380         | \$ 320            |
| HMAC 2004-3 | June 30, 2004      | 827            | 753               |
| HMAC 2004-4 | August 16, 2004    | 380            | 496               |
| HMAC 2004-5 | September 28, 2004 | 310            | 331               |
| HMAC 2004-6 | November 17, 2004  | 493            | -                 |
| Total       |                    | \$ 2,390       | \$ 1,900          |

### NOTE 4. REPURCHASE AGREEMENTS

As of March 31, 2015, the Company had outstanding repurchase agreement obligations of approximately \$106.3 million with a net weighted average borrowing rate of 0.38%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$113.8 million, and cash pledged to counterparties of approximately \$0.2 million. As of December 31, 2014, the Company had outstanding repurchase agreement obligations of approximately \$110.0 million with a net weighted average borrowing rate of 0.36%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately \$116.4 million, and cash pledged to counterparties of approximately \$0.3 million.

As of March 31, 2015 and December 31, 2014, the Company's repurchase agreements had remaining maturities as summarized below:

(\$ in thousands)

|   | OVERNIGHT<br>(1 DAY OR<br>LESS) | BETWEEN 2<br>AND<br>30 DAYS | BETWEEN 31<br>AND<br>90 DAYS | GREATER<br>THAN<br>90 DAYS | TOTAL      |
|---|---------------------------------|-----------------------------|------------------------------|----------------------------|------------|
| <b>March 31, 2015</b>   |                                 |                             |                              |                            |            |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$ 110,488                  | \$ 3,277                     | \$ -                       | \$ 113,765 |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$ 103,781                  | \$ 2,513                     | \$ -                       | \$ 106,294 |
| Net weighted average borrowing rate                                     | -                               | 0.36%                       | 0.96%                        | -                          | 0.38%      |
| <b>December 31, 2014</b>  |                                 |                             |                              |                            |            |
| Fair value of securities pledged, including accrued interest receivable | \$ -                            | \$ 114,433                  | \$ 1,998                     | \$ -                       | \$ 116,431 |
| Repurchase agreement liabilities associated with these securities       | \$ -                            | \$ 108,074                  | \$ 1,890                     | \$ -                       | \$ 109,964 |
| Net weighted average borrowing rate                                     | -                               | 0.36%                       | 0.33%                        | -                          | 0.36%      |

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, receivable for securities sold, and cash posted by the Company as collateral, if any. At March 31, 2015 and December 31, 2014, the Company had a maximum 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) of approximately \$7.7 million and \$6.7 million, respectively. Summary information regarding amounts at risk with individual counterparties greater than 10% of stockholders' equity at March 31, 2015 and December 31, 2014 is as follows:

(\$ in thousands)

| Repurchase Agreement Counterparties | Amount<br>at Risk | % of<br>Stockholders'<br>Equity<br>at Risk | Weighted<br>Average<br>Maturity<br>(in Days) |
|-------------------------------------|-------------------|--|--|
| <b>March 31, 2015</b>               |                   |  |  |
| JVB Financial Group, LLC            | \$ 2,045          | 26.1%                                      | 11   |
| ED&F Man Capital Markets Inc.       | 2,015             | 25.7%                                      | 19   |
| Citigroup Global Markets, Inc.      | 1,543             | 19.7%                                      | 18   |
| South Street Securities, LLC        | 923               | 11.8%                                      | 20   |
| <b>December 31, 2014</b>            |                   |  |  |
| JVB Financial Group, LLC            | \$ 1,807          | 19.6%                                      | 8  |
| ED&F Man Capital Markets Inc.       | 1,490             | 16.2%                                      | 22   |

#### NOTE 5. 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, such as Eurodollar and T-Note futures contracts and interest rate swaptions, 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.

As of March 31, 2015 and December 31, 2014, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains or losses credited or charged to the Company's account on a daily basis and reflected in earnings as they occur. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. This margin represents the collateral the Company has posted for its open positions and is recorded on the consolidated balance sheets as part of restricted cash.

During the three months ended March 31, 2014, the Company, through Orchid, was a party to interest rate swaption agreements which granted the Company the right but not the obligation to enter into underlying pay fixed interest rate swap ("payer swaption"). The Company may also enter into swaption agreements that provide the Company the option to enter into a receive fixed interest rate swap ("receiver swaption").

The tables below present information related to the Company's Eurodollar futures positions at March 31, 2015 and December 31, 2014.

(\$ in thousands)

| Eurodollar Futures Positions                           |                                     |                                  |                            |   |                                  |                            |
|--|-------------------------------------|----------------------------------|----------------------------|---|----------------------------------|----------------------------|
| As of March 31, 2015                                   |                                     |                                  |                            |   |                                  |                            |
| Expiration Year  | Repurchase Agreement Funding Hedges |                                  |                            | Junior Subordinated Debt Funding Hedges |                                  |                            |
|  | Weighted Average LIBOR Rate         | Average Contract Notional Amount | Open Equity <sup>(1)</sup> | Weighted Average LIBOR Rate             | Average Contract Notional Amount | Open Equity <sup>(1)</sup> |
| 2015   | 0.53%                               | \$ 38,667                        | \$ (56)                    | 0.49%                                   | \$ 26,000                        | \$ (210)                   |
| 2016   | 1.13%                               | 56,000                           | (184)                      | 1.13%                                   | 26,000                           | (168)                      |
| 2017   | 1.74%                               | 56,000                           | (274)                      | 1.74%                                   | 26,000                           | (193)                      |
| 2018   | 2.05%                               | 56,000                           | (166)                      | 2.05%                                   | 26,000                           | (115)                      |
| Total / Weighted Average                               | 1.38%                               | \$ 52,000                        | \$ (680)                   | 1.31%                                   | \$ 26,000                        | \$ (686)                   |
| Cash posted as collateral, included in restricted cash |                                     |                                  |                            |   |                                  | \$ 529                     |

(\$ in thousands)

| Eurodollar Futures Positions                           |                                     |                                  |                            |   |                                  |                            |
|--|-------------------------------------|----------------------------------|----------------------------|---|----------------------------------|----------------------------|
| As of December 31, 2014                                |                                     |                                  |                            |   |                                  |                            |
| Expiration Year  | Repurchase Agreement Funding Hedges |                                  |                            | Junior Subordinated Debt Funding Hedges |                                  |                            |
|  | Weighted Average LIBOR Rate         | Average Contract Notional Amount | Open Equity <sup>(1)</sup> | Weighted Average LIBOR Rate             | Average Contract Notional Amount | Open Equity <sup>(1)</sup> |
| 2015   | 0.63%                               | \$ 36,500                        | \$ (5)                     | 0.57%                                   | \$ 26,000                        | \$ (237)                   |
| 2016   | 1.54%                               | 56,000                           | 46                         | 1.54%                                   | 26,000                           | (61)                       |
| 2017   | 2.23%                               | 56,000                           | (3)                        | 2.23%                                   | 26,000                           | (67)                       |
| 2018   | 2.51%                               | 56,000                           | (38)                       | 2.51%                                   | 26,000                           | (56)                       |
| Total / Weighted Average                               | 1.72%                               | \$ 50,429                        | \$ -                       | 1.60%                                   | \$ 26,000                        | \$ (421)                   |
| Cash posted as collateral, included in restricted cash |                                     |                                  |                            |   |                                  | \$ 476                     |

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

#### Loss From Derivative Instruments, Net

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months ended March 31, 2015 and 2014. The consolidated information for 2014 includes the activity of Orchid, as it was included in the consolidated statement of operations for that period.

(in thousands)

|  | Consolidated |            | Parent-Only |         |
|--|--------------|------------|-------------|---------|
|  | 2015         | 2014       | 2015        | 2014    |
| Eurodollar futures contracts (short positions) | \$ (1,015)   | \$ (1,561) | \$ (1,015)  | \$ (24) |
| Payer swaptions                                | -            | (156)      | -           | -       |
| Net losses on derivative instruments           | \$ (1,015)   | \$ (1,717) | \$ (1,015)  | \$ (24) |



## 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. We minimize this risk by limiting our counterparties for instruments which are not centrally cleared on a registered exchange to major financial institutions with acceptable credit ratings and monitoring positions with individual counterparties. In addition, we may be required to pledge assets as collateral for our 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, we may not receive payments provided for under the terms of our derivative agreements, and may have difficulty obtaining our assets pledged as collateral for our derivatives. The cash and cash equivalents pledged as collateral for our derivative instruments are included in restricted cash on our consolidated balance sheets.

## NOTE 6. 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 March 31, 2015 and December 31, 2014.

(in thousands)

|                          | Offsetting of Liabilities              |   |   | Gross Amount Not Offset in the Consolidated Balance Sheet |                           |            |
|--------------------------|--|---|---|---|---------------------------|------------|
|                          | Gross Amount of Recognized Liabilities | Gross Amount Offset in the Consolidated Balance Sheet | Net Amount of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments Posted as Collateral                | Cash Posted as Collateral | Net Amount |
| <b>March 31, 2015</b>    |  |   |   |   |                           |            |
| Repurchase Agreements    | \$ 106,294                             | \$ -  | \$ 106,294  | \$ (106,058)  | \$ (236)                  | \$ -       |
| <b>December 31, 2014</b> |  |   |   |   |                           |            |
| Repurchase Agreements    | \$ 109,964                             | \$ -  | \$ 109,964  | \$ (109,706)  | \$ (258)                  | \$ -       |

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 Notes 4 and 5 for a discussion of collateral posted or received against or for repurchase obligations and derivative instruments.

## NOTE 7. 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 March 31, 2015 and December 31, 2014, 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 March 31, 2015, the interest rate was 3.77%. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes require quarterly interest distributions and became redeemable at Bimini Capital's option, in whole or in part and without penalty, beginning December 15, 2010. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment of all present and future senior indebtedness.

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.

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 8. COMMON STOCK

At March 31, 2015 and December 31, 2014, Bimini Capital's common stock is comprised of the following:

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; designated, 1,800,000 shares as Class A Redeemable and 2,000,000 shares as Class B Redeemable; no shares issued and outstanding as of March 31, 2015 and December 31, 2014 | \$ -           | -\$ -             |
| Class A Common Stock, \$0.001 par value; 98,000,000 shares designated: 12,332,506 shares issued and outstanding as of March 31, 2015 and 12,324,391 shares issued and outstanding as of December 31, 2014                                    | 12,333         | 12,324            |
| Class B Common Stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of March 31, 2015 and December 31, 2014  | 32             | 32                |
| Class C Common Stock, \$0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of March 31, 2015 and December 31, 2014  | 32             | 32                |
|  | \$ 12,397      | \$ 12,388         |

#### Issuances of Common Stock

The table below presents information related to the Bimini Capital's Class A Common Stock issued during the three months ended March 31, 2015 and 2014.

| Shares Issued Related To:                        | 2015  | 2014    |
|--|-------|---------|
| Directors' compensation                          | 8,115 | -       |
| Vesting incentive plan shares <sup>(1)</sup>     | -     | 500,000 |
| Shares sold directly to employees <sup>(1)</sup> | -     | 257,895 |
| Total shares of Class A Common Stock issued      | 8,115 | 757,895 |

(1) See Note 9, Stock Incentive Plans, for details of these issuances.

There were no issuances of the Bimini Capital's Class B Common Stock and Class C Common Stock during the three months ended March 31, 2015 and 2014.

