

Orchid Island Capital, Inc.
Form S-11
February 14, 2014

As filed with the Securities and Exchange Commission on February 14, 2014

Registration No. 333-

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

Form S-11
FOR REGISTRATION
UNDER
THE SECURITIES ACT OF 1933
OF CERTAIN REAL ESTATE COMPANIES

ORCHID ISLAND CAPITAL, INC.

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

3305 Flamingo Drive, Vero Beach Florida 32963

(772) 231-1400

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

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Chairman and Chief Executive Officer

Orchid Island Capital, Inc.

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(772) 231-1400

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. "

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. "

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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.

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.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price ⁽¹⁾⁽²⁾	Amount of Registration Fee ⁽¹⁾
Common Stock, \$0.01 par value per share	\$36,000,000	\$4,637

(1) Estimated solely for the purposes of determining the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

(2) Includes the offering price of shares of common stock that may be purchased by the underwriters upon the exercise of their overallotment option.

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 issue 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 jurisdiction where the offer or sale thereof is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2014

PRELIMINARY PROSPECTUS

Shares

Common Stock

Orchid Island Capital, Inc., a Maryland corporation, invests in residential mortgage-backed securities the principal and interest payments of which are guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity. We are externally managed and advised by Bimini Advisors, LLC, or our Manager, a wholly-owned subsidiary of Bimini Capital Management, Inc., or Bimini. Our Manager is an investment advisor registered with the Securities and Exchange Commission, or SEC. Bimini is an existing real estate investment trust for U.S. federal income tax purposes, or REIT, whose common stock is traded on the OTC Bulletin Board under the symbol BMNM.

This is an offering of _____ shares of our common stock, \$0.01 par value per share. Our common stock is traded on the NYSE MKT under the symbol ORC. On February _____, 2014, the last reported sales price on the NYSE MKT for our common stock was \$ _____ per share.

We are organized and intend to continue to conduct our operations to qualify as a REIT. To assist us in qualifying as a REIT, among other purposes, ownership of our stock by any person is generally limited to 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our stock, except that Bimini may own up to 35.0% of our common stock so long as Bimini continues to qualify as a REIT. Our charter also contains various other restrictions on the ownership and transfer of our common stock, see Description of Capital Stock Restrictions on Ownership and Transfer.

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 25 of this prospectus.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discount and Commissions ⁽¹⁾	\$	\$
Proceeds to Us (before expenses)	\$	\$

(1) Please see the section of this prospectus entitled "Underwriting" for further information relating to the underwriting arrangements agreed to between us and the underwriter in this offering.

We have granted the underwriters the option to purchase up to an additional _____ shares of common stock within 30 days after the date of this prospectus to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Ladenburg Thalmann & Co. Inc., on behalf of the underwriters, expects to deliver the shares on or about February _____, 2014.

Ladenburg Thalmann & Co. Inc.

Prospectus dated _____, 2014

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You should rely only on the information contained and incorporated by reference in this prospectus and any free writing prospectus that we authorize to be delivered to you. We have not, and the underwriters have not, authorized any other person to provide you with any additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale thereof is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or another date specified herein. You should assume that the information appearing in the documents incorporated by reference in this prospectus is accurate only as of the respective dates of those documents or another date specified therein. Our business, financial condition and prospects may have changed since such dates.

PROSPECTUS SUMMARY

This section summarizes information contained elsewhere in this prospectus. It is not complete and may not contain all of the information that you may want to consider before making an investment in our common stock. You should read this entire prospectus carefully, including the section titled "Risk Factors" and our financial statements and related notes that are incorporated by reference into this prospectus, before making an investment in our common stock. As used in this prospectus, "Orchid," "Company," "we," "our," and "us" refer to Orchid Island Capital, Inc. References to "our Manager" refer to Bimini Advisors, LLC, a wholly-owned subsidiary of Bimini Capital Management, Inc. References to "Bimini" and "Bimini Capital" refer to Bimini Capital Management, Inc. Unless otherwise indicated, the information in this prospectus assumes (i) the underwriters will not exercise their option to purchase up to an additional _____ shares of our common stock to cover overallocments, if any, and (ii) that the shares of our common stock to be sold in this offering will be sold at \$ _____ per share, which was the last reported sales price of our common stock on February _____, 2014, as reported on the NYSE MKT.

