BIMINI CAPITAL MANAGEMENT, INC.
Form 10-Q
August 08, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

For the transition period from __________ to ___________

Commission File Number: 001-32171

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

Maryland	72-1571637
(State or other jurisdiction of incorporation or organization)	(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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ 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 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 ý

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

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

Title of each Class	Latest Practicable Date	Shares Outstanding
Class A Common Stock, $0.001 par value	August 8, 2013	10,633,116
Class B Common Stock, $0.001 par value	August 8, 2013	31,938
Class C Common Stock, $0.001 par value	August 8, 2013	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) June 30, 2013	December 31, 2012
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$356,205,234	$158,396,450
Unpledged	24,354,574	9,758,557
Total mortgage-backed securities	380,559,808	168,155,007
Cash and cash equivalents	8,649,231	6,592,561
Restricted cash	9,310,813	840,500
Retained interests in securitizations	3,462,594	3,336,009
Accrued interest receivable	1,586,531	718,895
Property and equipment, net	3,724,705	3,774,310
Prepaid expenses and other assets, net	3,844,305	3,935,669
Total Assets	$411,137,987	$187,352,951
LIABILITIES AND EQUITY		
LIABILITIES:		
Repurchase agreements	$346,197,338	$150,294,174
Junior subordinated notes due to Bimini Capital Trust II	26,804,440	26,804,440
Accrued interest payable	101,418	123,446
Accounts payable, accrued expenses and other	3,452,446	6,614,119
Total Liabilities	376,555,642	183,836,179
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock	-	-
Common stock	10,697	10,681
Additional paid-in capital	334,573,398	334,254,432
Accumulated deficit	(333,318,150)	(330,748,341)
Stockholders’ equity	1,265,945	3,516,772
Noncontrolling interests	33,316,400	-
Total Equity	34,582,345	3,516,772
Total Liabilities and Equity	$411,137,987	$187,352,951

The following table includes assets to be used to settle liabilities of the consolidated variable interest entity ("VIE"). These assets and liabilities are included in the 2013 consolidated balance sheet above. See Note 14 for additional information on our consolidated VIE.

	June 30, 2013	December 31, 2012
ASSETS:		
Mortgage-backed securities	$339,147,913	$-

Cash and cash equivalents and restricted cash	15,223,827	-
Accrued interest receivable and other assets	1,776,445	-
LIABILITIES:		
Repurchase agreements	308,735,338	-
Accrued interest payable and other liabilities	164,786	-

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012
Interest income	$4,005,840	$2,323,237	$2,479,678	$1,084,653
Interest expense	(607,559)	(181,639)	(360,853)	(108,256)
Net interest income, before interest on junior subordinated notes	3,398,281	2,141,598	2,118,825	976,397
Interest expense on junior subordinated notes	(495,565)	(526,184)	(248,367)	(261,094)
Net interest income	2,902,716	1,615,414	1,870,458	715,303
Unrealized losses on mortgage-backed securities	(10,885,051)	(1,720,031)	(10,412,972)	(1,450,740)
Realized (losses) gains on mortgage-backed securities	(873,987)	170,385	(933,940)	197,373
Gains (losses) on Eurodollar futures	6,596,069	(425,338)	7,071,631	(263,000)
Net portfolio deficiency	(2,260,253)	(359,570)	(2,404,823)	(801,064)
Other income:				
Gains (losses) on retained interests in securitizations	1,755,179	3,467,427	(229,647)	1,773,935
Other income (expense)	3,028,544	(22,799)	3,031,023	(22,973)
Total other income	4,783,723	3,444,628	2,801,376	1,750,962
Expenses:				
Compensation and related benefits	852,971	839,372	421,727	411,960
Directors' fees and liability insurance	390,707	273,894	222,305	130,325
Orchid Island Capital, Inc. IPO expenses	3,042,322	-	546	-
Audit, legal and other professional fees	722,942	707,307	366,226	291,007
Direct REIT operating expenses	233,672	272,378	98,767	136,843
Other administrative	381,628	344,339	177,989	170,991
Total expenses	5,624,242	2,437,290	1,287,560	1,141,126
Net (loss) income	(3,100,772)	647,768	(891,007)	(191,228)
Less: Loss attributable to noncontrolling interests	(530,963)	-	(1,091,947)	-
Net (loss) income attributable to Bimini Capital stockholders	$(2,569,809)	$647,768	$200,940	$(191,228)
Basic and Diluted Net (Loss) Income Per Share of:				
CLASS A COMMON STOCK				
Basic and Diluted	$(0.24)	$0.06	$0.02	$(0.02)
CLASS B COMMON STOCK				
Basic and Diluted	$(0.24)	$0.06	$0.02	$(0.02)
Weighted Average Shares Outstanding:				
CLASS A COMMON STOCK				
Basic and Diluted	10,626,491	10,550,853	10,984,756	10,252,672
CLASS B COMMON STOCK				

Basic and Diluted	31,938	31,938	31,938	31,938

See Notes to Consolidated Financial Statements

BIMINI CAPITAL MANAGEMENT, INC.
CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)
Six Months Ended June 30, 2013

	Stockholders' Equity				
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interests	Total
Balances, January 1, 2013	$10,681	$334,254,432	$(330,748,341)	$ -	$3,516,772
Net loss	-	-	(2,569,809)	(530,963)	(3,100,772)
Issuance of common shares of Orchid Island Capital, Inc.	-	278,238	-	35,121,762	35,400,000
Cash dividends paid to noncontrolling interests	-	-	-	(1,274,399)	(1,274,399)
Issuance of Class A common shares for equity plan exercises	16	(16)	-		-
Amortization of equity plan compensation	-	40,744	-		40,744
Balances, June 30, 2013	$10,697	$334,573,398	$(333,318,150)	$ 33,316,400	$34,582,345

