BIMINI CAPITAL MANAGEMENT, INC.
Form 10-Q
November 02, 2018

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

FORM 10 Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from __________ to ___________

Commission File Number: 001-32171

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

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

"accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer	Accelerated filer
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

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

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

Title of each Class	Latest Practicable Date	Shares Outstanding
Class A Common Stock, $0.001 par value	November 2, 2018	12,682,445
Class B Common Stock, $0.001 par value	November 2, 2018	31,938
Class C Common Stock, $0.001 par value	November 2, 2018	31,938

BIMINI CAPITAL MANAGEMENT, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED FINANCIAL STATEMENTS

BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$212,116,707	$209,269,791
Unpledged	92,098	422,341
Total mortgage-backed securities	212,208,805	209,692,132
Cash and cash equivalents	6,153,586	6,103,250
Restricted cash	3,750,730	2,649,610
Orchid Island Capital, Inc. common stock, at fair value	11,020,261	14,105,934
Retained interests in securitizations	-	653,380
Accrued interest receivable	775,127	746,121
Property and equipment, net	3,316,852	3,359,312
Derivative assets, at fair value	242,188	-
Deferred tax assets, net	45,005,351	44,524,584
Other assets	4,069,979	2,754,474
Total Assets	$286,542,879	$284,588,797
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$203,742,239	$200,182,751
Junior subordinated notes due to Bimini Capital Trust II	26,804,440	26,804,440
Accrued interest payable	474,958	346,444
Other liabilities	1,946,894	1,562,914
Total Liabilities	232,968,531	228,896,549
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; 100,000 shares designated Series A Junior Preferred Stock, 9,900,000 shares undesignated; no shares issued and outstanding as of September 30, 2018 and December 31, 2017	-	-
Class A Common stock, $0.001 par value; 98,000,000 shares designated: 12,684,245 shares issued and outstanding as of September 30, 2018 and 12,660,627 shares issued and outstanding as of December 31, 2017	12,684	12,661
Class B Common stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of September 30, 2018 and December 31, 2017	32	32
Class C Common stock, $0.001 par value; 1,000,000 shares designated, 31,938 shares issued and outstanding as of September 30, 2018 and December 31, 2017	32	32

Additional paid-in capital	334,938,851	334,878,779
Accumulated deficit	(281,377,251)	(279,199,256)
Stockholders' Equity	53,574,348	55,692,248
Total Liabilities and Stockholders' Equity	$286,542,879	$284,588,797

See Notes to Condensed Consolidated Financial Statements

-1-

BIMINI CAPITAL MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Nine and Three Months Ended September 30, 2018 and 2017

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Advisory services	$5,933,461	$5,398,019	$1,873,002	$1,939,974
Interest income	6,135,025	4,075,160	2,054,249	1,513,511
Dividend income from Orchid Island Capital, Inc. common stock	1,261,630	1,880,245	380,009	638,415
Total revenues	13,330,116	11,353,424	4,307,260	4,091,900
Interest expense				
Repurchase agreements	(2,795,728)	(1,110,387)	(1,049,174)	(503,632)
Junior subordinated notes	(1,097,497)	(914,055)	(388,012)	(316,176)
Net revenues	9,436,891	9,328,982	2,870,074	3,272,092
Other (expense) income:				
Unrealized (losses) gains on mortgage-backed securities	(8,407,020)	(296,002)	(1,593,237)	168,034
Realized losses on mortgage-backed securities	(576,521)	(689)	(473,165)	-
Unrealized (losses) gains on Orchid Island Capital, Inc. common stock	(3,085,673)	(823,308)	(410,410)	501,612
Gains (losses) on derivative instruments	3,558,272	(828,825)	947,850	(18,813)
Gains on retained interests in securitizations	1,105,056	389,568	1,356,887	85,451
Other income	1,047	1,223	133	366
Total other (expense) income	(7,404,839)	(1,558,033)	(171,942)	736,650
Expenses:				
Compensation and related benefits	3,071,203	2,683,872	968,672	868,924
Directors' fees and liability insurance	481,838	498,140	160,613	165,040
Audit, legal and other professional fees	347,385	346,999	48,879	120,419
Administrative and other expenses	985,196	1,022,377	317,743	364,058
Total expenses	4,885,622	4,551,388	1,495,907	1,518,441
Net (loss) income before income tax (benefit) provision	(2,853,570)	3,219,561	1,202,225	2,490,301
Income tax (benefit) provision	(675,575)	1,283,181	328,735	989,081
Net (loss) income	$(2,177,995)	$1,936,380	$873,490	$1,501,220
Basic and Diluted Net (loss) income Per Share of:				
CLASS A COMMON STOCK				
Basic and Diluted	$(0.17)	$0.15	$0.07	$0.12
CLASS B COMMON STOCK				
Basic and Diluted	$(0.17)	$0.15	$0.07	$0.12
Weighted Average Shares Outstanding:				
CLASS A COMMON STOCK				
Basic and Diluted	12,718,667	12,701,627	12,732,812	12,701,627
CLASS B COMMON STOCK				
Basic and Diluted	31,938	31,938	31,938	31,938

See Notes to Condensed Consolidated Financial Statements

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

	Stockholders' Equity			
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balances, January 1, 2018	$ 12,725	$ 334,878,779	$ (279,199,256)	$ 55,692,248
Net loss	-	-	(2,177,995)	(2,177,995)
Class A common shares sold directly to employees	83	199,914	-	199,997
Class A common shares repurchased and retired	(60)	(143,760)	-	(143,820)
Amortization of stock based compensation	-	3,918	-	3,918
Balances, September 30, 2018	$ 12,748	$ 334,938,851	$ (281,377,251)	$ 53,574,348

See Notes to Condensed Consolidated Financial Statements

-3-

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(2,177,995)	$1,936,380
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock based compensation	3,918	21,515
Depreciation	57,853	57,903
Deferred income tax (benefit) provision	(480,767)	1,200,403
Losses on mortgage-backed securities, net	8,983,541	296,691
Gains on retained interests in securitizations	(1,105,056)	(389,568)
Unrealized losses on Orchid Island Capital, Inc. common stock	3,085,673	823,308
Realized and unrealized gains on TBA securities	(19,297)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(29,006)	(198,270)
Other assets	(1,315,505)	20,445
Accrued interest payable	128,514	133,397
Other liabilities	383,980	(678,809)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,515,853	3,223,395
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(91,578,375)	(77,294,851)
Sales	60,431,192	1,654,834
Principal repayments	19,646,969	7,654,912
Payments received on retained interests in securitizations	426,414	945,645
Proceeds from termination of retained interests	4,968,740	-
Costs associated with termination of retained interests	(3,636,718)	-
Purchases of property and equipment	(15,393)	(29,379)
Net settlement of forward settling TBA contracts	(222,891)	-
Purchases of Orchid Island Capital, Inc. common stock	-	(1,204,235)
NET CASH USED IN INVESTING ACTIVITIES	(9,980,062)	(68,273,074)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	1,233,087,584	762,398,624
Principal repayments on repurchase agreements	(1,229,528,096)	(696,852,430)
Class A common shares repurchased and retired	(143,820)	-
Class A common shares sold directly to employees	199,997	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,615,665	65,546,194
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,151,456	496,515
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	8,752,860	5,651,437
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$9,904,316	$6,147,952

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	$3,764,711	$1,891,045
Income taxes	$1,418,880	$261,492

See Notes to Condensed Consolidated Financial Statements

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

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Description

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

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

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

Consolidation

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

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

Basis of Presentation

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

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the accompanying consolidated financial statements include determining the fair values of MBS, investment in Orchid common shares, derivatives and retained interests, determining the amounts of asset valuation allowances, and the computation of the income tax provision or benefit and the deferred tax asset allowances recorded for each accounting period.

Statement of Comprehensive Income

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

Segment Reporting

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and derivative instruments. The following table presents the Company's cash, cash equivalents and restricted cash as of September 30, 2018 and December 31, 2017.

(in thousands)

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$6,153,586	$6,103,250
Restricted cash	3,750,730	2,649,610
Total cash, cash equivalents and restricted cash	$9,904,316	$8,752,860

The Company maintains cash balances at several banks and, at times, these balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to $250,000 per depositor at each financial institution. At September 30, 2018, the Company's cash deposits exceeded federally insured limits by approximately $4.8 million. The Company also maintains excess margin in accounts with derivative exchanges. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known banks and derivative counterparties and believes that it is not exposed to significant credit risk on cash and cash equivalents or restricted cash balances.

Advisory Services

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

Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through ("PT") certificates, collateralized mortgage obligations, and interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of mortgage-backed loans. The Company has elected to account for its investment in MBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The Company records MBS transactions on the trade date. Security purchases that have not settled as of the balance sheet date are included in the MBS balance with an offsetting liability recorded, whereas securities sold that have not settled as of the balance sheet date are removed from the MBS balance with an offsetting receivable recorded.

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

Income on PT MBS is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains on MBS in the consolidated statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively for future reporting periods based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of MBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying consolidated statements of operations. The amount reported as unrealized gains or losses on mortgage backed securities thus captures the net effect of changes in the fair market value of securities caused by market developments and any premium or discount lost as a result of principal repayments during the period.

Orchid Island Capital, Inc. Common Stock

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

Retained Interests in Securitizations

Retained interests in the subordinated tranches of securities created in securitization transactions were initially recorded at their fair value when issued by Royal Palm. Subsequent adjustments to fair value were reflected in the consolidated statements of operations.

-7-

Derivative Financial Instruments

The Company uses derivative instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The principal instruments that the Company has used to date are Treasury Note ("T-Note") and Eurodollar futures contracts, and "to-be-announced" ("TBA") securities transactions, but it may enter into other derivatives in the future.