## NOTE 9. 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.

### Share Awards

In February 2014, the Compensation Committee of the Board of Directors of Bimini Capital (the "Committee") approved certain performance bonuses for members of management. These bonuses were awarded primarily in recognition of management's capital raising efforts in 2013. The bonuses, which were paid on February 19, 2014 (the "Bonus Date"), consisted of cash and fully vested shares of the Company's common stock issued under the 2011 Plan. In particular, executive officers received bonuses totaling approximately \$422,000, consisting of 500,000 shares of the Company's common stock with an approximate value of \$190,000, and cash of approximately \$232,000 which, at the officer's election, could be used to purchase newly issued shares directly from the Company. Under this election, the officers purchased 257,895 shares of the Company's common stock. For purposes of these bonuses, shares of the Company's common stock were valued based on the closing price of the Company's common stock on the Bonus Date. The expense related to this bonus was accrued at December 31, 2013 and did not affect the results of operations for the three months ended March 31, 2014.

A summary of share award activity during the three months ended March 31, 2014 is presented below:

|                             | Shares  | Weighted-Average Grant-Date Fair Value | Total Compensation Expense |
|-----------------------------|---------|--|----------------------------|
| Fully vested shares granted | 500,000 | \$ 0.38                                | \$ 190,000                 |

### Performance Units

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 information related to Performance Units outstanding at March 31, 2015 and December 31, 2014:

|   | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| Nonvested performance units outstanding at period end | 31,500         | 31,500            |
| Weighted-average grant date fair value                | \$ 1.78        | \$ 1.78           |
| Unrecognized compensation expense at period end       | \$ 50,619      | \$ 55,291         |
| Weighted-average remaining vesting term (in years)    | 2.70           | 3.00              |
| Intrinsic value of unvested shares at period end      | \$ 55,125      | \$ 59,850         |

## NOTE 10. COMMITMENTS AND CONTINGENCIES

### Outstanding Litigation

The Company may from time to time be involved in various lawsuits and claims, both pending and threatened, including some that it has asserted against others, in which monetary and other damages are sought. These lawsuits and claims relate primarily to contractual disputes arising out of the ordinary course of the Company's business. The outcome of such lawsuits and claims, as well as the costs to defend them, is inherently unpredictable, and management may choose to settle certain matters based on a cost-benefit analysis.

A complaint by a note-holder in Preferred Term Securities XX ("PreTSL XX") was filed on July 16, 2010 in the Supreme Court of the State of New York, New York County, against Bimini Capital, the Bank of New York Mellon ("BNY Mellon") and Hexagon Securities LLC ("Hexagon") and nominal defendants BNY Mellon and Preferred Term Securities XX, Ltd. ("PreTSL XX"), captioned Hildene Capital Management, LLC, et al. v. The Bank of New York Mellon, et. al. The complaint, filed by Hildene Capital Management, LLC and Hildene Opportunities Fund, Ltd. ("Hildene"), alleges that Hildene suffered losses as a result of Bimini Capital's repurchase of all outstanding fixed/floating rate capital securities of Bimini Capital Trust II for less than par value from PreTSL XX in October 2009. Hildene alleged claims against BNY Mellon for breach of the Indenture, breach of fiduciary duties and breach of the covenant of good faith and fair dealing, and claims against Bimini Capital for tortious interference with contract, aiding and abetting breach of fiduciary duty, unjust enrichment and "rescission/illegality." Hildene also alleged derivative claims brought in the name of Nominal Defendant BNY Mellon. (Subsequently, Hexagon and Nominal Defendant PreTSL XX were voluntarily dismissed without prejudice by Hildene.) PreTSL XX, Ltd. moved to intervene as an additional plaintiff in the action, and Bimini and BNY Mellon opposed that motion. The court granted PreTSL XX, Ltd.'s motion to intervene and the Appellate Division, First Department affirmed that decision. In May 2013, Hildene voluntarily dismissed its purported derivative claims brought in the name of BNY Mellon, including its claim for "rescission/illegality." On April 14, 2014 and May 18, 2014, Stipulations of Partial Discontinuance were filed with the court that dismissed all claims between and among Hildene and BNY Mellon, and PreTSL XX and BNY Mellon.

In May 2015, Hildene and Bimini Capital reached an agreement in principle to settle the case. The agreement has not been finalized and is subject to the approval of each party and various conditions. In connection with the anticipated settlement and in accordance with GAAP, a provision for loss of \$3.5 million has been charged to operations for the three months ended March 31, 2015.

## NOTE 11. INCOME TAXES

### REIT Activities

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

As of December 31, 2014, Bimini Capital had a REIT tax net operating loss carryforward ("NOL carryforwards" or "NOLs") of approximately \$17.3 million that is immediately available to offset future REIT taxable income. These REIT tax net operating loss carryforwards will expire in years 2028 through 2034, if not previously used to offset future REIT taxable income.

## *Taxable REIT Subsidiaries*

As taxable REIT subsidiaries (“TRS”), Bimini Advisors and MortCo are tax paying entities for income tax purposes and are taxed separately from Bimini Capital and from each other. Therefore, Bimini Advisors and MortCo each separately report an income tax provision or benefit based on their own taxable activities. For the three months ended March 31, 2015 and 2014, MortCo and Bimini Advisors did not have taxable income primarily due to the utilization of their respective NOL carryforwards. The Company’s payment of taxes reported on the consolidated statement of cash flows results from alternative minimum taxes which become due when NOLs are used to offset taxable income.

The TRS income tax provision (benefit) for the three months ended March 31, 2015 and 2014 differs from the amount determined by applying the statutory Federal rate of 35% to the pre-tax income or loss due primarily to the recording of, and adjustments to, the deferred tax asset valuation allowances and the release of the deferred tax valuation allowance related to an intangible asset and NOL carryforwards.

Bimini Advisors has available at March 31, 2015 estimated federal and Florida NOL carryforwards of approximately \$1.1 million which begin to expire in 2031 and are fully available to offset future federal and Florida taxable income. In connection with Orchid’s IPO, Bimini Advisors paid for, and expensed for GAAP purposes, certain offering costs totaling approximately \$3.2 million. For tax purposes, these offering costs created an intangible asset related to the management agreement with a tax basis of \$3.2 million. The deferred tax assets related to the NOL carryforwards and the intangible asset at March 31, 2015 total approximately \$1.7 million.

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 deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the three months ended March 31, 2014 the Company re-evaluated its previous position regarding its ability to realize Bimini Advisors’ deferred tax liability and determined that, due to increased projected management fee revenue and the ability to allocate certain overhead expenses to Orchid, there was sufficient positive evidence to conclude that the realization of Bimini Advisors’ deferred tax assets was more likely than not. As a result, Bimini Advisors recorded a deferred income tax benefit of approximately \$2.2 million during the three months ended March 31, 2014 related to the release of the valuation allowance.

As of March 31, 2015, MortCo has estimated federal NOL carryforwards of approximately \$262.5 million and estimated available Florida NOLs of approximately \$35.0 million, both of which will begin to expire in 2025, and are fully available to offset future federal and Florida taxable income, respectively. The net deferred tax assets for MortCo at March 31, 2015 are approximately \$94.4 million. As of March 31, 2015 and December 31, 2014, management did not believe that it had sufficient positive evidence to conclude that the realization of MortCo’s deferred tax assets was more likely than not; therefore, a valuation allowance was provided for the entire balance of MortCo’s net deferred tax assets.

MortCo holds residual interests in various real estate mortgage investment conduits (“REMICs”), which were issued in 2004, 2005 and 2006, some of which generate excess inclusion income (“EII”), a type of taxable income pursuant to specific provisions of the Code. In 2008, based on a re-evaluation of its tax position regarding REMIC income, MortCo recorded a liability of approximately \$2.1 million for taxes, interest and penalties related to this uncertain tax position during 2008. During 2010 (as part of the filing of its 2009 tax returns), MortCo reached a tax filing position related to the EII taxable income, reported EII taxable income of approximately \$2.1 million, paid \$0.8 million of income tax, interest and penalties, and included a notice of inconsistent treatment in its tax returns. Because of the uncertainty surrounding the taxation of EII, MortCo accounted for the pre-2008 tax position as being more likely than not that the tax position would not be fully sustained upon examination. On September 15, 2013, the statute of limitations for the IRS to challenge MortCo’s pre-2008 tax position expired. As such, the remaining balance of the liability recorded in 2008 was reversed during the year ended December 31, 2013, which resulted in a tax benefit of \$1.3 million. MortCo continues to file its tax returns following its 2009 tax filing position, and it continues to include a notice of inconsistent treatment in each return.

**NOTE 12. 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 March 31, 2015 and 2014.

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 March 31, 2015 and 2014.

The Company has dividend eligible stock incentive plan shares that were outstanding during the three months ended March 31, 2015. 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 three months ended March 31, 2015 and 2014.

*(in thousands, except per-share information)*

|   | 2015       | 2014     |
|---|------------|----------|
| <b>Basic and diluted EPS per Class A common share:</b>      |            |          |
| (Loss) income attributable to Class A common shares:        |            |          |
| Basic and diluted   | \$ (1,385) | \$ 2,363 |
| Weighted average common shares:                             |            |          |
| Class A common shares outstanding at the balance sheet date | 12,333     | 12,268   |
| Effect of weighting   | (1)        | (421)    |
| Weighted average shares-basic and diluted                   | 12,332     | 11,847   |
| (Loss) income per Class A common share:                     |            |          |
| Basic and diluted   | \$ (0.11)  | \$ 0.20  |

*(in thousands, except per-share information)*

|   | 2015      | 2014    |
|---|-----------|---------|
| <b>Basic and diluted EPS per Class B common share:</b>      |           |         |
| (Loss) income attributable to Class B common shares:        |           |         |
| Basic and diluted   | \$ (4)    | \$ 6    |
| Weighted average common shares:                             |           |         |
| Class B common shares outstanding at the balance sheet date | 32        | 32      |
| Effect of weighting   | -         | -       |
| Weighted average shares-basic and diluted                   | 32        | 32      |
| (Loss) income per Class B common share:                     |           |         |
| Basic and diluted   | \$ (0.11) | \$ 0.20 |

## NOTE 13. 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 currently 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 our MBS positions determined by either an independent third-party or do so internally.

MBS, retained interests, Eurodollar futures contracts, Orchid common stock and interest rate swaptions were recorded at fair value on a recurring basis during the three months ended March 31, 2015 and 2014. 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 March 31, 2015 and December 31, 2014:

(in thousands)

|  | Fair Value<br>Measurements | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|----------------------------|---|---|--|
| <b>March 31, 2015</b>                    |                            |   |   |  |
| Mortgage-backed securities               | \$ 115,587                 | \$ -  | \$ 115,587  | \$ -   |
| Eurodollar futures contracts             | 529                        | 529   | -   | -  |
| Orchid Island Capital, Inc. common stock | 12,997                     | 12,997  | -   | -  |
| Retained interests                       | 2,390                      | -   | -   | 2,390  |
| <b>December 31, 2014</b>                 |                            |   |   |  |
| Mortgage-backed securities               | \$ 117,831                 | \$ -  | \$ 117,831  | \$ -   |
| Eurodollar futures contracts             | 476                        | 476   | -   | -  |
| Orchid Island Capital, Inc. common stock | 12,811                     | 12,811  | -   | -  |
| Retained interests                       | 1,900                      | -   | -   | 1,900  |

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 three months ended March 31, 2015 and 2014:

(in thousands)

|                           | Retained Interests |          |
|---------------------------|--------------------|----------|
|                           | 2015               | 2014     |
| Balances, January 1       | \$ 1,900           | \$ 2,531 |
| Gain included in earnings | 1,486              | 194      |
| Collections               | (996)              | (870)    |
| Balances, March 31        | \$ 2,390           | \$ 1,855 |

During the three months ended March 31, 2015 and 2014, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

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



The following table summarizes the significant quantitative information about our level 3 fair value measurements as of March 31, 2015.

