BIMINI MORTGAGE MANAGEMENT INC
Form S-11/A
October 13, 2004

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As filed with the Securities and Exchange Commission on October 13, 2004

Registration No. 333-114542

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective
AMENDMENT NO. 1
TO

FORM S-11

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BIMINI MORTGAGE MANAGEMENT, INC.

(Exact name of registrant as specified in its governing instruments)

3305 Flamingo Drive, Suite 100, Vero Beach, Florida 32963
(772) 231-1400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jeffrey J. Zimmer
Chairman, Chief Executive Officer and President
Bimini Mortgage Management, Inc.
3305 Flamingo Drive, Suite 100, Vero Beach, Florida 32963 (772) 231-1400
(Name, address, including zip code and telephone number, including area code, of agent for service)

copies to:

Robert E. King, Jr.
Clifford Chance US LLP
31 West 52nd Street
New York, NY 10019
(212) 878-8000

Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this registration statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Shares to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Class A Common Stock	10,654,432	$159,816,480	$20,248.75

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 475(o) of the Securities Act of 1933.

(2) Fee calculated in accordance with Rule 457(o) of the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 13, 2004

PROSPECTUS

10,654,432 Shares

Class A Common Stock

The selling stockholders named in this prospectus may offer up to 10,654,432 shares of Class A Common Stock of Bimini Mortgage Management, Inc. We will not receive any portion of the proceeds from the sale of these shares. Our Class A Common Stock is subject to ownership limitations intended to preserve our status as a real estate investment trust, or REIT, for federal income tax purposes.

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol "BMM." On October 11, 2004, the last reported sale price of our Class A Common Stock was $16.00.

Investing in our Class A Common Stock involves risks. See "Risk Factors" beginning on page 8 for a discussion of risks relating to our Class A Common Stock, including, among others:

- We commenced operations in December 2003 and have a limited operating history. Accordingly, you have a limited basis to evaluate our ability to operate our business and implement our operating policies and strategies successfully.

- Our officers, Jeffrey J. Zimmer and Robert E. Cauley, have limited experience managing a REIT. Their lack of experience may limit their ability to successfully manage our business as a REIT.

- We rely primarily on short-term borrowings to acquire mortgage related securities some of which have long-term maturities. Interest rate mismatches between our mortgage related securities and our borrowings used to fund our purchases of mortgage related securities might reduce our net income or result in a loss during periods of changing interest rates.

- Increased levels of prepayments on the mortgages underlying our mortgage related securities might decrease our net interest income or result in a net loss.

- We generally seek to borrow eight to 12 times the amount of our equity, which could reduce our net income and our cash available for distributions to stockholders or cause us to suffer losses. There is no limit to the amount of leverage that we may incur.

- Failure to qualify or maintain our qualification as a REIT for federal income tax purposes would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for distributions to stockholders.

The selling stockholders are offering these shares of Class A Common Stock. The selling stockholders may sell all or a portion of these shares from time to time in market transactions through the NYSE or any other stock exchange or market on which our Class A Common Stock is listed, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. The selling stockholders will receive all proceeds from the sale of the shares of our Class A Common Stock. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution".

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is [   ], 2004

We have filed for registration in the U.S. Patent and Trademark Office for the marks "Bimini Mortgage Management, Inc.", "Bimini Investment Management" and "Bimini." All other brand names or trademarks appearing in this prospectus are the property of their respective holders.

PROSPECTUS SUMMARY

This section summarizes information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the section titled "Risk Factors" and our financial statements and related notes, before making an investment in our Class A Common Stock. As used in this prospectus, "Bimini," "company," "we," "our," and "us" refer to Bimini Mortgage Management, Inc., except where the context otherwise requires.

Bimini Mortgage Management, Inc.

General

We were formed in September 2003 to invest primarily in residential mortgage related securities issued by the Federal National Mortgage Association (more commonly known as Fannie Mae), the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac) and the Government National Mortgage Association (more commonly known as Ginnie Mae). We will earn returns on the spread between the yield on our assets and our costs, including the interest expense on the funds we borrow. We intend to borrow between eight and 12 times the amount of our equity capital to attempt to enhance our returns to stockholders. We are self-managed and self-advised. We have elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ended December 31, 2003. As a REIT, we generally are not subject to federal income tax on the REIT taxable income that we distribute to our stockholders.

We commenced operations in December 2003, following an initial private placement of our Class A Common Stock. We raised aggregate net proceeds (after commissions and expenses) of approximately $141.7 million between December 2003 and February 2004 in private placements of our Class A Common Stock. In September 2004 we completed the initial public offering of our shares of Class A Common Stock. Our Class A Common Stock trades on the New York Stock Exchange, or NYSE, under the trading symbol "BMM". We raised approximately $83,375,000 in gross proceeds in our initial public offering.

As of June 30, 2004 we had a portfolio of mortgage related securities that totaled $1.5 billion and was comprised of 37.8% fixed-rate mortgage-backed securities, 34.0% floating rate collateralized mortgage obligations, 17.9% adjustable-rate mortgage-backed securities, 6.5% hybrid adjustable-rate mortgage-backed securities (securities backed by mortgages with fixed initial rates which, after a period, convert to adjustable rates) and 3.8% balloon maturity mortgage-backed securities (securities backed by mortgages where a significant portion of principal is repaid only at maturity). Of this portfolio, 58% was issued by Fannie Mae, 37% was issued by Freddie Mac and 5% was issued by Ginnie Mae.

Our portfolio had a weighted average yield of 2.79% as of June 30, 2004. Weighted average yield is the composite of the yields on our securities as determined using the yield book model published by Citigroup. Our net weighted average borrowing cost as of June 30, 2004 was 1.26%. The constant prepayment rate for the portfolio was 20.4% for June 2004, which reflects the annualized proportion of principal that was prepaid. The effective duration for the portfolio was 1.59 as of June 30, 2004. Duration measures the price sensitivity of a fixed income security 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. An effective duration of 1.59 indicates that an interest rate increase of 1% would result in a 1.59% decline in the value of the securities in our portfolio.

In response to the changing interest rate environment, we will continue to modify the mix of mortgage related securities that we will own. In particular, we intend to own greater percentages of adjustable-rate and hybrid adjustable-rate mortgage related securities and a smaller percentage of fixed-rate mortgage related securities than we currently own.

In July and August 2004, we sold a portion of the mortgage related securities in our portfolio, primarily floating-rate collateralized mortgage obligations, for proceeds of $333.0 million. We purchased $224.0 million of additional securities, primarily adjustable-rate mortgage related securities and hybrid adjustable-rate mortgage related securities, and used the remaining $109.0 million to reduce repurchase agreement liabilities. These sales and purchases have altered the mix of mortgage related securities in our portfolio. As a result, our portfolio as of August 15, 2004, assuming all transactions settle, is comprised of 37.7% fixed-rate mortgage-backed securities, 17.1% floating-rate collateralized mortgage obligations, 31.9% adjustable-rate mortgage-backed securities, 9.1% hybrid adjustable-rate mortgage-backed securities and 4.2% balloon maturity mortgage-backed securities. These sales and purchases reduced the effective duration of our portfolio to 1.40 as of July 31, 2004. As of July 31, 2004, our book value was $13.78 per share of Class A Common Stock.

We are using the proceeds of our initial public offering to purchase greater percentages of adjustable-rate and hybrid adjustable-rate mortgage related securities and a smaller percentage of fixed-rate mortgage related securities, compared to our portfolio at the time of our initial public offering.

Our principal offices are located at 3305 Flamingo Drive, Suite 100, Vero Beach, Florida 32963. Our telephone number is (772) 231-1400.

Asset Acquisition Strategy

We seek to differentiate our company from other mortgage portfolio managers through our approach to risk management. We invest in a limited universe of mortgage related securities, primarily those issued by Fannie Mae, Freddie Mac and Ginnie Mae. Payment of principal and interest underlying securities issued by Ginnie Mae is guaranteed by the U.S. Government. Fannie Mae and Freddie Mac mortgage related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. We seek to manage the risk of prepayments of the underlying mortgages by purchasing securities with prepayment characteristics that we expect to result in slower prepayments, such as pools of mortgage-backed securities collateralized by mortgages with low loan balances, mortgages originated under Fannie Mae's Expanded Approval Program or agency pools collateralized by loans against investment properties.

The primary assets in our current portfolio of mortgage related securities are fixed-rate mortgage-backed securities, floating rate collateralized mortgage obligations, adjustable-rate mortgage-backed securities, hybrid adjustable-rate mortgage-backed securities and balloon maturity mortgage-backed securities. The mortgage related securities we acquire are obligations issued by federal agencies or federally chartered entities, primarily Fannie Mae, Freddie Mac and Ginnie Mae.

We have created and will maintain a diversified portfolio in order to avoid undue loan originator, geographic and other types of concentrations. We seek to manage the effects on our income of prepayments of the mortgage loans underlying our securities, at a rate materially different than anticipated, by structuring a diversified portfolio with a variety of prepayment characteristics and investing in mortgage related securities or structures with prepayment protections.

Leverage Strategy

We use leverage in an attempt to increase potential returns to our stockholders. However, the use of leverage may also have the effect of increasing losses when economic conditions are unfavorable. We generally borrow between eight to 12 times the amount of our equity, although our investment policies require no minimum or maximum leverage. We use repurchase agreements to borrow against existing mortgage related securities and use the proceeds to acquire additional mortgage related securities. As of June 30, 2004, we had 16 master repurchase agreements (and outstanding balances under 12 of these agreements) and our repurchase agreements totaled $1.5 billion, or 11 times our equity capital at that date.

We seek to protect our capital base through the use of a risk-based capital methodology that is patterned on the general principles underlying the proposed risk-based capital standard for internationally active banks of the Basel Committee on Banking Supervision. We use our methodology to calculate an internally generated risk measure for each asset in our portfolio. This measure is then used to establish the amount of leverage we use. The goal of our approach is to ensure that our portfolio's leverage ratio is appropriate for the level of risk inherent in the portfolio.

Interest Rate Risk Management

We believe the primary risk inherent in our investments is the effect of movements in interest rates. This arises because the changes in interest rates on our borrowings will not be perfectly coordinated with the effects of interest rate changes on the income from, or value of, our investments. We therefore follow an interest rate risk management program designed to offset the potential adverse effects resulting from the rate adjustment limitations on our mortgage related securities. We seek to minimize differences between interest rate indices and interest rate adjustment periods of our adjustable-rate securities and related borrowings by matching the terms of assets and related liabilities both as to maturity and to the underlying interest rate index used to calculate interest charges.

We may from time to time use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. We may enter into swap or cap agreements, option, put or call agreements, futures contracts, forward rate agreements or similar financial instruments to hedge indebtedness that we may incur. These contracts would be intended to more closely match the effective maturity of, and the interest received on, our assets with the effective maturity of, and the interest owed on, our liabilites. However, no assurances can be given that interest rate risk management strategies can successfully be implemented. Derivative instruments will not be used for speculative purposes.

Risk Factors

An investment in our Class A Common Stock involves material risks. Each prospective purchaser of our Class A Common Stock should consider carefully the matters discussed under "Risk Factors" beginning on page 8 before investing in our Class A Common Stock. Some of the risks include:

- We commenced operations in December 2003 and have a limited operating history. Accordingly, you have a limited basis to evaluate our ability to operate our business and implement our operating policies and strategies successfully.