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

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

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

Financial Instruments

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. MBS, Orchid common stock, derivative assets, interest rate swaptions and retained interests in securitization transactions are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 15 of the consolidated financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, other assets, repurchase agreements, accrued interest payable and other liabilities generally approximates their carrying value as of September 30, 2018 and December 31, 2017, due to the short-term nature of these financial instruments.

It is impractical to estimate the fair value of the Company's junior subordinated notes. Currently, there is a limited market for these types of instruments and the Company is unable to ascertain what interest rates would be available to the Company for similar financial instruments. Further Information regarding these instruments is presented in Note 9 to the consolidated financial statements.

Property and Equipment, net

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

Repurchase Agreements

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

Share-Based Compensation

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

Earnings Per Share

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

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

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

Income Taxes

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

The Company's U.S. federal income tax returns for years ended on or after December 31, 2015 remain open for examination. Although management believes its calculations for tax returns are correct and the positions taken thereon are reasonable, the final outcome of tax audits could be materially different from the tax returns filed by the Company, and those differences could result in significant costs or benefits to the Company. For tax filing purposes, Bimini Capital and Bimini Advisors are consolidated as a single tax paying entity. Royal Palm files as a separate tax paying entity.

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

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

Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

NOTE 2. ADVISORY SERVICES

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

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

Orchid is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf and to pay to Bimini Advisors an amount equal to Orchid's pro rata portion of certain overhead costs set forth in the management agreement. The management agreement has been renewed through February 20, 2019 and provides for automatic one-year extension options thereafter. Should Orchid terminate the management agreement without cause, it will pay to Bimini Advisors a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the current automatic renewal term.

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

(in thousands)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Management fee	$4,800	$4,230	$1,482	$1,528
Allocated overhead	1,133	1,168	391	412
Total	$5,933	$5,398	$1,873	$1,940

At September 30, 2018 and December 31, 2017, the net amount due from Orchid was approximately $0.6 million and $0.8 million, respectively. These amounts are included in "other assets" in the consolidated balance sheets.

NOTE 3. MORTGAGE-BACKED SECURITIES

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

(in thousands)

	September 30, 2018	December 31, 2017
Fixed-rate MBS	$ 210,267	$ 207,179
Interest-Only MBS	1,223	1,476
Inverse Interest-Only MBS	719	1,037
Total	$ 212,209	$ 209,692

At September 30, 2018 and December 31, 2017, the portfolio consisted entirely of securities with contractual maturities in excess of ten years. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

NOTE 4. RETAINED INTERESTS IN SECURITIZATIONS

The following table summarizes the estimated fair value of the Company's retained interests in asset backed securities as of September 30, 2018 and December 31, 2017. The retained interests are valued based on a discounted cash flow approach. These values are sensitive to changes in unobservable inputs, including: estimated prepayment speeds, default rates and loss severity, weighted-average life, and discount rates. Based on projected future cash flows, management determined, during the reporting quarter ended June 30, 2018, that the retained interests had no remaining fair value. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

(in thousands)

Series	Issue Date	September 30, 2018	December 31, 2017
HMAC 2004-3	June 30, 2004	$ -	$ 177
HMAC 2004-4	August 16, 2004	-	386
HMAC 2004-5	September 28, 2004	-	90
Total		$ -	$ 653

During the three months ended September 30, 2018, the Company completed a transaction whereby certain securitizations associated with its retained interest positions were terminated by exercising the Company's optional early termination rights. As part of the early termination, the Company received net distributions of approximately $1.4 million, resulting in a gain of that amount.

NOTE 5. REPURCHASE AGREEMENTS

As of September 30, 2018, the Company had outstanding repurchase agreement obligations of approximately $203.7 million with a net weighted average borrowing rate of 2.26%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $212.9 million, and cash pledged to counterparties of approximately $3.2 million. As of December 31, 2017, the Company had outstanding repurchase agreement obligations of approximately $200.2 million with a net weighted average borrowing rate of 1.52%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $210.0 million, and cash pledged to counterparties of approximately $2.2 million.

-12-

As of September 30, 2018 and December 31, 2017, 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
September 30, 2018					
Fair value of securities pledged, including accrued interest receivable	$ 1,084	$ 137,102	$ 74,702	$ -	$ 212,888
Repurchase agreement liabilities associated with these securities	$ 828	$ 132,039	$ 70,875	$ -	$ 203,742
Net weighted average borrowing rate	2.58 %	2.22 %	2.32 %	-	2.26 %
December 31, 2017					
Fair value of securities pledged, including accrued interest receivable	$ -	$ 94,649	$ 115,350	$ -	$ 209,999
Repurchase agreement liabilities associated with these securities	$ -	$ 90,686	$ 109,497	$ -	$ 200,183
Net weighted average borrowing rate	-	1.47 %	1.56 %	-	1.52 %

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable, and cash posted by the Company as collateral, if any. At September 30, 2018 and December 31, 2017, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately $11.9 million and $11.7 million, respectively. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at September 30, 2018 or December 31, 2017.

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative Assets (Liabilities), at Fair Value

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

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	September 30, 2018	December 31, 2017
Assets			
TBA Securities	Derivative assets, at fair value	$ 242	$ -
Total derivative assets, at fair value		$ 242	$ -
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$ 549	$ 442
TBA securities	Other liabilities	(438)	-
Total margin balances on derivative contracts		$ 111	$ 442

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

($ in thousands)
As of September 30, 2018

	Repurchase Agreement Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[(1)]
2019	$ 100,000	2.41 %	3.01 %	$ 603
2020	100,000	2.64 %	3.17 %	523
2021	100,000	2.80 %	3.13 %	328
Total / Weighted Average	$ 100,000	2.62 %	3.10 %	$ 1,454

($ in thousands)
As of September 30, 2018

	Junior Subordinated Debt Funding Hedges			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[(1)]
2019	$ 26,000	1.63 %	3.01 %	$ 359
2020	26,000	1.95 %	3.17 %	317
2021	26,000	2.22 %	3.13 %	237
Total / Weighted Average	$ 26,000	1.93 %	3.10 %	$ 913

($ in thousands)
As of December 31, 2017

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

($ in thousands)
As of December 31, 2017

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

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

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

($ in thousands)

	Notional Amount Long (Short)[1]	Cost Basis[2]	Market Value[3]	Net Carrying Value[4]
September 30, 2018				
30-Year TBA Securities:				
3.0%	$(50,000)	$48,078	$48,320	$242

(1) Notional amount represents the par value (or principal balance) of the underlying Agency MBS.
(2) Cost basis represents the forward price to be paid (received) for the underlying Agency MBS.
(3) Market value represents the current market value of the TBA securities (or of the underlying Agency MBS) as of period-end.
(4) Net carrying value represents the difference between the market value and the cost basis of the TBA securities as of period-end and is reported in derivative assets (liabilities), at fair value in our consolidated balance sheets.

Gains (Losses) On Derivative Instruments

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

(in thousands)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Eurodollar futures contracts (short positions)				
Repurchase agreement funding hedges	$2,101	$(578)	$478	$(13)
Junior subordinated debt funding hedges	679	(251)	121	(6)
T-Note futures contracts (short positions)				
Repurchase agreement funding hedges	759	-	-	-
Net TBA securities	19	-	349	-
Gains (losses) on derivative instruments	$3,558	$(829)	$948	$(19)

Credit Risk-Related Contingent Features

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

NOTE 7. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes Bimini's assets pledged as collateral under its repurchase agreements and derivative agreements as of September 30, 2018 and December 31, 2017.

($ in thousands)

	September 30, 2018			December 31, 2017		
Assets Pledged to Counterparties	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
PT MBS - at fair value	$210,267	$ -	$210,267	$207,179	$ -	$207,179
Structured MBS - at fair value	1,850	-	1,850	2,091	-	2,091
Accrued interest on pledged securities	771	-	771	730	-	730
Restricted cash	3,202	549	3,751	2,208	442	2,650
Total	$216,090	$ 549	$216,639	$212,208	$ 442	$212,650

-16-

Assets Pledged from Counterparties

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

($ in thousands)

Assets Pledged to Bimini	September 30, 2018	December 31, 2017
Cash	$ 438	$ -
Total	$ 438	$ -

NOTE 8. OFFSETTING ASSETS AND LIABILITIES

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

(in thousands)
Offsetting of Assets

				Gross Amount Not Offset in the Consolidated Balance Sheet		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount of Assets Presented in the Consolidated Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
September 30, 2018						
TBA securities	$242	$-	$242	$-	$(242)	$-

(in thousands)
Offsetting of Liabilities

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

	of Recognized Liabilities	Balance Sheet	Balance Sheet	Collateral	Collateral	Amount
September 30, 2018						
Repurchase Agreements	$ 203,742	$ -	$ 203,742	$ (200,540)	$ (3,202)	$ -
December 31, 2017						
Repurchase Agreements	$ 200,183	$ -	$ 200,183	$ (197,975)	$ (2,208)	$ -

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

NOTE 9. TRUST PREFERRED SECURITIES

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

As of September 30, 2018 and December 31, 2017, the outstanding principal balance on the junior subordinated debt securities owed to BCTII was $26.8 million. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes have a rate of interest that floats at a spread of 3.50% over the prevailing three-month LIBOR rate. As of September 30, 2018, the interest rate was 5.83%. The BCTII trust preferred securities and Bimini Capital's BCTII Junior Subordinated Notes require quarterly interest distributions and are redeemable at Bimini Capital's option, in whole or in part and without penalty. Bimini Capital's BCTII Junior Subordinated Notes are subordinate and junior in right of payment to all present and future senior indebtedness.