|  |                      |   |  |
|--|----------------------|---|--|
| Retained interests fair value (in thousands) |                      | \$                                      | 2,390  |
| <b>Prepayment Assumption</b>                 |                      | <b>CPR Range<br/>(Weighted Average)</b> |  |
| Constant Prepayment Rate                     |                      | 10% (10%)                               |  |
| <b>Default Assumptions</b>                   |                      | <b>Probability of Default</b>           | <b>Severity<br/>(Weighted Average)</b>             |
|  |                      |   | <b>Range Of Loss Timing</b>                        |
| Real Estate Owned                            | 100%                 | 41%                                     | Next 10 Months                                     |
| Loans in Foreclosure                         | 100%                 | 41%                                     | Month 4 - 13                                       |
| Loans 90 Day Delinquent                      | 100%                 | 45%                                     | Month 11-28  |
| Loans 60 Day Delinquent                      | 85%                  | 45%                                     | Month 11-28  |
| Loans 30 Day Delinquent                      | 75%                  | 45%                                     | Month 11-28  |
| Current Loans                                | 2.50% - 2.79%        | 45%                                     | Month 29 and Beyond                                |
| <b>Cash Flow Recognition</b>                 |                      | <b>Valuation Technique</b>              | <b>Remaining Life Range<br/>(Weighted Average)</b> |
|  |                      |   | <b>Discount Rate Range<br/>(Weighted Average)</b>  |
| Nominal Cash Flows                           | Discounted Cash Flow | 0.2 - 13.4 (7.8)                        | 27.50% (27.50%)                                    |
| Discounted Cash Flows                        | Discounted Cash Flow | 0.2 - 3.7 (1.0)                         | 27.50% (27.50%)                                    |

#### NOTE 14. RELATED PARTY TRANSACTIONS

Frank E. Jaumot is a shareholder in an accounting firm from which the Company receives accounting and tax services. Mr. Jaumot is both a director and a shareholder of Bimini Capital and a shareholder of Orchid. Professional fees incurred with this firm were \$37,000 and \$39,000 for the three months ended March 31, 2015 and 2014, respectively.

#### NOTE 15. CONSOLIDATED VARIABLE INTEREST ENTITY AND NONCONTROLLING INTERESTS

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

As discussed in Note 1, Orchid completed its IPO on February 20, 2013. Management concluded that, after the close of its IPO, Orchid was a VIE because Orchid's equity holders lack the ability through voting rights to make decisions about its activities that have a significant effect on its success. Management also concluded that Bimini Capital was the primary beneficiary of Orchid because, under the terms of the management agreement, Bimini Capital had the power to direct the activities of Orchid that most significantly impact its economic performance including asset selection, asset and liability management and investment portfolio risk management. As a result, subsequent to Orchid's IPO, and until December 31, 2014, the Company continued to consolidate Orchid in its consolidated financial statements.

Orchid completed additional offerings of its common stock during the year ended December 31, 2014. Management continued to re-evaluate the conditions resulting in the consolidation of Orchid and at December 31, 2014 concluded that, due to Bimini's decreased percentage ownership interest in Orchid, there was no longer a variable interest requiring consolidation. In accordance with ASC 810, the Company has deconsolidated Orchid from the consolidated balance sheet as of December 31, 2014. Orchid's activities were included in the consolidated statements of operations, equity and cash flows through December 31, 2014 and have been excluded in subsequent periods.

The table below presents the effects of the above on the changes in equity attributable to Bimini Capital stockholders during the three months ended March 31, 2014.

*(\$ in thousands)*

|  |    |         |
|--|----|---------|
| Net income attributable to Bimini Capital  | \$ | 2,369   |
| Transfers from the noncontrolling interests  |    |         |
| Decrease in Bimini Capital's paid-in capital for the sale of 5,270,000 common shares of Orchid   |    | (1,018) |
| Change from net income attributable to Bimini Capital and transfers from noncontrolling interest | \$ | 1,351   |

Net income of Orchid for the three months ended March 31, 2014 is allocated between the noncontrolling interests and to Bimini Capital in proportion to their relative ownership interests in Orchid. The following is a roll forward of the noncontrolling interest during the three months ended March 31, 2014.

*(in thousands)*

|  |    |         |
|--|----|---------|
| Balance, January 1, 2014                                 | \$ | 31,615  |
| Issuance of common shares of Orchid Island Capital, Inc. |    | 63,517  |
| Net income attributed to noncontrolling interest         |    | 2,954   |
| Cash dividends paid to noncontrolling interest           |    | (2,920) |
| Balance, March 31, 2014                                  | \$ | 95,166  |

The following table summarizes the operating results of Orchid (excluding intercompany transactions) for the three months ended March 31, 2014, which are reflected in the consolidated statements of operations for the three months ended March 31, 2014.

*(in thousands)*

|  |    |              |
|--|----|--------------|
| Interest income                                | \$ | 3,783        |
| Interest expense                               |    | (411)        |
| <b>Net interest income</b>                     |    | <b>3,372</b> |
| Unrealized gains on mortgage-backed securities |    | 1,540        |
| Realized gains on mortgage-backed securities   |    | 911          |
| Losses on derivative instruments               |    | (1,693)      |
| <b>Net portfolio income</b>                    |    | <b>4,130</b> |
| <b>Expenses:</b>                               |    |              |
| Accrued incentive compensation                 |    |              |
| Directors' fees and liability insurance        |    | 84           |
| Audit, legal and other professional fees       |    | 73           |
| Direct REIT operating expenses                 |    | 45           |
| Other administrative                           |    | 30           |
| <b>Total expenses</b>                          |    | <b>232</b>   |
| <b>Net income</b>                              | \$ | <b>3,898</b> |

## 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, our actual results may differ materially from those anticipated in such forward-looking statements.

### Overview

Bimini Capital was formed in September 2003 to invest primarily in residential mortgage-backed securities ("MBS") issued by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae"). The Company deploys its capital into two core strategies. The two strategies are a levered MBS portfolio and an unlevered structured MBS portfolio. The leverage applied to the MBS portfolio will typically be less than twelve to one. The Company manages its portfolio of agency MBS and structured MBS to generate income derived from the net interest margin of its MBS portfolio, levered predominantly under repurchase agreement funding, net of associated hedging costs, and the interest income derived from its unlevered portfolio of structured MBS. The Company treats its remaining junior subordinated notes as an equity capital equivalent. The Company is self-managed and self-advised and has elected to be taxed as a REIT for U.S. federal income tax purposes.

As used in this document, references to "Bimini Capital," the parent company, and to or the general management of Bimini Capital's portfolio of MBS refer to Bimini Capital Management, Inc. Through February 19, 2013, Bimini Capital's consolidated financial statements include Orchid Island Capital, Inc. ("Orchid") as a wholly-owned qualified REIT subsidiary. Orchid completed an initial public offering ("IPO") of its common stock effective February 20, 2013. After that date, and until December 31, 2014, Orchid continued to be consolidated as a variable interest entity ("VIE") as described below. As used in this document, discussions related to REIT qualifying activities include the MBS portfolios of Bimini Capital and Orchid through December 31, 2014, and Bimini Capital only in 2015. References to Bimini Capital's taxable REIT subsidiaries or non-REIT eligible assets refer to Bimini Advisors, Inc., and its wholly-owned subsidiary, Bimini Advisors, LLC (together as "Bimini Advisors") and to MortCo TRS, LLC and its consolidated subsidiaries (collectively, "MortCo"). MortCo, which was previously named Opteum Financial Services, LLC, (referred to as "OFS") was renamed Orchid Island TRS, LLC (referred to as "OITRS") effective July 3, 2007 and then renamed MortCo TRS, LLC effective March 8, 2011. Hereinafter, any historical mention, discussion or references to Opteum Financial Services, LLC, Orchid Island TRS, LLC, OFS or to OITRS (such as in previously filed documents or Exhibits) now mean MortCo.

### Management of Orchid

Upon completion of its initial public offering, Orchid became externally managed and advised by Bimini Advisors and its experienced RMBS investment team 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.

### 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;
- recent actions taken by the Federal Reserve and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency MBS, and credit trends insofar as they affect prepayment rates; 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; and
- the requirements to qualify as a REIT and the requirements to qualify for a registration exemption under the Investment Company Act.

#### **Consolidation of Orchid Island Capital, Inc.**

Subsequent to Orchid's IPO and until December 31, 2014, management concluded that Orchid was a VIE, as defined in generally accepted accounting principles, because Orchid's equity holders lacked the ability through voting rights to make decisions about the activities that have a significant effect on the success of Orchid. Management also concluded that Bimini Capital was the primary beneficiary of Orchid because, under the management agreement between Bimini Advisors and Orchid, Bimini Capital had the power to direct the activities of Orchid that most significantly impact its economic performance. As a result, subsequent to Orchid's IPO and until December 31, 2014, the Company continued to consolidate Orchid in its consolidated financial statements.

In December 2014, management of Bimini Capital re-evaluated the conditions resulting in the consolidation of Orchid and concluded that, due to Bimini Capital's decreased percentage ownership interest in Orchid, there was no longer a variable interest requiring consolidation. As a result, in accordance with ASC 810, the Company deconsolidated Orchid from the consolidated balance sheet as of December 31, 2014. However, as a VIE which was deconsolidated on December 31, 2014, Orchid's results of operations were included in the consolidated statements of operations, equity and cash flows through December 31, 2014, and have been excluded in subsequent periods.

During the period of time in which Orchid was a VIE, the net income of Orchid has been allocated to the noncontrolling interests and to Bimini Capital in proportion to their relative ownership interests in Orchid.

The consolidation of Orchid's assets and liabilities with those of Bimini Capital and its wholly-owned subsidiaries during the period of time in which Orchid was a VIE gave the appearance of a much larger organization. However, the assets recognized as a result of consolidating Orchid did not represent additional assets that could be used to satisfy claims against Bimini Capital's assets, nor did they represent amounts that are available to be distributed to Bimini Capital's stockholders. Conversely, liabilities recognized as a result of consolidating Orchid did not represent additional claims on Bimini Capital's assets; rather, they represented claims against the assets of Orchid.

#### **Impact of Consolidation on Period-to-Period Comparisons**

The discussion and tables set forth below present information as of certain dates and for certain periods of time in which Orchid was consolidated as a VIE. In particular, unless stated otherwise balance sheet data as of March 31, 2014, June 30, 2014 and September 30, 2014 and statement of operations data for the year ended December 31, 2014 and each quarter of 2014 reflect the consolidation of Orchid as a VIE.

The discussion and tables set forth below also present information as of certain dates and for certain periods of time in which Orchid was not consolidated as a VIE. In particular, unless stated otherwise balance sheet data as of December 31, 2014 and March 31, 2015 and statement of operations data for the quarter ended March 31, 2015 do not reflect the consolidation of Orchid as a VIE.

Certain discussion and tables below provide period-to-period comparisons in which Orchid was consolidated on the first date or period and deconsolidated on the second date or period. The changes reflected in those period-to-period comparisons are due in large part to the consolidation (or deconsolidation) of Orchid.

### **Dividends To Stockholders**

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

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

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

During the three months ended March 31, 2015, Bimini Capital made no dividend distributions. All distributions are made at the discretion of the Company's Board of Directors and will depend on the Company's results of operations, financial conditions, maintenance of REIT status, availability of net operating losses and other factors that may be deemed relevant. Bimini Capital continues to evaluate its dividend payment policy. However, as more fully described below, due to net operating losses ("NOLs") incurred in prior periods, Bimini Capital is unlikely to declare and pay dividends to stockholders until such NOLs have been consumed.