- Our officers, Jeffrey J. Zimmer and Robert E. Cauley, have limited experience managing a REIT. Their lack of experience may limit their ability to successfully manage our business as a REIT.

- We rely primarily on short-term borrowings to acquire mortgage related securities, some of which have long-term maturities. Interest rate mismatches between our mortgage related securities and our borrowings used to fund our purchases of mortgage related securities might reduce our net income or result in a loss during periods of changing interest rates.

- As of June 30, 2004, 41.6% of our portfolio consisted of fixed-rate and balloon maturity mortgage-backed securities. Accordingly, we may experience reduced net income or a loss during periods of rising interest rates.

- Increased levels of prepayments on the mortgages underlying our mortgage related securities might decrease our net interest income or result in a net loss.

- We generally seek to borrow eight to 12 times the amount of our equity, which could reduce our net income and our cash available for distributions to stockholders or cause us to suffer losses. There is no limit on the amount of leverage that we may incur.

- Failure to qualify or maintain our qualification as a REIT for federal income tax purposes would subject us to federal income tax on our taxable income at regular corporate rates, thereby reducing the amount of funds available for distributions to stockholders.

- Our board of directors may change our operating policies and strategies without prior notice to you or stockholder approval, and such changes could harm our business and results of operations and the value of our stock.

- Our officers own shares of Class B Common Stock, which will begin to convert to shares of Class A Common Stock when stockholders' equity attributable to the Class A Common Stock is no less than $15.00 per share. If all shares of Class B Common Stock are converted, the 319,388 shares of Class A Common Stock issued would equal approximately 2% of our outstanding Class A Common Stock. Our officers may take undue risks in managing our company in an attempt to increase stockholders' equity and cause a conversion of these shares.

Competition in purchasing assets consistent with our investment objectives might prevent us from acquiring mortgage related securities at favorable yields, which would harm our results of operations.

Hedging transactions may limit our gains or result in losses. We may hedge our interest rate exposure through the use of derivative instruments. Our hedging transactions, which would be intended to limit losses, involve costs and may actually limit gains and increase our exposure to losses.

If our distributions exceed our REIT taxable income, a portion of the distribution may be deemed a return of capital for federal income tax purposes, which would reduce stockholders' basis in the underlying shares of our Class A Common Stock.

Management

We are self-managed and self-advised. Our two executive officers have significant experience in the mortgage related securities market. Jeffrey Zimmer, our President, Chief Executive Officer and Chairman of the Board, has 20 years experience in the mortgage-backed securities markets, most recently as a managing director at RBS/Greenwich Capital, where he sold and researched almost every type of mortgage-backed security. Robert E. Cauley, CFA, our Secretary, Chief Investment Officer and Chief Financial Officer, has ten years of experience in the mortgage and asset-backed securities markets. Mr. Cauley was most recently Vice President, Portfolio Manager at Federated Investment Management Company where he was also a lead portfolio manager, co-manager, or assistant portfolio manager of $4.25 billion in mortgage and asset-backed securities funds.

This Offering

This prospectus covers the resale of up to 10,654,432 shares of our Class A Common Stock. We issued and sold 10,000,000 of these shares between December 2003 and February 2004 in private offerings to qualified institutional buyers, as defined in Rule 144A under the Securities Act and institutional accredited investors, as defined in Rule 501 under the Securities Act. Of the remaining shares, 7,500 were purchased by our outside directors in October 2003, 8,156 were issued to our outside directors as compensation for their services and 638,776 are reserved for issuance upon conversion of 319,388 outstanding shares of Class B Common Stock and 319,388 outstanding shares of Class C Common Stock. See "Description of Capital Stock Conversion of the Class B Common Stock and Class C Common Stock."

Our Tax Status

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986 as amended, or the Internal Revenue Code, commencing with our taxable year ended December 31, 2003. Provided that we qualify as a REIT, we generally will not be subject to federal income tax on our taxable income that is currently distributed to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains. We cannot assure you that we will be able to comply with such requirements in the future. Failure to qualify as a REIT in any taxable year would render us subject to federal income tax on our taxable income at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state, local and foreign taxes on our income and property. In connection with our election to be taxed as a REIT, our charter prohibits any stockholder from directly or indirectly owning more than 9.8% of the outstanding shares, by value or number, whichever is more restrictive, of our common stock or of our stock in the aggregate.

Distributions

To avoid U.S. federal corporate income and excise taxes and to maintain our qualification as a REIT under the Internal Revenue Code, we intend to distribute to our stockholders all or substantially all of our REIT taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles, or GAAP). See "Certain Federal Income Tax Consequences Annual Distribution Requirements." All distributions will be made by us at the discretion of our board of directors and will depend on our taxable earnings, financial condition and such other factors as our board of directors deems relevant.

On April 23, 2004, we paid a dividend of $0.39 per share of Class A Common Stock to stockholders of record as of March 10, 2004. On July 9, 2004, we paid a dividend of $0.52 per share of Class A Common Stock to stockholders of record as of June 16, 2004. On October 8, 2004, we paid a dividend of $0.52 per share of Class A and Class B Common Stock to stockholders of record on September 3, 2004.

Summary Financial Data

The following summary financial data is derived from our unaudited financial statements as of and for the six months ended June 30, 2004 and our audited financial statements as of December 31, 2003 and for the period from September 24, 2003 (date of inception) through December 31, 2003. The summary financial data should be read in conjunction with the more detailed information contained in our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Six months ended June 30, 2004	September 24, 2003 (inception) through December 31, 2003
Statement of Operations Data:		
Revenues:		
Interest income	$ 18,153,131	$ 71,480
Interest expense	(7,080,446)	(20,086)
Net interest income	11,072,685	51,394
Expenses:		
Trading costs, commissions and other	448,666	15,583
Other direct costs	57,184	29,899
Compensation and related benefits	640,806	35,964
Directors' fees and other public company costs	73,480	-0-
Start-up and organization costs		111,092
Occupancy costs	31,204	13,675
Audit, legal and other professional fees	60,260	85,340
Other administrative expenses	250,730	27,008
Total expenses	1,562,330	318,561
Net income (loss)	$ 9,510,355	$ (267,167)
Basic and diluted income (loss) per Class A common share	$ 1.06	$ (0.54)
Weighted average number of Class A common shares outstanding, used in calculating per share amounts:		
Basic	9,006,353	497,859
Diluted	9,006,668	497,859

	June 30, 2004	December 31, 2003
Balance Sheet Data:		
Mortgage-backed securities available for sale, at fair value	$	$ 27,750,602
Mortgage-backed securities pledged as collateral, at fair value	1,508,421,270	197,990,559
Total mortgage-backed securities, at fair value	1,508,421,270	225,741,161
Total assets	1,603,706,932	245,285,676
Repurchase agreements	1,461,220,000	188,841,000
Total liabilities	1,471,005,365	188,970,485
Accumulated other comprehensive loss	(9,110,912)	(19,409)
Total stockholders' equity	$ 132,701,567	$ 56,315,191
Class A common shares issued and outstanding	10,012,188	4,012,102
Book value per share of Class A Common Stock	$ 13.25	$ 14.04

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business, financial condition or results of operations could be harmed by any of these risks. Similarly, these risks could cause the market price of our Class A Common Stock to decline and you might lose all or part of your investment. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below.

Risks Related to Our Business

We have a limited operating history and might not be able to operate our business or implement our operating policies and strategies successfully.

We began operations in December of 2003 and therefore have a limited operating history. The results of our operations will depend on many factors, including the availability of opportunities for the acquisition of mortgage related securities, the level and volatility of interest rates, readily accessible short- and long-term funding alternatives in the financial markets and economic conditions. Our lack of operating history provides you with a limited basis to evaluate the likelihood that we will successfully operate our business and implement our operating policies and strategies as described in this prospectus.

Interest rate mismatches between our adjustable-rate securities and our borrowings used to fund our purchases of the mortgage related securities may reduce our net income or result in a loss during periods of changing interest rates.

As of June 30, 2004, 58.4% of the mortgage-backed securities in our portfolio were subject to adjustable interest rates, and this percentage may increase as we modify the mix of securities in our portfolio. This means that the interest rates of the securities may vary over time based on changes in a short-term interest rate index, of which there are many. We finance our acquisitions of adjustable-rate securities in part with borrowings that have interest rates based on indices and repricing terms similar to, but perhaps with shorter maturities than, the interest rate indices and repricing terms of the adjustable-rate securities. Short-term interest rates are ordinarily lower than longer-term interest rates. During periods of changing interest rates, this interest rate mismatch between our assets and liabilities could reduce or eliminate our net income and dividend yield and could cause us to suffer a loss. In particular, in a period of rising interest rates, we could experience a decrease in, or elimination of, net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate securities.

Interest rate fluctuations will also cause variances in the yield curve, which may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the "yield curve." If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because our assets may bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the market value of our mortgage loan assets. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested in mortgage loans, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses.

A significant portion of our portfolio consists of fixed-rate mortgage-backed securities, which may cause us to experience reduced net income or a loss during periods of rising interest rates.

As of June 30, 2004, 41.6% of our portfolio consisted of fixed-rate and balloon maturity mortgage-backed securities. Because the interest rate on a fixed-rate mortgage never changes, over time there can be a divergence between the interest rate on the loan and the current market interest rates. We fund our acquisition of fixed-rate mortgage-backed securities with short-term repurchase agreements and term loans. During periods of rising interest rates, our costs associated with borrowings used to fund the acquisition of fixed-rate assets are subject to increases while the income we earn from these assets remains substantially fixed. This would reduce and could eliminate the net interest spread between the fixed-rate mortgage-backed securities that we purchase and our borrowings used to purchase them, which would reduce our net interest income and could cause us to suffer a loss.

Increased levels of prepayments on the mortgages underlying our mortgage related securities might decrease our net interest income or result in a net loss.

Pools of mortgage loans underlie the mortgage related securities that we acquire. We generally receive payments from the payments that are made on these underlying mortgage loans. When we acquire mortgage related securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. When borrowers prepay their mortgage loans faster than expected, this results in corresponding prepayments on the mortgage related securities that are faster than expected. Faster-than-expected prepayments could potentially harm the results of our operations in various ways, including the following:

We seek to purchase some mortgage related securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we will be required to pay a premium over the market value to acquire the security. In accordance with applicable accounting rules, we will be required to amortize this premium over the term of the mortgage related security. If the mortgage related security is prepaid in whole or in part prior to its maturity date, however, we must expense any unamortized premium that remained at the time of the prepayment.

A portion of our adjustable-rate mortgage-backed securities may bear interest at rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If an adjustable-rate mortgage-backed security is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we will have held that mortgage related security while it was less profitable and lost the opportunity to receive interest at the fully indexed rate over the remainder of its expected life.

If we are unable to acquire new mortgage related securities to replace the prepaid mortgage related securities, our financial condition, results of operations and cash flow may suffer and we could incur losses.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by other factors, including, without limitation, conditions in the housing and financial markets, general economic conditions and the relative interest rates on adjustable-rate and fixed-rate mortgage loans. While we seek to minimize prepayment risk, we must balance prepayment risk against other risks and the potential returns of each investment when selecting investments. No strategy can completely insulate us from prepayment or other such risks.

We may incur increased borrowing costs related to repurchase agreements that would harm our results of operations.