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(3,100,772)	$647,768
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Stock based compensation and equity plan amortization	40,744	105,830
Depreciation	60,545	59,021
Losses on mortgage-backed securities	11,759,038	1,549,646
Gains on retained interests in securitizations	(1,755,179)	(3,467,427)
Gains on release of loan loss reserves	(3,037,260)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(867,636)	149,784
Prepaid expenses and other assets, net	308,535	596,169
Accrued interest payable	(22,028)	(4,128)
Accounts payable, accrued expenses and other	(124,413)	(779,930)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,261,574	(1,143,267)
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(460,089,739)	(156,122,526)
Sales	214,734,292	124,428,539
Principal repayments	20,974,437	9,400,956
Payments received on retained interests in securitizations	1,628,594	2,187,752
(Increase) decrease in restricted cash	(8,470,313)	112,312
Purchases of property and equipment	(10,940)	(8,988)
NET CASH USED IN INVESTING ACTIVITIES	(231,233,669)	(20,001,955)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	1,972,626,965	442,916,486
Principal repayments on repurchase agreements	(1,776,723,801)	(420,619,497)
Issuance of common shares of Orchid Island Capital, Inc.	35,400,000	-
Cash dividends paid to noncontrolling interests	(1,274,399)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	230,028,765	22,296,989
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,056,670	1,151,767
CASH AND CASH EQUIVALENTS, beginning of the period	6,592,561	4,300,785
CASH AND CASH EQUIVALENTS, end of the period	$8,649,231	$5,452,552
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$1,125,152	$711,951
Income taxes	$39,386	$40,000

See Notes to Consolidated Financial Statements

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BIMINI CAPITAL MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2013

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.

As used in this document, discussions related to the "Company", refer to the consolidated entity, including Bimini Capital, our wholly-owned subsidiaries, and our consolidated VIE. References to "Bimini Capital," the "parent", and the "registrant" refer to Bimini Capital Management, Inc. as a separate entity.

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. Subsequent to the completion of the IPO and through June 30, 2013, Orchid continues to be consolidated as our VIE. As used in this document, discussions related to REIT qualifying activities include the MBS portfolios of Bimini Capital and Orchid.

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

ASC Topic 810, Consolidation ("ASC 810"), requires the consolidation of a variable interest entity ("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 and ongoing assessments of whether an enterprise is the primary beneficiary of a VIE as well as additional disclosures for entities that have variable interests in VIEs.

At the time of Orchid’s IPO and as of June 30, 2013, management has concluded Orchid is 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 the success of Orchid. Management has also concluded that Bimini Capital is the primary beneficiary of Orchid because, under the management agreement between Bimini Advisors and Orchid, Bimini Capital has the power to direct the activities of Orchid that most significantly impact its economic performance. As a result, subsequent to Orchid’s IPO and through June 30, 2013, the Company has continued to consolidate Orchid in its Consolidated Financial Statements. While the results of operations of Orchid are included in net income (loss) in the Company’s Consolidated Financial Statements, net income (loss) attributable to common stockholders does not include the portion attributable to noncontrolling interests. Additionally, noncontrolling interests in Orchid are recorded in our Consolidated Balance Sheet and our Consolidated Statement of Equity within the equity section but separate from the stockholders’ equity.

Assets recognized as a result of consolidating Orchid do 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 do not represent additional claims on Bimini Capital’s assets; rather, they represent 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 6, Bimini Capital has a common share investment in a trust used in connection with the issuance of Bimini Capital’s junior subordinated notes. Pursuant to 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. Ongoing litigation costs stemming from both the former operations of MortCo and Bimini Capital itself have caused the Company’s overhead to be high in relation to its portfolio size. The smaller capital base has made it difficult to generate sufficient net interest income to cover expenses.

In response, beginning in 2007, the Company took significant steps to reduce the leverage in its balance sheet, reduce its debt service costs, reduce expenses, settle various litigation matters, and alter its investment strategy for holding MBS securities. In addition, the Company evaluated and pursued capital raising opportunities for Orchid. After pursuing previous efforts to raise capital at Orchid, Orchid completed its initial public offering of common stock on February 20, 2013. Bimini Capital and Bimini Advisors acted as sponsor to Orchid by agreeing to fund all underwriting, legal and other costs of the offering, which totaled approximately $3.0 million during the six months ended June 30, 2013. Orchid has no obligation or intent to reimburse Bimini Capital and Bimini Advisors, either directly or indirectly, for the offering costs; therefore, they are expensed in the Company’s consolidated statement of operations. At such time as Orchid has $100 million of stockholders equity, Bimini Capital will begin to allocate certain overhead costs to Orchid on a pro rata basis. Attracting external capital to Orchid will allow Bimini Advisors to receive fees for managing the Orchid portfolio, decrease the expenses of Bimini Capital and Bimini Advisors by allocating certain overhead costs to Orchid (once Orchid’s stockholders’ equity exceeds $100 million), and share in distributions, if any, paid by Orchid to its stockholders. Upon the closing of Orchid’s IPO, and at June 30, 2013, Bimini Capital owned approximately 29.38% of the outstanding common stock of Orchid.

At June 30, 2013, the Company had cash and cash equivalents of approximately $8.6 million, a MBS portfolio of approximately $380.6 million and equity capital base of approximately $34.6 million, including approximately $1.3 million attributable to the stockholders of Bimini Capital and $33.3 million attributable to noncontrolling interests. The Company generated cash flows of approximately $24.3 million from principal and interest payments on its MBS portfolio and approximately $1.6 million from retained interests in securitizations during the six months ended June 30, 2013. However, if cash resources are, at any time, insufficient to satisfy the Company’s liquidity requirements, such as when cash flow from operations are materially negative, the Company may be required to pledge additional assets to meet margin calls, liquidate assets, sell additional debt or equity securities or pursue other financing alternatives.

Basis of Presentation

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

Use of Estimates

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

Statement of Comprehensive Income (Loss)

In accordance with FASB ASC Topic 220, Comprehensive Income, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income. Comprehensive (loss) 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. Restricted cash, totaling approximately $2,682,000 and approximately $227,000 at June 30, 2013 and December 31, 2012, respectively, represents cash held by a broker as margin on Eurodollar futures contracts. Restricted cash, totaling $6,629,000 and $614,000 at June 30, 2013 and December 31, 2012, respectively, represents cash held on deposit as collateral with the repurchase agreement counterparties, which may be used to make principal and interest payments on the related repurchase agreements.

The Company maintains cash balances at three banks, and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance reverted to $250,000 per depositor at each financial institution. At June 30, 2013, the Company’s cash deposits exceeded federally insured limits by approximately $7.3 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 believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities

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

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

Income on PT MBS is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. For 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.

Retained Interests in Securitizations

From 2005 to 2007, 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 has entered into derivative financial instruments to manage interest rate risk, facilitate asset/liability strategies, and manage other exposures, and it may continue to do so in the future. The Company has elected to not treat any of its derivative financial instruments as hedges. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative investments be carried at fair value. Changes in fair value are recorded in earnings for each period.