### **Net Operating Losses**

As described above, a REIT may be subject to a federal excise tax if it distributes less than 85% of its REIT taxable income by the end of a calendar year. In calculating the amount of excise tax payable in a given year, if any, Bimini Capital reduces REIT taxable income by distributions made to stockholders in the form of dividends and/or NOL carryforwards from prior years, to the extent any are available. Since income subject to excise tax is REIT taxable income less qualifying dividends and the application of NOL's, if a REIT has sufficient NOL's it could apply such NOL's against its taxable income and avoid excise taxes without paying qualifying dividends to stockholders. Accordingly, in future periods Bimini Capital has taxable income, it can avoid the obligation to pay excise taxes by applying the estimated \$17.3 million of NOL's available as of December 31, 2014 against such taxable income until the NOL's are exhausted in lieu of making distributions to stockholders. Further, Bimini Capital, could avoid the obligation to pay excise taxes through a combination of qualifying dividends and the application of NOL's. In any case, future distributions to stockholders are expected to be less than REIT taxable income until the existing NOL's are consumed.

## Results of Operations

Described below are the Company's results of operations for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014.

### Net (Loss) Income Summary

Consolidated net loss for the three months ended March 31, 2015 was \$1.4 million, or \$0.11 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net income of \$2.4 million, or \$0.20 basic and diluted income per share of Class A Common Stock, for the three months ended March 31, 2014.

The components of net (loss) income for the three months ended March 31, 2015 and 2014, along with the changes in those components are presented in the table below:

(in thousands)

|   | 2015       | 2014 <sup>(1)</sup> | Change     |
|---|------------|---------------------|------------|
| Net portfolio interest  | \$ 1,107   | \$ 3,662            | \$ (2,555) |
| Interest expense on junior subordinated notes                     | (243)      | (243)               | -          |
| (Losses) gains on MBS and Eurodollar futures                      | (186)      | 921                 | (1,107)    |
| Net portfolio income  | 678        | 4,340               | (3,662)    |
| Other income  | 3,045      | 184                 | 2,861      |
| Expenses, including income taxes                                  | (5,112)    | 799                 | (5,911)    |
| Net (loss) income   | (1,389)    | 5,323               | (6,712)    |
| Less: Income attributable to noncontrolling interests             | -          | 2,954               | (2,954)    |
| Net (loss) income attributable to Bimini Capital Management, Inc. | \$ (1,389) | \$ 2,369            | \$ (3,758) |

(1) Information presented in the table above for the three months ended March 31, 2014 include the activities of Orchid Island Capital, Inc.

### GAAP and Non-GAAP Reconciliation

To date, the Company has used derivatives, specifically interest rate futures contracts, such as Eurodollar and T-Note futures contracts, and interest rate swaptions, to hedge a portion of the interest rate risk on its repurchase agreements and junior subordinate notes in a rising rate environment. Each interest rate futures contract covers a specific three month period, but the Company typically has many contracts in place at any point in time — usually covering several years in the aggregate.

The Company has not elected to designate its 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 the Company's 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. In the future, the Company may use other derivative instruments to hedge its interest expense and/or elect to designate its derivative holdings for hedge accounting treatment.

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. As of March 31, 2015, the Company has Eurodollar futures contracts in place through 2018. 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, the Company has combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on repurchase agreements and junior subordinated notes to reflect total 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.

However, because the Company has not elected hedging treatment under ASC Topic 815, the gains or losses on all of the Company's derivative instruments held during the period are reflected in our consolidated statements of operations. This presentation includes gains or losses on all contracts in effect during the reporting period, including those covering both the current period as well as future periods.

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

The Company's presentation of the economic value of its hedging strategy has important limitations. First, other market participants may calculate economic interest expense and economic net interest income differently than the Company calculates them. Second, while the Company believes 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 the Company's 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, losses on derivative instruments, calculated in accordance with GAAP for the three months ended March 31, 2015 and 2014.

**Losses on Derivative Instruments - Recognized in Income Statement (GAAP)**

(in thousands)

| <b>Three Months Ended</b>  | <b>Repurchase Agreements</b> | <b>Junior Subordinated Debt</b> | <b>Total</b> |
|----------------------------|------------------------------|---------------------------------|--------------|
| <b>Consolidated</b>        |                              |                                 |              |
| March 31, 2015             | \$ (687)                     | \$ (328)                        | \$ (1,015)   |
| March 31, 2014             | (1,693)                      | (24)                            | (1,717)      |
| <b>Bimini Capital Only</b> |                              |                                 |              |
| March 31, 2015             | \$ (687)                     | \$ (328)                        | \$ (1,015)   |
| March 31, 2014             | -                            | (24)                            | (24)         |

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

(in thousands)

| Three Months Ended         | Repurchase Agreements | Junior Subordinated Debt | Total   |
|----------------------------|-----------------------|--------------------------|---------|
|                            |                       |                          |         |
| <b>Consolidated</b>        |                       |                          |         |
| March 31, 2015             | \$ (1)                | \$ (54)                  | \$ (55) |
| March 31, 2014             | (136)                 | (109)                    | (245)   |
| <b>Bimini Capital Only</b> |                       |                          |         |
| March 31, 2015             | \$ (1)                | \$ (54)                  | \$ (55) |
| March 31, 2014             | (106)                 | (109)                    | (215)   |

**Gains (Losses) on Derivative Instruments - Attributed to Future Periods (Non-GAAP)**

(in thousands)

| Three Months Ended         | Repurchase Agreements | Junior Subordinated Debt | Total    |
|----------------------------|-----------------------|--------------------------|----------|
|                            |                       |                          |          |
| <b>Consolidated</b>        |                       |                          |          |
| March 31, 2015             | \$ (686)              | \$ (274)                 | \$ (960) |
| March 31, 2014             | (1,557)               | 85                       | (1,472)  |
| <b>Bimini Capital Only</b> |                       |                          |          |
| March 31, 2015             | \$ (686)              | \$ (274)                 | \$ (960) |
| March 31, 2014             | 106                   | 85                       | 191      |

**Economic Net Portfolio Interest Income**

(in thousands)

| Three Months Ended         | Interest Income | Interest Expense on Repurchase Agreements |  |                               | Net Portfolio Interest Income |                               |
|----------------------------|-----------------|---|--|-------------------------------|-------------------------------|-------------------------------|
|                            |                 | GAAP Basis                                | Effect of Non-GAAP Hedges <sup>(1)</sup> | Economic Basis <sup>(2)</sup> | GAAP Basis                    | Economic Basis <sup>(3)</sup> |
| <b>Consolidated</b>        |                 |   |  |                               |                               |                               |
| March 31, 2015             | \$ 1,207        | \$ 100                                    | \$ 1                                     | \$ 101                        | \$ 1,107                      | \$ 1,106                      |
| March 31, 2014             | 4,116           | 454                                       | 136                                      | 590                           | 3,662                         | 3,526                         |
| <b>Bimini Capital Only</b> |                 |   |  |                               |                               |                               |
| March 31, 2015             | \$ 1,207        | \$ 100                                    | \$ 1                                     | \$ 101                        | \$ 1,107                      | \$ 1,106                      |
| March 31, 2014             | 333             | 43  | 106                                      | 149                           | 290                           | 184                           |

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

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

(3) Calculated by subtracting 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> |
| <b>Consolidated</b>        |                               |                               |   |  |                               |                     |                               |
| March 31, 2015             | \$ 1,107                      | \$ 1,106                      | \$ 243  | \$ 54                                    | \$ 297                        | \$ 864              | \$ 809                        |
| March 31, 2014             | 3,662                         | 3,526                         | 243   | 109                                      | 352                           | 3,419               | 3,174                         |
| <b>Bimini Capital Only</b> |                               |                               |   |  |                               |                     |                               |
| March 31, 2015             | \$ 1,107                      | \$ 1,106                      | \$ 243  | \$ 54                                    | \$ 297                        | \$ 864              | \$ 809                        |
| March 31, 2014             | 290                           | 184                           | 243   | 109                                      | 352                           | 47                  | (168)                         |

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

**Net Portfolio Income**

During the three months ended March 31, 2015, the Company generated \$1.1 million of net portfolio interest income, consisting of \$1.2 million of interest income from MBS assets offset by \$0.1 million of interest expense on repurchase liabilities. For the comparable period ended March 31, 2014, the Company generated \$3.7 million of net portfolio interest income, consisting of \$4.1 million of interest income from MBS assets offset by \$0.5 million of interest expense on repurchase liabilities. The \$2.9 million decrease in interest income and \$0.4 million decrease in interest expense for the three months ended March 31, 2015 primarily reflects the deconsolidation of Orchid's assets and liabilities from the balance sheet beginning December 31, 2014 and the effect this had on the Company's consolidated statement of operations.

The Company's economic interest expense on repurchase liabilities for the three months ended March 31, 2015 and 2014 was \$0.1 million and \$0.6 million, respectively, resulting in \$1.1 million and \$3.5 million of economic net portfolio interest income, respectively.

The discussion above and in the following sections related to the Company's net portfolio income during the three months ended March 31, 2014 include the activities of Orchid as a VIE. Orchid's activities are not included for the three months ended March 31, 2015. During the three months ended March 31, 2014, Bimini Capital generated \$0.29 million of net portfolio interest income, consisting of \$0.33 million of interest income from MBS assets offset by \$0.04 million of interest expense on repurchase liabilities. Bimini Capital's average MBS holdings and average outstanding balances under repurchase agreements were \$52.0 million and \$48.1 million, respectively, for the three months ended March 31, 2014. The increases in Bimini Capital's outstanding MBS and repurchase agreements during the three months ended March 31, 2015 over the corresponding period in 2014 were due to the deployment of revenues received for managing Orchid's portfolio and dividends of Bimini Capital's investment in Orchid common shares, on a levered basis.

The tables below provide consolidated 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 three months ended March 31, 2015 and 2014 on both a GAAP and economic basis.

(\$ in thousands)

| Three Months Ended         | Average MBS Securities Held <sup>(1)</sup> | Interest Income <sup>(2)</sup> | Yield on Average MBS Securities | Average Repurchase Agreements <sup>(1)</sup> | Interest Expense |                               | Average Cost of Funds |                               |
|----------------------------|--|--------------------------------|---------------------------------|--|------------------|-------------------------------|-----------------------|-------------------------------|
|                            |  |                                |                                 |  | GAAP Basis       | Economic Basis <sup>(2)</sup> | GAAP Basis            | Economic Basis <sup>(3)</sup> |
| <b>Consolidated</b>        |  |                                |                                 |  |                  |                               |                       |                               |
| March 31, 2015             | \$ 116,709                                 | \$ 1,207                       | 4.14%                           | 108,129                                      | \$ 100           | \$ 101                        | 0.37%                 | 0.37%                         |
| March 31, 2014             | 601,441                                    | 4,116                          | 2.74%                           | 533,008                                      | 454              | 590                           | 0.34%                 | 0.44%                         |
| <b>Bimini Capital Only</b> |  |                                |                                 |  |                  |                               |                       |                               |
| March 31, 2015             | \$ 116,709                                 | \$ 1,207                       | 4.14%                           | 108,129                                      | \$ 100           | \$ 101                        | 0.37%                 | 0.37%                         |
| March 31, 2014             | 51,951                                     | 333                            | 2.57%                           | 48,106                                       | 43               | 149                           | 0.36%                 | 1.24%                         |

(\$ 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> |
| <b>Consolidated</b>        |                               |                               |                               |                               |
| March 31, 2015             | \$ 1,107                      | \$ 1,106                      | 3.77%                         | 3.77%                         |
| March 31, 2014             | 3,662                         | 3,526                         | 2.40%                         | 2.30%                         |
| <b>Bimini Capital Only</b> |                               |                               |                               |                               |
| March 31, 2015             | \$ 1,107                      | \$ 1,106                      | 3.77%                         | 3.77%                         |
| March 31, 2014             | 290                           | 184                           | 2.21%                         | 1.33%                         |

(1) Portfolio yields and costs of borrowings presented in the table above and the tables on pages 33 and 34 are calculated based on the average balances of the underlying investment portfolio/repurchase agreement balances and are annualized for the quarterly periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

(2) Economic interest expense and economic net interest income presented in the table above and the tables on pages 33 and 34 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 Held.