Our borrowing costs under repurchase agreements are generally adjustable and correspond to short-term interest rates, such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of our mortgage related securities.

Most of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, our results of operations will be harmed and we may incur losses.

Interest rate caps on our adjustable-rate mortgage-backed securities may reduce our income or cause us to suffer a loss during periods of rising interest rates.

Adjustable-rate mortgage-backed securities are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of a mortgage-backed security. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while caps could limit the interest rates on our adjustable-rate mortgage-backed securities. This problem is magnified for adjustable-rate mortgage-backed securities that are not fully indexed. Further, some adjustable-rate mortgage-backed securities may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on adjustable-rate mortgage-backed securities than we need to pay interest on our related borrowings.

As of June 30, 2004, the floating rate collateralized mortgage obligations in our portfolio were subject to a weighted average lifetime interest rate cap of 8.0% and no periodic interest rate caps, the adjustable-rate mortgage-backed securities in our portfolio were subject to a weighted average lifetime interest rate cap of 10.1% and a weighted average periodic interest rate cap of 1.5% and the hybrid adjustable-rate mortgage-backed securities in our portfolio were subject to a weighted average lifetime interest rate cap of 9.4% and a weighted average periodic interest rate cap of 2.0%. Interest rate caps on our mortgage-backed securities could reduce our net interest income or cause us to suffer a net loss if interest rates were to increase beyond the level of the caps.

We may not be able to purchase interest rate caps at favorable prices, which could cause us to suffer a loss in the event of significant changes in interest rates.

Our policies permit us to purchase interest rate caps to help us reduce our interest rate and prepayment risks associated with our investments in mortgage related securities. This strategy potentially helps us reduce our exposure to significant changes in interest rates. A cap contract is ultimately no benefit to us unless interest rates exceed the target rate. If we purchase interest rate caps but do not experience a corresponding increase in interest rates, the costs of buying the caps would reduce our earnings. Alternatively, we may decide not to enter into a cap transaction due to its expense, and we would suffer losses if interest rates later rise substantially. Our ability to engage in interest rate hedging transactions is limited by the REIT gross income requirements. See "Legal and Tax Risks" below.

Our leverage strategy increases the risks of our operations, which could reduce our net income and the amount available for distributions to stockholders or cause us to suffer a loss.

We generally seek to borrow between eight and 12 times the amount of our equity, although at times our borrowings may be above or below this amount. We incur this indebtedness by borrowing against a substantial portion of the market value of our mortgage related securities. Our total indebtedness, however, is not expressly limited by our policies and will depend on our and our prospective lender's estimate of the stability of our portfolio's cash flow. As a result, there is no limit on the amount of leverage that we may incur. We face the risk that we might not be able to meet our debt service obligations or a lender's margin requirements from our income and, to the extent we cannot, we might be forced to liquidate some of our assets at unfavorable prices. Our use of leverage amplifies the risks associated with other risk factors, which could reduce our net income and the amount available for distributions to stockholders or cause us to suffer a loss. For example:

A majority of our borrowings are secured by our mortgage related securities, generally under repurchase agreements. A decline in the market value of the mortgage related securities used to secure these debt obligations could limit our ability to borrow or result in lenders requiring us to pledge additional collateral to secure our borrowings. In that situation, we could be required to sell mortgage related securities under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the mortgage related securities, we would experience losses.

A default under a mortgage related security that constitutes collateral for a loan could also result in an involuntary liquidation of the mortgage related security, including any cross-collateralized mortgage related securities. This would result in a loss to us of the difference between the value of the mortgage related security upon liquidation and the amount borrowed against the mortgage related security.

To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which would jeopardize our status as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and would decrease our overall profitability and distributions to our stockholders.

If we experience losses as a result of our leverage policy, such losses would reduce the amounts available for distribution to our stockholders.

An increase in interest rates may adversely affect our book value, which may harm the value of our stock.

Increases in interest rates may negatively affect the fair market value of our mortgage related securities. Our fixed-rate mortgage-backed securities will generally be more negatively affected by such increases. In accordance with GAAP, we will be required to reduce the carrying value of our mortgage related securities by the amount of any decrease in the fair value of our mortgage related securities compared to amortized cost. If unrealized losses in fair value occur, we will have to either reduce current earnings or reduce stockholders' equity without immediately affecting current earnings, depending on how we classify the mortgage related securities under GAAP. In either case, our net book value will decrease to the extent of any realized or unrealized losses in fair value.

Changes in yields may harm the value of our stock.

Our earnings will be derived primarily from the expected positive spread between the yield on our assets and the cost of our borrowings. There is no assurance that there will be a positive spread in either high interest rate environments or low interest rate environments, or that the spread will not be negative. In addition, during periods of high interest rates, our net income, and therefore the dividend yield on our Class A Common Stock, may be less attractive compared to alternative investments of equal or lower risk. Each of these factors could harm the market value of our Class A Common Stock.

We depend on borrowings to purchase mortgage related securities and reach our desired amount of leverage. If we fail to obtain or renew sufficient funding on favorable terms or at all, we will be limited in our ability to acquire mortgage related securities, which will harm our results of operations.

We depend on borrowings to fund acquisitions of mortgage related securities and reach our desired amount of leverage. Accordingly, our ability to achieve our investment and leverage objectives depends on our ability to borrow money in sufficient amounts and on favorable terms. In addition, we must be able to renew or replace our maturing borrowings on a continuous basis. We depend on many lenders to provide the primary credit facilities for our purchases of mortgage related securities. If we cannot renew or replace maturing borrowings on favorable terms or at all, we may have to sell our mortgage related securities under adverse market conditions, which would harm our results of operations and may result in permanent losses.

Possible market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets are insufficient to meet the collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices.

Possible market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of mortgage related securities in which our portfolio is concentrated, might reduce the market value of our portfolio, which might cause our lenders to require additional collateral. Any requirement for additional collateral might compel us to liquidate our assets at inopportune times and at unfavorable prices, thereby harming our operating results. If we sell mortgage related securities at prices lower than the carrying value of the mortgage related securities, we would experience losses.

Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or any of our lenders file for bankruptcy, which may make it difficult for us to recover our collateral in the event of a bankruptcy filing.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay if we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that our lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either our lenders or us.

Because the assets that we acquire might experience periods of illiquidity, we might be prevented from selling our mortgage related securities at favorable times and prices, which could cause us to suffer a loss and/or reduce our distributions to stockholders.

Although we plan to hold our mortgage related securities until maturity, there may be circumstances in which we sell certain of these securities. Mortgage related securities generally experience periods of illiquidity. As a result, we may be unable to dispose of our mortgage related securities at advantageous times and prices or in a timely manner. The lack of liquidity might result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. The illiquidity of mortgage related securities may harm our results of operations and could cause us to suffer a loss and/or reduce our distributions to stockholders.

Our board of directors may change our operating policies and strategies without prior notice or stockholder approval and such changes could harm our business and results of operations and the value of our stock.

Although our board of directors has no current plans to do so, it has the authority to modify or waive our current operating policies and our strategies (including our election to operate as a REIT) without prior notice to you and without your approval. Any such changes to our current operating policies and strategies may be unsuccessful and may have an adverse effect on our business, operating results and the market value of our Class A Common Stock.

Competition might prevent us from acquiring mortgage related securities at favorable yields, which could harm our results of operations.

Our net income largely depends on our ability to acquire mortgage related securities at favorable spreads over our borrowing costs. In acquiring mortgage related securities, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage related securities, many of which have greater financial resources than we do. Additionally, many of our competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. As a result, we may not be able to acquire sufficient mortgage related securities at favorable spreads over our borrowing costs, which would harm our results of operations.

Our investment strategy involves risk of default and delays in payments, which could harm our results of operations.

We may incur losses if there are payment defaults under our mortgage related securities. Our mortgage related securities will be government or agency certificates. Agency certificates are mortgage related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. Payment of principal and interest underlying securities issued by Ginnie Mae are guaranteed by the U.S. Government. Fannie Mae and Freddie Mac mortgage related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. It is possible that guarantees made by Freddie Mac or Fannie Mae would not be honored in the event of default on the underlying securities. Legislation may be proposed to change the relationship between certain agencies, such as Fannie Mae or Freddie Mac, and the federal government. This may have the effect of reducing the actual or perceived credit quality of mortgage related securities issued by these agencies. As a result, such legislation could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac mortgage related securities. We currently intend to continue to invest in such securities, even if such agencies' relationships with the federal government changes.

Decreases in the value of the property underlying our mortgage related securities might decrease the value of our assets.

The mortgage related securities in which we invest are secured by underlying real property interests. To the extent that the market value of the property underlying our mortgage related securities decreases, our security might be impaired, which might decrease the value of our assets.

If we fail to maintain relationships with AVM, L.P. and its affiliate III Associates, or if we do not establish relationships with other repurchase agreement trading, clearing and administrative service providers, we may have to reduce or delay our operations and/or increase our expenditures.

We have engaged AVM, L.P. and its affiliate III Associates, to provide us with certain repurchase agreement trading, clearing and administrative services. See "Business Repurchase Agreement Trading, Clearing and Administrative Services." If we are unable to maintain relationships with AVM and III Associates or are unable to establish successful relationships with other repurchase agreement trading, clearing and administrative service providers, we may have to reduce or delay our operations and/or increase our expenditures and undertake the repurchase agreement trading, clearing and administrative services on our own.

Hedging transactions may adversely affect our earnings, which could adversely affect cash available for distribution to our stockholders.

We may enter into interest rate cap or swap agreements or pursue other hedging strategies, including the purchase of puts, calls or other options and futures contracts. Our hedging activity will vary in scope based on the level and volatility of interest rates and principal prepayments, the type of mortgage-backed securities we hold, and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things:

- hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- certain types of hedges may expose us to risk of loss beyond the fee paid to initiate the hedge;
- the amount of income that a REIT may earn from hedging transactions is limited by federal income tax provisions governing REITs;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the party owing money in the hedging transaction may default on its obligation to pay.

Our hedging activity may adversely affect our earnings, which could adversely affect cash available for distribution to our stockholders.

Terrorist attacks and other acts of violence or war may affect any market for our Class A Common Stock, the industry in which we conduct our operations, and our profitability.

Terrorist attacks may harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact the property underlying our mortgage related securities or the securities markets in general. Losses resulting from these types of events are uninsurable.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in economic uncertainty in the United States or abroad. Adverse economic conditions could harm the value of the property underlying our mortgage related securities or the securities markets in general, which could harm our operating results and revenues and may result in the volatility of the market value of our securities.

Risks Related to Our Officers

Our officers have not previously managed a REIT, and we cannot assure you that their past experience will be sufficient to successfully manage our business as a REIT.

Our officers, Jeffrey J. Zimmer and Robert E. Cauley, have not previously managed a REIT, and, prior to commencing operations of our company, did not have any experience in complying with the income, asset and other limitations imposed by the REIT provisions of the Internal Revenue Code. Those provisions are complex and the failure to comply with those provisions in a timely manner could cause us to fail to qualify as a REIT or could force us to pay unexpected taxes and penalties. In such event, our net income would be reduced, we could incur a loss, and we would have less cash available for distributions to stockholders.

We depend primarily on two individuals to operate our business, and the loss of such persons would severely and detrimentally affect our operations.