Our Company

Orchid Island Capital, Inc. is a specialty finance company that invests in residential mortgage-backed securities, or RMBS. The principal and interest payments of these RMBS are guaranteed by the Federal National Mortgage Association, or Fannie Mae, the Federal Home Loan Mortgage Corporation, or Freddie Mac, or the Government National Mortgage Association, or Ginnie Mae, and are backed primarily by single-family residential mortgage loans. We refer to these types of RMBS as Agency RMBS. Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS and (ii) structured Agency RMBS, such as collateralized mortgage obligations, or CMOs, interest only securities, or IOs, inverse interest only securities, or IIOs, and principal only securities, or POs, among other types of structured Agency RMBS.

Our business objective is to provide attractive risk-adjusted total returns to our investors over the long term through a combination of capital appreciation and the payment of regular monthly distributions. We intend to achieve this objective by investing in and strategically allocating capital between the two categories of Agency RMBS described above. We seek to generate income from (i) the net interest margin, which is the spread or difference between the interest income we earn on our assets and the interest cost of our related borrowing and hedging activities, on our leveraged pass-through Agency RMBS portfolio and the leveraged portion of our structured Agency RMBS portfolio, and (ii) the interest income we generate from the unleveraged portion of our structured Agency RMBS portfolio. We intend to fund our pass-through Agency RMBS and certain of our structured Agency RMBS, such as fixed and floating rate tranches of CMOs and POs, through short-term borrowings structured as repurchase agreements. However, we do not intend to employ leverage on the securities in our structured Agency RMBS portfolio that have no principal balance, such as IOs and IIOs. We may pledge a portion of these assets to increase our cash balance, but we do not intend to invest the cash derived from pledging the assets. Otherwise, we do not intend to use leverage in these instances because these securities contain structural leverage.

Pass-through Agency RMBS and structured Agency RMBS typically exhibit materially different sensitivities to movements in interest rates. Declines in the value of one portfolio may be offset by appreciation in the other. The percentage of capital that we allocate to our two Agency RMBS asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe that this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments.

We are externally managed and advised by Bimini Advisors, LLC, pursuant to the terms of a management agreement. Our Manager is a Maryland limited liability company that is a wholly-owned subsidiary of Bimini. Our Manager is responsible for administering our business activities and day-to-day operations, subject to the

supervision and oversight of our Board of Directors. Members of Bimini's and our Manager's senior management team also serve as our executive officers. We do not have any employees.

We have been organized and have operated so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. We will elect to be taxed as a REIT beginning with our 2013 taxable year, upon the filing of our federal income tax return for such year. As a REIT, we generally are not subject to U.S. federal income tax to the extent that we annually distribute all of our REIT taxable income to our stockholders and continue to qualify as a REIT.

We completed our initial public offering on February 20, 2013. We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and will remain such for up to five years from the date of our initial public offering. However, if our non-convertible debt issued within a three year period or our total revenues exceed \$1 billion or the market value of our shares of common stock that are held by non-affiliates exceeds \$700 million on the last day of the second fiscal quarter of any given fiscal year, we would cease to be an emerging growth company as of the following fiscal year. Although we are an emerging growth company under the JOBS Act, we have elected to opt out of the extended transition period for complying with new or revised accounting standards, and such election is irrevocable.