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Financial Instruments

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

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, repurchase agreements, accrued interest payable and accounts payable and other liabilities generally approximates their carrying value as of June 30, 2013 and December 31, 2012, due to the short-term nature of these financial instruments.

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

The Company's property and equipment as of June 30, 2013 and December 31, 2012, is presented net of accumulated depreciation of approximately $992,000 and $931,000, respectively. Depreciation expense was approximately $61,000 and $59,000 for the six month periods ended June 30, 2013 and 2012, respectively, and $30,000 for each of the three month periods ended June 30, 2013 and 2012, respectively.

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

Earnings Per Share

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

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

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

Reclassifications

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

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"), and Orchid, until the closing of its IPO on February 20, 2013, was a "qualified REIT subsidiary" of Bimini Capital under the Code. Beginning with its initial short tax period commencing on February 20, 2013 and ending December 31, 2013, Orchid expects to elect and intends to qualify to be taxed as a REIT. 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 June 30, 2013, management believes that the Company has complied with Code requirements and Bimini Capital continues to qualify as a REIT. As further described in Note 10, Income Taxes, Bimini Advisors and MortCo are taxpaying entities for income tax purposes and are taxed separately from the REIT.

The Company's U.S. federal income tax returns for years ended on or after December 31, 2009 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 FASB ASC 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 July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This new standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. The ASU is effective beginning January 1, 2014 on either a prospective or retrospective basis. The guidance represents a change in financial statement presentation only and the Company does not expect that this ASU will have a material impact on its consolidated financial results.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The standard permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes. The new guidance is effective for hedging relationships entered into on or after July 17, 2013. The Company does not expect that this ASU will have a material impact on its consolidated financial statements.

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The amendments in this Update modify the guidance for determining whether an entity is an investment company, update the measurement requirements for noncontrolling interests in other investment companies and require additional disclosures for investment companies under US GAAP. The amendments in the Update develop a two-tiered approach for the assessment of whether an entity is an investment company which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The amendments in this Update also revise the measurement guidance in Topic 946 such that investment companies must measure noncontrolling ownership interests in other investment companies at fair value, rather than applying the equity method of accounting to such interests. The new guidance is effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The Company does not expect that this ASU will have a material impact on its financial statements.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ("ASU 2013-04"). The objective of this ASU is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing US GAAP. The amendments in ASU 2013-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be retrospectively applied to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted. The Company does not expect that this ASU will have a material impact on its consolidated financial statements.

In January 2013, the FASB released ASU 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which served solely to clarify the scope of financial instruments included in ASU 2011-11 as there was concern about diversity in practice. The objectives of ASU 2013-01 and ASU 2011-11 are to support further convergence of US GAAP and IFRS requirements. These updates are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this ASU had no effect on the Company's consolidated financial statements.

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

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's MBS portfolio as of June 30, 2013 and December 31, 2012:

(in thousands)

	June 30, 2013	December 31, 2012
Pass-Through MBS:		
Hybrid Adjustable-rate Mortgages	$116,618	$87,693
Adjustable-rate Mortgages	6,210	20,857
Fixed-rate Mortgages	233,243	49,846
Total Pass-Through MBS	356,071	158,396
Structured MBS:		
Interest-Only Securities	21,907	5,244
Inverse Interest-Only Securities	2,582	4,515
Total Structured MBS	24,489	9,759
Total	$380,560	$168,155

Included in the table above at June 30, 2013 are $339.1 million of MBS assets that may only be used to settle liabilities of the consolidated VIE.

The following table summarizes the Company's MBS portfolio as of June 30, 2013 and December 31, 2012, according to their contractual maturities. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

	June 30, 2013	December 31, 2012
Greater than one year and less than five years	$89	$163
Greater than five years and less than ten years	11,819	12,980
Greater than or equal to ten years	368,652	155,012
Total	$380,560	$168,155

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 June 30, 2013 and December 31, 2012:

(in thousands)

Series	Issue Date	June 30, 2013	December 31, 2012
HMAC 2004-1	March 4, 2004	$40	$74
HMAC 2004-2	May 10, 2004	-	890
HMAC 2004-3	June 30, 2004	1,563	750
HMAC 2004-4	August 16, 2004	1,380	881
HMAC 2004-5	September 28, 2004	480	741
Total		$3,463	$3,336

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NOTE 4. REPURCHASE AGREEMENTS

The Company's repurchase agreements typically have maturities of less than six months at inception, with some having longer terms. Should a counterparty decide not to renew a repurchase agreement at maturity, the Company must either refinance with another lender or be in a position to satisfy the obligation. If, during the term of a repurchase agreement, a lender should file for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral.

As of June 30, 2013, the Company had outstanding repurchase agreement obligations of approximately $346.2 million with a net weighted average borrowing rate of 0.39%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $357.2 million, and approximately $6.6 million of cash posted as collateral with the counterparties. As of December 31, 2012, the Company had outstanding repurchase agreement obligations of approximately $150.3 million with a net weighted average borrowing rate of 0.49%. These agreements were collateralized by MBS with a fair value of approximately $158.8 million and $0.6 million of cash posted as collateral with the counterparties.

As of June 30, 2013 and December 31, 2012, the Company's repurchase agreements had remaining maturities as summarized below:

(in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
June 30, 2013					
Fair value of securities pledged, including accrued interest receivable	$ 5,172	$294,366	$57,661	$-	$357,199
Repurchase agreement liabilities associated with these securities	$ 4,966	$284,518	$56,713	$-	$346,197
Net weighted average borrowing rate	0.38 %	0.38 %	0.39 %	-	0.39 %
December 31, 2012					
Fair value of securities pledged, including accrued interest receivable	$ -	$158,765	$-	$-	$158,765
Repurchase agreement liabilities associated with these securities	$ -	$150,294	$-	$-	$150,294
Net weighted average borrowing rate	-	0.49 %	-	-	0.49 %

As of June 30, 2013, the outstanding repurchase obligations of the consolidated VIE included in the table above was $308.7 million.