BCTII is a VIE because the holders of the equity investment at risk do not have adequate decision making ability over BCTII's activities. Since Bimini Capital's investment in BCTII's common equity securities was financed directly by BCTII as a result of its loan of the proceeds to Bimini Capital, that investment is not considered to be an equity investment at risk. Since Bimini Capital's common share investment in BCTII is not a variable interest, Bimini Capital is not the primary beneficiary of BCTII. Therefore, Bimini Capital has not consolidated the financial statements of BCTII into its consolidated financial statements, and this investment is accounted for on the equity method.

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

NOTE 10. COMMON STOCK

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

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

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

Stock Repurchase Plan

On March 26, 2018, the Board of Directors of Bimini Capital Management, Inc. (the "Company") approved a Stock Repurchase Plan ("Repurchase Plan"). Pursuant to Repurchase Plan, the Company may purchase up to 500,000 shares of its Class A Common Stock from time to time, subject to certain limitations imposed by Rule 10b-18 of the

Securities Exchange Act of 1934. Share repurchases may be executed through various means, including, without limitation, open market transactions. The Repurchase Plan does not obligate the Company to purchase any shares, and it expires on November 15, 2018. The authorization for the Share Repurchase Plan may be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time.

Through September 30, 2018, the Company repurchased a total of 59,714 shares at an aggregate cost of approximately $144,000, including commissions and fees, for a weighted average price of $2.41 per share. Subsequent to that date, and through November 2, 2018, the Company has repurchased 1,800 shares for a net cost of approximately $4,000 and a weighted average price of $2.32 per share.

NOTE 11. STOCK INCENTIVE PLANS

On August 12, 2011, Bimini Capital's shareholders approved the 2011 Long Term Compensation Plan (the "2011 Plan") to assist the Company in recruiting and retaining employees, directors and other service providers by enabling them to participate in the success of Bimini Capital and to associate their interests with those of the Company and its stockholders. The 2011 Plan is intended to permit the grant of stock options, stock appreciation rights ("SARs"), stock awards, performance units and other equity-based and incentive awards. The maximum aggregate number of shares of common stock that may be issued under the 2011 Plan pursuant to the exercise of options and SARs, the grant of stock awards or other equity-based awards and the settlement of incentive awards and performance units is equal to 4,000,000 shares.

Performance Units

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

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

($ in thousands, except per share data)

	Nine Months Ended September 30,			
	2018		2017	
	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Unvested, beginning of period	41,000	$ 0.84	70,000	$ 1.23
Granted	-	-	-	-
Forfeited	(6,000)	0.84	-	-
Vested and issued	-	-	-	-
Unvested, end of period	35,000	$ 0.84	70,000	$ 1.23
Compensation expense during the period		$ 4		$ 22
Unrecognized compensation expense at period end		$ 2		$ 17
Weighted-average remaining vesting term (in years)		0.2		0.8

Intrinsic value of unvested shares at period end	$ 79	$ 195

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

NOTE 13. INCOME TAXES

The total income tax (benefit) provision recorded for the nine months ended September 30, 2018 and 2017 was $(0.7) million and $1.3 million, respectively, on consolidated pre-tax book (loss) income of $(2.8) million and $3.2 million in the nine months ended September 30, 2018 and 2017, respectively. The total income tax provision recorded for the three months ended September 30, 2018 and 2017 was $0.3 million and $1.0 million, respectively, on consolidated pre-tax book income of $1.2 million and $2.5 million in the three months ended September 30, 2018 and 2017, respectively.

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

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

NOTE 14. EARNINGS PER SHARE

Shares of Class B common stock, participating and convertible into Class A common stock, are entitled to receive dividends in an amount equal to the dividends declared on each share of Class A common stock if, and when, authorized and declared by the Board of Directors. Following the provisions of FASB ASC 260, the Class B common stock is included in the computation of basic EPS using the two-class method, and consequently is presented separately from Class A common stock. Shares of Class B common stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A common stock were not met at September 30, 2018 and 2017.

Shares of Class C common stock are not included in the basic EPS computation as these shares do not have participation rights. Shares of Class C common stock are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A common stock were not met at September 30, 2018 and 2017.

The Company has dividend eligible stock incentive plan shares that were outstanding during the nine and three months ended September 30, 2018. The basic and diluted per share computations include these unvested incentive plan shares if there is income available to Class A common stock, as they have dividend participation rights. The stock incentive plan shares have no contractual obligation to share in losses. Because there is no such obligation, the incentive plan shares are not included in the basic and diluted EPS computations when no income is available to Class A common stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the nine and three months ended September 30, 2018 and 2017.

(in thousands, except per-share information)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Basic and diluted EPS per Class A common share:				
(Loss) income attributable to Class A common shares:				
Basic and diluted	$(2,173)	$1,931	$871	$1,497
Weighted average common shares:				
Class A common shares outstanding at the balance sheet date	12,684	12,632	12,684	12,632
Unvested dividend-eligible stock incentive plan shares outstanding at the balance sheet date	-	70	35	70
Effect of weighting	35	-	14	-
Weighted average shares-basic and diluted	12,719	12,702	12,733	12,702
(Loss) income per Class A common share:				
Basic and diluted	$(0.17)	$0.15	$0.07	$0.12

(in thousands, except per-share information)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Basic and diluted EPS per Class B common share:				
(Loss) income attributable to Class B common shares:				
Basic and diluted	$(5)	$5	$2	$4
Weighted average common shares:				
Class B common shares outstanding at the balance sheet date	32	32	32	32
Weighted average shares-basic and diluted	32	32	32	32
(Loss) income per Class B common share:				
Basic and diluted	$(0.17)	$0.15	$0.07	$0.12

NOTE 15. FAIR VALUE

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

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
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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.

-21-

MBS, Orchid common stock, retained interests and TBA securities were all recorded at fair value on a recurring basis during the nine and three months ended September 30, 2018 and 2017. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. Fair value measurements for the retained interests are generated by a model that requires management to make a significant number of assumptions.

The Company's MBS and TBA securities are valued using Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third party broker quotes, when available. Because the price estimates may vary, the Company must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. The Company and the independent pricing sources use various valuation techniques to determine the price of the Company's securities. These techniques include observing the most recent market for like or identical assets, spread pricing techniques (option adjusted spread, zero volatility spread, spread to the treasury curve or spread to a benchmark such as a TBA security), and model driven approaches (the discounted cash flow method, Black Scholes and SABR models which rely upon observable market rates such as the term structure of interest rates and the volatility). The appropriate spread pricing method used is based on market convention. The pricing source determines the spread of recently observed trade activity or observable markets for assets similar to those being priced. The spread is then adjusted based on variances in certain characteristics between the market observation and the asset being priced. Those characteristics include: type of asset, the expected life of the asset, the stability and predictability of the expected future cash flows of the asset, whether the coupon of the asset is fixed or adjustable, the guarantor of the security if applicable, the coupon, the maturity, the issuer, size of the underlying loans, year in which the underlying loans were originated, loan to value ratio, state in which the underlying loans reside, credit score of the underlying borrowers and other variables if appropriate. The fair value of the security is determined by using the adjusted spread.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

(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)
September 30, 2018				
Mortgage-backed securities	$ 212,209	$ -	$ 212,209	$ -
Orchid Island Capital, Inc. common stock	11,020	11,020	-	-
TBA securities	242	-	242	-
December 31, 2017				
Mortgage-backed securities	$ 209,692	$ -	$ 209,692	$ -
Orchid Island Capital, Inc. common stock	14,106	14,106	-	-
Retained interests in securitizations	653	-	-	653

-22-

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

(in thousands)

	Retained Interests in Securitizations Nine Months Ended September 30,	
	2018	2017
Balances, January 1	$653	$1,114
Gain included in earnings	1,105	390
Collections	(1,758)	(946)
Balances, September 30	$-	$558

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

The retained interests are valued based on a discounted cash flow approach. These values are sensitive to changes in unobservable inputs, including: estimated prepayment speeds, default rates and loss severity, weighted-average life, and discount rates. Based on projected future cash flows, management determined, during the reporting quarter ended June 30, 2018, that the retained interests had no remaining fair value. Significant increases or decreases in any of these inputs may result in significantly different fair value measurements.

NOTE 16. SEGMENT INFORMATION

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

The asset management segment includes the investment advisory services provided by Bimini Advisors to Orchid and Royal Palm. As discussed in Note 2, the revenues of the asset management segment consist of management fees and overhead reimbursements received pursuant to a management agreement with Orchid. Total revenues received under this management agreement for the nine months ended September 30, 2018 and 2017, were approximately $5.9 million and $5.4 million, respectively, accounting for approximately 45% and 48% of consolidated revenues, respectively.