We depend substantially on two individuals, Jeffrey J. Zimmer, our Chairman, Chief Executive Officer and President, and Robert E. Cauley, our Chief Investment Officer and Chief Financial Officer, to manage our business. We depend on the diligence, experience and skill of Mr. Zimmer and Mr. Cauley for the selection, acquisition, structuring and monitoring of our mortgage related securities and associated borrowings. Although we have entered into employment contracts with Mr. Zimmer and Mr. Cauley, those employment contracts may not prevent either Mr. Zimmer or Mr. Cauley from leaving our company. The loss of either of them would likely have a severe negative effect on our business, financial condition, cash flow and results of operations.

Our officers own shares of our Class B Common Stock, and may take undue risks in managing our company in order to cause a conversion of these shares.

In connection with our formation, our founders and officers, Messrs. Zimmer and Cauley, were issued an aggregate of 319,388 shares of our Class B Common Stock. These shares of Class B Common Stock will begin to convert to shares of Class A Common Stock when stockholders' equity attributable to Class A Common Stock is no less than $15.00 per share. Accordingly, our officers may take undue risks in managing our company in an attempt to increase stockholders' equity and cause a conversion of these shares. See "Description of Capital Stock Common Stock Conversion Rights."

Legal and Tax Risks

If we fail to qualify as a REIT, we will be subject to federal income tax as a regular corporation and may face substantial tax liability.

We intend to continue to operate in a manner that is intended to cause us to qualify as a REIT for U.S. federal income tax purposes. However, qualification as a REIT involves the satisfaction of numerous requirements (some on an annual or quarterly basis) established under technical and complex provisions of the Internal Revenue Code for which only a limited number of judicial or administrative interpretations exist. The determination that we qualify as a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. Accordingly, it is not certain we will be able to qualify and remain qualified as a REIT for federal income tax purposes. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress or the Internal Revenue Service, or IRS, might change tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effect, that could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means that we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;

- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders, and could force us to liquidate assets at inopportune times, causing lower income or higher losses than would result if these assets were not liquidated; and

- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and our cash available for distribution to our stockholders therefore would be reduced for each of the years in which we do not qualify as a REIT.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow. We may also be subject to certain federal, state and local taxes on our income and property. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to our stockholders at unfavorable times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely with the goal of maximizing profits.

In addition, the REIT provisions of the Internal Revenue Code impose a 100% tax on income from "prohibited transactions." Prohibited transactions generally include sales of assets that constitute inventory or other property held for sale in the ordinary course of a business, other than foreclosure property. This 100% tax could impact our desire to sell mortgage related securities at otherwise opportune times if we believe such sales could result in us being treated as engaging in prohibited transactions. However, we would not be subject to this tax if we were to sell assets through a taxable REIT subsidiary.

Complying with REIT requirements may limit our ability to hedge effectively, which could in turn leave us more exposed to the effects of adverse changes in interest rates.

The existing REIT provisions of the Internal Revenue Code may substantially limit our ability to hedge mortgage related securities and related borrowings by requiring us to limit our income in each year from qualified hedges, together with any other income not generated from qualified REIT real estate assets, to less than 25% of our gross income. In addition, we must limit our aggregate gross income from non-qualified hedges, fees, and certain other non-qualifying sources, to less than 5% of our annual gross income. As a result, although we will not engage in hedging transactions except the purchase of interest rate caps and forward financing agreements, we may in the future have to limit our use of these techniques or implement these hedges through a taxable REIT subsidiary. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur. If we fail to satisfy the 25% or 5% limitations, unless our failure was due to reasonable cause and not due to willful neglect and we meet certain other technical requirements, we could lose our REIT status for federal income tax purposes. Even if our failure was due to reasonable cause, we may have to pay a penalty tax equal to the amount of income in excess of certain thresholds, multiplied by a fraction intended to reflect our profitability.

Complying with REIT requirements may force us to liquidate otherwise attractive investments, which could negatively affect our profitability.

In order to qualify as a REIT, we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, generally, no more than 5% of the value of our assets can consist of the securities of any one issuer. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

Dividends paid by REITs do not qualify for the reduced tax rates under recently enacted tax legislation, which could negatively affect the value of our stock.

Recently enacted tax legislation reduces the maximum tax rate for dividends paid to individual U.S. stockholders to 15% (through 2008). Dividends paid by REITs, however, are generally not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could adversely affect the value of the stocks of REITs, including our Class A Common Stock.

Complying with REIT requirements may force us to borrow funds on unfavorable terms or sell our securities at unfavorable prices to make distributions to our stockholders.

As a REIT, we must distribute at least 90% of our annual REIT taxable income (excluding net capital gains) to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. From time to time, we may generate taxable income greater than our net income for financial reporting purposes from, among other things, amortization of capitalized purchase premiums, or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell a portion of our mortgage related securities at unfavorable prices or find other sources of funds in order to meet the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax. These other sources could increase our costs or reduce our equity and reduce amounts available to invest in mortgage related securities.

Failure to maintain an exemption from the Investment Company Act of 1940, as amended, would harm our results of operations.

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as described in this prospectus.

The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. Under the current interpretation of the SEC staff, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in these qualifying real estate interests, with at least 25% of our remaining assets invested in real estate-related securities. Mortgage related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may be treated as separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Therefore, our ownership of these mortgage related securities is limited by the provisions of the Investment Company Act.

As of June 30, 2004, 65.0% of our portfolio constituted qualifying interests in mortgage related securities for purposes of the Investment Company Act. In satisfying the 55% requirement under the Investment Company Act, we treat as qualifying interests mortgage related securities issued with respect to an underlying pool as to which we hold all issued certificates. If the SEC or its staff adopts a contrary interpretation of such treatment, we could be required to sell a substantial amount of our mortgage related securities under potentially adverse market conditions. Further, in order to ensure that we at all times qualify for the exemption under the Investment Company Act, we may be precluded from acquiring mortgage related securities whose yield is higher than the yield on mortgage related securities that could be purchased in a manner consistent with the exemption. These factors may lower or eliminate our net income.

Misplaced reliance on legal opinions or statements by issuers of mortgage related securities could result in a failure to comply with REIT gross income or asset tests.

When purchasing mortgage related securities, we may rely on opinions of counsel for the issuer or sponsor of such securities, or statements made in related offering documents, for purposes of determining whether and to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the REIT gross income tests. The inaccuracy of any such opinions or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

We may be harmed by changes in various laws and regulations.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. Our business may be harmed by changes to the laws and regulations affecting us, including changes to securities laws and changes to the Internal Revenue Code applicable to the taxation of REITs. New legislation may be enacted into law or new interpretations, rulings or regulations could be adopted, any of which could harm us and our stockholders, potentially with retroactive effect.

We may realize excess inclusion income that would increase the tax liability of our stockholders.

If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is a foreign person, it would be subject to federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

Excess inclusion income could result if we hold a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also could be generated if we were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage related securities securing those debt obligations (i.e., if we were to own an interest in a taxable mortgage pool). However, Treasury regulations have not been issued regarding the allocation of excess inclusion income to stockholders of a REIT that owns an interest in a taxable mortgage pool. We do not expect to acquire significant amounts of residual interests in REMICs, and we intend to structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. We do, however, expect to enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations.

A portion of our distributions may be deemed a return of capital for federal income tax purposes.

The amount of our distributions to the holders of our Class A Common Stock in a given quarter may not correspond to our REIT taxable income for such quarter. If distributions exceed our REIT taxable income, a portion of the distribution may be deemed a return of capital for federal income tax purposes. The amount of return of capital will not be taxable but will reduce stockholders' bases in the underlying shares of Class A Common Stock.

Risks Related to this Offering

We have not established a minimum distribution payment level and we cannot assure you of our ability to make distributions to our stockholders in the future.

We intend to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum distribution payment level and our ability to make distributions might be harmed by the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will have the ability to make distributions to our stockholders in the future.

The payment of dividends on our Class B Common Stock and the conversion of our Class B Common Stock and Class C Common Stock will dilute the interest of a Class A Common Stockholder in our future earnings and distributions.

The Class B Common Stock is entitled to participate in dividends on a share-for-share basis with the Class A Common Stock, and the Class B Common Stock and Class C Common Stock will be converted into Class A Common Stock when certain conditions are met. Such conversions would increase the number of shares of Class A Common Stock outstanding by 638,776 shares or 4% of the Class A Common Stock outstanding. The conversion of the Class C Common Stock would increase the number of shares entitled to share pro rata in our earnings and distributions by 319,388 shares, or 2% of the Class A Common Stock outstanding. See "Description of Capital Stock Conversion Rights."

Restrictions on ownership of a controlling percentage of our capital stock might limit your opportunity to receive a premium on our stock.

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our combined common and preferred stock. The constructive ownership rules in our charter are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock, and thus be subject to the ownership limit in our charter. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of our board of directors shall be void, and will result in the shares being transferred by operation of law to a charitable trust. These provisions might inhibit market activity and the resulting opportunity for our stockholders to receive a premium for their shares that might otherwise exist if any person were to attempt to assemble a block of shares of our stock in excess of the number of shares permitted under our charter and which may be in the best interests of our stockholders.

We have implemented certain provisions that could make any change in our board of directors or in control of our company more difficult.

Maryland law, our charter and our bylaws contain provisions, such as provisions prohibiting, without the consent of our board of directors, any single stockholder or group of affiliated stockholders from beneficially owning in excess of an ownership limit, which could make it difficult or expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and board of directors. We also have a staggered board of directors that makes it difficult for stockholders to change the composition of our board of directors in any one year. These and other anti-takeover provisions could substantially impede the ability of stockholders to change our management and board of directors.

Future offerings of debt securities, which would be senior to our Class A Common Stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our Class A Common Stock for the purposes of distributions, may harm the value of our Class A Common Stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or Class A Common Stock, as well as warrants to purchase shares of Class A Common Stock or convertible preferred stock. Upon the liquidation of our company, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our Class A Common Stock. Additional equity offerings by us may dilute the holdings of our existing stockholders or reduce the market value of our Class A Common Stock, or both. Our preferred stock, if issued, would have a preference on distributions that could limit our ability to make distributions to the holders of our Class A Common Stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Our stockholders are therefore subject to the risk of our future securities offerings reducing the market price of our Class A Common Stock and diluting their Class A Common Stock.

A regular trading market for our Class A Common Stock might not develop, which would harm the liquidity and value of our Class A Common Stock; trading and pricing of our Class A Common Stock may be volatile.

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol "BMM." However, we cannot assure you that active trading of our Class A Common Stock will develop on that exchange or elsewhere or, if developed, that any active market will be sustained. Accordingly, we cannot assure you of the liquidity of any market in our Class A Common Stock, the ability of our stockholders to sell their shares of our Class A Common Stock or the prices that our stockholders may obtain for their shares of our Class A Common Stock.

Broad market fluctuations could harm the market price of our Class A Common Stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our Class A Common Stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could harm the market price of our Class A Common Stock.

Shares of our Class A Common Stock eligible for future sale may harm our share price.

We cannot predict the effect, if any, of future sales of shares of our Class A Common Stock, or the availability of shares for future sales, on the market price of our Class A Common Stock. Sales of substantial amounts of these shares of our Class A Common Stock, or the perception that these sales could occur, may harm prevailing market prices for our Class A Common Stock. This prospectus covers the sale of 10,654,432 shares of our Class A Common Stock. In addition, 3,686,400 shares of our Class A Common Stock are reserved for issuance under our stock incentive plan and 313,600 shares of our Class A Common Stock are reserved for issuance upon exchange of phantom shares that we have issued under our stock incentive plan. If any or all of the holders of our Class A Common Stock covered by this prospectus sell a large number of securities in the public market, the sale could reduce the market price of our Class A Common Stock and could impede our ability to raise future capital.