Our Investment and Capital Allocation Strategy

Our Investment Strategy

Our business objective is to provide attractive risk-adjusted total returns to our investors over the long term through a combination of capital appreciation and the payment of regular monthly distributions. We intend to achieve this objective by investing in and strategically allocating capital between pass-through Agency RMBS and structured Agency RMBS. We seek to generate income from (i) the net interest margin on our leveraged pass-through Agency RMBS portfolio and the leveraged portion of our structured Agency RMBS portfolio, and (ii) the interest income we generate from the unleveraged portion of our structured Agency RMBS portfolio. We also seek to minimize the volatility of both the net asset value of, and income from, our portfolio through a process which emphasizes capital allocation, asset selection, liquidity and active interest rate risk management.

We fund our pass-through Agency RMBS and certain of our structured Agency RMBS, such as fixed and floating rate tranches of CMOs and POs, through repurchase agreements. However, we do not employ leverage on our structured Agency RMBS that have no principal balance, such as IOs and IIOs. We may pledge a portion of these assets to increase our cash balance, but we do not intend to invest the cash derived from pledging the assets. Otherwise, we do not use leverage in these instances because the securities contain structural leverage.

Our target asset categories and the principal assets in which we invest are as follows:

Asset Categories

Pass-through Agency RMBS

Principal Assets

Residential Mortgage Pass-Through Certificates. Residential mortgage pass-through certificates are securities representing interests in pools of mortgage loans secured by residential real property where payments of both interest and principal, plus pre-paid principal, on the securities are made monthly to holders of the securities, in effect passing through monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers 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.

The principal and interest payments of these Agency RMBS are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae and are backed primarily by single-family residential mortgage loans. We invest in pass-through certificates with the three following types of underlying loans:

Fixed-Rate Mortgages. Fixed-rate mortgages are mortgages for which the borrower pays an interest rate that is constant throughout the term of the loan.

Adjustable-Rate Mortgages (ARMs). ARMs are mortgages for which the borrower pays an interest rate that varies over the term of the loan.

Hybrid ARMs. Hybrid ARMs are mortgages that have a fixed-rate for the first few years of the loan, often three, five, seven or ten years, and thereafter reset periodically like a traditional ARM.

Structured Agency RMBS

Collateralized Mortgage Obligations. CMOs are securities that are structured from residential mortgage pass-through certificates, which receive monthly payments of principal and interest. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of residential mortgage pass-through securities issued directly by or under the auspices of Fannie Mae, Freddie Mac or Ginnie Mae. CMOs divide the cash flows which come from the underlying residential mortgage pass-through certificates into different classes of securities that may have different maturities and different weighted average lives than the underlying residential mortgage pass-through certificates.

Interest Only Securities. IOs are securities that are structured from residential mortgage pass-through certificates, which receive monthly payments of interest only. IOs represent the stream of interest payments on a pool of mortgages, either fixed-rate mortgages or hybrid ARMs. The value of IOs depends primarily on two factors, which are prepayments and interest rates.

Inverse Interest Only Securities. IIOs are IOs that have interest rates that move in the opposite direction of an interest rate index, such as LIBOR. The value of IIOs depends primarily on three factors, which are prepayments, LIBOR and term interest rates.

Asset Categories

Principal Assets

Principal Only Securities. POs are securities that are structured from residential mortgage pass-through certificates, which receive monthly payments of principal only and are, therefore, similar to zero coupon bonds. The value of POs depends primarily on two factors, which are prepayments and interest rates.

Our investment strategy consists of the following components:

investing in pass-through Agency RMBS and certain structured Agency RMBS, such as fixed and floating rate tranches of CMOs and POs, on a leveraged basis to increase returns on the capital allocated to this portfolio;

investing in certain structured Agency RMBS, such as IOs and IIOs, generally on an unleveraged basis in order to (i) increase returns due to the structural leverage contained in such securities, (ii) enhance liquidity due to the fact that these securities will be unencumbered or, when encumbered, retain the cash from such borrowings and (iii) diversify portfolio interest rate risk due to the different interest rate sensitivity these securities have compared to pass-through Agency RMBS;

investing in Agency RMBS in order to minimize credit risk;

investing in assets that will cause us to maintain our exclusion from regulation as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act; and

investing in assets that will allow us to qualify and maintain our qualification as a REIT.