(4) Economic Net Interest Spread is calculated by subtracting Average Economic Cost of Funds from Yield on Average MBS Securities.

#### Interest Income and Average Earning Asset Yield

Interest income for the Company was \$1.2 million for the three months ended March 31, 2015 and \$4.1 million for the three months ended March 31, 2014. Average MBS holdings were \$116.7 million and \$601.4 million for the three months ended March 31, 2015 and 2014, respectively. The \$2.9 million decrease in interest income was due to a \$484.7 million decrease in average MBS holdings, combined with a 140 basis point increase in yields. The decrease in average MBS during the three months ended March 31, 2015 reflects the deconsolidation of Orchid's assets as of December 31, 2014.

The table below presents the consolidated average portfolio size, income and yields of our respective sub-portfolios, consisting of structured MBS and pass-through MBS ("PT MBS").

(\$ in thousands)

| Three Months Ended         | Average MBS Held |            |            | Interest Income |            |          | Realized Yield on Average MBS |            |       |
|----------------------------|------------------|------------|------------|-----------------|------------|----------|-------------------------------|------------|-------|
|                            | PT               | Structured | Total      | PT              | Structured | Total    | PT                            | Structured | Total |
|                            | MBS              | MBS        |            | MBS             | MBS        |          | MBS                           | MBS        |       |
| <b>Consolidated</b>        |                  |            |            |                 |            |          |                               |            |       |
| March 31, 2015             | \$ 111,035       | \$ 5,674   | \$ 116,709 | \$ 1,090        | \$ 117     | \$ 1,207 | 3.93%                         | 8.25%      | 4.14% |
| March 31, 2014             | 564,540          | 36,901     | 601,441    | 4,852           | (736)      | 4,116    | 3.44%                         | (7.97)%    | 2.74% |
| <b>Bimini Capital Only</b> |                  |            |            |                 |            |          |                               |            |       |
| March 31, 2015             | \$ 111,035       | \$ 5,674   | \$ 116,709 | \$ 1,090        | \$ 117     | \$ 1,207 | 3.93%                         | 8.25%      | 4.14% |
| March 31, 2014             | 50,315           | 1,636      | 51,951     | 450             | (117)      | 333      | 3.58%                         | (28.49)%   | 2.57% |

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

Average outstanding balances under repurchase agreements for the Company were \$108.1 million and \$533.0 million, generating interest expense of \$0.1 million and \$0.5 million for the three months ended March 31, 2015 and 2014, respectively. Our average cost of funds was 0.37% and 0.34% for three months ended March 31, 2015 and 2014, respectively. There was a 3 basis point increase in the average cost of funds and a \$424.9 million decrease in average outstanding balances under repurchase agreements during the three months ended March 31, 2015 as compared to the three months ended March 31, 2014. The decrease in average outstanding balances under repurchase agreements reflects the deconsolidation of Orchid as of December 31, 2014.

Because all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. The Company's average cost of funds calculated on a GAAP basis was 20 basis points above the average one-month LIBOR and 2 basis points above the average six-month LIBOR for the quarter ended March 31, 2015. The Company's average economic cost of funds was 20 basis points above the average one-month LIBOR and 2 basis points above the average six-month LIBOR for the quarter ended March 31, 2015. The average term to maturity of the outstanding repurchase agreements increased from 14 days at December 31, 2014 to 16 days at March 31, 2015.

The tables below present the consolidated average outstanding balances under all repurchase agreements, interest expense and average economic cost of funds, and average one-month and six-month LIBOR rates for the three months ended March 31, 2015 and 2014 on both a GAAP and economic basis.

(\$ in thousands)

| Three Months Ended         | Average Balance of Repurchase Agreements | Interest Expense |                | Average Cost of Funds |                |
|----------------------------|--|------------------|----------------|-----------------------|----------------|
|                            |  | GAAP Basis       | Economic Basis | GAAP Basis            | Economic Basis |
|                            |  |                  |                |                       |                |
| <b>Consolidated</b>        |  |                  |                |                       |                |
| March 31, 2015             | \$ 108,129                               | \$ 100           | \$ 101         | 0.37%                 | 0.37%          |
| March 31, 2014             | 533,008                                  | 454              | 590            | 0.34%                 | 0.44%          |
| <b>Bimini Capital Only</b> |  |                  |                |                       |                |
| March 31, 2015             | \$ 108,129                               | \$ 100           | \$ 101         | 0.37%                 | 0.37%          |
| March 31, 2014             | 48,106                                   | 43               | 149            | 0.36%                 | 1.24%          |

| Three Months Ended         | Average LIBOR |           | Average GAAP Cost of Funds<br>Relative to Average |           | Average Economic Cost of Funds<br>Relative to Average |           |
|----------------------------|---------------|-----------|---|-----------|---|-----------|
|                            | One-Month     | Six-Month | One-Month   | Six-Month | One-Month   | Six-Month |
|                            | LIBOR         | LIBOR     | LIBOR   | LIBOR     | LIBOR   | LIBOR     |
| <b>Consolidated</b>        |               |           |   |           |   |           |
| March 31, 2015             | 0.17%         | 0.35%     | 0.20%   | 0.02%     | 0.20%   | 0.02%     |
| March 31, 2014             | 0.16%         | 0.34%     | 0.18%   | 0.00%     | 0.28%   | 0.10%     |
| <b>Bimini Capital Only</b> |               |           |   |           |   |           |
| March 31, 2015             | 0.17%         | 0.35%     | 0.20%   | 0.02%     | 0.20%   | 0.02%     |
| March 31, 2014             | 0.16%         | 0.34%     | 0.20%   | 0.02%     | 1.08%   | 0.90%     |

#### Junior Subordinated Notes

Interest expense on the Company's junior subordinated debt securities was approximately \$0.2 million for both of the three month period ended March 31, 2015 and 2014. The average rate of interest paid for the three months ended March 31, 2015 was 3.75% compared to 3.74% for the comparable period in 2014.

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 March 31, 2015, the interest rate was 3.77%.

#### Gains or Losses and Other Income

The table below presents the Company's gains or losses and other income for the three months ended March 31, 2015 and 2014.

(in thousands)

|   | 2015    | 2014     | Change     |
|---|---------|----------|------------|
| Realized gains on sales of MBS                  | \$ -    | \$ 1,069 | \$ (1,069) |
| Unrealized gains on MBS                         | 829     | 1,568    | (739)      |
| Total gains on MBS                              | 829     | 2,637    | (1,808)    |
| Losses on Eurodollar futures                    | (1,015) | (1,561)  | 546        |
| Gains on retained interests                     | 1,486   | 194      | 1,292      |
| Loss on payer swaption                          | -       | (156)    | 156        |
| Unrealized gains on Orchid Island Capital, Inc. | 187     | -        | 187        |
| Orchid Island Capital, Inc. dividends           | 530     | -        | 530        |
| Management fees                                 | 855     | -        | 855        |

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 purposes 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 three months ended March 31, 2015, the Company did not dispose of any MBS. For the three months ended March 31, 2014, the Company received proceeds of \$155.1 million from the sales of MBS.

The higher MBS trading activities in the three months ended March 31, 2014 reflects the repositioning of our portfolio following Orchid's two equity offerings in the first quarter of 2014. The unrealized gains on MBS for the three months ended March 31, 2015 and 2014 were the result of changes in market conditions. Losses on Eurodollar futures contracts reflect the declining LIBOR during the three months ended March 31, 2015 and 2014. The table below presents historical interest rate data for each quarter end during 2015 and 2014.

| <b>Three Months Ended</b> | <b>10 Year<br/>Treasury<br/>Rate<sup>(1)</sup></b> | <b>15 Year<br/>Fixed-Rate<br/>Mortgage<br/>Rate<sup>(2)</sup></b> | <b>30 Year<br/>Fixed-Rate<br/>Mortgage<br/>Rate<sup>(2)</sup></b> | <b>Three<br/>Month<br/><br/>Libor<sup>(3)</sup></b> |
|---------------------------|--|---|---|---|
| March 31, 2015            | 1.93%  | 3.04%   | 3.77%   | 0.27%   |
| December 31, 2014         | 2.17%  | 3.13%   | 3.86%   | 0.25%   |
| September 30, 2014        | 2.51%  | 3.31%   | 4.16%   | 0.23%   |
| June 30, 2014             | 2.52%  | 3.27%   | 4.16%   | 0.23%   |
| March 31, 2014            | 2.72%  | 3.36%   | 4.34%   | 0.23%   |

(1) Historical 10 Year 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 three months ended March 31, 2015, the Company recorded gains on retained interests of \$1.5 million compared to gains of \$0.2 million and for the three months ended March 31, 2014.

### **Operating Expenses**

For the three months ended March 31, 2015, the Company's total operating expenses were approximately \$4.8 million compared to approximately \$1.4 million for the three months ended March 31, 2014.

(in thousands)

|  | <b>2015</b>     | <b>2014</b>     | <b>Change</b>   |
|--|-----------------|-----------------|-----------------|
| Compensation and benefits                        | \$ 669          | \$ 446          | \$ 223          |
| Legal fees                                       | 177             | 179             | (2)             |
| Accounting, auditing and other professional fees | 158             | 221             | (63)            |
| Directors' fees and liability insurance          | 168             | 241             | (73)            |
| Direct REIT operating expenses                   | 19              | 115             | (96)            |
| Settlement of litigation                         | 3,500           | -               | 3,500           |
| Other G&A expenses                               | 84              | 155             | (71)            |
|  | <u>\$ 4,775</u> | <u>\$ 1,357</u> | <u>\$ 3,418</u> |

In May 2015, Bimini Capital agreed in principle to settle a legal action as more fully described in Note 10 to the financial statements. In connection with the anticipated settlement and in accordance with GAAP, a provision for loss of \$3.5 million has been charged to operations for the three months ended March 31, 2015.

**Financial Condition:**

**Mortgage-Backed Securities**

As of March 31, 2015, the Company's MBS portfolio consisted of \$115.6 million of agency or government MBS at fair value and had a weighted average coupon of 4.31%. During the three months ended March 31, 2015, the Company received principal repayments of \$4.1 million compared to \$11.1 million for the comparable period ended March 31, 2014. The average prepayment speeds for the quarters ended March 31, 2015 and 2014 were 10.5% and 9.8%, respectively.