CAUTIONARY STATEMENTS

Certain statements in this prospectus under the captions "Summary," "Risk Factors," "Business Risk Management Approach," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business Description of Mortgage Related Securities," and elsewhere constitute "forward-looking statements". When used in this prospectus, the words "anticipate," "believe," "estimate," "expect" and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others:

- changes in our industry, interest rates or general economic and business conditions;
- industry and market trends;
- availability of investment assets;
- the degree and nature of competition;
- changes in business strategy or development plans;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in, or the failure or inability to comply with, government laws and regulations;
- the impact of technology on our operations and business; and
- performance of our employees.

These forward-looking statements are based on our current beliefs, assumptions and expectations, taking into account information that we reasonably believe to be reliable. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectation with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of Class A Common Stock offered by this prospectus. The proceeds of this offering are solely for the account of the selling stockholders.

MARKET PRICE OF AND DISTRIBUTIONS ON OUR CLASS A COMMON STOCK

Market Information

Our Class A Common Stock is listed on the NYSE.

The following table sets forth the high and low sale prices for our Class A Common Stock as reported on the NYSE since our initial listing on September 16, 2004.

2004	Class A Common Stock High	Class A Common Stock Low
Third Quarter (through October 11, 2004)	$ 16.26	$ 14.50

As of October 11, 2004, we had 15,765,056 shares of Class A Common Stock issued and outstanding, which were held by 12 holders of record. The 12 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of over 300 beneficial owners of our Class A Common Stock.

Distribution Policy

The following table sets forth the cash distributions declared per share on our Class A Common Stock in the first and second quarters of 2004, and our Class A and Class B Common Stock in the third quarter of 2004:

2004	Cash Distributions Declared Per Share
First Quarter	$ 0.39
Second Quarter	$ 0.52
Third Quarter	$ 0.52

These are the only distributions that we have declared or paid since our commencement of operations. They are not necessarily indicative of distributions that we will declare in the future. None of these distributions are expected to represent a return of capital to the holders of our Class A Common Stock. We intend to distribute all or substantially all of our REIT taxable net income (which does not ordinarily equal net income as calculated in accordance with GAAP) to our stockholders in each year. We intend to make regular quarterly distributions to our stockholders to be paid out of funds readily available for such distributions. Our distribution policy is subject to revision at the discretion of our board of directors without notice to you or stockholder approval. We have not established a minimum distribution level, and our ability to make distributions may be affected for the reasons described under the caption "Risk Factors." All distributions will be made by us at the discretion of our board of directors and will depend on our earnings and financial condition, maintenance of REIT status, applicable provisions of the Maryland general corporation law, or MGCL, and such other factors as our board of directors deems relevant.

In order to maintain our qualification as a REIT under the Internal Revenue Code, we must make distributions to our stockholders each year in an amount at least equal to:

- 90% of our REIT taxable net income (computed without regard to our deduction for dividends paid and our net capital gains);
- *plus* 90% of the excess of net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code;
- *minus* any excess non-cash income that exceeds a percentage of our income.

In general, our distributions will be applied toward these requirements if paid in the taxable year to which they relate, or in the following taxable year if the distributions are declared before we timely file our tax return for that year, the distributions are paid on or before the first regular distribution payment following the declaration, and we elect on our tax return to have a specified dollar amount of such distributions treated as if paid in the prior year. Distributions declared by us in October, November or December of one taxable year and payable to a stockholder of record on a specific date in such a month are treated as both paid by us and received by the stockholder during such taxable year, provided that the distribution is actually paid by us by January 31 of the following taxable year.

We anticipate that distributions generally will be taxable as ordinary income to our stockholders, although a portion of such distributions may be designated by us as capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital or capital gains.

In the future, our board of directors may elect to adopt a dividend reinvestment plan.

SELECTED FINANCIAL DATA

The following selected financial data is derived from our audited financial statements as of December 31, 2003 and for the period September 24, 2003 (date of inception) through December 31, 2003, and from our unaudited financial statements as of and for the six months ended June 30, 2004. The selected financial data should be read in conjunction with the more detailed information contained in our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	Six months ended June 30, 2004	September 24, 2003 (inception) through December 31, 2003
Statement of Operations Data:		
Revenues:		
Interest income	$ 18,153,131	$ 71,480
Interest expense	(7,080,446)	(20,086)
Net interest income	11,072,685	51,394
Expenses:		
Trading costs, commissions and other	448,666	15,583
Other direct costs	57,184	29,899
Compensation and related benefits	640,806	35,964
Directors' fees and other public company costs	73,480	-0-
Start-up and organization costs		111,092
Occupancy costs	31,204	13,675
Audit, legal and other professional fees	60,260	85,340
Other administrative expenses	250,730	27,008
Total expenses	1,562,330	318,561
Net income (loss)	$ 9,510,355	$ (267,167)
Basic and diluted income (loss) per Class A common share	$ 1.06	$ (0.54)
Weighted average number of Class A common shares outstanding, used in calculating per share amounts:		
Basic	9,006,353	497,859
Diluted	9,006,668	497,859
Dividends declared per Class A common share	$ 0.91	$ -0-

	June 30, 2004	December 31, 2003
Balance Sheet Data:		
Mortgage-backed securities available for sale, at fair value	$	$ 27,750,602
Mortgage-backed securities pledged as collateral, at fair value	1,508,421,270	197,990,559
Total mortgage-backed securities, at fair value	1,508,421,270	225,741,161
Total assets	1,603,706,932	245,285,676
Repurchase agreements	1,461,220,000	188,841,000
Total liabilities	1,471,005,365	188,970,485
Accumulated other comprehensive loss	(9,110,912)	(19,409)
Total stockholders' equity	$ 132,701,567	$ 56,315,191
Class A common shares issued and outstanding	10,012,188	4,012,102
Book value per share of Class A Common Stock	$ 13.25	$ 14.04

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 our financial statements and related notes included elsewhere in this prospectus.

Introduction and Overview

Our business is to be a real estate investment trust investing in mortgage related securities. We seek to generate operating income based on the difference between the yields on our mortgage-backed investment assets and our expenses of doing business, which include the cost of our borrowings. We intend to borrow between eight and 12 times the amount of our equity. In evaluating our assets and their performance, our management team primarily evaluates these critical factors: asset performance in differing interest rate environments, duration of the security, yield to maturity, potential for prepayment of principal, and the market price of the investment.

Financial Condition

All of our assets at June 30, 2004 were acquired with the proceeds of our private placements and use of leverage. We received net proceeds after offering costs of approximately $141.7 million in these offerings, which closed on December 19, 2003, January 30, 2004 and February 17, 2004. In addition, we received net proceeds of approximately $77.5 million from our initial public offering in September 2004.

Mortgage Related Securities

At June 30, 2004, we held $1.5 billion of mortgage related securities at fair value. Our portfolio of mortgage related securities will typically be comprised of fixed-rate mortgage-backed securities, floating rate collateralized mortgage obligations, adjustable-rate mortgage-backed securities, hybrid adjustable-rate mortgage-backed securities and balloon maturity mortgage-backed securities. We seek to acquire low duration assets that offer high levels of protection from mortgage prepayments. Although the duration of an individual asset can change as a result of changes in interest rates, we plan to maintain a portfolio with an effective duration of less than 2.0. An effective duration of 2.0 would indicate that a 1% increase in interest rates would result in a 2.0% decline in the value of the securities in our portfolio. The stated contractual final maturity of the mortgage loans underlying our portfolio of mortgage related securities 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 refinancings of underlying mortgages and payoffs associated with sales of the underlying homes as people move.

For the six months ended June 30, 2004 we had net interest income of $18.2 million and interest expense of $7.1 million. As of June 30, 2004, we had an average annualized yield on assets of 2.79% and an average annualized net rate on borrowings of 1.26%. Prepayments on the loans underlying our mortgage related securities can alter the timing of the cash flows from the underlying loans to the company. As a result, we gauge the interest rate sensitivity of our assets by measuring their effective duration. While modified duration measures the price sensitivity of a bond to movements in interest rates, effective duration captures both the movement in interest rates and the fact that cash flows to a mortgage related security are altered when interest rates move. Accordingly, when the contract interest rate on a mortgage loan is substantially above prevailing interest rates in the market, the effective duration of securities collateralized by such loans can be quite low because of expected prepayments. Although the fixed-rate mortgage backed securities in our portfolio are collateralized by loans with a lower propensity to prepay when the contract rate is above prevailing rates, their price movements track securities with like contract rates and therefore exhibit similar effective duration. The value of our portfolio will change as interest rates rise or fall. See "Qualitative and Quantitative Disclosures about Market Risk Interest Rate Risk Effect on Fair Value."

The following tables summarize our mortgage related securities as of June 30, 2004:

Settled Securities

Asset Category	Market Value ($000)	Percentage of Entire Settled Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap
Fixed-Rate Mortgage-Backed Securities	$ 570,143	37.8%	6.38%	292	2034	n/a	n/a	n/a
CMO Floaters	512,969	34.0	1.61	315	2033	2	8.0%	None
Adjustable-Rate Mortgage-Backed Securities	270,014	17.9	2.97	345	2042	5	10.1	1.5%
Hybrid Adjustable-Rage Mortgage-Backed Securities	98,157	6.5	3.36	354	2034	30	9.4	2.0
Balloon Maturity Mortgage-Backed Securities	57,138	3.8	3.80	68	2011	n/a	n/a	n/a
Total Portfolio	**$ 1,508,421**	**100.0%**	**3.85%**	**305**	**2042**			

Settled Securities

Agency	Market Value ($000)	Percentage of Entire Settled Portfolio
Fannie Mae	$ 872,629	57.8%
Freddie Mac	551,882	36.6
Ginnie Mae	83,910	5.6
Total Portfolio	**$ 1,508,421**	**100.0%**

Entire Portfolio (settled & unsettled securities)

Effective Duration(1)	1.59
Weighted Average Purchase Price	102.8% of par value
Weighted Average Current Price	101.9% of par value

(1) Effective duration of 1.59 indicates that an interest rate increase of 1% would result in a 1.59% decline in the value of the securities in our portfolio.

As of June 30, 2004, approximately 70.5% of our portfolio of 15 year fixed-rate coupon mortgage securities, and 40.2% of our 30 year fixed-rate coupon mortgage securities, contain only loans with principal balances of $85,000 or less. Because of the low loan balance on these mortgages, we believe borrowers have a lower economic incentive to refinance and have historically prepaid more slowly than comparable securities.

We had approximately $88.9 million of cash and cash equivalents on hand as of June 30, 2004.