Our Manager makes investment decisions based on various factors, including, but not limited to, relative value, expected cash yield, supply and demand, costs of hedging, costs of financing, liquidity requirements, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. We do not attribute any particular quantitative significance to any of these factors, and the weight we give to these factors depends on market conditions and economic trends. We believe that this strategy, combined with our Manager's experienced RMBS investment team, enables us to provide attractive long-term returns to our stockholders.

Capital Allocation Strategy

The percentage of capital invested in our two asset categories varies and is managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. Typically, pass-through Agency RMBS and structured Agency RMBS exhibit materially different sensitivities to movements in interest rates. Declines in the value of one portfolio may be offset by appreciation in the other, although we cannot assure you that this will be the case. Additionally, our Manager seeks to maintain adequate liquidity as it allocates capital.

During periods of rising interest rates, refinancing opportunities available to borrowers typically decrease because borrowers are not able to refinance their current mortgage loans with new mortgage loans at lower interest rates. In such instances, securities that are highly sensitive to refinancing activity, such as IOs and IIOs, typically increase in value. Our capital allocation strategy allows us to redeploy our capital into such securities when and if we believe

interest rates will be higher in the future, thereby allowing us to hold securities the value of which we believe is likely to increase as interest rates rise. Also, by being able to re-allocate capital into structured Agency RMBS, such as IOs, during periods of rising interest rates, we may be able to offset the likely decline in the value of our pass-through Agency RMBS, which are negatively impacted by rising interest rates.

Competitive Strengths

We believe that our competitive strengths include:

Ability to Successfully Allocate Capital between Pass-Through and Structured Agency RMBS. We seek to maximize our risk-adjusted returns by investing exclusively in Agency RMBS, which has limited credit risk due to the guarantee of principal and interest payments on such securities by Fannie Mae, Freddie Mac or Ginnie Mae. Our Manager will allocate capital between pass-through Agency RMBS and structured Agency RMBS. The percentage of our capital we allocate to our two asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments and provide us with a competitive advantage over other REITs that invest in only pass-through Agency RMBS. This is because, among other reasons, our investment and capital allocation strategies allow us to move capital out of pass-through Agency RMBS and into structured Agency RMBS in a rising interest rate environment, which will protect our portfolio from excess margin calls on our pass-through Agency RMBS portfolio and reduced net interest margins, and allow us to invest in securities, such as IOs, that have historically performed well in a rising interest rate environment.

Experienced RMBS Investment Team. Robert Cauley, our Chief Executive Officer and co-founder of Bimini, and Hunter Haas, our Chief Investment Officer, have 20 and 13 years of experience, respectively, in analyzing, trading and investing in Agency RMBS. Additionally, Messrs. Cauley and Haas have over ten and nine years, respectively, of experience managing Bimini, which is a publicly-traded REIT that has invested in Agency RMBS since its inception in 2003. Messrs. Cauley and Haas managed Bimini through the recent housing market collapse and the related adverse effects on the banking and financial system, repositioning Bimini's portfolio in response to adverse market conditions. We believe this experience has enabled them to recognize portfolio risk in advance, hedge such risk accordingly and manage liquidity and borrowing risks during adverse market conditions. We believe that Messrs. Cauley's and Haas' experience provides us with a competitive advantage over other management teams that may not have experience managing a publicly-traded mortgage REIT or managing a business similar to ours during various interest rate and credit cycles, including the recent housing market collapse.

Clean Balance Sheet With an Implemented Investment Strategy. We completed our initial public offering in February 2013 and completed a follow on offering in January 2014, and we intend to build on our existing investment portfolio. As of January 31, 2014, our Agency RMBS portfolio had a preliminary estimated fair value of approximately \$515.4 million and was comprised of approximately 94.4% pass-through Agency RMBS and 5.6% structured Agency RMBS. Our preliminary estimated net asset value as of January 31, 2014 was approximately \$69.1 million. Bimini managed our portfolio from our inception until the closing of our initial public offering utilizing the same investment strategy that our Manager and its experienced RMBS investment team have employed since our initial public offering.