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If, during the term of a repurchase agreement, a lender should file for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At June 30, 2013 and December 31, 2012, 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 pledged, including accrued interest on such securities and the cash posted by the Company as collateral) of approximately $17.6 million and approximately $9.0 million, respectively. Summary information regarding amounts at risk with individual counterparties greater than 10% of equity at June 30, 2013 and December 31, 2012 is as follows:

(in thousands)

Repurchase Agreement Counterparties	Amount at Risk(1)	Weighted Average Maturity of Repurchase Agreements in Days
June 30, 2013		
Citigroup Global Markets, Inc.	$6,259	28
CRT Capital Group LLC	3,695	23
December 31, 2012		
Citigroup Global Markets, Inc.	$3,714	18
South Street Securities, LLC	1,802	7
SunTrust Robinson Humphrey, Inc.	1,123	7
The PrinceRidge Group, LLC	979	15
KGS - Alpha Capital Markets, L.P.	843	21
Cantor Fitzgerald & Co.	541	4

At June 30, 2013, Bimini Capital had a maximum amount at risk (the difference between the amount loaned to Bimini Capital, including interest payable, and the fair value of securities pledged, including accrued interest on such securities and cash posted by the Company as collateral) of approximately $1.8 million. Summary information regarding amounts at risk with individual counterparties greater than 10% of stockholders' equity attributable to Bimini Capital equity at June 30, 2013 is as follows:

(in thousands)

Repurchase Agreement Counterparties	Amount at Risk(1)	Weighted Average Maturity of Repurchase Agreements in Days
June 30, 2013		
SunTrust Robinson Humphrey, Inc.	$826	19
The PrinceRidge Group, LLC	479	17
Pierpont Securities, LLC	322	24
South Street Securities, LLC	152	24

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

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

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

As of June 30, 2013, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains and losses credited and charged to the Company's account on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. The tables below present information related to the Company's Eurodollar futures positions at June 30, 2013 and December 31, 2012.

(in thousands)

Eurodollar Futures Positions (Consolidated)

As of June 30, 2013

	Repurchase Agreement Funding Hedges			Junior Subordinated Debt Funding Hedges		
Expiration Year	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)
2013	0.34 %	$280,000	$(227)	0.34 %	$21,000	$(178)
2014	0.54 %	250,000	173	0.54 %	26,000	(377)
2015	1.15 %	250,000	890	1.15 %	26,000	(87)
2016	2.15 %	250,000	1,989	2.02 %	26,000	64
2017	3.00 %	250,000	2,219	-	-	-
2018	3.54 %	250,000	1,128	-	-	-
	1.82 %		$6,172	1.06 %		$(578)
Cash posted as collateral, included in restricted cash						$2,682

(in thousands)

Eurodollar Futures Positions (Consolidated)

As of December 31, 2012

	Repurchase Agreement Funding Hedges			Junior Subordinated Debt Funding Hedges		
Expiration Year	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)
2013	0.34 %	$30,000	$(375)	0.34 %	$21,000	$(341)
2014	-	-	-	0.48 %	26,000	(393)
2015	-	-	-	0.74 %	26,000	(192)
2016	-	-	-	1.01 %	26,000	(57)
	0.34 %		$(375)	0.57 %		$(983)
Cash posted as collateral, included in restricted cash						$227

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The table below presents information related solely to Bimini Capital's Eurodollar futures positions at June 30, 2013.

(in thousands)

Eurodollar Futures Positions (Parent-Only)

As of June 30, 2013

	Repurchase Agreement Funding Hedges			Junior Subordinated Debt Funding Hedges		
Expiration Year	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)
2013	0.34 %	$30,000	$(220)	0.34 %	$21,000	$(178)
2014	-	-	-	0.54 %	26,000	(377)
2015	-	-	-	1.15 %	26,000	(87)
2016	-	-	-	2.02 %	26,000	64
	0.34 %		$(220)	1.06 %		$(578)
Cash posted as collateral, included in restricted cash						$151

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

The tables below present the effect of the Company's derivative financial instruments on the statements of operations for the six and three months ended June 30, 2013 and 2012.

(in thousands)

	Six Months Ended June 30,			
	Consolidated		Parent-Only	
Eurodollar futures contracts (short positions)	2013	2012	2013	2012
Repurchase Agreement Hedges	$6,360	$(131)	$(8)	$(106)
Junior Subordinated Notes Hedges	236	(294)	236	(294)
	$6,596	$(425)	$228	$(400)

(in thousands)

	Three Months Ended June 30,			
	Consolidated		Parent-Only	
Eurodollar futures contracts (short positions)	2013	2012	2013	2012
Repurchase Agreement Hedges	$6,841	$(31)	$(10)	$(30)
Junior Subordinated Notes Hedges	230	(232)	230	(232)
	$7,071	$(263)	$220	$(262)

NOTE 6. TRUST PREFERRED SECURITIES

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

As of June 30, 2013 and December 31, 2012, the outstanding principal balance on the junior subordinated debt securities owed to BCTII was $26.8 million. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes have a rate of interest that floats at a spread of 3.50% over the prevailing three-month LIBOR rate. As of June 30, 2013, the interest rate was 3.77%. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes require quarterly interest distributions and are redeemable at Bimini Capital's option, in whole or in part and without penalty, beginning December 15, 2010. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment of all present and future senior indebtedness.

The trust is a VIE because the holders of the equity investment at risk do not have adequate decision making ability over the trust's activities. Since Bimini Capital's investment in the trust's common equity securities was financed directly by the applicable trust as a result of its loan of the proceeds to Bimini Capital, that investment is not considered to be an equity investment at risk. Since Bimini Capital's common share 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 financial statements.

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

NOTE 7. CAPITAL STOCK

At June 30, 2013 and December 31, 2012, Bimini Capital’s capital stock is comprised of the following:

(in thousands)

	June 30, 2013	December 31, 2012
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 June 30, 2013 and December 31, 2012	$-	$-
Class A Common Stock, $0.001 par value; 98,000,000 shares designated: 10,633,116 shares issued and outstanding as of June 30, 2013 and 10,616,912 shares issued and outstanding as of December 31, 2012	10,633	10,617
Class B Common Stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2013 and December 31, 2012	32	32
Class C Common Stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of June 30, 2013 and December 31, 2012	32	32

Issuances of Common Stock

The table below presents information related to the Company’s Class A Common Stock issued to its independent directors for the payment of director fees and to employees pursuant to the terms of its stock incentive plan grants for the six and three months ended June 30, 2013 and 2012.