In response to the changing interest rate environment, we intend to continue to modify the mix of mortgage related securities that we will own. In particular, we intend to own greater percentages of adjustable-rate and hybrid adjustable-rate mortgage related securities and a smaller percentage of fixed-rate mortgage related securities than we currently own. In July and August 2004, we sold a portion of the mortgage related securities in our portfolio, primarily floating-rate collateralized mortgage obligations, for proceeds of $333.0 million. In connection with these sales, we recorded net gains of approximately $64,000. We purchased $224.0 million of additional securities, primarily adjustable-rate mortgage related securities and hybrid adjustable-rate mortgage related securities and used the remaining $109.0 million to reduce repurchase agreement liabilities. These sales and purchases have altered the mix of mortgage related securities in our portfolio. As a result, our portfolio as of August 15, 2004, assuming all transactions settle, is comprised of 37.7% fixed-rate mortgage-backed securities, 17.1% floating-rate collateralized mortgage obligations, 31.9% adjustable-rate mortgage-backed securities, 9.1% hybrid adjustable-rate mortgage-backed securities and 4.2% balloon maturity mortgage-backed securities. These sales and purchases reduced the effective duration of our portfolio to 1.40 as of July 31, 2004. We intend to use the proceeds of our September 2004 initial public offering to purchase greater percentages of adjustable-rate and hybrid adjustable-rate mortgage related securities and a smaller percentage of fixed-rate mortgage related securities than we owned prior to the initial public offering.

Liabilities

We have entered into repurchase agreements to finance acquisitions of mortgage related securities. None of the counterparties to these agreements are affiliates of us. These agreements are secured by our mortgage related securities and bear interest rates that have historically moved in close relationship to LIBOR. As of June 30, 2004 we had 16 master repurchase agreements with various investment banking firms and other lenders and had outstanding balances under 12 of these agreements.

At June 30, 2004, we had approximately $1.5 billion outstanding under repurchase agreements with a net weighted average current borrowing rate of 1.26%, $292.0 million of which matures between two and 30 days, $321.3 million of which matures between 31 and 90 days, and $847.8 million of which matures in more than 90 days. It is our present intention to seek to renew these repurchase agreements as they mature under the then-applicable borrowing terms of the counterparties to our repurchase agreements. At June 30, 2004, the repurchase agreements were secured by mortgage related securities with an estimated fair value of $1.5 billion and a weighted average maturity of 305 months.

At June 30, 2004, our repurchase agreements had the following counterparties, amounts outstanding, amounts at risk and weighted average remaining maturities:

Repurchase Agreement Counterparties	Amount Outstanding ($000)	Amount at Risk(1) ($000)	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
Deutsche Bank Securities, Inc.	$ 340,691	$ 17,370	146	23.3%
UBS Investment Bank, LLC	317,310	13,469	109	21.7
Bank of America Securities, LLC	179,394	10,305	146	12.3
Daiwa Securities America Inc.	147,294	6,223	56	10.1
Bear Stearns & Co. Inc.	112,820	4,846	69	7.7
Cantor Fitzgerald	94,930	1,585	15	6.5
Goldman Sachs	83,859	2,305	86	5.7
Freddie Mac	76,758	2,774	82	5.3
Nomura Securities International, Inc.	59,312	3,404	193	4.1
Countrywide Securities Corp.	26,067	1,312	115	1.8
Lehman Brothers	18,352	712	26	1.2
Citigroup	4,433	290	23	0.3
Total	$ 1,461,220	$ 64,595	107	100%

(1) Equal to the fair value of securities sold, plus accrued interest income, minus the sum of repurchase agreement liabilities, plus accrued interest expense.

Results of Operations

Six Months Ended June 30, 2004

In the six months ended June 30, 2004, we raised equity capital of approximately $85 million in private placements that closed on January 30, 2004 and February 17, 2004. We invested these proceeds, together with borrowings generated by leveraging the proceeds. Because our asset base grew

substantially during the first quarter of this period, our results are not comparable to a full period of continuing operations.

For the six months ended June 30, 2004, we recorded $9.5 million in net income. Our assets at June 30, 2004 were $1.6 billion and our liabilities were $1.5 billion. Our net interest income for the six months ended June 30, 2004 was $11.1 million and our expenses were $1.6 million, resulting in net income of $9.5 million or $1.06 per diluted share.

As of June 30, 2004, we had a debt to equity ratio of 11:1. Our portfolio had a weighted average yield of 2.79%. Weighted average yield is the composite of the yields on our securities as determined using the yield book model published by Citigroup. Our net weighted average borrowing cost at June 30, 2004 was 1.26%. The constant prepayment rate for the portfolio was 20.4% for June 2004, which reflects the annualized proportion of principal that was prepaid.

September 24, 2003 through December 31, 2003

Our company was organized on September 24, 2003 and we began substantive operations in late December 2003, after the initial closing of our private placement of Class A Common Stock. We leveraged the proceeds from the private placement with short-term borrowings under repurchase agreements to invest in a portfolio of mortgage related securities. Because of the timing of our initial investment of portfolio assets (investment activities began on December 22, 2003, and the first security purchase settled on December 26, 2003), interest income for the period from September 24, 2003 through December 31, 2003 was substantially lower than would be expected for a typical full period, both in an absolute sense and also relative to the average net invested assets for the period.

Other operating expenses were high in proportion to gross interest income and expense and to net interest income for the period from September 24 through December 31, 2003, as compared to expectations for full periods of operations, because we did not complete our first security purchase until December 26, 2003. To varying degrees, and for the same reason, operating expenses were disproportionate to net interest income compared to a normal full period's results.

We did not sell any mortgage related securities during the period from September 24, 2003 through December 31, 2003. Although we generally intend to hold our investment securities to maturity, we may determine at some time before they mature that it is in our interest to sell them and purchase securities with other characteristics. In that event, our earnings will be affected by realized gains or losses.

Liquidity and Capital Resources

Our primary source of funds as of June 30, 2004 consisted of repurchase agreements totaling $1.5 billion, with a weighted average current net borrowing rate of 1.26%. We expect to continue to borrow funds in the form of repurchase agreements. At June 30, 2004, we had master repurchase agreements in place with 16 counterparties and had outstanding balances under 12 of these agreements. These 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. As of June 30, 2004, all of our existing repurchase agreements matured in less than one year. Increases in short-term interest rates could negatively impact the valuation of our mortgage related securities, which could limit our borrowing ability or cause our lenders to initiate margin calls.

For liquidity, we will also rely on cash flow from operations, primarily monthly principal and interest payments to be received on our mortgage related securities, as well as any primary securities offerings authorized by our board of directors.

We believe that equity capital, combined with the cash flow from operations and the utilization of borrowings, will be sufficient to enable us to meet anticipated liquidity requirements. Various changes in market conditions could adversely affect our liquidity, including increases in interest rates and increases in prepayment rates substantially above our expectations. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may be required to pledge additional assets to meet margin calls, liquidate mortgage related securities or sell debt or additional equity securities. If required, the sale of mortgage related securities at prices lower than the carrying value of such assets would result in losses and reduced income.

We may in the future increase our capital resources by making additional offerings of equity and debt securities, including classes of preferred stock, common stock, commercial paper, medium-term notes, collateralized mortgage obligations and senior or subordinated notes. All debt securities, other borrowings, and classes of preferred stock will be senior to the Class A Common Stock in a liquidation of our company. Additional equity offerings may be dilutive to stockholders' equity or reduce the market price of our Class A Common Stock, or both. We are unable to estimate the amount, timing or nature of any additional offerings as they will depend upon market conditions and other factors.

Contractual Obligations and Commitments

The following table provides information with respect to our contractual obligations at June 30, 2004.

	Payment due by period ($000)	
Contractual Obligations	**Total**	**Less than 1 year**
Repurchase Agreements	$ 1,461,220	$ 1,461,220
Operating Lease Obligations	17	17
Total	$ 1,461,237	$ 1,461,237

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, which are known as GAAP. These accounting principles require us to make some complex and subjective decisions and assessments. Our most critical accounting policies involve decisions and assessments which could significantly affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made based upon information available to us at that time. Management has identified our most critical accounting policies to be the following:

Classifications of Investment Securities

In accordance with applicable GAAP, our investments in mortgage related securities are classified as available-for-sale securities. As a result, changes in fair value are recorded as a balance sheet adjustment to accumulated other comprehensive income (loss), which is a component of stockholders' equity, rather than through our statement of operations. If available-for-sale securities were classified as trading securities, there could be substantially greater volatility in earnings from period-to-period.

Valuations of Mortgage Related Securities

All investment securities are carried on the balance sheet at fair value. Our mortgage related securities have fair values determined by management based on the average of third-party broker quotes received and/or by independent pricing sources when available. Because the price estimates may vary to some degree between sources, management must make certain judgments and assumptions about the appropriate price to use to calculate the fair values for financial reporting purposes. Different judgments and assumptions could result in different presentations of value.

When the fair value of an available-for-sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (for example, whether the security will be sold prior to the recovery of fair value). If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and this loss is realized and charged against earnings. The determination of other-than-temporary impairment is a subjective process, and different judgments and assumptions could affect the timing of loss realization.

The unrealized losses on the investments held in our portfolio at June 30, 2004 are considered temporary, and the related investments were therefore not written down as being permanently impaired (see Note 2 to the financial statements). The factors considered in making this determination included the expected cash flow from the investment, the general quality of the mortgage related security owned, any credit protection available, current market conditions, and the magnitude and duration of the historical decline in market prices.

Interest Income Recognition

Interest income on our mortgage related securities is accrued based on the actual coupon rate and the outstanding principal amount of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the estimated lives of the securities using the effective yield method adjusted for the effects of estimated prepayments based on Statement of Financial Accounting Standards, or SFAS, No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17.* Adjustments are made using the retrospective method to the effective interest computation each reporting period based on the actual prepayment experiences to date and the present expectation of future prepayments of the underlying mortgages. To make assumptions as to future estimated rates of prepayments, we currently use actual market prepayment history for our securities and for similar securities that we do not own and current market conditions. If our estimate of prepayments is incorrect, we are required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

We earned $11.1 million of net interest income for the six months ended June 30, 2004, and $51,394 of net interest income for the initial short period ended December 31, 2003. As measured against invested assets during each period, these net interest earnings represented an annualized net yield of approximately 1.5% for the six months ended June 30, 2004 and 2.0% for the short period ended December 31, 2003. These earnings are not representative of what can be expected for future periods, as we only began to acquire investments in late December 2003, and the funds received during the six months ended June 30, 2004 from our private placements were not fully invested for the entire six-month period.

Accounting for Stock-Based Compensation

We have adopted the fair value-based method of accounting for stock-based compensation. Under this approach, we will recognize an expense for any stock-based employee compensation based on the fair value of the award, as well as for transactions with non-employees in which services are performed in exchange for equity instruments.

Off-Balance Sheet Arrangements

Since inception, we have not maintained any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide additional funding to any such entities. Accordingly, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Inflation

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States and our distributions are determined by our board of directors based primarily on our net income as calculated for tax purposes; in each case, our activities and balance sheet are measured with reference to historical cost and or fair market value without considering inflation.

BUSINESS

General

We commenced operations in December 2003 and invest primarily in residential mortgage related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. We will earn returns on the spread between the yield on our assets and our costs, including the interest expense on the funds we borrow. We intend to borrow between eight and 12 times the amount of our equity capital to attempt to enhance our returns to stockholders. We are self-managed and self-advised.

We conducted private placements of our Class A Common Stock in which we raised aggregate net proceeds (after commissions and expenses) of approximately $141.7 million between December 2003 and February 2004. In September 2004 we completed the initial public offering of our shares of Class A Common Stock. Our Class A Common Stock trades on the New York Stock Exchange, or NYSE, under the trading symbol "BMM". We raised approximately $83,375,000 in gross proceeds in our initial public offering.