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

Segment information for the nine months ended September 30, 2018 and 2017 is as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Eliminations	Total
2018					
Advisory services, external customers	$ 5,933	$ -	$ -	$ -	$5,933
Advisory services, other operating segments[1]	185	-	-	(185)	-
Interest and dividend income	-	7,396	1	-	7,397
Interest expense	-	(2,796)	(1,097)[2]	-	(3,893)

Net revenues	6,118	4,600	(1,096)	(185)	9,437
Other	-	(9,190)	1,785 [3]	-	(7,405)
Operating expenses[4]	(2,174)	(2,712)	-	-	(4,886)
Intercompany expenses[1]	-	(185)	-	185	-
Income (loss) before income taxes	$ 3,944	$ (7,487)	$ 689	$ -	$ (2,854)

-23-

	Asset Management	Investment Portfolio	Corporate	Eliminations	Total
2017					
Advisory services, external customers	$ 5,398	$ -	$ -	$ -	$ 5,398
Advisory services, other operating segments[1]	146	-	-	(146)	-
Interest and dividend income	-	5,955	-	-	5,955
Interest expense	-	(1,110)	(914)[2]	-	(2,024)
Net revenues	5,544	4,845	(914)	(146)	9,329
Other	-	(1,698)	140 [3]	-	(1,558)
Operating expenses[4]	(2,539)	(2,012)	-	-	(4,551)
Intercompany expenses[1]	-	(146)	-	146	-
Income (loss) before income taxes	$ 3,005	$ 989	$ (774)	$ -	$ 3,220

(1) Includes fees paid by Royal Palm to Bimini Advisors for advisory services.
(2) Includes interest on junior subordinated note.
(3) Includes gains (losses) on Eurodollar futures contracts entered into as a hedge on junior subordinated notes and fair value adjustments on retained interests in securitizations.
(4) Corporate expenses are allocated based on each segment's proportional share of total revenues.

Assets in each reportable segment were as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Total
September 30, 2018	$ 1,500	$ 269,186	$ 15,857	$ 286,543
December 31, 2017	1,632	267,429	15,528	284,589
September 30, 2017	2,095	267,004	20,730	289,829

NOTE 17. RELATED PARTY TRANSACTIONS

Relationships with Orchid

At both September 30, 2018 and December 31, 2017, the Company owned 1,520,036 shares of Orchid common stock, representing approximately 2.9% of the outstanding shares. The Company received dividends on this common stock investment of approximately $1.3 million and $0.4 million during the nine and three months ended September 30, 2018, respectively, and approximately $1.9 million and $0.6 million during the nine and three months ended September 30, 2017, respectively.

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

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

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

Overview

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

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

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

Stock Repurchase Plan

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

Through September 30, 2018, the Company repurchased a total of 59,714 shares at an aggregate cost of approximately $144,000, including commissions and fees, for a weighted average price of $2.41 per share. Subsequent to that date, and through November 2, 2018, the Company has repurchased 1,800 shares for a net cost of approximately $4,000 and a weighted average price of $2.32 per share.

Factors that Affect our Results of Operations and Financial Condition

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

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

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

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

Results of Operations

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

Net (Loss) Income Summary

Consolidated net loss for the nine months ended September 30, 2018 was $2.2 million, or $0.17 basic and diluted loss per share of Class A Common Stock, as compared to consolidated net income of $1.9 million, or $0.15 basic and diluted income per share of Class A Common Stock, for the nine months ended September 30, 2017.

Consolidated net income for the three months ended September 30, 2018 was $0.9 million, or $0.07 basic and diluted income per share of Class A Common Stock, as compared to consolidated net income of $1.5 million, or $0.12 basic and diluted income per share of Class A Common Stock, for the three months ended September 30, 2017.

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

(in thousands)

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Advisory services revenues	$5,933	$5,398	$535	$1,873	$1,940	$(67)
Interest and dividend income	7,397	5,955	1,442	2,434	2,152	282
Interest expense	(3,893)	(2,024)	(1,869)	(1,437)	(820)	(617)
Net revenues	9,437	9,329	108	2,870	3,272	(402)
Other expense	(7,405)	(1,558)	(5,847)	(172)	737	(909)
Expenses	(4,886)	(4,551)	(335)	(1,496)	(1,518)	22
Net (loss) income before income tax (benefit) provision	(2,854)	3,220	(6,074)	1,202	2,491	(1,289)
Income tax (benefit) provision	(676)	1,284	(1,960)	329	990	(661)
Net (loss) income	$(2,178)	$1,936	$(4,114)	$873	$1,501	$(628)

GAAP and Non-GAAP Reconciliation

Economic Interest Expense and Economic Net Interest Income

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

We have not elected to designate our derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board (the "FASB"), Accounting Standards Codification ("ASC"), Topic 815, Derivatives and Hedging. Changes in fair value of these instruments are presented in a separate line item in our consolidated statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments.

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

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

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

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

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

Three Months Ended	Recognized in Statement of Operations (GAAP)	TBA Securities Income (Loss)	Repurchase Agreements	Junior Subordinated Debt
September 30, 2018	$ 948	$ 349	$ 478	$ 121
June 30, 2018	870	194	534	142
March 31, 2018	1,741	(523)	1,849	415
December 31, 2017	783	-	546	237
September 30, 2017	(19)	-	(13)	(6)
June 30, 2017	(832)	-	(581)	(251)
March 31, 2017	22	-	15	7

(in thousands)

Nine Months Ended	Recognized in Statement of Operations (GAAP)	TBA Securities Income (Loss)	Repurchase Agreements	Junior Subordinated Debt
September 30, 2018	$ 3,558	$ 20	$ 2,861	$ 678
September 30, 2017	(829)	-	(579)	(250)

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

	Attributed to Current Period (Non-GAAP)			Attributed to Future Periods (Non-GAAP)		
Three Months Ended	Repurchase Agreements	Junior Subordinated Debt	Total	Repurchase Agreements	Junior Subordinated Debt	Total
September 30, 2018	$(35)	$ 11	$(24)	$513	$ 110	$623
June 30, 2018	(108)	(19)	(127)	642	161	803
March 31, 2018	(154)	(33)	(187)	2,003	448	2,451

December 31, 2017	(170)	(42)	(212)	716	279	995
September 30, 2017	(162)	(40)	(202)	149	34	183
June 30, 2017	(152)	(37)	(189)	(429)	(214)	(643)
March 31, 2017	(115)	(60)	(175)	130	67	197

(in thousands)

Nine Months Ended	Repurchase Agreements	Junior Subordinated Debt	Total	Repurchase Agreements	Junior Subordinated Debt	Total
September 30, 2018	$(297)	$ (41)	$(338)	$3,158	$ 719	$3,877
September 30, 2017	(429)	(137)	(566)	(150)	(113)	(263)

Economic Net Portfolio Interest Income
(in thousands)

		Interest Expense on Repurchase Agreements			Net Portfolio Interest Income	
Three Months Ended	Interest Income	GAAP Basis	Effect of Non-GAAP Hedges(1)	Economic Basis(2)	GAAP Basis	Economic Basis(3)
September 30, 2018	$2,054	$1,049	$ (35)	$ 1,084	$1,005	$ 970
June 30, 2018	2,001	937	(108)	1,045	1,064	$ 956
March 31, 2018	2,080	809	(154)	963	1,271	1,117
December 31, 2017	1,978	685	(170)	855	1,293	1,123
September 30, 2017	1,514	504	(162)	666	1,010	848
June 30, 2017	1,269	324	(152)	476	945	793
March 31, 2017	1,293	283	(115)	398	1,010	895

(in thousands)

		Interest Expense on Repurchase Agreements			Net Portfolio Interest Income	
Nine Months Ended	Interest Income	GAAP Basis	Effect of Non-GAAP Hedges(1)	Economic Basis(2)	GAAP Basis	Economic Basis(3)
September 30, 2018	$6,135	$2,796	$ (297)	$ 3,093	$3,339	$ 3,042
September 30, 2017	4,076	1,111	(429)	1,540	2,965	2,536

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

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

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

Economic Net Interest Income
(in thousands)

	Net Portfolio Interest Income		Interest Expense on Junior Subordinated Notes			Net Interest Income	
Three Months Ended	GAAP Basis	Economic Basis(1)	GAAP Basis	Effect of Non-GAAP Hedges(2)	Economic Basis(3)	GAAP Basis	Economic Basis(4)
September 30, 2018	$1,005	$ 970	$388	$ 11	$ 377	$617	$ 593
June 30, 2018	1,064	956	372	(19)	391	692	$ 565
March 31, 2018	1,271	1,117	337	(33)	370	934	747
December 31, 2017	1,293	1,123	324	(42)	366	969	757
September 30, 2017	1,010	848	316	(40)	356	694	492
June 30, 2017	945	793	306	(37)	343	639	450
March 31, 2017	1,010	895	292	(60)	352	718	543

(in thousands)

	Net Portfolio	Interest Expense on Junior Subordinated Notes

	Interest Income			Effect of		Net Interest Income	
Nine Months Ended	GAAP Basis	Economic Basis(1)	GAAP Basis	Non-GAAP Hedges(2)	Economic Basis(3)	GAAP Basis	Economic Basis(4)
September 30, 2018	$3,339	$ 3,042	$1,097	$ (41)	$ 1,138	$2,242	$ 1,904
September 30, 2017	2,965	2,536	914	(137)	1,051	2,051	1,485

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

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

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

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

-29-

Segment Information

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

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Eliminations	Total
2018					
Advisory services, external customers	$ 5,933	$ -	$ -	$ -	$5,933
Advisory services, other operating segments[1]	185	-	-	(185)	-
Interest and dividend income	-	7,396	1	-	7,397
Interest expense	-	(2,796)	(1,097)[2]	-	(3,893)
Net revenues	6,118	4,600	(1,096)	(185)	9,437
Other	-	(9,190)	1,785 [3]	-	(7,405)
Operating expenses[4]	(2,174)	(2,712)	-	-	(4,886)
Intercompany expenses[1]	-	(185)	-	185	-
Income (loss) before income taxes	$ 3,944	$ (7,487)	$ 689	$ -	$(2,854)

	Asset Management	Investment Portfolio	Corporate	Eliminations	Total
2017					
Advisory services, external customers	$ 5,398	$ -	$ -	$ -	$5,398
Advisory services, other operating segments[1]	146	-	-	(146)	-
Interest and dividend income	-	5,955	-	-	5,955
Interest expense	-	(1,110)	(914)[2]	-	(2,024)
Net revenues	5,544	4,845	(914)	(146)	9,329
Other	-	(1,698)	140 [3]	-	(1,558)
Operating expenses[4]	(2,539)	(2,012)	-	-	(4,551)
Intercompany expenses[1]	-	(146)	-	146	-
Income (loss) before income taxes	$ 3,005	$ 989	$ (774)	$ -	$3,220

(1) Includes advisory services revenue received by Bimini Advisors from Royal Palm.
(2) Includes interest on junior subordinated note.
(3) Includes gains (losses) on Eurodollar futures contracts entered into as a hedge on junior subordinated notes and fair value adjustments on retained interests in securitizations.
(4) Corporate expenses are allocated based on each segment's proportional share of total revenues.