	Six Months Ended June 30,		Three Months Ended June 30,	
Shares Issued Related To:	2013	2012	2013	2012
Directors' compensation	-	242,567	-	91,897

Vesting incentive plan shares	16,204	-	-	-
Total shares of Class A Common Stock issued	16,204	242,567	-	91,897

There were no issuances of the Company's Class B Common Stock and Class C Common Stock during the six and three months ended June 30, 2013 and 2012.

NOTE 8. STOCK INCENTIVE PLANS

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

On August 12, 2011, 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 interest with those of the Company and its stockholders. After the approval of the 2011 Plan, the Board of Directors agreed that it would no longer issue awards under the 2003 Plan. The plan is intended to permit the grant of stock options, stock appreciation rights (“SARs”), stock awards, performance units and other equity-based and incentive awards. The maximum aggregate number of shares of Common Stock that may be issued under the 2011 Plan pursuant to the exercise of options and SARs, the grant of stock awards or other equity-based awards and the settlement of incentive awards and performance units is equal to 4,000,000 shares.

In October 2012, Orchid adopted the 2012 Equity Incentive Plan (the “2012 Plan”) to recruit and retain employees, directors and other service providers, including employees of Bimini Capital and other affiliates. The 2012 Plan provides for the award of stock options, stock appreciation rights, stock award, performance units, other equity-based awards (and dividend equivalents with respect to awards of performance units and other equity-based awards) and incentive awards. The 2012 Plan is administered by the Compensation Committee of Orchid’s Board of Directors except that Orchid’s full Board of Directors will administer awards made to directors who are not employees of Orchid or its affiliates. The 2012 Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of Orchid’s common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 4,000,000 shares of Orchid common stock that may be issued under the Incentive Plan. To date, no awards have been made under the Incentive Plan.

Phantom share awards represent a right to receive a share of Bimini Capital's Class A Common Stock. These awards do not have an exercise price and are valued at the fair value of Bimini Capital’s Class A Common Stock at the date of the grant. The grant date value is amortized to compensation expense on a straight-line basis over the vesting period of the respective award. The phantom shares vest, based on the employees’ continuing employment, following a schedule as provided in the individual grant agreements, which was originally for periods through March 15, 2015. Compensation expense recognized for phantom shares was approximately $41,000 and $20,000 for the six and three months ended June 30, 2013, respectively and $42,000 and $21,000 for the six and three months ended June 30, 2012, respectively. Dividends paid on unsettled awards are charged to stockholders’ equity when declared.

A summary of phantom share activity during the six months ended June 30, 2013 and 2012 is presented below:

	Six Months Ended June 30,			
	2013		2012	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, at January 1	367,844	$1.11	367,844	$1.11
Vested during the period	(16,204)	0.97	-	-
Nonvested, at June 30	351,640	$1.12	367,844	$1.11

Subsequent to June 30, 2013, the Compensation Committee of the Board of Directors of Bimini Capital approved certain performance bonuses for members of management. These bonuses were awarded in recognition of management's efforts in completing the Orchid initial public offering. The bonuses, which will be paid on or about August 13, 2013 (the "Bonus Date"), consist of cash and fully vested shares of the Company's common stock issued under the 2011 Plan. In particular, (i) executive officers will receive an aggregate of 475,000 shares of the Company's common stock and cash in an amount equal to 35% of the value of such shares and (ii) certain senior employees will receive bonuses totaling approximately $21,000, which they may elect to receive in cash and/or fully vested shares of the Company's common stock. For purposes of these bonuses, shares of the Company's common stock shall be valued based on the closing price of the Company's common stock on the Bonus Date.

The Compensation Committee also approved the acceleration of the vesting of all outstanding, unvested equity awards held by management, as well as cash bonuses equal to 35% of the income created by such vesting. The accelerated vesting date is the Bonus Date. Expenses associated with each of the transactions described above will be recorded in the three month period ending September 30, 2013.

As of June 30, 2013, there was approximately $116,000 of unrecognized compensation cost related to nonvested phantom share awards. Due to acceleration of vesting described above, this cost will be recognized during the three month period ending September 30, 2013. The intrinsic value of the outstanding phantom shares as of June 30, 2013 and December 31, 2012 is $102,000 and $48,000, respectively. All outstanding unvested awards at June 30, 2013 were granted with dividend participation rights.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Outstanding Litigation

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

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

On October 19, 2011, PreTSL XX, Ltd. moved to intervene as an additional plaintiff in the action, and Bimini and BNYM opposed that motion. On August 23, 2012, the court issued a Decision and Order granting PreTSL XX, Ltd.'s motion to intervene. Bimini and BNYM filed appeals in the Appellate Division, First Department, and on April 2, 2013, the Appellate Division affirmed the trial court's decision. On May 3, 2013, Hildene voluntarily dismissed its purported derivative claims brought in the name of BNYM. Bimini denies that the repurchase was improper and intends to continue to defend the suit vigorously.

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

Mass Mutual has not filed the complaint or initiated litigation. Pursuant to its request, on March 14, 2011 Mass Mutual and MortCo entered into a Tolling Agreement through June 1, 2011 so that Mass Mutual could address its allegations against Opteum Acceptance without incurring litigation costs. Since then, the parties extended the Tolling Agreement on two occasions so that the Tolling Agreement now terminates on December 2, 2013. Mass Mutual has not contacted Opteum Acceptance to discuss its allegations.

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

Loans Sold to Investors.

Generally, MortCo was not exposed to significant credit risk on its loans sold to investors. In the normal course of business, MortCo provided certain representations and warranties during the sale of mortgage loans which obligated it to repurchase loans which were subsequently unable to be sold through the normal investor channels. The repurchased loans were secured by the related real estate properties, and could usually be sold directly to other permanent investors. Any future repurchase demands will likely be settled on a negotiated basis without MortCo taking possession of the originated loan or the underlying property.

At December 31, 2012, MortCo had recorded a liability of approximately $4.7 million, which is included in “accounts payable, accrued expenses and other” in the accompanying consolidated balance sheet, for the estimated fair value of this obligation. During the six months ended June 30, 2013, the Company evaluated this position and determined that the statute of limitations had expired for certain creditors to pursue claims related to some of this obligation. As such, approximately $3.0 million of this liability was reversed and included in “other income” in the accompanying statements of operations. At June 30, 2013, the remaining balance of this liability is $1.7 million.