The following table presents the constant prepayment rate ("CPR") experienced on the Company's structured and PT MBS sub-portfolios, on an annualized basis, for the quarterly periods presented (including the impact of Orchid for all periods presented prior to Orchid's deconsolidation on December 31, 2014). 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 Portfolio (%) | Structured MBS Portfolio (%) | Total Portfolio (%) |
|--------------------|----------------------|------------------------------|---------------------|
| March 31, 2015     | 9.6                  | 12.3                         | 10.5                |
| December 31, 2014  | 4.3                  | 15.0                         | 8.1                 |
| September 30, 2014 | 7.9                  | 18.5                         | 12.3                |
| June 30, 2014      | 4.1                  | 17.0                         | 8.6                 |
| March 31, 2014     | 3.9                  | 16.0                         | 9.8                 |

The following tables summarize certain characteristics of the Bimini Capital's PT MBS and structured MBS as of March 31, 2015 and December 31, 2014:

(\$ in thousands)

| Asset Category                   | Fair Value | Percentage of Entire Portfolio | Weighted Average Coupon | Weighted Average Maturity in Months | Longest Maturity | Weighted Average Coupon Reset in Months | Weighted Average Lifetime Cap | Weighted Average Periodic Cap |
|----------------------------------|------------|--------------------------------|-------------------------|-------------------------------------|------------------|---|-------------------------------|-------------------------------|
| <b>March 31, 2015</b>            |            |                                |                         |                                     |                  |   |                               |                               |
| Fixed Rate MBS                   | \$ 109,014 | 94.3%                          | 4.30%                   | 324                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |
| Hybrid                           |            |                                |                         |                                     |                  |   |                               |                               |
| Adjustable Rate MBS              | 441        | 0.4%                           | 4.00%                   | 322                                 | 20-Jan-42        | 24.03                                   | 9.00%                         | 1.00%                         |
| Total PT MBS                     | 109,455    | 94.7%                          | 4.30%                   | 324                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |
| Interest-Only Securities         |            |                                |                         |                                     |                  |   |                               |                               |
| Interest-Only Securities         | 3,320      | 2.9%                           | 3.19%                   | 253                                 | 25-Dec-39        | NA                                      | NA                            | NA                            |
| Inverse Interest-Only Securities |            |                                |                         |                                     |                  |   |                               |                               |
| Inverse Interest-Only Securities | 2,812      | 2.4%                           | 6.34%                   | 310                                 | 25-Apr-41        | NA                                      | 0.79%                         | NA                            |
| Total Structured MBS             | 6,132      | 5.3%                           | 4.64%                   | 279                                 | 25-Apr-41        | NA                                      | NA                            | NA                            |
| Total Mortgage Assets            | \$ 115,587 | 100.0%                         | 4.31%                   | 322                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |
| <b>December 31, 2014</b>         |            |                                |                         |                                     |                  |   |                               |                               |
| Fixed Rate MBS                   | \$ 112,174 | 95.2%                          | 4.30%                   | 327                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |
| Hybrid                           |            |                                |                         |                                     |                  |   |                               |                               |
| Adjustable Rate MBS              | 442        | 0.4%                           | 4.00%                   | 325                                 | 20-Jan-42        | 27.03                                   | 9.00%                         | 1.00%                         |
| Total PT MBS                     | 112,616    | 95.6%                          | 4.30%                   | 327                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |
| Interest-Only Securities         |            |                                |                         |                                     |                  |   |                               |                               |
| Interest-Only Securities         | 2,276      | 1.9%                           | 3.11%                   | 240                                 | 25-Dec-39        | NA                                      | NA                            | NA                            |
| Inverse Interest-Only Securities |            |                                |                         |                                     |                  |   |                               |                               |
| Inverse Interest-Only Securities | 2,939      | 2.5%                           | 6.35%                   | 313                                 | 25-Apr-41        | NA                                      | 0.80%                         | NA                            |
| Total Structured MBS             | 5,215      | 4.4%                           | 4.94%                   | 281                                 | 25-Apr-41        | NA                                      | NA                            | NA                            |
| Total Mortgage Assets            | \$ 117,831 | 100.0%                         | 4.33%                   | 325                                 | 1-Dec-44         | NA                                      | NA                            | NA                            |

(\$ in thousands)

| Agency          | March 31, 2015 |                                | December 31, 2014 |                                |
|-----------------|----------------|--------------------------------|-------------------|--------------------------------|
|                 | Fair Value     | Percentage of Entire Portfolio | Fair Value        | Percentage of Entire Portfolio |
| Fannie Mae      | \$ 64,582      | 55.87%                         | \$ 66,974         | 56.84%                         |
| Freddie Mac     | 49,403         | 42.74%                         | 50,415            | 42.79%                         |
| Ginnie Mae      | 1,602          | 1.39%                          | 442               | 0.37%                          |
| Total Portfolio | \$ 115,587     | 100.00%                        | \$ 117,831        | 100.00%                        |

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Weighted Average Pass-through Purchase Price | \$ 107.95      | \$ 107.95         |
| Weighted Average Structured Purchase Price   | \$ 6.07        | \$ 5.98           |
| Weighted Average Pass-through Current Price  | \$ 109.34      | \$ 108.53         |
| Weighted Average Structured Current Price    | \$ 9.23        | \$ 9.08           |
| Effective Duration <sup>(1)</sup>            | 1.220          | 2.663             |

(1) Effective duration is the approximate percentage change in price for a 100 basis point change in rates. An effective duration of 1.220 indicates that an interest rate increase of 1.0% would be expected to cause a 1.220% decrease in the value of the MBS in the Company's investment portfolio at March 31, 2015. An effective duration of 2.663 indicates that an interest rate increase of 1.0% would be expected to cause a 2.663% decrease in the value of the MBS in the Company's investment portfolio at December 31, 2014. These figures include the structured securities in the portfolio but do include the effect of the Company's funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of the Company's portfolio assets acquired during the three months ended March 31, 2015 and 2014.

(\$ in thousands)

|                | 2015       |               |                        | 2014       |               |                        |
|----------------|------------|---------------|------------------------|------------|---------------|------------------------|
|                | Total Cost | Average Price | Weighted Average Yield | Total Cost | Average Price | Weighted Average Yield |
| PT MBS         | \$ -       | \$ -          | 0.00%                  | \$ 563,450 | \$ 107.14     | 3.07%                  |
| Structured MBS | 986        | 8.18          | 10.23%                 | 24,284     | 14.33         | (4.73)%                |

The Company's portfolio of PT MBS is typically comprised of adjustable-rate MBS, fixed-rate MBS and hybrid adjustable-rate MBS. The Company generally seeks 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, the Company strives 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 the Company's portfolio of PT MBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from the Company's investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

The duration of the Company's 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) cause their price movements - and model duration - to be affected by changes in both prepayments and one month LIBOR - both current and anticipated levels. As a result, the duration of IIO securities will also vary greatly.

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

The Company faces the risk that the market value of its PT MBS assets will increase or decrease at different rates than that of its structured MBS or liabilities, including its hedging instruments. Accordingly, the Company assesses its interest rate risk by estimating the duration of its assets and the duration of its liabilities. The Company generally calculates duration and effective duration using various third-party models or obtains 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 March 31, 2015, assuming rates instantaneously fall 100 basis points ("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        |
| Hybrid Adjustable Rate MBS | \$ 441            | \$ 4                    | \$ (4)            | \$ (10)           | 0.79%                  | (1.01)%        | (2.36)%        |
| Fixed Rate MBS             | 109,014           | 2,571                   | (4,505)           | (10,333)          | 2.36%                  | (4.13)%        | (9.48)%        |
| Interest-Only MBS          | 3,320             | (1,848)                 | 1,877             | 2,888             | (55.65)%               | 56.54%         | 86.98%         |
| Inverse Interest-Only MBS  | 2,812             | (274)                   | (43)              | (429)             | (9.75)%                | (1.55)%        | (15.26)%       |
| <b>Total MBS Portfolio</b> | <b>\$ 115,587</b> | <b>\$ 453</b>           | <b>\$ (2,675)</b> | <b>\$ (7,884)</b> | <b>0.39%</b>           | <b>(2.32)%</b> | <b>(6.82)%</b> |

(\$ in thousands)

| Eurodollar Futures Contracts    | Notional Amount <sup>(1)</sup> | \$ Change in Fair Value |                 |                   | % Change in Fair Value |              |              |
|---------------------------------|--------------------------------|-------------------------|-----------------|-------------------|------------------------|--------------|--------------|
|                                 |                                | -100BPS                 | +100BPS         | +200BPS           | -100BPS                | +100BPS      | +200BPS      |
| Repurchase Agreement Hedges     | \$ 676,000                     | \$ (1,374)              | \$ 1,690        | \$ 3,380          | (0.82)%                | 1.01%        | 2.03%        |
| Junior Subordinated Debt Hedges | 338,000                        | (646)                   | 845             | 1,690             | (0.77)%                | 1.01%        | 2.03%        |
|                                 | <b>\$ 1,014,000</b>            | <b>\$ (2,020)</b>       | <b>\$ 2,535</b> | <b>\$ 5,070</b>   | <b>(0.81)%</b>         | <b>1.01%</b> | <b>2.03%</b> |
| <b>Gross Totals</b>             |                                | <b>\$ (1,567)</b>       | <b>\$ (140)</b> | <b>\$ (2,814)</b> |                        |              |              |

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



## Repurchase Agreements

As of March 31, 2015, the Company 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 the Company. These borrowings are secured by the Company's MBS and cash and bear interest rates that are based on a spread to LIBOR.

As of March 31, 2015, the Company had obligations outstanding under the repurchase agreements of approximately \$106.3 million with a net weighted average borrowing cost of 0.38%. The remaining maturity of the Company's outstanding repurchase agreement obligations ranged from 6 to 76 days, with a weighted average maturity of 16 days. Securing the repurchase agreement obligation as of March 31, 2015 are MBS with an estimated fair value, including accrued interest and receivable for securities sold, of \$113.8 million and a weighted average maturity of 323 months and cash pledged to counterparties of approximately \$0.2 million. Through May 15, 2015, the Company has been able to maintain its repurchase facilities with comparable terms to those that existed at March 31, 2015 with maturities through August 14, 2015.

The table below presents information about our period-end and average repurchase agreement obligations for each quarter in 2015 and 2014.

(\$ in thousands)

| Three Months Ended | Ending Balance<br>of Repurchase<br>Agreements | Average<br>Balance<br>of Repurchase<br>Agreements | Difference Between Ending  |                         |
|--------------------|---|---|--|-------------------------|
|                    |   |   | Repurchase Agreements and<br>Average Repurchase Agreements<br>Amount | Percent                 |
| March 31, 2015     | \$ 106,294                                    | \$ 108,129  | \$ (1,835)   | (1.70)%                 |
| December 31, 2014  | 109,964                                       | 1,442,905   | (1,332,941)  | (92.38)% <sup>(1)</sup> |
| September 30, 2014 | 1,339,196                                     | 1,096,611   | 242,585  | 22.12% <sup>(2)</sup>   |
| June 30, 2014      | 854,026                                       | 783,323   | 70,703   | 9.03%                   |
| March 31, 2014     | 712,620                                       | 533,008   | 179,612  | 33.70% <sup>(3)</sup>   |

- (1) The lower ending balance relative to the average balance during the quarter ended December 31, 2014 reflects the deconsolidation of Orchid at December 31, 2014.
- (2) The higher ending balance relative to the average balance during the quarter ended September 30, 2014 reflects the deployment of the proceeds, on a leveraged basis, of Orchid's equity offerings. During the quarter ended September 30, 2014, the Company's investment in PT RMBS increased \$294.4 million.
- (3) The higher ending balance relative to the average balance during the quarter ended March 31, 2014 reflects the deployment of the proceeds, on a leveraged basis, of Orchid's January and March 2014 equity offerings. During the quarter ended March 31, 2014, the Company's investment in PT RMBS increased \$402.5 million.

## Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. Our principal immediate sources of liquidity include cash balances, unencumbered assets, 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 and (c) the payment of overhead and operating expenses.

Because our PT MBS portfolio consists entirely of government and agency securities, we do not anticipate having difficulty converting our assets to cash should our liquidity needs ever exceed our immediately available sources of cash. Our structured MBS portfolio also consists entirely of governmental agency securities, although they typically do not trade with comparable bid / ask spreads as PT MBS. However, we anticipate that we would be able to liquidate such securities readily, even in distressed markets, although we would likely do so at prices below where such securities could be sold in a more stable market. To enhance our liquidity even further, we may pledge a portion of our structured MBS as part of a repurchase agreement funding but retain the cash in lieu of acquiring additional assets. In this way, we can, at a modest cost, retain higher levels of cash on hand and decrease the likelihood we will have to sell assets in a distressed market in order to raise cash.