Assets in each reportable segment were as follows:

(in thousands)

	Asset Management	Investment Portfolio	Corporate	Total
September 30, 2018	$ 1,500	$269,186	$15,857	$286,543
December 31, 2017	1,632	267,429	15,528	284,589
September 30, 2017	2,095	267,004	20,730	289,829

-30-

Asset Management Segment

Advisory Services Revenue

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

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

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

(in thousands)

	Average	Average	Advisory Services		
	Orchid	Orchid	Management	Overhead	
Three Months Ended	MBS	Equity	Fee	Allocation	Total
September 30, 2018	$3,601,776	$431,962	$ 1,482	391	1,873
June 30, 2018	3,717,690	469,974	1,606	$ 361	$1,967
March 31, 2018	3,745,298	488,906	1,712	381	2,093
December 31, 2017	3,837,575	459,322	1,625	408	2,033
September 30, 2017	3,834,083	441,193	1,528	412	1,940
June 30, 2017	3,499,922	406,395	1,400	388	1,788
March 31, 2017	3,142,095	371,691	1,302	368	1,670

(in thousands)

	Average	Average	Advisory Services		
	Orchid	Orchid	Management	Overhead	
Nine Months Ended	MBS	Equity	Fee	Allocation	Total
September 30, 2018	3,688,255	463,614	4,800	1,133	5,933
September 30, 2017	3,492,033	406,426	4,230	1,168	5,398

Investment Portfolio Segment

Net Portfolio Interest Income

We define net portfolio interest income as interest income on MBS less interest expense on repurchase agreement funding. During the nine months ended September 30, 2018, we generated $3.3 million of net portfolio interest income, consisting of $6.1 million of interest income from MBS assets offset by $2.8 million of interest expense on repurchase liabilities. For the comparable period ended September 30, 2017, we generated $3.0 million of net portfolio interest income, consisting of $4.1 million of interest income from MBS assets offset by $1.1 million of interest expense on repurchase liabilities. The $2.0 million increase in interest income for the nine months ended September 30, 2018 was due to a $55.9 million increase in average MBS balances, combined with a 32 basis point increase in yields earned on the portfolio. The $1.7 million increase in interest expense for the nine months ended September 30, 2018 was due to a combination of a $54.6 million increase in average repurchase liabilities and an 87 basis point increase in cost of funds.

Our economic interest expense on repurchase liabilities for the nine months ended September 30, 2018 and 2017 was $3.1 million and $1.5 million, respectively, resulting in $3.0 million and $2.5 million of economic net portfolio interest income, respectively.

During the three months ended September 30, 2018, we generated $1.0 million of net portfolio interest income, consisting of $2.1 million of interest income from MBS assets offset by $1.0 million of interest expense on repurchase liabilities. For the three months ended September 30, 2017, we generated $1.0 million of net portfolio interest income, consisting of $1.5 million of interest income from MBS assets offset by $0.5 million of interest expense on repurchase liabilities. The $0.6 million increase in interest income for the three months ended September 30, 2018 was due to a $28.2 million increase in average MBS balances, combined with a 58 basis point increase in yields earned on the portfolio. The $0.5 million increase in interest expense for the three months ended September 30, 2018 was due to a combination of a $28.6 million increase in average repurchase liabilities and a 96 basis point increase in cost of funds.

Our economic interest expense on repurchase liabilities for the three months ended September 30, 2018 and 2017 was $1.1 million and $0.7 million, respectively, resulting in $1.0 million and $0.8 million of economic net portfolio interest income, respectively.

The tables below provide information on our portfolio average balances, interest income, yield on assets, average repurchase agreement balances, interest expense, cost of funds, net interest income and net interest rate spread for the nine months ended September 30, 2018 and 2017 and each quarter in 2018 and 2017 on both a GAAP and economic basis.

($ in thousands)

Three Months Ended	Average MBS Held(1)	Interest Income(2)	Yield on Average MBS	Average Repurchase Agreements(1)	Interest Expense GAAP Basis	Interest Expense Economic Basis(2)	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis(3)
September 30, 2018	$198,367	$ 2,054	4.14 %	$ 189,582	$1,049	$ 1,084	2.21%	2.29 %
June 30, 2018	194,677	2,001	4.11 %	184,621	937	1,045	2.03%	2.27 %
March 31, 2018	207,261	2,080	4.01 %	197,001	809	963	1.64%	1.96 %
December 31, 2017	203,841	1,978	3.88 %	193,778	685	855	1.41%	1.77 %
September 30, 2017	170,237	1,514	3.56 %	161,003	504	666	1.25%	1.66 %
June 30, 2017	134,188	1,269	3.78 %	126,341	324	476	1.02%	1.51 %
March 31, 2017	128,098	1,293	4.04 %	119,938	283	398	0.94%	1.33 %

($ in thousands)

Nine Months Ended	Average MBS Held(1)	Interest Income(2)	Yield on Average MBS	Average Repurchase Agreements(1)	Interest Expense GAAP Basis	Interest Expense Economic Basis(2)	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis(3)
September 30, 2018	$200,102	$ 6,135	4.09 %	$ 190,402	$2,796	$ 3,092	1.96%	2.17 %
September 30, 2017	144,174	4,076	3.77 %	135,761	1,110	1,540	1.09%	1.51 %

($ in thousands)

Three Months Ended	Net Portfolio Interest Income GAAP Basis	Net Portfolio Interest Income Economic Basis(2)	Net Portfolio Interest Spread GAAP Basis	Net Portfolio Interest Spread Economic Basis(4)
September 30, 2018	$1,005	$ 970	1.93%	1.85 %

June 30, 2018	1,064	956	2.08%	1.84	%
March 31, 2018	1,271	1,117	2.37%	2.05	%
December 31, 2017	1,293	1,123	2.47%	2.11	%
September 30, 2017	1,010	848	2.31%	1.90	%
June 30, 2017	945	793	2.76%	2.27	%
March 31, 2017	1,010	894	3.10%	2.71	%

-32-

($ in thousands)

	Net Portfolio Interest Income		Net Portfolio Interest Spread	
	GAAP	Economic	GAAP	Economic
Nine Months Ended	Basis	Basis(2)	Basis	Basis(4)
September 30, 2018	$3,340	$ 3,043	2.13%	1.92 %
September 30, 2017	2,965	2,535	2.68%	2.26 %

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

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

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

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

Interest Income and Average Earning Asset Yield

Our interest income was $6.1 million for the nine months ended September 30, 2018 and $4.1 million for the nine months ended September 30, 2017. Average MBS holdings were $200.1 million and $144.2 million for the nine months ended September 30, 2018 and 2017, respectively. The $2.0 million increase in interest income was due to combination of a 32 basis point increase in yields and a $55.9 million increase in average MBS holdings.

Our interest income was $2.1 million for the three months ended September 30, 2018 and $1.5 million for the three months ended September 30, 2017. Average MBS holdings were $198.4 million and $170.2 million for the three months ended September 30, 2018 and 2017, respectively. The $0.6 million increase in interest income was due to a $28.2 million increase in average MBS holdings, combined with a 58 basis point increase in yields.

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

($ in thousands)

	Average MBS Held			Interest Income			Realized Yield on Average MBS		
	PT	Structured		PT	Structured		PT	Structured	
Three Months Ended	MBS	MBS	Total	MBS	MBS	Total	MBS	MBS	Total
September 30, 2018	$196,305	$ 2,062	$198,367	$2,008	$ 46	$2,054	4.09%	8.94 %	4.14%
June 30, 2018	192,368	2,309	194,677	1,959	42	2,001	4.07%	7.16 %	4.11%
March 31, 2018	204,786	2,475	207,261	2,054	26	2,080	4.01%	4.29 %	4.01%
December 31, 2017	201,165	2,676	203,841	1,955	23	1,978	3.89%	3.55 %	3.88%
September 30, 2017	167,081	3,156	170,237	1,524	(10)	1,514	3.65%	(1.28)%	3.56%
June 30, 2017	130,519	3,669	134,188	1,220	49	1,269	3.74%	5.33 %	3.78%
March 31, 2017	123,163	4,935	128,098	1,210	83	1,293	3.93%	6.67 %	4.04%

($ in thousands)

	Average MBS Held			Interest Income		

							Realized Yield on Average MBS		
Nine Months Ended	PT MBS	Structured MBS	Total	PT MBS	Structured MBS	Total	PT MBS	Structured MBS	Total
September 30, 2018	$197,820	$ 2,282	$200,102	$6,021	$ 114	$6,135	4.06%	6.66 %	4.09%
September 30, 2017	140,254	3,920	144,174	3,954	122	4,075	3.76%	4.12 %	3.77%

Interest Expense on Repurchase Agreements and the Cost of Funds

Our average outstanding balances under repurchase agreements were $190.4 million and $135.8 million, generating interest expense of $2.8 million and $1.1 million for the nine months ended September 30, 2018 and 2017, respectively. Our average cost of funds was 1.96% and 1.09% for nine months ended September 30, 2018 and 2017, respectively. There was an 87 basis point increase in the average cost of funds and a $54.6 million increase in average outstanding repurchase agreements during the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

Our economic interest expense was $3.1 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively. There was a 66 basis point increase in the average economic cost of funds to 2.17% for the nine months ended September 30, 2018 from 1.51% for the nine months ended September 30, 2017. The $1.6 million increase in economic interest expense was due to the $54.6 million increase in average outstanding repurchase agreements during the nine months ended September 30, 2018, combined with the negative performance of our derivative holdings attributed to the current period.