NOTE 10. 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, 2012, Bimini Capital had a REIT tax net operating loss carryforward of approximately $13.8 million that is immediately available to offset future REIT taxable income. The REIT tax net operating loss carryforwards will expire in years 2028 through 2032.

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 six and three months ended June 30, 2013 and 2012, MortCo had no taxable income primarily due to the utilization of NOL carryforwards; Bimini Advisors has losses from its inception for income tax purposes.

The TRS income tax provisions for the six and three months ended June 30, 2013 and 2012 differ from the amount determined by applying the statutory Federal rate of 35% to the pre-tax income or loss due primarily to the recording of, and adjustments to, the deferred tax asset valuation allowance. During the six and three months ended June 30, 2013 and 2012, a portion of the deferred tax asset valuation allowance was reversed, as the utilization of this portion of the deferred tax asset was deemed more likely than not, due to the utilization of NOLs to offset estimated taxable income. Therefore, there are no income tax provisions for any period related to the results of operations.

As of June 30, 2013, MortCo has estimated federal NOL carryforwards of approximately $267.1 million, and estimated available Florida NOLs of approximately $39.6 million, both of which begin to expire in 2025, and are fully available to offset future federal and Florida taxable income, respectively. All other MortCo state NOLs have been abandoned. Bimini Advisors has estimated federal and Florida NOL carryforwards of approximately $0.6 million which begin to expire in 2031 and are fully available to offset future federal and Florida taxable income.

The net deferred tax assets and offsetting valuation allowances for MortCo at June 30, 2013 are both approximately $97.1 million. The net deferred tax assets and offsetting valuation allowances for Bimini Advisors at June 30, 2013 are both approximately $0.2 million. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income from the operations of each of the respective entities. At June 30, 2013 and December 31, 2012, management believed that it was more likely than not that neither TRS would realize the full benefits of all of the federal and Florida tax NOL carryforwards (which are the primary deferred tax assets); therefore, an allowance for the full amount of the deferred tax assets has been recorded in both periods. Management considers the projected future taxable income or losses, and tax planning strategies in making this assessment.

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. Through 2007, MortCo based its tax position on advice received from tax consultants regarding the taxability of EII, including the aggregation (or non-aggregation) of the tax inputs from all REMICs owned for purposes of the EII tax computation. During 2008, MortCo re-evaluated its EII tax position, which included consulting with additional tax experts. As a result of the re-evaluation, MortCo concluded that it was no longer more likely than not that the pre-2008 tax position would be fully sustained upon examination, even though the exact computational methods and the ultimate EII tax due was still uncertain. Based on this conclusion, 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 this issue, 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 continued uncertainty surrounding this tax matter, MortCo has continued to account for this tax issue as being more likely than not that the tax position would not be fully sustained upon examination. Therefore as of June 30, 2013 and December 31, 2012, MortCo has a remaining accrual of approximately $1.3 million for taxes, interest and penalties related to this. Management anticipates that the remaining balance of this liability will be released during the quarter ended September 30, 2013.

NOTE 11. EARNINGS PER SHARE

Shares of Class B Common Stock, participating and convertible into Class A Common Stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, and when, authorized and declared by the Board of Directors. Following the provisions of FASB ASC 260, the Class B Common Stock is included in the computation of basic EPS using the two-class method, and consequently is presented separately from Class A Common Stock. Shares of Class B Common Stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A Common Stock were not met at June 30, 2013 and 2012.

Shares of Class C Common Stock are not included in the basic EPS computation as these shares do not have participation rights. Shares of Class C Common Stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A Common Stock were not met at June 30, 2013 and 2012.

The Company has dividend eligible stock incentive plan shares that were outstanding during the six and three months ended June 30, 2013 and 2012. The basic and diluted per share computations include these unvested incentive plan shares if there is income available to Class A Common Stock, as they have dividend participation rights. The stock incentive plan shares have no contractual obligation to share in losses. Since there is no such obligation, the incentive plan shares are not included in the basic and diluted EPS computations when no income is available to Class A Common Stock even though they are considered participating securities.

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

(in thousands, except per-share information)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Basic and diluted EPS per Class A common share:				
(Loss) income available to Class A common shares:				
Basic and diluted	$ (2,562)	$ 646	$ 200	$ (190)
Weighted average common shares:				
Class A common shares outstanding at the balance sheet date	10,633	10,329	10,633	10,329
Unvested dividend-eligible stock incentive plan shares outstanding at the balance sheet date	-	368	352	-
Effect of weighting	(7)	(146)	-	(76)
Weighted average shares-basic and diluted	10,626	10,551	10,985	10,253
(Loss) income per Class A common share:				
Basic and diluted	$ (0.24)	$ 0.06	$ 0.02	$ (0.02)

(in thousands, except per-share information)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Basic and diluted EPS per Class B common share:				
(Loss) income available to Class B common shares:				
Basic and diluted	$ (8)	$ 2	$ 1	$ (1)
Weighted average common shares:				
Class B common shares outstanding at the balance sheet date	32	32	32	32
Effect of weighting	-	-	-	-
Weighted average shares-basic and diluted	32	32	32	32
(Loss) income per Class B common share:				
Basic and diluted	$ (0.24)	$ 0.06	$ 0.02	$ (0.02)

NOTE 12. FAIR VALUE

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

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

Mortgage-backed securities, retained interests and Eurodollar futures contracts were recorded at fair value on a recurring basis during 2013 and 2012. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Fair value measurements for the retained interests are generated by a model that requires management to make a significant number of assumptions.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012:

(in thousands)

	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Mortgage-backed securities	$ 380,560	$-	$380,560	$ -
Eurodollar futures contracts	2,682	2,682	-	-
Retained interests	3,463	-	-	3,463
December 31, 2012				
Mortgage-backed securities	$ 168,155	$-	$168,155	$ -
Eurodollar futures contracts	227	227	-	-
Retained interests	3,336	-	-	3,336

The following table illustrates a rollforward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2013 and 2012:

(in thousands)

	Retained Interests	Mortgage Loans Held for Sale

	2013	2012	2012
Balances, January 1	$3,336	$3,495	$40
Gain (loss) included in earnings	1,755	3,467	(13)
Collections	(1,628)	(2,187)	-
Balances, June 30	$3,463	$4,775	$27

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During the six months ended June 30, 2013 and 2012, 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 June 30, 2013.