Alignment of Interests. Bimini owns 981,665 shares of our common stock, which represents approximately 18.1% of the aggregate outstanding shares of our common stock. We believe that Bimini's ownership of our common stock aligns our Manager's interests with our interests.

Summary Risk Factors

An investment in our common stock involves a high degree of material risks. Each prospective purchaser of our common stock should consider carefully the matters discussed under **Risk Factors** beginning on page 25 and included in our Annual Report on Form 10-K for the year ended December 31, 2012 before investing in our common stock. Some of these risks include:

Because our management will have broad discretion over the use of the net proceeds from this offering, you may not agree with how we use the proceeds, and we may not invest the proceeds successfully.

The U.S. Federal Reserve's recent announcement that it would reduce its monthly purchases pursuant to QE3 could impact the market for and value of the Agency RMBS in which we invest as well as our net asset value and net interest margin.

Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements.

Separate legislation has been introduced in both houses of the U.S. congress, which would, among other things, revoke the charters of Fannie Mae and Freddie Mac, and we could be materially adversely affected if these proposed laws were enacted.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Continued adverse developments in the broader residential mortgage market have adversely affected Bimini and may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Interest rate mismatches between our Agency RMBS and our borrowings may reduce our net interest margin during periods of changing interest rates, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Increased levels of prepayments on the mortgages underlying our Agency RMBS might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

We invest in structured Agency RMBS, including CMOs, IOs, IIOs and POs. Although structured Agency RMBS are generally subject to the same risks as our pass-through Agency RMBS, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.

Our use of leverage could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Adverse market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets were insufficient to meet these collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Hedging against interest rate exposure may not completely insulate us from interest rate risk and could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

We are completely dependent upon our Manager and certain key personnel of Bimini who provide services to us through the management agreement, and we may not find suitable replacements for our Manager or these personnel if the management agreement is terminated or such key personnel are no longer available to us.

There are various conflicts of interest in our relationship with our Manager and Bimini, which could result in decisions that are not in the best interest of our stockholders, including possible conflicts created by our Manager's compensation whereby it is entitled to receive a management fee that is not tied to the performance of our portfolio and possible conflicts of duties that may result from the fact that all of our Manager's officers are also employees of Bimini.

Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to pay distributions to our stockholders.

Our failure to qualify, or maintain our qualification, as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

Legal proceedings involving Bimini and certain of its subsidiaries have adversely affected Bimini, may materially adversely affect Bimini's and our Manager's ability to effectively manage our business and could materially adversely affect our reputation, business, operations, financial condition and results of operations and our ability to pay distributions to our stockholders.

There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell the common stock you purchase.

Our Portfolio

As of January 31, 2014, our portfolio consisted of Agency RMBS with a preliminary estimated aggregate fair value of approximately \$515.4 million and a preliminary estimated weighted average coupon of 3.98%. The following table summarizes our portfolio as of January 31, 2014:

Asset Category	Fair Value ⁽¹⁾	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap	Weighted Average Realized CPR ⁽²⁾
Pass-through Agency RMBS backed by:									
Adjustable Rate Mortgages	\$ 5,316	1.0%	3.92%	245	9-1-35	3.23	10.13%	2.00%	19.95%
Fixed Rate Mortgages	404,332	78.5	4.19	308	2-1-44	n/a	n/a	n/a	2.23%
Hybrid Adjustable Rate Mortgages	76,880	14.9	2.56	348	8-1-43	108.62	7.55	2.00	6.24%
Total/Weighted Average Mortgage Pass-through Agency RMBS	\$ 486,528	94.4%	3.93%	313	2-1-44	101.80	7.72%	2.00%	3.88%
Structured Agency RMBS:									
CMOs	\$	%	%						%
IOs	21,800	4.2	4.47	267	11-25-40	n/a	n/a	n/a	18.72%
IIOs	7,048	1.4	6.07	315	12-15-40	n/a	4.21	n/a	14.02
POs									

Total/Weighted Average Structured Agency RMBS	28,848	5.6%	4.86%	279	12-15-40	n/a	n/a	n/a	17.65%
Total/Weighted Average	\$ 515,376	100.0%	3.98%	312	2-1-44	n/a	n/a	n/a	9.45%

(1) In thousands.