Our average outstanding balances under repurchase agreements were $189.6 million and $161.0 million, generating interest expense of $1.0 million and $0.5 million for the three months ended September 30, 2018 and 2017, respectively. Our average cost of funds was 2.21% and 1.25% for three months ended September 30, 2018 and 2017, respectively. There was a 96 basis point increase in the average cost of funds and a $28.6 million increase in average outstanding repurchase agreements during the three months ended September 30, 2018, compared to the three months ended September 30, 2017.

Our economic interest expense was $1.1 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively. There was a 63 basis point increase in the average economic cost of funds to 2.29% for the three months ended September 30, 2018 from 1.66% for the three months ended September 30, 2017. The $0.4 million increase in economic interest expense was due to the $28.6 million increase in average outstanding repurchase agreements during the three months ended September 30, 2018, combined with the negative performance of our derivative agreements attributed to the current period.

Because all of our repurchase agreements are short-term, changes in market rates have a more immediate impact on our interest expense. Our average cost of funds calculated on a GAAP basis was 4 basis points above the average one-month LIBOR and 34 basis points below the average six-month LIBOR for the quarter ended September 30, 2018. Our average economic cost of funds was 12 basis points above the average one-month LIBOR and 26 basis points below the average six-month LIBOR for the quarter ended September 30, 2018. The average term to maturity of the outstanding repurchase agreements decreased from 38 days at December 31, 2017 to 27 days at September 30, 2018.

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

($ in thousands)

	Average Balance of Repurchase	Interest Expense		Average Cost of Funds		
Three Months Ended	Agreements	GAAP Basis	Economic Basis	GAAP Basis	Economic Basis	
September 30, 2018	$ 189,582	$1,049	$ 1,084	2.21%	2.29	%
June 30, 2018	184,621	937	1,045	2.03%	2.27	%

March 31, 2018	197,001	809	963	1.64%	1.96 %
December 31, 2017	193,778	685	855	1.41%	1.77 %
September 30, 2017	161,003	504	666	1.25%	1.66 %
June 30, 2017	126,341	324	476	1.02%	1.51 %
March 31, 2017	119,938	283	398	0.94%	1.33 %

($ in thousands)

	Average Balance of Repurchase	Interest Expense		Average Cost of Funds	
Nine Months Ended	Agreements	GAAP Basis	Economic Basis	GAAP Basis	Economic Basis
September 30, 2018	$ 190,402	$2,796	$ 3,092	1.96%	2.17 %
September 30, 2017	135,761	1,110	1,540	1.09%	1.51 %

-34-

	Average LIBOR		Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
Three Months Ended	One-Month	Six-Month	One-Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
September 30, 2018	2.17%	2.55%	0.04%	(0.34)%	0.12%	(0.26)%
June 30, 2018	1.99%	2.48%	0.04%	(0.45)%	0.28%	(0.21)%
March 31, 2018	1.69%	2.11%	(0.05)%	(0.47)%	0.27%	(0.15)%
December 31, 2017	1.36%	1.62%	0.05%	(0.21)%	0.41%	0.15%
September 30, 2017	1.20%	1.45%	0.05%	(0.20)%	0.46%	0.21%
June 30, 2017	1.05%	1.43%	(0.03)%	(0.41)%	0.46%	0.08%
March 31, 2017	0.82%	1.37%	0.12%	(0.43)%	0.51%	(0.04)%

	Average LIBOR		Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
Nine Months Ended	One-Month	Six-Month	One-Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
September 30, 2018	1.95%	2.38%	0.01%	(0.42)%	0.22%	(0.21)%
September 30, 2017	1.03%	1.42%	0.06%	(0.33)%	0.48%	0.09%

Dividend Income

At December 31, 2016, we owned 1,395,036 shares of Orchid common stock. We acquired 125,000 additional shares in March 2017, bringing the total number of shares owned to 1,520,036 at September 30, 2017, December 31, 2017 and September 30, 2018. Orchid paid total dividends of $0.83 per share and $0.25 per share during the nine and three months ended September 30, 2018, respectively, and $0.1.26 per share and $0.42 per share during the nine and three months ended September 30, 2017, respectively. During the nine and three months ended September 30, 2018, we received dividends on this common stock investment of approximately $1.3 million and $0.4 million, respectively, compared to $1.9 million and $0.6 million during the nine and three months ended September 30, 2017, respectively.

Junior Subordinated Notes

Interest expense on our junior subordinated debt securities was $1.1 million and $0.9 million for the nine months ended September 30, 2018 and 2017, respectively. The average rate of interest paid for the nine months ended September 30, 2018 was 5.57% compared to 4.64% for the comparable period in 2017.

Interest expense on our junior subordinated debt securities was $0.4 million and $0.3 million for the three month periods ended September 30, 2018 and 2017, respectively. The average rate of interest paid for the three months ended September 30, 2018 was 5.84% compared to 4.76% for the comparable period in 2017.

The junior subordinated debt securities pay interest at a floating rate. The rate is adjusted quarterly and set at a spread of 3.50% over the prevailing three-month LIBOR rate on the determination date. As of September 30, 2018, the interest rate was 5.83%.

Gains or Losses and Other Income

The table below presents our gains or losses and other income for the nine and three months ended September 30, 2018 and 2017.
(in thousands)

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Realized losses on sales of MBS	$(577)	$(1)	$(576)	$(473)	$-	$(473)
Unrealized (losses) gains on MBS	(8,407)	(296)	(8,111)	(1,593)	168	(1,761)
Total (losses) gains on MBS	(8,984)	(297)	(8,687)	(2,066)	168	(2,234)
Gains (losses) on derivative instruments	3,558	(829)	4,387	947	(19)	966
Gains on retained interests in securitizations	1,105	390	715	1,357	85	1,272
Unrealized (losses) gains on Orchid Island Capital, Inc. common stock	(3,086)	(823)	(2,263)	(410)	501	(911)

We invest in MBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for the purpose of making short term gains from trading in these securities. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the nine months ended September 30, 2018, the Company received proceeds of $60.4 million from the sales of MBS. During the nine months ended September 30, 2017, the Company received proceeds of $1.7 million. There were no sales of MBS during the three months ended September 30, 2018 or 2017.

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

	5 Year U.S. Treasury Rate(1)	10 Year U.S. Treasury Rate(1)	15 Year Fixed-Rate Mortgage Rate(2)	30 Year Fixed-Rate Mortgage Rate(2)	Three Month Libor(3)
September 30, 2018	2.95 %	3.06 %	4.08 %	4.63 %	2.40 %
June 30, 2018	2.73 %	2.85 %	4.04 %	4.57 %	2.34 %
March 31, 2018	2.56 %	2.74 %	3.91 %	4.44 %	2.31 %
December 31, 2017	2.21 %	2.40 %	3.39 %	3.95 %	1.61 %
September 30, 2017	1.93 %	2.33 %	3.11 %	3.81 %	1.32 %
June 30, 2017	1.88 %	2.30 %	3.17 %	3.90 %	1.26 %
March 31, 2017	1.93 %	2.40 %	3.41 %	4.20 %	1.13 %

(1) Historical 5 Year and 10 Year U.S. Treasury Rates are obtained from quoted end of day prices on the Chicago Board Options Exchange.
(2) Historical 30 Year and 15 Year Fixed Rate Mortgage Rates are obtained from Freddie Mac's Primary Mortgage Market Survey.
(3) Historical LIBOR are obtained from the Intercontinental Exchange Benchmark Administration Ltd.

The retained interests in securitizations represent the residual net interest spread remaining after payments on the notes issued through the securitization. Fluctuations in value of retained interests are primarily driven by projections of future interest rates (the forward LIBOR curve), the discount rate used to determine the present value of the residual cash flows and prepayment and loss estimates on the underlying mortgage loans. During the nine and three months ended September 30, 2018, we recorded gains on retained interests of $1.1 million and $1.4 million, respectively, compared to $0.4 million and $0.1 million, respectively, for the nine and three months ended September 30, 2017. During the three months ended September 30, 2018, the Company completed a transaction whereby certain securitizations associated with its retained interest positions were terminated by exercising the Company's optional early termination rights. As part of the early termination, the Company received net distributions of approximately $1.4 million, resulting in a gain of that amount.

Operating Expenses

For the nine and three months ended September 30, 2018, our total operating expenses were approximately $4.9 million and $1.5 million, respectively, compared to approximately $4.6 million and $1.5 million for the nine and three months ended September 30, 2017, respectively. The table below presents a breakdown of operating expenses for the nine and three months ended September 30, 2018 and 2017.

(in thousands)

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Compensation and related benefits	$3,071	$2,684	$ 387	$969	$869	$ 100
Legal fees	71	81	(10)	(35)	40	(75)
Accounting, auditing and other professional fees	276	266	10	84	80	4
Directors' fees and liability insurance	482	498	(16)	161	165	(4)
Administrative and other expenses	986	1,022	(36)	317	364	(47)
	$4,886	$4,551	$ 335	$1,496	$1,518	$ (22)

Financial Condition:

Mortgage-Backed Securities

As of September 30, 2018, our MBS portfolio consisted of $212.2 million of agency or government MBS at fair value and had a weighted average coupon of 4.25%. During the nine months ended September 30, 2018, we received principal repayments of $19.6 million compared to $7.7 million for the comparable period ended September 30, 2017. The average prepayment speeds for the quarters ended September 30, 2018 and 2017 were 9.5% and 8.3%, respectively.