Retained interest fair value (in thousands)			$ 3,463
Prepayment Assumption		CPR Range (Weighted Average)	
Constant Prepayment Rate		10% (10%)	
Default Assumptions	Probability of Default	Severity Range (Weighted Average)	Range Of Loss Timing
Real Estate Owned	100%	26.64% - 71.14% (29.22%)	Next 10 Months
Loans in Foreclosure	100%	26.64% - 71.14% (29.22%)	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	2.5% - 5.15%	45%	Month 29 and Beyond
Cash Flow Recognition	Valuation Technique	Remaining Life Range (Weighted Average)	Discount Rate Range (Weighted Average)
Nominal Cashflows	Discounted Cash flow	1.5 -8.1 years (4.1)	27.5% (27.5%)
Discounted Cashflows	Discounted Cash flow	0.7 -3.9 years (1.3)	27.5% (27.5%)

NOTE 13. RELATED PARTY TRANSACTIONS

Frank E. Jaumot is a shareholder in an accounting firm from which the Company receives accounting and tax services. Mr. Jaumot is both a director and a shareholder of Bimini Capital. Professional fees incurred with this firm were $67,000 and $84,000 for the six months ended June 30, 2013 and 2012, respectively.

Management Agreement

Orchid entered into a management agreement with Bimini Capital, which provided for an initial term through December 31, 2011 with automatic one-year extension options. The agreement was extended under the option to December 31, 2013, but was terminated at the completion of Orchid's IPO. At the completion of the IPO, Orchid entered into a management agreement with Bimini Advisors, LLC which provides for an initial term through February 20, 2016 with automatic one-year extensions and is subject to certain termination rights. Under the terms of the management agreement, Bimini Advisors will be responsible for administering the business activities and day-to-day operations of Orchid. 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% Orchid's equity that is greater than $500 million.

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. Orchid is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf. In addition, once Orchid's equity, as defined, equals $100 million, Bimini Advisors will begin allocating to Orchid it's pro rata portion of certain overhead costs as defined in the management agreement.

NOTE 14. CONSOLIDATED VARIABLE INTEREST ENTITY AND NONCONTROLLING INTERESTS

As discussed in Note 1, Orchid completed its IPO on February 20, 2013. Bimini Capital owned 100% of the outstanding common stock of Orchid prior to the IPO, and approximately 29.38% after the IPO. Orchid operates as a mortgage REIT and was formed in order to increase Bimini Capital's assets under management to generate additional revenues to cover operating costs. Orchid entered into a management agreement with Bimini Advisors under which Bimini Advisors will be responsible for administering the business activities and day-to-day operations of Orchid. Bimini Advisors receives a monthly management fee for these services. Bimini Capital and Bimini Advisors acted as sponsors of the Orchid IPO and paid approximately $3.0 million of IPO related expenses during the six months ended June 30, 2013. The Company did not provide any further financial or other support to Orchid.

The table below presents the effects of the above on the changes in equity attributable to Bimini Capital stockholders during the six months ended June 30, 2013.

(in thousands)	
Net loss attributable to Bimini Capital	$(2,570)
Transfers from the noncontrolling interests	
Increase in Bimini Capital's paid-in capital for sale of 2,360,000 common shares of Orchid	278
Change from net loss attributable to Bimini Capital and transfers from noncontrolling interest	$(2,292)

The noncontrolling interests reported in the Company's Consolidated Financial Statements represent the portion of equity ownership in Orchid held by stockholders other than Bimini Capital. Noncontrolling interest is presented in the equity section of the consolidated balance sheet, separate from stockholders' equity attributed to Bimini Capital. Net income of Orchid is allocated between the noncontrolling interests and to Bimini Capital in proportion to their relative ownership interests in Orchid.

The following is a rollforward of the noncontrolling interest during the six months ended June 30, 2013.

(in thousands)	
Balance, January 1, 2013	$-
Issuance of common shares of Orchid Island Capital, Inc.	35,122
Net income attributed to noncontrolling interest	(531)
Cash dividend paid to noncontrolling interest	(1,275)
Balance, June 30, 2013	$33,316

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.

Management has concluded that, after the close of its IPO, Orchid is 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 has also concluded that Bimini Capital is the primary beneficiary of Orchid because, under the terms of the management agreement, Bimini Capital has 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 through June 30, 2013, the Company continued to consolidate Orchid in its Consolidated Financial Statements. This conclusion will be re-evaluated during subsequent reporting periods as the relationship between Bimini Capital and Orchid changes.

The following table presents the assets and liabilities of Orchid that are reflected on our consolidated balance sheets at June 30, 2013 (excluding intercompany balances).

(in thousands)	
ASSETS:	
Mortgage-backed securities, at fair value	
Pledged to counterparties	$317,310
Unpledged	21,838
Total mortgage-backed securities	339,148
Cash and cash equivalents	6,318
Restricted cash	8,906
Accrued interest receivable	1,384
Prepaid expenses and other assets	392
Total Assets	$356,148
LIABILITIES:	
Repurchase agreements	$308,735
Accrued interest payable	56
Accounts payable, accrued expenses and other	109
Total Liabilities	$308,900

The following table summarizes the operating results of Orchid (excluding intercompany transactions, including approximately $275,000 of management fees charged to Orchid) for the period beginning February 20, 2013 (the date of its IPO) through June 30, 2013 which are reflected in our consolidated statement of operations for the six and three months ended June 30, 2013.

(in thousands)	Six Months Ended June 30, 2013	Three Months Ended June 30, 2013
Interest income	$3,460	$2,429
Interest expense	(459)	(322)
Net interest income	3,001	2,107
Unrealized losses on mortgage-backed securities	(8,618)	(9,130)
Realized losses on mortgage-backed securities	(824)	(923)
Gains on Eurodollar futures	6,368	6,852
Net portfolio deficiency	(73)	(1,094)
Expenses:		
Directors' fees and liability insurance	124	83
Audit, legal and other professional fees	152	106
Direct REIT operating expenses	74	36
Other administrative	53	41
Total expenses	403	266
Net loss	$(476)	$(1,360)

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

FORWARD-LOOKING STATEMENTS

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

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

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

INTRODUCTION

As used in this document, references to “Bimini Capital,” the parent company, the registrant, and to 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, Orchid continues 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. References to Bimini Capital’s taxable REIT subsidiaries or non-REIT eligible assets refer to Bimini Advisors, Inc. and Bimini Advisors, LLC (together as “Bimini Advisors”) and to MortCo TRS, LLC (“MortCo”) and its consolidated subsidiaries. MortCo, which was previously named Opteum Financial Services, LLC, (referred to as “OFS”) was renamed Orchid Island TRS, LLC (referred to as “OITRS”) effective July 3, 2007 and then renamed MortCo TRS, LLC effective March 8, 2011. Hereinafter, any historical mention, discussion or references to Opteum Financial Services, LLC, Orchid Island TRS, LLC, OFS or to OITRS (such as in previously filed documents or Exhibits) now means MortCo. References to the “Company” refer to the consolidated entity which is the consolidation of Bimini Capital, Orchid, Bimini Advisors, MortCo and MortCo’s consolidated subsidiaries.