(2) CPR refers to Constant Prepayment Rate, which is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the CPR in the chart above represents the prepayment rate of the securities in the respective asset category for the month of January 2014.

GAAP and Non-GAAP Reconciliation

To date, we have used derivatives, specifically Eurodollar futures contracts, to hedge the interest rate risk on repurchase agreements in a rising rate environment. Each Eurodollar contract covers a specific three month period, but we typically have many contracts in place at any point in time usually covering several years in the aggregate. We have not elected to designate our derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging*. Changes in fair value of these instruments are presented in a separate line item in our Statements of Operations. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the Eurodollar futures contracts. In the future, we may use other derivative instruments to hedge our interest expense and/or elect to designate our derivative holdings for hedge accounting treatment.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, accounting principles generally accepted in the United States, or GAAP, interest expense has been adjusted to reflect the realized gains or losses on specific Eurodollar contracts that pertain to each period presented. As of September 30, 2013, we have Eurodollar futures contracts in place through 2018. Since we have taken short positions on these contracts, when interest rates move higher the value of our short position may increase in value. The opposite would be true if interest rates were to decrease. Adjusting our interest expense for the periods presented by the gains on all Eurodollar futures would not accurately reflect our economic interest expense for these periods. For each period presented we have combined the effects of the Eurodollar positions in place for the respective period with the actual interest expense incurred on repurchase agreements to reflect total expense for the applicable period. Interest expense, including the effect of Eurodollar futures contracts for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of Eurodollar futures contracts for the period, is referred to as economic net interest income.

However, under ASC 815, because we have not elected hedging treatment, the gains or losses on all of our Eurodollar futures contracts held during the period are reflected in our consolidated statements of operations. This presentation includes gains or losses on all contracts in effect during the reporting period covering the current period as well as periods in the future.

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

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

The following tables present the effect of our hedging strategy on interest expense and net interest income for each quarter during 2013 and 2012.

Three Months Ended	Gains (Losses) on Eurodollar Futures Contracts (<i>in thousands</i>)		
	Recognized in Income Statement	Attributed to Current Periods (Non-GAAP)	Attributed to Current Periods (Non-GAAP)
September 30, 2013	\$ (2,272)	\$ (2,244)	\$ (28)
June 30, 2013	6,852	6,856	(4)
March 31, 2013	(484)	(419)	(65)
December 31, 2012		61	(61)
September 30, 2012	(14)	14	(28)
June 30, 2012	(1)	9	(10)
March 31, 2012	(24)	(20)	(4)

The following table presents the effect of our hedging strategy on interest and net interest income for each quarter during 2013 and 2012.

Three Months Ended	Interest Expense on Repurchase Agreements Gains (Losses) on Eurodollar Futures Contracts Attributed to Current Period			Net Interest Income		
	Interest Income	GAAP Interest Expense	Period (1)	Economic Interest Expense (2)	GAAP Net Interest Income	Economic Net Interest Income (3)
September 30, 2013	\$ 2,551	\$ 294	\$ (28)	\$ 322	\$ 2,257	\$ 2,229
June 30, 2013	2,429	322	(4)	326	2,107	2,103
March 31, 2013	1,412	201	(65)	266	1,211	1,146
December 31, 2012	473	94	(62)	156	379	317
September 30, 2012	697	58	(28)	86	639	611
June 30, 2012	769	74	(10)	84	695	685
March 31, 2012	759	51	(4)	55	708	704