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

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, the Company invests a portion of its capital in structured MBS. We do not fund the purchase of these investments in the repurchase market but instead purchase them directly, thus reducing – but not eliminating – the Company's reliance on access to repurchase agreement funding. 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 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 March 31, 2015, the Company had cash and cash equivalents of \$4.5 million. We generated cash flows of \$5.3 million from principal and interest payments on our MBS portfolio and \$1.0 million from retained interests and had average repurchase agreements outstanding of \$108.1 million during the three months ended March 31, 2015. In addition, during the three months ended March 31, 2015, the Company received approximately \$1.0 million in management fees and expense reimbursements as manager of Orchid and approximately \$0.5 million in dividends from its investment in Orchid common shares.

In May 2015, Bimini Capital reached an agreement in principle to settle a legal action as more fully described in Note 10. In connection with the anticipated settlement and in accordance with GAAP, a provision for loss of \$3.5 million has been charged to operations for the three months ended March 31, 2015. Although payments under the anticipated settlement agreement will reduce the Company's liquidity, management believes that the Company will be able to generate sufficient cash from its operations to meet the payment obligations as they come due.

The table below summarizes the effect on our liquidity and cash flows from certain future contractual obligations as of March 31, 2015.

(in thousands)

|  | Obligations Maturing |                    |                     |                      | Total             |
|--|----------------------|--------------------|---------------------|----------------------|-------------------|
|  | Within One Year      | One to Three Years | Three to Five Years | More than Five Years |                   |
| Repurchase agreements  | \$ 106,294           | \$ -               | \$ -                | \$ -                 | \$ 106,294        |
| Interest expense on repurchase agreements <sup>(1)</sup>     | 56                   | -                  | -                   | -                    | 56                |
| Junior subordinated notes <sup>(2)</sup>                     | -                    | -                  | -                   | 26,000               | 26,000            |
| Interest expense on junior subordinated notes <sup>(1)</sup> | 1,040                | 1,988              | 1,991               | 15,623               | 20,642            |
| <b>Totals</b>  | <b>\$ 107,390</b>    | <b>\$ 1,988</b>    | <b>\$ 1,991</b>     | <b>\$ 41,623</b>     | <b>\$ 152,992</b> |

(1) Interest expense on repurchase agreements and junior subordinated notes are based on current interest rates as of March 31, 2015 and the remaining term of liabilities existing at that date.

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

## Outlook

### *Bimini Capital*

Prior to 2008, MortCo incurred significant losses in the operation of a mortgage loan origination business. Bimini Capital materially downsized its investment portfolio to raise cash to fund the MortCo operations, leaving Bimini Capital with a significantly smaller capital base. This smaller capital base made it difficult to generate sufficient net interest income to cover expenses. Since MortCo terminated its operations in 2007, Bimini Capital has taken several significant steps designed to increase its probability of generating profits going forward, including a re-structuring of the portfolio, reducing expenses, retiring debt, and settling various litigation matters. In general, Bimini Capital still needed to increase its capital base, and/or create alternative sources of revenues, to ensure the generation of profits over the long-term. However, primarily because of litigation arising out of MortCo's prior mortgage business, raising capital directly into Bimini Capital was not possible. Therefore, Orchid was formed as a new entity into which capital could be raised.

### *Orchid Island Capital Inc.*

To the extent Orchid is able to increase its capital base over time, Bimini Capital will benefit via increased management fees. Bimini Advisors will receive a monthly management fee in the amount of:

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

During the year ended December 31, 2014, Orchid completed additional offerings of its common stock. As of March 31, 2014, Orchid reached \$100 million of stockholders equity for the first time. As a result, pursuant to the management agreement between Bimini Advisors and Orchid, commencing on July 1, 2014 Bimini Advisors began to allocate certain overhead costs to Orchid on a pro rata basis. As a stockholder of Orchid, Bimini will also continue to share in distributions, if any, paid by Orchid to its stockholders.

The independent Board of Directors of Orchid has the ability to terminate the management agreement and thus end the ability of the Bimini Advisors and Bimini Capital to collect management fees and share overhead costs. Should Orchid terminate the management agreement without cause, it shall 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 initial term or automatic renewal term.

## *Tax Matters*

For the year ended December 31, 2014, Bimini Capital generated a REIT taxable loss. As more fully described in footnote 11 to the accompanying consolidated financial statements, REIT taxable income or loss generated by qualifying REIT activities is computed in accordance with the Internal Revenue Code, which is different from the Company's financial statement income or loss as computed in accordance with GAAP. Bimini Capital had REIT tax NOL carryforwards of approximately \$17.3 million as of December 31, 2014 which are immediately available to offset future REIT taxable income.

The Company has used the term "REIT taxable income" throughout this document as being the amount available for distribution to its stockholders before any NOLs are applied, and before any distributions. In arriving at income that could be subjected to taxation at the REIT entity level for a given year, dividends paid in the current year and any NOLs carried-over from prior periods are deducted (in that order) from current period income first. NOLs expire 20 years from the year they are incurred. Since Bimini Capital currently has NOLs from prior periods, which begin to expire in 2028, and are available to offset income in 2015 and in future periods, Bimini Capital has the option, but not the obligation, to apply such NOLs against REIT taxable income. As a result, Bimini Capital could have income in 2015 and in future years, but not make distributions to stockholders. This would occur if Bimini Capital had sufficient NOLs available to entirely offset the REIT income earned in a given year and chose to apply such NOLs. Bimini Capital could also apply available NOLs against a portion of future period earnings and reduce the distributions to stockholders. Bimini Capital is unlikely to declare and pay dividends to stockholders until existing NOLs have been consumed.

## *Regulatory Developments with Respect to Fannie Mae and Freddie Mac and the Dodd-Frank Act*

In response to the credit market disruption and the deteriorating financial conditions of Fannie Mae and Freddie Mac, Congress and the U.S. Treasury undertook a series of actions that culminated with putting Fannie Mae and Freddie Mac in conservatorship in September 2008. The Federal Housing Finance Agency ("FHFA") now operates Fannie Mae and Freddie Mac as conservator, in an effort to stabilize the entities. The FHFA also noted that during the conservatorship period, it would work to enact new regulations for minimum capital standards, prudent safety and soundness standards and portfolio limits of Fannie Mae and Freddie Mac.

Although the U.S. Government has committed significant resources to Fannie Mae and Freddie Mac, Agency MBS guaranteed by either Fannie Mae or Freddie Mac are not backed by the full faith and credit of the United States. Moreover, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac requires examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. Such changes may involve an explicit U.S. Government backing of Fannie Mae and Freddie Mac Agency MBS or the express elimination of any implied U.S. Government guarantee and, therefore, creation of credit risk with respect to Fannie Mae and Freddie Mac Agency MBS. Additionally, on February 11, 2011, the U.S. Treasury issued a White Paper titled "Reforming America's Housing Finance Market" that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market.

On October 4, 2012, the FHFA released a white paper entitled *Building a New Infrastructure for the Secondary Mortgage Market* (the "FHFA White Paper"). This release follows up on the FHFA's February 21, 2012 *Strategic Plan for Enterprise Conservatorships*, which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships. These three goals are to (i) build a new infrastructure for the secondary mortgage market, (ii) gradually contract Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. The FHFA White Paper proposes a new infrastructure for Fannie Mae and Freddie Mac that has two basic goals.

The first such goal is to replace the current, outdated infrastructures of Fannie Mae and Freddie Mac with a common, more efficient infrastructure that aligns the standards and practices of the two entities, beginning with core functions performed by both entities such as issuance, master servicing, bond administration, collateral management and data integration. The second goal is to establish an operating framework for Fannie Mae and Freddie Mac that is consistent with the progress of housing finance reform and encourages and accommodates the increased participation of private capital in assuming credit risk associated with the secondary mortgage market. The FHFA recognizes that there are a number of impediments to their goals which may or may not be surmountable, such as the absence of any significant secondary mortgage market mechanisms beyond Fannie Mae, Freddie Mac and Ginnie Mae. The FHFA provided an update on their progress in this regard at an industry conference on October 20, 2014. The Director of the FHFA, Mel Watt, outlined the progress to date associated with representation and warranty practices associated with eligible loans for securitization by the GSEs, the Common Securitization Platform (“CSP”) and Common Securitization Solutions (“CSC”) – a joint venture to house and operate the CSP, which will be designed to allow Fannie Mae and Freddie Mac to securitize loans off of a single platform. As a result, it is still unclear if the proposals will be enacted. If such proposals are enacted, it is unclear how closely what is enacted will resemble the proposals from the FHFA White Paper or what the effects of the enactment will be on housing finance. As the economy has recovered, home prices have increased off the low levels seen in the aftermath of the financial crisis and a significant portion of the shadow inventory of homes that resulted from foreclosures have been worked off. The combination of recovering home prices, attractive financing levels and decreased liquidations of homes via foreclosures have resulted in an acceleration in lending activity.

Fannie Mae and Freddie Mac reform regained momentum in the first quarter of 2014 when Senators Tim Johnson (D-SD) and Mike Crapo (R-ID), the two most senior members of the Senate Banking Committee, released a proposed bill (the “Johnson-Crapo Bill”), which is generally based on the Corker-Warner Bill. However, this momentum was lost in the second quarter of 2014 when the Johnson-Crapo Bill was approved by the Senate Banking Committee, but failed to secure enough support to be considered by Congress. The final outcome of the Johnson-Crapo Bill remains uncertain, as reports indicate that the House Republican leadership continues to favor a very different approach. As the FHFA and both houses of Congress are each working on separate measures intended to dramatically restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac, we expect debate and discussion on the topic to continue throughout 2015. FHFA Chairman Mel Watt, during testimony before Congress in January of 2015, reiterated that the FHFA continues to work towards achieving these goals, although specific details about the eventual outcome were not provided. It is unclear which, if any, of these measures will be enacted, and, if any are enacted, what the effects would be.

In March 2015, housing and mortgage financial reform legislation, H.R. 1491, was proposed by congressmen John Delaney (D-MD) and James A. Himes (D-CT), each of whom is a member of the House Financial Services Committee. The bill is called The Partnership to Strengthen Homeownership Act, and is similar to one introduced by the same congressmen in the last Congress (H.R. 5055), which never made it out of committee. H.R. 1491 was assigned to a congressional committee on March 19, 2015. Under the proposed program, all government guaranteed single-family and multi-family mortgage-backed securities would be supported by a minimum of 5% private sector capital, which would stand in a first loss position. The remaining 95% of the risk would be shared between Ginnie Mae and a private reinsurer on a pari passu basis.

Under the bill, Freddie Mac and Fannie Mae would be wound down over a five-year period, and their multifamily businesses will be spun out as separate entities. Ginnie Mae would be required to create and implement a multifamily guarantee that utilizes private sector pricing consistent with the single family model. The GSEs’ current multifamily businesses would continue to function within the multifamily housing market as purely private organizations with an explicit government guarantee provided by Ginnie Mae and a private sector reinsurer. We expect debate and discussion on residential housing and mortgage reform to continue in 2015. However, we cannot be certain if H.R. 1491, or any housing- or mortgage-related bill will emerge from committee or be approved by Congress and, if so, what the effect will be.

The effect of the actions taken and to be taken by the U.S. Treasury, Congress or FHFA remains uncertain. New and recently enacted laws, regulations and programs related to Fannie Mae and Freddie Mac may adversely affect the pricing, supply, liquidity and value of Agency RMBS and otherwise materially harm our business and operations.