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

Three Months Ended	PT MBS Portfolio (%)	Structured MBS Portfolio (%)	Total Portfolio (%)
September 30, 2018	8.6	13.5	9.5
June 30, 2018	13.4	11.6	13.1
March 31, 2018	7.2	16.8	8.6
December 31, 2017	7.2	16.9	8.8
September 30, 2017	5.2	18.8	8.3
June 30, 2017	5.9	20.4	9.9
March 31, 2017	4.8	18.8	8.8

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

($ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity
September 30, 2018					
Fixed Rate MBS	$210,267	99.1%	4.26%	325	1-Aug-48
Interest-Only MBS	1,223	0.6%	3.43%	220	25-Dec-39
Inverse Interest-Only MBS	719	0.3%	4.47%	269	25-Apr-41
Total MBS Portfolio	$212,209	100.0%	4.25%	324	1-Aug-48
December 31, 2017					
Fixed Rate MBS	$207,179	98.8%	4.21%	321	1-Dec-47
Interest-Only MBS	1,476	0.7%	3.43%	229	25-Dec-39
Inverse Interest-Only MBS	1,037	0.5%	5.01%	278	25-Apr-41
Total MBS Portfolio	$209,692	100.0%	4.21%	320	1-Dec-47

($ in thousands)

	September 30, 2018		December 31, 2017	
Agency	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio
Fannie Mae	$194,782	91.8 %	$178,581	85.2 %
Freddie Mac	17,285	8.1 %	30,896	14.7 %
Ginnie Mae	142	0.1 %	215	0.1 %
Total Portfolio	$212,209	100.0 %	$209,692	100.0 %

	September 30, 2018	December 31, 2017
Weighted Average Pass-through Purchase Price	$ 106.84	$ 109.06
Weighted Average Structured Purchase Price	$ 6.02	$ 6.02
Weighted Average Pass-through Current Price	$ 103.20	$ 107.13
Weighted Average Structured Current Price	$ 6.80	$ 7.06
Effective Duration [(1)]	4.839	3.832

(1) Effective duration is the approximate percentage change in price for a 100 basis point change in rates. An effective duration of 4.839 indicates that an interest rate increase of 1.0% would be expected to cause a 4.839% decrease in the value of the MBS in our investment portfolio at September 30, 2018. An effective duration of 3.832 indicates that an interest rate increase of 1.0% would be expected to cause a 3.832% decrease in the value of the MBS in our investment portfolio at December 31, 2017. These figures include the structured securities in the portfolio but do include the effect of our funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

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

($ in thousands)

	Nine Months Ended September 30,					
	2018			2017		
	Total Cost	Average Price	Weighted Average Yield	Total Cost	Average Price	Weighted Average Yield
PT MBS	$91,578	$104.72	3.67 %	$77,295	$107.68	2.70 %

Our portfolio of PT MBS is typically comprised of adjustable-rate MBS, fixed-rate MBS and hybrid adjustable-rate MBS. We generally seek to acquire low duration assets that offer high levels of protection from mortgage prepayments provided they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, we strive to maintain a hedged PT MBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying our portfolio of PT MBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from our investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

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

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

We face the risk that the market value of our PT MBS assets will increase or decrease at different rates than that of our structured MBS or liabilities, including our hedging instruments. Accordingly, we assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. We generally calculate duration and effective duration using various third-party models or obtain these quotes from third parties. However, empirical results and various third-party models may produce different duration numbers for the same securities.

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of September 30, 2018, assuming rates instantaneously fall 100 bps, rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency MBS' effective duration to movements in interest rates.

($ in thousands)

	Fair	$ Change in Fair Value			% Change in Fair Value		
MBS Portfolio	Value	-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
Fixed Rate MBS	$210,267	$8,354	$(11,724)	$(24,755)	3.97%	(5.58)%	(11.77)%
Interest-Only MBS	1,223	(309)	169	254	(25.31)%	13.82%	20.80%
Inverse Interest-Only MBS	719	(26)	(106)	(278)	(3.67)%	(14.68)%	(38.71)%
Total MBS Portfolio	$212,209	$8,019	$(11,661)	$(24,779)	3.78%	(5.50)%	(11.68)%

-39-

($ in thousands)

	Notional	$ Change in Fair Value			% Change in Fair Value		
	Amount[1]	-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
Eurodollar Futures Contracts							
Repurchase Agreement Hedges	$1,200,000	$(2,251)	$3,000	$6,000	(0.77)%	1.03 %	2.06 %
Junior Subordinated Debt Hedges	312,000	(585)	780	1,560	(0.77)%	1.03 %	2.06 %
TBA Contracts	50,000	(2,752)	3,394	6,873	(5.75)%	7.10 %	14.37 %
	$1,562,000	$(5,588)	$7,174	$14,433	(0.36)%	0.46 %	0.92 %
Gross Totals		$2,431	$(4,487)	$(10,346)			

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

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

Repurchase Agreements

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

As of September 30, 2018, we had obligations outstanding under the repurchase agreements of approximately $203.7 million with a net weighted average borrowing cost of 2.26%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 1 to 54 days, with a weighted average maturity of 27 days. Securing the repurchase agreement obligation as of September 30, 2018 are MBS with an estimated fair value, including accrued interest, of $212.9 million and a weighted average maturity of 325 months. Through November 2, 2018, we have been able to maintain our repurchase facilities with comparable terms to those that existed at September 30, 2018 with maturities through January 18, 2019.

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

($ in thousands)

			Difference Between Ending Repurchase Agreements and Average Repurchase Agreements	
Three Months Ended	Ending Balance of Repurchase Agreements	Average Balance of Repurchase Agreements	Amount	Percent
September 30, 2018	$ 203,742	$ 189,582	$14,160	7.47 %
June 30, 2018	175,422	184,621	(9,199)	(4.98)%
March 31, 2018	193,820	197,001	(3,181)	(1.61)%
December 31, 2017	200,183	193,778	6,405	3.31 %

September 30, 2017	187,374	161,003	26,371	16.38 %[1]
June 30, 2017	134,633	126,341	8,292	6.56 %
March 31, 2017	118,049	119,938	(1,889)	(1.57)%

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

-40-

Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead and fulfill margin calls. Our principal immediate sources of liquidity include cash balances, unencumbered assets, the availability to borrow under repurchase agreements, and fees and dividends received from Orchid. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our MBS portfolio. As further described in Note 4 to the financial statements, during the three months ended September 30, 2018, certain securitizations associated with our retained interest positions were terminated for a net distribution of approximately $1.4 million. Historically, the ongoing regular cash flows from these retained interest positions provided the Company with liquidity, however, the predictability of such cash flows diminished in recent months which contributed to the decision to terminate and collect a one-time final distribution. Future cash flows from the remaining unterminated positions is expected to be negligible. Management believes that we currently have sufficient liquidity and capital resources available for (a) the acquisition of additional investments consistent with the size and nature of our existing MBS portfolio, (b) the repayments on borrowings, (c) the payment of overhead and operating expenses, and (d) the payment of other accrued obligations.

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

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

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

As discussed above, we invest a portion of our capital in structured MBS. We do not apply leverage to this portion of our portfolio. The leverage inherent in the structured securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured MBS strategy has been a core element of the Company's overall investment strategy since 2008. However, we have and may continue to pledge a portion of our structured MBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

In future periods we expect to continue to finance our activities through repurchase agreements. As of September 30, 2018, we had cash and cash equivalents of $6.2 million. We generated cash flows of $25.8 million from principal and interest payments on our MBS portfolio and had average repurchase agreements outstanding of $190.4 million during the nine months ended September 30, 2018. In addition, during the nine months ended September 30, 2018, we received approximately $6.0 million in management fees and expense reimbursements as manager of Orchid and approximately $1.3 million in dividends from our investment in Orchid common stock. As discussed above, during the quarter ended September 30, 2018, we received approximately $1.4 million in connection with the termination of certain securitizations associated with our retained interests. We do not expect to generate cash in similar transactions in future periods.

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

(in thousands)

	Obligations Maturing				
	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Repurchase agreements	$203,742	$-	$-	$-	$203,742
Interest expense on repurchase agreements[1]	755	-	-	-	755
Junior subordinated notes[2]	-	-	-	26,000	26,000
Interest expense on junior subordinated notes[1]	1,597	3,080	3,076	18,788	26,541
Other	250	-	-	-	250
Totals	$206,344	$3,080	$3,076	$44,788	$257,288

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

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

Outlook

Orchid Island Capital Inc.

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

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

Interest Rates and the MBS Market

The economy of the United States grew by over 4% during the second quarter of 2018 and likely grew by 3% or more during the third quarter. Economic growth that handily exceeds what most economists estimate as the sustainable growth rate of the economy may generate price pressure in the economy. Inflation, running below the target level of the Federal Reserve (the "Fed") for most of the past several years, reached the Fed's 2% target level during the third quarter. On October 5, 2018, the Bureau of Labor Statistics reported the U3 unemployment rate reached 3.7% in September, the lowest level since December 1969. The unemployment rate appears to be headed lower given strength of job gains year to date.