Bimini Capital was formed in September 2003 to invest primarily in residential mortgage related securities issued by the Federal National Mortgage Association (more commonly known as Fannie Mae), the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac) and the Government National Mortgage Association (more commonly known as Ginnie Mae). 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.

Subsequent to Orchid’s IPO and as of June 30, 2013, management has concluded Orchid is a VIE because Orchid’s equity holders lack the ability through voting rights to make decisions about the activities that have a significant effect on the success of Orchid. Management has also concluded that Bimini Capital is the primary beneficiary of Orchid because, under the management agreement between Bimini Advisors and Orchid, Bimini Capital has the power to direct the activities of Orchid that most significantly impact its economic performance. As a result, subsequent to Orchid’s IPO and through June 30, 2013, the Company has continued to consolidate Orchid in its Consolidated Financial Statements even though, as of June 30, 2013, Bimini’s owns 29.38% of the outstanding common shares of Orchid.

The noncontrolling interests reported in the Company’s Consolidated Financial Statements represent the portion of equity ownership in Orchid held by stockholders other than Bimini Capital. Noncontrolling interests is presented in the equity section of the balance sheet, separate from equity attributed to Bimini Capital. Net income of Orchid is allocated between 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 gives the appearance of a much larger organization. However, the assets recognized as a result of consolidating Orchid do not represent additional assets that could be used to satisfy claims against Bimini Capital’s assets, nor do they represent amounts that are available to be distributed to Bimini Capital’s stockholders. Conversely, liabilities recognized as a result of consolidating Orchid do not represent additional claims on Bimini Capital’s assets; rather, they represent claims against the assets of Orchid. In addition to the presentation of the Company’s consolidated portfolio activities in this section, we have also provided additional discussion related to the portfolio activities of Bimini Capital on its own. We believe that this “parent-only” information along with the consolidated presentation provides useful information about the activities that are relevant to shareholders of Bimini Capital.

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. Beginning with its initial short tax period ending December 31, 2013, Orchid expects to qualify and elect to be taxed as a REIT. As such, these same taxation rules apply separately to Orchid.

REIT taxable income is computed differently from net income as computed in accordance with generally accepted accounting principles ("GAAP net income"), as reported in the Company’s accompanying consolidated financial statements. Depending on the number and size of the various items or transactions being accounted for differently, the differences between REIT taxable income and GAAP net income can be substantial and each item can affect several reporting periods. Generally, these items are timing or temporary differences between years; for example, an item that may be a deduction for GAAP net income in the current year may not be a deduction for REIT taxable income until a later year. The most significant differences are as follows: the results of the Company’s taxable REIT subsidiaries do not impact REIT taxable income, unrealized gains or losses on the investment securities portfolio do not impact REIT taxable income, interest income on MBS securities is computed differently for REIT taxable income and GAAP, and for tax reporting purposes Orchid’s IPO expenses 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 six months ended June 30, 2013, Bimini Capital made no dividend distributions as a separately reporting tax REIT. 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 declared a special dividend in December 2009 and a regular dividend in each of the six quarters thereafter. In August 2011, Bimini Capital announced that it would suspend its quarterly dividend and no distributions have been made since then. Bimini Capital continues to evaluate its dividend payment policy. However, as more fully described below, due to net operating losses incurred in prior periods, Bimini Capital is unlikely to declare and pay dividends to stockholders until such net operating losses have been consumed.

Orchid paid its first dividend on March 27, 2013 to stockholders of record as of March 25, 2013 in an amount of $0.135 per share of its common stock. Orchid has also paid dividends each month since then in an amount of $0.135 per share of its common stock for a total amount of $0.54 per share of its common stock. Orchid intends to pay regular monthly dividends to Orchid's stockholders.

NET OPERATING LOSSES

As described above, a REIT may be subject to a federal excise tax if it distributes less than 85% of its REIT taxable income by the end of a calendar year. In calculating the amount of excise tax payable in a given year, if any, Bimini Capital reduces REIT taxable income by distributions made to stockholders in the form of dividends and/or net operating losses ("NOL's") carried-over from prior years, to the extent any are available. Since income subject to excise tax is REIT taxable income less qualifying dividends and the application of NOL's, a REIT may avoid excise taxes solely by application of available NOL's without paying qualifying dividends to stockholders. Because Bimini Capital had estimated $13.8 million of NOL's available as of December 31, 2012, in the future it could avoid excise taxes by applying such NOL's to offset REIT taxable income without making any distributions to stockholders. Further, the REIT could avoid the obligation to pay excise taxes through a combination of qualifying dividends and the application of NOL's. In any case, future distributions to stockholders are expected to be less than REIT taxable income until the existing NOL's are consumed.

RESULTS OF OPERATIONS

Described below are the Company's results of operations for the six and three months ended June 30, 2013, as compared to the six and three months ended June 30, 2012.

Net (Loss) Income Summary

Consolidated net loss for the six months ended June 30, 2013 was $2.6 million, or $0.24 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net income of $0.6 million, or $0.06 basic and diluted income per share of Class A Common Stock, for the six months ended June 30, 2012.

Consolidated net income for the three months ended June 30, 2013 was $0.2 million, or $0.02 basic and diluted income per share of Class A Common Stock, as compared to consolidated net loss of $0.2 million, or $0.02 basic and diluted loss per share of Class A Common Stock, for the three months ended June 30, 2012.

The components of net (loss) income for the six and three months ended June 30, 2013 and 2012, along with the changes in those components are presented in the table below:

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Net portfolio interest	$3,398	$2,142	$1,256	$2,119	$976	$1,143