As of June 30, 2004 we had total assets of $1.6 billion, substantially all of which consisted of mortgage related securities and cash and cash equivalents. On that date, our portfolio of mortgage related securities totaled $1.5 billion and was comprised of 37.8% fixed-rate mortgage-backed securities, 34.0% floating rate collateralized mortgage obligations, 17.9% adjustable-rate mortgage-backed securities, 6.5% hybrid adjustable-rate mortgage-backed securities (securities backed by mortgages with fixed initial rates which, after a period, convert to adjustable rates) and 3.8% balloon maturity mortgage-backed securities (securities backed by mortgages where a significant portion of principal is repaid only at maturity). Of this portfolio, 58% was issued by Fannie Mae, 37% was issued by Freddie Mac and 5% was issued by Ginnie Mae.

Our portfolio had a weighted average yield of 2.79% as of June 30, 2004. Our net weighted average borrowing cost as of June 30, 2004 was 1.26%. The constant prepayment rate for the portfolio was 20.4% for June 2004, which reflects the annualized proportion of principal that was prepaid. The effective duration for the portfolio was 1.59 as of June 30, 2004. Duration measures the price sensitivity of a fixed income security 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.

In response to the changing interest rate environment, we will continue to modify the mix of mortgage related securities that we will own. In particular, we intend to own greater percentages of adjustable-rate and hybrid adjustable-rate mortgage related securities and a smaller percentage of fixed-rate mortgage related securities than we currently own. We began the process of adjusting our portfolio mix in the third quarter of 2004.

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code commencing with our taxable year ended December 31, 2003. Provided we continue to qualify as a REIT, we will generally distribute to our stockholders all or substantially all of our taxable income generated from our operations. As long as we retain our REIT status, we generally will not be subject to federal income tax to the extent that we distribute our net income to our stockholders.

Risk Management Approach

We seek to differentiate ourselves from other mortgage portfolio managers through our approach to risk management. We invest in a limited universe of mortgage related securities, primarily those issued by Fannie Mae, Freddie Mac and Ginnie Mae. Payment of principal and interest underlying securities issued by Ginnie Mae is guaranteed by the U.S. Government. Fannie Mae and Freddie Mac mortgage related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. We seek to manage the risk of prepayments of the underlying mortgages by creating a diversified portfolio with a variety of prepayment characteristics. Finally, we seek to address interest rate risks by managing the interest rate indices and borrowing periods of our debt, as well as through hedging against interest rate changes.

We have implemented a risk-based capital methodology patterned on the general principles underlying the proposed risk-based capital standards for internationally active banks of the Basel Committee on Banking Supervision, commonly referred to as the Basel II Accord. The Basel II Accord encourages banks to develop methods for measuring the risks of their banking activities to determine the amount of capital required to support those risks. Similarly, we use our methodology to calculate an internally generated risk measure for each asset in our portfolio. This measure is then used to establish the amount of leverage we use. We expect our risk management program to reduce our need to use hedging techniques.

Our Investment Strategy

Our board of directors may change our investment strategy without prior notice to you or a vote of our stockholders.

Asset Acquisition Strategy

The primary assets in our current portfolio of mortgage related securities are fixed-rate mortgage-backed securities, floating rate collateralized mortgage obligations, adjustable-rate mortgage-backed securities, hybrid adjustable-rate mortgage-backed securities and balloon maturity mortgage-backed securities. The mortgage related securities we acquire are obligations issued by federal agencies or federally chartered entities, primarily Fannie Mae, Freddie Mac and Ginnie Mae.

We seek to manage the effects on our income of prepayments of the mortgage loans underlying our securities at a rate materially different than anticipated. Our diversified portfolio includes securities with prepayment characteristics that we expect to result in slower prepayments, such as pools of mortgage-backed securities collateralized by mortgages with low loan balances, mortgages originated under Fannie Mae's Expanded Approval Program or agency pools collateralized by loans against investment properties.

Borrowers with low loan balances have a lower economic incentive to refinance and have historically prepaid at lower rates than borrowers with larger loan balances. The reduced incentive to refinance has two parts: borrowers with low loan balances will have smaller interest savings because overall interest payments are smaller on their loans; and closing costs for refinancings, which are generally not proportionate to the size of a loan, make refinancing of smaller loans less attractive as it takes a longer period of time for the interest savings to cover the cost of refinancing.

Fannie Mae's Expanded Approval Program allows borrowers with slightly impaired credit histories or loan-to-value ratios greater than 80% to qualify for conventional conforming financing. Borrowers under this program have proportionately higher delinquency rates than typical Fannie Mae borrowers, resulting in a higher than market interest rate because of the increased default and delinquency risk. Prepayment rates on these securities are lower than average because refinancing is more difficult for delinquent or recently delinquent loans.

Agency pools collateralized by loans against investment properties generally result in slower prepayments because borrowers financing investment properties are required to pay an up front premium. Payment of this premium requires a larger rate movement for the borrower to achieve the same relative level of savings upon refinancing.

We have created and will maintain a diversified portfolio to avoid undue geographic, loan originator, and other types of concentrations. By maintaining essentially all of our assets in government or government-sponsored or chartered enterprises and government or federal agencies, which may include an implied guarantee of the federal government as to payment of principal and interest, we believe we can significantly reduce our exposure to losses from credit risk. We intend to acquire assets that will enable us to be exempt from the Investment Company Act.

Legislation may be proposed to change the relationship between certain agencies, such as Fannie Mae and the federal government. This may have the effect of reducing the actual or perceived credit quality of mortgage related securities issued by these agencies. As a result, such legislation could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac mortgage-backed securities. We currently intend to continue to invest in such securities, even if such agencies' relationships with the federal government change.

Leverage Strategy

We use leverage in an attempt to increase potential returns to our stockholders. However, the use of leverage may also have the effect of increasing losses when economic conditions are unfavorable. We generally borrow between eight to 12 times the amount of our equity, although our investment policies require no minimum or maximum leverage. We use repurchase agreements to borrow against existing mortgage related securities and use the proceeds to acquire additional mortgage related securities. We enter into collateralized borrowings only with institutions that are rated investment grade by at least one nationally-recognized statistical rating agency.

We seek to structure the financing in such a way as to limit the effect of fluctuations in short-term rates on our interest rate spread. In general, our borrowings are short-term and we actively manage, on an aggregate basis, both the interest rate indices and interest rate adjustment periods of our borrowings against the interest rate indices and interest rate adjustment periods on our mortgage related securities in order to limit our liquidity and interest rate related risks. We may also employ borrowings under longer term facilities.

We generally borrow at short-term rates using repurchase agreements. As of June 30, 2004, our debt to equity ratio was 11:1, and our repurchase agreements at that date totalled $1.5 billion. Repurchase agreements are generally, but not always, short-term in nature. Under these repurchase agreements, we sell securities to a lender and agree to repurchase those securities in the future for a price that is higher than the original sales price. The difference between the sales price we receive and the repurchase price we pay represents interest paid to the lender. This is determined by reference to an interest rate index (such as LIBOR) plus an interest rate spread. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which we effectively pledge our securities as collateral to secure a short-term loan equal in value to a specified percentage of the market value of the pledged collateral. We retain beneficial ownership of the pledged collateral, including the right to distributions. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive our pledged collateral from the lender or, with the consent of the lender, we renew such agreement at the then prevailing financing rate. Our repurchase agreements may require us to pledge additional assets to the lender in the event the market value of the existing pledged collateral declines.

We have engaged AVM, L.P. (a securities broker-dealer) and III Associates (a registered investment adviser affiliated with AVM), to provide us with repurchase agreement trading, clearing and administrative services. III Associates acts as our agent and adviser in arranging for third parties to enter into repurchase agreements with us, executes and maintains records of our repurchase transactions and assists in managing the margin arrangements between us and our counterparties for each of our repurchase agreements.

We seek to protect our capital base through the use of a risk-based capital methodology. This methodology is patterned on the general principles underlying the Basel II Accord. These principles are intended to promote the use by internationally active banks of increasingly sophisticated internal risk management processes and measurements for purposes of allocating capital on a weighted basis. Our methodology follows this framework in that the inherent risk of an asset will create a capital allocation for the asset, which will in turn define the amount of leverage we will employ.

As with the Basel approach, we identify components of risk associated with the assets we employ. However, unlike typical bank loans, which may bear a significant degree of credit risk, the risks associated with the assets we employ are primarily related to movements in interest rates. The elements relating to interest rate risk we analyze are effective duration, convexity, expected return and the slope of the yield curve. "Effective duration" measures the sensitivity of a security's price to movements in interest rates. "Convexity" measures the sensitivity of a security's effective duration to movements in interest rates. "Expected return" captures the market's assessment of the risk of a security. We assume markets are efficient with respect to the pricing of risk.

While these three risk components primarily address the price movement of a security, we believe the income earning potential of our portfolio as reflected in the slope of the yield curve offsets potential negative price movements. We believe the risk of our portfolio is lower when the slope of the yield curve is steep, and thus is inversely proportional to the slope of the yield curve.

We use these components of risk to arrive at a risk coefficient for each asset. The product of this coefficient and the amount of our investment represents our "risk measure" for the asset. We calculate risk measures for each asset and then aggregate them into the risk measure for the entire portfolio, which guides us to an appropriate amount of overall leverage. We analyze the portfolio's risk measures on a daily basis. The leverage ratio will rise as the risk level of the portfolio declines and will fall as the portfolio's risk level increases. The goal of our approach is to ensure that our portfolio's leverage ratio is appropriate for the level of risk inherent in the portfolio.

Interest Rate Risk Management

We believe the primary risk inherent in our investments is the effect of movements in interest rates. This arises because the changes in interest rates on our borrowings will not be perfectly coordinated with the effects of interest rate changes on the income from, or value of, our investments. We therefore follow an interest rate risk management program designed to offset the potential adverse effects resulting from the rate adjustment limitations on our mortgage related securities. We seek to minimize differences between interest rate indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities and related borrowings by matching the terms of assets and related liabilities both as to maturity and to the underlying interest rate index used to calculate interest rate charges.

Our interest rate risk management program encompasses a number of procedures, including the following:

- monitoring and adjusting, if necessary, the interest rate sensitivity of our mortgage related securities compared with the interest rate sensitivities of our borrowings.

- attempting to structure our repurchase agreements that fund our purchases of adjustable-rate mortgage-backed securities to have a range of different maturities and interest rate adjustment periods. We attempt to structure these repurchase agreements to match the reset dates on our adjustable-rate mortgage-backed securities. At June 30, 2004, the weighted average months to reset of our adjustable-rate mortgage-backed securities was 4.6 months and the weighted average reset on the corresponding repurchase agreements was 3.8 months; and

- actively managing, on an aggregate basis, the interest rate indices and interest rate adjustment periods of our mortgage related securities compared to the interest rate indices and adjustment periods of our borrowings. Our liabilities under our repurchase agreements are all LIBOR-based, and we select our adjustable-rate mortgage-backed securities to favor LIBOR indexes. As of June 30, 2004, over 79% of our adjustable-rate mortgage-backed securities were LIBOR-based.

As a result, we expect to be able to adjust the average maturities and reset periods of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings mature or are renewed. Through the use of these procedures, we attempt to reduce the risk of differences between interest rate adjustment periods of our adjustable-rate mortgage-backed securities and our related borrowings.