The Dodd-Frank Act provides for new regulations on financial institutions and creates new supervisory and advisory bodies, including the new Consumer Financial Protection Bureau. The Dodd-Frank Act tasks many agencies with issuing a variety of new regulations, including rules related to mortgage origination and servicing, securitization and derivatives. Because a significant number of regulations under the Dodd-Frank Act have either not yet been proposed or not yet been adopted in final form, it is not possible for us to predict how the Dodd-Frank Act will impact our business.

#### *Interest Rates*

The Federal Reserve has taken a number of steps over the last few years to lower both short and long-term interest rates. In August 2011, the Federal Reserve announced that it expected to maintain the Federal Funds Rate at a low level at least through mid-2013, and on January 25, 2012 it extended that outlook through late 2014. Additionally, on September 21, 2011, the Federal Reserve announced the extension of the maturities of its U.S. Treasury securities portfolio by selling approximately \$400 billion in short-term U.S. Treasury securities and purchasing an equivalent amount of longer-term U.S. Treasury securities. This program, known as "Operation Twist," lasted through December 2012. The goal of Operation Twist was to lower the yields on longer-term U.S. Treasury securities, which the Federal Reserve believed would lower interest rates tied to such yields, such as mortgage rates and interest rates on commercial loans.

In September 2012, the Federal Reserve announced an open-ended program to expand its holdings of long-term securities by purchasing an additional \$40 billion of Agency MBS per month until key economic indicators, such as the unemployment rate, showed signs of improvement. This program, known as "QE3", when combined with other programs to extend the average maturity of the Federal Reserve's holdings of securities and reinvest principal payments from the Federal Reserve's holdings of agency debt and Agency MBS into Agency MBS, was expected to increase the Federal Reserve's holdings of long-term securities by \$85 billion each month. The Federal Reserve also announced that it would keep the target range for the Federal Funds Rate between zero and 0.25% through at least mid-2015, which was six months longer than previously expected.

The Federal Reserve provided further guidance to the market in December 2012 by stating that it intended to keep the Federal Funds Rate close to zero while the unemployment rate is above 6.5% and as long as inflation does not rise above 2.5%. In December 2012, the Federal Reserve also announced that it would initially begin buying \$45 billion of long-term Treasury bonds each month and noted that such amount may increase in the future. This bond purchase program replaced Operation Twist.

The Federal Reserve Open Market Committee (the "FOMC") meeting minutes released on April 10, 2013 revealed that the FOMC had begun considering when the Federal Reserve should begin tapering the pace of Agency MBS purchases set in September 2012. The FOMC meeting minutes released on May 22, 2013 announced that the Federal Reserve was considering beginning to taper such purchase as early as June 2013. In minutes released on June 25, 2013, the FOMC stated that the Federal Reserve would begin to scale back Agency MBS purchases later in 2013 and that such purchases would cease entirely when the unemployment rate reached 7%. On October 30, 2013, the FOMC announced that it would continue reinvesting principal payments from its holdings of agency debt and Agency MBS into Agency MBS and U.S. Treasury securities at the current pace indefinitely. The October 30, 2013 announcement provided no additional guidance as to when tapering might begin.

At its December 18, 2013 meeting, the FOMC indicated that it saw improvement in economic activity and labor market conditions. As a result, the FOMC announced that, beginning in January 2014, it would reduce its monthly purchases of Agency RMBS from \$40 billion to \$35 billion and U.S. Treasury securities from \$45 billion to \$40 billion. The FOMC further stated that it would continue reinvesting principal payments from its holdings of these securities in Agency RMBS and rolling over maturing Treasury bonds at auction. Subsequently, the FOMC announced additional \$5 billion reductions to its monthly purchases of both Agency RMBS and Treasury bonds. The FOMC ended its bond buying program in October 2014. The FOMC announced they would continue to reinvest principal and interest payments received from their RMBS portfolio in additional RMBS.

On March 18, 2015, the FOMC concluded their two day meeting and issued a statement, followed by a press conference with Chair Yellen. As expected, the statement removed the word “patient” in their forward guidance language, implying the first rate hike was as soon as two meetings away, in June of 2015. However, the committee’s statement also implied the FOMC expected lower levels of growth, unemployment and inflation over the next two years. The statement also acknowledged the Committee recognized the effect of the strong dollar on the economy. Accordingly, the Committee’s dots, or projections for the Federal Funds target going forward, as expressed by the members, have moved lower from the last projections published in December of 2014. The market reacted to the news by pricing in future rate hikes further out in time and at a more gradual pace than was the case before the news and even below the projections of the Federal Reserve itself. The Federal Reserve statement went on to describe the pre-conditions they expected to see met before initiating rate hikes, so now the market can closely monitor economic developments to gauge the likely timing of rate hikes.

Although historically correlated with movements in the Federal Funds Rate, European inter-bank lending rates, specifically LIBOR, are independently affected by the fiscal and budgetary problems of the member countries of the European Union. In recent years, the European Central Bank, International Monetary Fund and member countries have provided emergency funding mechanisms to support members facing the inability to raise new debt at acceptable levels (such as Greece, Ireland, Portugal and Spain). To the extent this crisis reemerges, LIBOR may increase substantially.

#### **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.

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 pass-through Agency MBS, particularly pass-through Agency MBS backed by fixed-rate mortgages.

We do not believe our investment portfolio will be materially affected by loan modification programs because Agency MBS backed by loans that would qualify for such programs (e.g. seriously delinquent loans) will be purchased by Fannie Mae and Freddie Mac at their par value prior to the implementation of such programs. However, if Fannie Mae and Freddie Mac were to modify or end their repurchase programs or if the U.S. Government modified its loan modification programs to modify non-delinquent mortgage loans, our investment portfolio could be negatively impacted.

#### *Effects on our borrowing costs*

We leverage our pass-through Agency MBS portfolio and a portion of our structured Agency MBS with principal balances through the use of short-term repurchase agreement transactions. In addition, we have \$26.8 million outstanding junior subordinated debt that we consider to be part of our capital base. The interest rates on our debt are determined by market levels of both the Federal Funds Rate and LIBOR. An increase in the U.S. 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 futures contracts.

#### *Summary*

The relatively large spread between short and long-term interest rates has positively affected our net interest margin. However, if prepayment rates remain elevated or accelerate further they could negatively affect our net interest margin and the value of our assets. Furthermore, increases in the Federal Funds Rate and LIBOR could significantly increase our financing costs, which could lower our net interest margin.



## **Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in our consolidated financial statements. These 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 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, 2014.

## **Capital Expenditures**

At March 31, 2015, we had no material commitments for capital expenditures.

## **Off-Balance Sheet Arrangements**

At March 31, 2015, 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 financial statements are prepared in accordance with GAAP and our distributions will be determined by our Board of Directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, 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 its 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.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company may from time to time be involved in various lawsuits and claims, both pending and threatened, including some that it has asserted against others, in which monetary and other damages are sought. These lawsuits and claims relate primarily to contractual disputes arising out of the ordinary course of the Company's business. The outcome of such lawsuits and claims, as well as the costs to defend them, is inherently unpredictable, and management may choose to settle certain matters based on a cost-benefit analysis.

A complaint by a note-holder in Preferred Term Securities XX ("PreTSL XX") was filed on July 16, 2010 in the Supreme Court of the State of New York, New York County, against Bimini Capital, the Bank of New York Mellon ("BNY Mellon") and Hexagon Securities LLC ("Hexagon") and nominal defendants BNY Mellon and Preferred Term Securities XX, Ltd. ("PreTSL XX"), captioned Hildene Capital Management, LLC, et al. v. The Bank of New York Mellon, et. al. The complaint, filed by Hildene Capital Management, LLC and Hildene Opportunities Fund, Ltd. ("Hildene"), alleges that Hildene suffered losses as a result of Bimini Capital's repurchase of all outstanding fixed/floating rate capital securities of Bimini Capital Trust II for less than par value from PreTSL XX in October 2009. Hildene alleged claims against BNY Mellon for breach of the Indenture, breach of fiduciary duties and breach of the covenant of good faith and fair dealing, and claims against Bimini Capital for tortious interference with contract, aiding and abetting breach of fiduciary duty, unjust enrichment and "rescission/illegality." Hildene also alleged derivative claims brought in the name of Nominal Defendant BNY Mellon. (Subsequently, Hexagon and Nominal Defendant PreTSL XX were voluntarily dismissed without prejudice by Hildene.) PreTSL XX, Ltd. moved to intervene as an additional plaintiff in the action, and Bimini and BNY Mellon opposed that motion. The court granted PreTSL XX, Ltd.'s motion to intervene and the Appellate Division, First Department affirmed that decision. In May 2013, Hildene voluntarily dismissed its purported derivative claims brought in the name of BNY Mellon, including its claim for "rescission/illegality." On April 14, 2014 and May 18, 2014, Stipulations of Partial Discontinuance were filed with the court that dismissed all claims between and among Hildene and BNY Mellon, and PreTSL XX and BNY Mellon.

In May 2015, Hildene and Bimini Capital reached an agreement in principle to settle the case. The agreement has not been finalized and is subject to the approval of each party and various conditions. In connection with the anticipated settlement and in accordance with GAAP, a provision for loss of \$3.5 million has been charged to operations for the three months ended March 31, 2015.

### ITEM 1A. RISK FACTORS.

Except as set forth below, 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 16, 2015.

#### **Risks Related to Our Business**

*Payments to be made in the settlement of a legal action could have an adverse effect on our liquidity, financial condition and results of operations.*

In May 2015, Bimini Capital reached an agreement in principle to settle a legal action as more fully described in Note 10 to the financial statements. Although payments under the anticipated settlement agreement will reduce the Company's liquidity, management believes that the Company will be able to generate sufficient cash from its operations to meet the payment obligations as they come due. If the Company is unable to generate sufficient cash, it may be required to liquidate a portion of its MBS portfolio, which could have an adverse effect of the Company's ability to generate interest income, its results of operations, and its financial condition.

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

During the three months ended March 31, 2015, the Company issued 5,044 and 3,071 shares of Class A Common Stock to Robert J. Dwyer and Frank E. Jaumot, respectively, in consideration for their service on the Company's Board of Directors and on certain committees of the Board of Directors. The shares were issued pursuant to the exemption from registration under the Securities Act of 1933, as amended, contained in Section 4(a)(2) thereof.

**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\*\*\*
- 101.SCH Taxonomy Extension Schema Document\*\*\*
- 101.CAL Taxonomy Extension Calculation Linkbase Document\*\*\*
- 101.DEF Additional Taxonomy Extension Definition Linkbase Document\*\*\*
- 101.LAB Taxonomy Extension Label Linkbase Document\*\*\*
- 101.PRE Taxonomy Extension Presentation Linkbase Document\*\*\*

- \* Filed herewith.
- \*\* Furnished herewith
- \*\*\* Submitted electronically herewith.

**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: May 15, 2015

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

Date: May 15, 2015

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)

## CERTIFICATIONS

I, Robert E. Cauley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bimini Capital Management, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2015

/s/ Robert E. Cauley

Robert E. Cauley  
Chairman of the Board and Chief  
Executive Officer

## CERTIFICATIONS

I, G. Hunter Haas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bimini Capital Management, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2015

/s/ G. Hunter Haas, IV

G. Hunter Haas IV  
President and Chief Financial  
Officer



**CERTIFICATION  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350**

I, Robert E. Cauley, in compliance 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (the "Report") filed with the Securities and Exchange Commission:

1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934

May 15, 2015

/s/ Robert E. Cauley  
\_\_\_\_\_  
Robert E. Cauley,  
Chairman of the Board and  
Chief Executive Officer

**CERTIFICATION  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350**

I, G. Hunter Haas, in compliance 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (the "Report") filed with the Securities and Exchange Commission:

1. fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934

May 15, 2015

/s/ G. Hunter Haas, IV

G. Hunter Haas, IV

President and Chief Financial Officer