During the second quarter of 2018 the interest rate and equity markets appeared to be driven by external factors more than the performance of the economy. The specter of a trade war, or wars, with our various trading partners was a constant source of concern to market participants. The Trump administration did not appear to be making any progress with our trading partners even as it announced new tariffs on several occasions. A regime change in Italy also impacted the markets as a new threat to the stability of the European Union appeared to emerge. The new Italian government coalition threatened to leave the European Union and bring back the Lire during the campaign leading up to its victory in late May. The economic data reported over the course of the second quarter was consistently strong, but the markets reacted more to these external factors. This changed during the third quarter. Several factors led to this change.

The Trump administration finally had a breakthrough on the trade front when it reached an agreement in principle with Mexico. By the end of September, the Trump administration also reached an agreement with Canada, thus averting the demise of NAFTA that was widely feared. The new agreement, the United States Mexico Canada Agreement, or "USMCA" as it will be called, will now move through the ratification process over approximately the next six months. These developments seemed to calm the markets and demonstrate that the Trump administration could reach agreements with our trading partners. Tensions with China over trade have not subsided and new tariffs were implemented during the third quarter. However, the tariffs were set at 10%, versus the 25% level the market feared, and will not go into effect until January 2019. The tariffs on $50 billion of goods imported from China each year threatened by the Trump administration earlier this year did go into effect during the quarter, but the impact of these tariffs is not expected to be material.

Developments in Italy are on-going, but the threat of Italy leaving the European Union appears to be gone for now. What remains to be resolved is Italy's compliance, or lack thereof, with the various budget and deficit guidelines of the European Union and European Central Bank. There is also the threat of a ratings downgrade later this month, a potential source of an adverse market reaction.

The difference between the second quarter and the third is the market now takes its direction from the economy versus the external developments described above. The trade wars are not perceived to be the threat they once were, or their effect will likely be less than feared. Developments in Italy are not as bad as feared. Finally, the economy continued to appear very strong in the third quarter, and the Fed has acknowledged as much through its public comments. On September 7, 2018, the Bureau of Labor Statistics released the August employment data and the average hourly earnings number exceeded market expectations and triggered a sell-off in the rates market. The ten-year U.S. Treasury note rates eventually broke out of the trading range in place since late May of 2.80% - 3.00% and began moving steadily higher. In fact, the 10-year U.S. Treasury rate closed higher 22 times during the 30-day period from August 24, 2018 through October 5, 2018. This was the first time that the 10-year U.S. Treasury rate increased this many times in a 30-day period since 1984, when rates were close to 14%. These increases caused the yield on the 10-year U.S. Treasury rate to increase by over 40 basis points in just 30 days, setting a new year-to-date high yield, as did the 30-year U.S. Treasury (increasing 42 basis points during the same period). In fact, many short-term U.S. Treasury rates are at their highest level since the financial crisis began.

At its quarterly meeting that concluded on September 26, 2018, the Fed acknowledged the economy was strong and the summary of economic projections reflected their optimism. The so-called "dot plot", or summary of committee member forecasts for the Federal Funds rate, reflected expectations for one more rate hike in 2018, three in 2019 and possibly one more hike in 2020.

The Agency MBS market was impacted by several factors during the quarter. The performance drivers were the movement in interest rates, the continued decline in the Fed's reinvestments of its monthly pay-downs – which hit its cap in mid-October, and the relative attractiveness of the Agency MBS asset class. As interest rates moved steadily higher starting in late August, prepayment expectations were not materially affected. This is because refinancing activity had already been on a steady decline and the MBA's refinance index was at multi-year lows. As the cap on the Fed's reinvestment of its their pay-downs hit in mid-October, which limits re-investments of monthly pay-downs only to the extent they exceed $20 billion per month, an important source of demand for the Agency MBS asset class is essentially gone. However, the rise in rates over the course of the period, and in fact the last two years, mitigated this problem as the supply of Agency MBS declined. The third driver of performance was the attractiveness of the Agency MBS asset class on a relative return basis with other asset classes. However, recent production of Agency MBS has frequently had characteristics that negatively impact the anticipated total returns of the securities. In this case the spread between the weighted average coupon of the underlying mortgage loans and the net rate received by the investor is quite high. This leads to higher prepayment activity for the given coupon versus more typical spreads. Also, average loan balances appear higher than what market participants are accustomed to and average FICO scores are higher as well. All three of these factors tend to increase prepayment expectations and negatively impact expected returns for the securities. This has negatively impacted the relative attractiveness of the MBS asset class and has manifested itself in the relative performance versus investment and sub-investment grade corporate securities, various non-Agency RMBS, commercial mortgage backed securities and asset-backed securities. The spread of the 30-year, current coupon Agency MBS has traded between 70 and 74 basis points above the 10-year U.S. treasury during the quarter but has traded as high as 78 basis points in October. For the quarter the Bloomberg Agency MBS index had a slightly negative return of -0.12%, a year-to-date return through the end of the third quarter of -1.07% and a negative 0.63% return in the fourth quarter to date. When interest rates broke through previous year-to-date high levels in early October, Agency MBS performed poorly as investors feared the duration extension of the securities and sold them, a phenomenon referred to as convexity related selling.

Recent Regulatory Developments

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

In September 2017, the FOMC announced that it would implement a balance sheet normalization policy by gradually decreasing the Fed's reinvestment of payments received on its U.S. Treasuries and Agency MBS holdings. More specifically, principal payments received by the Fed will be reinvested only to the extent they exceed gradually rising caps until the FOMC determines that the Fed is holding no more securities than necessary to implement monetary policy efficiently and effectively. In October 2017, the FOMC commenced this balance sheet normalization program. In October 2018, the Fed reached its terminal cap of $20 billion per month. Going forward, the Fed will only purchase Agency MBS to the extent paydowns on the Fed's holdings exceed $20 billion in any given month.

Effect on Us

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

Effects on our Assets

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

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

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

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

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

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

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

Effects on our borrowing costs

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

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

Summary

By most estimates the U.S. economy had fully recovered from the financial crisis of 2008 when the Trump administration passed the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018, which added a significant source of fiscal stimulation to the economy. As expected, growth has accelerated, reaching 4% annualized in the second quarter of 2018 and likely over 3% in the third quarter. The economic data has in many cases reached multi-year or, in some cases, multi-decade levels. The economy appears to have considerable momentum as it enters the fourth quarter. Up until the third quarter, it appeared the markets had a muted reaction to these developments, being driven by external factors like the threat of a trade war escalation and/or developments in Italy and various emerging markets. During the third quarter, the Trump administration finally had a break-through on the trade front and is close to finalizing a revised NAFTA agreement with Mexico and Canada, to be named the USMCA. The markets took this as a sign that the Trump administration was capable of agreements with its major trading partners and the threat of a material trade war disrupting the domestic economy faded. The Fed raised the Federal Funds rate at its September meeting and indicated it expects to continue their gradual pace of rate hikes into 2020.

The Agency MBS market generated a slight negative return of - 0.12% as interest rates increased significantly during the third quarter of 2018. Year-to-date through the end of the third quarter of 2018, the Agency MBS market has generated a -1.07% return. The returns in the preceding sentences are as reported by the Bloomberg Agency MBS Index. Given the extent by which interest rates had risen through the end of the third quarter this was a commendable performance. However, when interest rates broke through previous year-to-date high levels in early October, Agency MBS performed poorly as investors feared the duration extension of the securities and sold them, a phenomenon often referred to as convexity related selling. The return of the Bloomberg Agency MBS index in the fourth quarter to date is -0.63%.

For the past several years, a significant source of demand for Agency MBS, the Fed, through reinvestment of its monthly pay-downs, essentially exited the market as of mid-October. Going forward, the relative performance of the Agency MBS asset class will be driven by demand from banks and money managers, historically core investors in the Agency MBS asset class, and the relative attractiveness of the Agency MBS asset class.

Critical Accounting Policies

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

GAAP requires the Company's management to make complex and subjective decisions and assessments. The Company's most critical accounting policies involve decisions and assessments which could significantly affect reported assets and liabilities, as well as reported revenues and expenses. The Company believes that all of the decisions and assessments upon which its financial statements are based were reasonable at the time made based upon information available to it at that time. There have been no changes to our critical accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2017.

Capital Expenditures

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

Off-Balance Sheet Arrangements

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

Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "evaluation date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on this evaluation, the CEO and CFO concluded our disclosure controls and procedures, as designed and implemented, were effective as of the evaluation date (1) in ensuring that information regarding the Company and its subsidiaries is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) in providing reasonable assurance that information we must disclose in our periodic reports under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms.

Changes in Internal Controls over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS.

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

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

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

	Total Number of Shares Repurchased	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs[2]	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization[1]
July	6,589	$ 2.51	6,589	462,139
August	19,100	2.48	19,100	443,039
September	2,753	2.36	2,753	440,286
Totals / Weighted Average	28,442	$ 2.48	28,442	440,286

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No	
3.1	Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to the Company's Form S-11/A, filed with the SEC on April 29, 2004
3.2	Articles Supplementary, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated November 3, 2005, filed with the SEC on November 8, 2005
3.3	Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated February 10, 2006, filed with the SEC on February 15, 2006
3.4	Articles of Amendment, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
3.5	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, dated September 24, 2007, filed with the SEC on September 24, 2007
31.1	Certification of the Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002*
31.2	Certification of the Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002*
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002**

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

*Filed herewith.
**Furnished herewith
***Submitted electronically herewith.

Signatures

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

BIMINI CAPITAL MANAGEMENT, INC.

Date: November 2, 2018	By: /s/ Robert E. Cauley Robert E. Cauley Chairman and Chief Executive Officer
Date: November 2, 2018	By: /s/ G. Hunter Haas, IV G. Hunter Haas, IV President, Chief Financial Officer, Chief Investment Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)