We may from time to time use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. We may enter into swap or cap agreements, option, put or call agreements, futures contracts, forward rate agreements or similar financial instruments to hedge indebtedness that we may incur or plan to incur. These contracts would be intended to more closely match the effective maturity of, and the interest received on, our assets with the effective maturity of, and the interest owed on, our liabilities. However, no assurances can be given that interest rate risk management strategies can successfully be implemented. Derivative instruments will not be used for speculative purposes.

We may also use derivative financial instruments in an attempt to protect us against declines in the market value of our assets that result from general trends in debt markets. The inability to match closely the maturities and interest rates of our assets and liabilities or the inability to protect adequately against declines in the market value of our assets could result in losses.

Repurchase Agreement Trading, Clearing and Administrative Services

We have engaged AVM, L.P. (a securities broker-dealer) and III Associates (a registered investment adviser affiliated with AVM), to provide us with repurchase agreement trading, clearing and administrative services. AVM acts as our clearing agent. III Associates acts as our agent and adviser in arranging for third parties to enter into repurchase agreements with us, executes and maintains records of our repurchase transactions and assists in managing the margin arrangements between us and our counterparties for each of our repurchase agreements.

AVM and III Associates receive fees for their services, and III Associates also has the opportunity to earn additional incentive fees. AVM receives a fee equal to no greater than 0.20% of the book value of our assets or a minimum annual fee of $250,000. III Associates receives an annual consulting fee of no less than $200,000 and is entitled to receive 45% of the amount by which the financing costs under each of our repurchase agreements secured by III Associates, calculated at an assumed hurdle rate, would exceed the actual financing costs under that repurchase agreement. For the portion of our mortgage related securities with a value up to $3.0 billion, the applicable hurdle rate is LIBOR plus 0.02%. For the portion of our mortgage related securities with a value between $3.0 billion and $5.0 billion, the applicable hurdle rate is LIBOR plus 0.01%. For the portion of our mortgage related securities with a value in excess of $5.0 billion, the applicable hurdle rate is flat LIBOR.

Description of Mortgage Related Securities

Mortgage-Backed Securities

Pass-Through Certificates. We intend to invest in pass-through certificates, which are securities representing interests in pools of mortgage loans secured by residential real property in which payments of both interest and principal on the securities are generally made monthly. In effect, these securities pass through the monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer or guarantor of the securities. Pass-through certificates can be divided into various categories based on the characteristics of the underlying mortgages, such as the term or whether the interest rate is fixed or variable.

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments arise primarily due to sale of the underlying property, refinancing, or foreclosure. Prepayments result in a return of principal to pass-through certificate holders. This may result in a lower or higher rate of return upon reinvestment of principal. This is generally referred to as prepayment uncertainty. If a security purchased at a premium prepays at a higher-than-expected rate, then the value of the premium would be eroded at a faster-than-expected rate. Similarly, if a discount mortgage prepays at a lower-than-expected rate, the amortization towards par would be accumulated at a slower-than-expected rate. The possibility of these undesirable effects is sometimes referred to as "prepayment risk."

In general, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage related securities generally declines. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage related securities and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, our holdings of mortgage related securities may experience reduced returns if the borrowers of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

Payment of principal and interest on mortgage pass-through securities issued by Ginnie Mae, although not the market value of the securities themselves, are guaranteed by the full faith and credit of the federal government. Payment of principal and interest on mortgage pass-through certificates issued by Fannie Mae and Freddie Mac, although not the market value of the securities themselves, are guaranteed by the respective agency issuing the security.

The mortgage loans underlying pass-through certificates can generally be classified in the following five categories:

Fixed-Rate Mortgages. As of June 30, 2004, 37.8% of our portfolio consisted of fixed-rate mortgage-backed securities. Fixed-rate mortgages are those where the borrower pays an interest rate that is constant throughout the term of the loan. Traditionally, most fixed-rate mortgages have an original term of 30 years. However, shorter terms (also referred to as final maturity dates) have become common in recent years. Because the interest rate on the loan never changes, even when market interest rates change, over time there can be a divergence between the interest rate on the loan and current market interest rates. This in turn can make a fixed-rate mortgage's price sensitive to market fluctuations in interest rates. In general, the longer the remaining term on the mortgage loan, the greater the price sensitivity.

Collateralized Mortgage Obligations. As of June 30, 2004, 34.0% of our portfolio consisted of floating rate collateralized mortgage obligations. Collateralized mortgage obligations, or CMOs, are a type of mortgage-backed security. Interest and principal on a CMO are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities issued directly by or under the auspices of Ginnie Mae, Freddie Mac or Fannie Mae. CMOs are structured into multiple classes, with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes receive principal only after the first class has been retired. Generally, fixed-rate mortgages are used to collateralize CMOs. However, the CMO tranches need not all have fixed-rate coupons. Some CMO tranches have floating rate coupons that adjust based on market interest rates, subject to some limitations. Such tranches, often called "CMO floaters," can have relatively low price sensitivity.

Adjustable-Rate Mortgages. As of June 30, 2004, 17.9% of our portfolio consisted of adjustable-rate mortgage-backed securities. Adjustable-rate mortgages, or ARMs, are those for which the borrower pays an interest rate that varies over the term of the loan. The interest rate usually resets based on market interest rates, although the adjustment of such an interest rate may be subject to certain limitations. Traditionally, interest rate resets occur at regular set intervals (for example, once per year). We will refer to such ARMs as "traditional" ARMs. Because the interest rates on ARMs fluctuate based on market conditions, ARMs tend to have interest rates that do not deviate from current market rates by a large amount. This in turn can mean that ARMs have less price sensitivity to interest rates.

Hybrid Adjustable-Rate Mortgages. As of June 30, 2004, 6.5% of our portfolio consisted of hybrid adjustable-rate mortgage-backed securities. Hybrid ARMs have a fixed-rate for the first few years of the loan, often three, five, or seven years, and thereafter reset periodically like a traditional ARM. Effectively such mortgages are hybrids, combining the features of a pure fixed-rate mortgage and a "traditional" ARM. Hybrid ARMs have price sensitivity to interest rates similar to that of a fixed-rate mortgage during the period when the interest rate is fixed and similar to that of an ARM when the interest rate is in its periodic reset stage. However, because many hybrid ARMs are structured with a relatively short initial time span during which the interest rate is fixed, even during that segment of its existence, the price sensitivity may be high.

Balloon Maturity Mortgages. As of June 30, 2004, 3.8% of our portfolio consisted of balloon maturity mortgage-backed securities. Balloon maturity mortgages are a type of fixed-rate mortgage where all or most of the principal amount is due at maturity, rather than paid down, or amortized, over the life of the loan. These mortgages have a static interest rate for the life of the loan. However, the term of the loan is usually quite short, typically less than seven years. As the balloon maturity mortgage approaches its maturity date, the price sensitivity of the mortgage declines.

Although there are a variety of other mortgage related securities, including various derivative securities, securities known as "inverse floaters," "inverse I.O.'s" and "residuals," we do not expect to invest in them.

Other Investments

We may purchase interest rate caps to hedge against quick and unexpected changes in our funding rates. The purchaser of these caps is only at risk for the fee paid. We may also enter into longer term funding arrangements with acceptable counterparties. We intend to limit these investments to less than 10% of our total assets.

We also intend to operate in a manner that will not subject us to regulation under the Investment Company Act. Although it does not anticipate any major changes at this time, our board of directors has the authority to modify or waive our current operating policies and our strategies without prior notice to you and without stockholder approval.

Policies With Respect to Certain Other Activities

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Internal Revenue Code concerning distribution requirements and the taxability of undistributed REIT taxable income) or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time.

We have authority to offer our Class A Common Stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares and may engage in such activities in the future.

Subject to gross income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

We may engage in the purchase and sale of investments. We do not underwrite the securities of other issuers.

Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

Custodian Bank

We have engaged J.P. Morgan Chase & Co. to serve as our custodian bank. J.P. Morgan Chase & Co. is entitled to fees for its services.

Competition

When we invest in mortgage related securities and other investment assets, we compete with a variety of institutional investors, including other REITs, insurance companies, mutual funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of mortgage related securities, resulting in higher prices and lower yields on assets.

Website Access to our Periodic SEC Reports

The Internet address of our corporate website is www.biminireit.com. We intend to make our periodic SEC reports (on Forms 10-K and 10-Q) and current reports (on Form 8-K), as well as the beneficial ownership reports filed by our directors, officers and 10% stockholders (on Forms 3, 4 and 5) available free of charge through our website as soon as reasonably practicable after they are filed electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. The information on our website is not a part of this prospectus.

Materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at www.sec.gov that will contain our reports, proxy and information statements, and other information regarding our company that we will file electronically with the SEC.

Employees

We currently have seven full-time employees.

Facilities

Our principal offices are located at 3305 Flamingo Drive, Suite 100, Vero Beach, Florida 32963.

Legal Proceedings

We are not a party to any legal proceedings.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe the primary risk inherent in our investments is the effect of movements in interest rates. This arises because the changes in interest rates on our borrowings will not be perfectly coordinated with the effects of interest rate changes on the income from, or value of, our investments. We therefore follow an interest rate risk management program designed to offset the potential adverse effects resulting from the rate adjustment limitations on our mortgage related securities. We seek to minimize differences between the interest rate indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities and those of our related borrowings.

Our interest rate risk management program encompasses a number of procedures, including the following:

monitoring and adjusting, if necessary, the interest rate sensitivity of our mortgage related securities compared with the interest rate sensitivities of our borrowings;

attempting to structure our repurchase agreements that fund our purchases of adjustable-rate mortgage-backed securities to have a range of different maturities and interest rate adjustment periods. We attempt to structure these repurchase agreements to match the reset dates on our adjustable-rate mortgage-backed securities. At June 30, 2004, the weighted average months to reset of our adjustable-rate mortgage-backed securities was 4.6 months and the weighted average reset on the corresponding repurchase agreements was 3.8 months; and

actively managing, on an aggregate basis, the interest rate indices and interest rate adjustment periods of our mortgage related securities compared to the interest rate indices and adjustment periods of our borrowings. Our liabilities under our repurchase agreements are all LIBOR-based, and we select our adjustable-rate mortgage-backed securities to favor LIBOR indexes. As of June 30, 2004, over 79% of our adjustable-rate mortgage-backed securities were LIBOR-based.

As a result, we expect to be able to adjust the average maturities and reset periods of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings mature or are renewed. Through the use of these procedures, we attempt to reduce the risk of differences between interest rate adjustment periods of our adjustable-rate mortgage-backed securities and those of our related borrowings.

Because we attempt to match our assets and liabilities from an interest rate perspective and hold our assets to maturity, we expect to have limited exposure to changes in interest rates. However, we will be exposed to changes in interest rates either (i) upon refinancing borrowings that expire before the related assets are repaid or (ii) upon reinvesting (and refinancing) proceeds following the maturity of current investments, if interest rates were to rise substantially.

As a further means of protecting our portfolio against the effects of major interest rate changes we may employ a limited hedging strategy under which we purchase interest rate cap contracts (under which we would generally be entitled to payment if interest rate indices exceed the agreed rates) or rate lock or other guaranteed financing contracts (under which we would pay a fee to guarantee certain lines of borrowing at certain rates or for certain periods of time). Under these contracts we would generally only be at risk for the fees paid. T