

Orchid Island Capital, Inc.
Form 10-Q
October 30, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission File Number: 001-35236

Orchid Island Capital, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

27-3269228
(I.R.S. Employer
Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Number of shares outstanding at October 30, 2015: 21,768,190

ORCHID ISLAND CAPITAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ORCHID ISLAND CAPITAL, INC.
BALANCE SHEETS

(\$ in thousands, except per share data)

	(Unaudited)	
	September	December
	30, 2015	31, 2014
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	\$ 1,975,217	\$ 1,517,304
Unpledged	142,392	31,867
Total mortgage-backed securities	2,117,609	1,549,171
Cash and cash equivalents	67,102	93,137
Restricted cash	11,234	7,790
Accrued interest receivable	8,308	6,211
Derivative assets, at fair value	-	1,217
Receivable for securities sold, pledged to counterparties	87,558	-
Other assets	1,319	282
Total Assets	\$ 2,293,130	\$ 1,657,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	\$ 1,943,299	\$ 1,436,651
Payable for unsettled securities purchased	92,325	-
Accrued interest payable	452	628
Due to affiliates	419	330
Other liabilities	766	2,121
Total Liabilities	2,037,261	1,439,730
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of September 30, 2015 and December 31, 2014	-	-
Common Stock, \$0.01 par value; 500,000,000 shares authorized, 21,892,773 shares issued and outstanding as of September 30, 2015 and 16,699,656 shares issued and outstanding as of December 31, 2014	219	167
Additional paid-in capital	261,896	217,419
Accumulated (deficit) retained earnings	(6,246)	492
Total Stockholders' Equity	255,869	218,078
Total Liabilities and Stockholders' Equity	\$ 2,293,130	\$ 1,657,808

See Notes to Financial Statements
 ORCHID ISLAND CAPITAL, INC.
 STATEMENTS OF OPERATIONS
 (Unaudited)

For the Nine and Three Months Ended September 30, 2015 and 2014
 (\$ in thousands, except per share data)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Interest income	\$49,719	\$19,658	\$18,352	\$9,286
Interest expense	(4,900)	(1,905)	(2,037)	(818)
Net interest income	44,819	17,753	16,315	8,468
Realized (losses) gains on mortgage-backed securities	(1,073)	1,932	850	(1,960)
Unrealized (losses) gains on mortgage-backed securities	(9,029)	8,720	(2,026)	(1,404)
(Losses) gains on derivative instruments	(35,660)	(4,364)	(22,506)	3,057
Net portfolio (loss) income	(943)	24,041	(7,367)	8,161
Expenses:				
Management fees	2,929	1,276	1,061	543
Accrued incentive compensation	484	450	162	225
Directors' fees and liability insurance	732	405	250	165
Audit, legal and other professional fees	493	406	160	160
Direct REIT operating expenses	174	124	86	36
Other administrative	983	381	331	264
Total expenses	5,795	3,042	2,050	1,393
Net (loss) income	\$(6,738)	\$20,999	\$(9,417)	\$6,768
Basic and diluted net (loss) income per share	\$(0.34)	\$2.53	\$(0.42)	\$0.63
Weighted Average Shares Outstanding	19,725,675	8,314,512	22,545,019	10,710,153
Dividends declared per common share	\$1.50	\$1.62	\$0.42	\$0.54
See Notes to Financial Statements				

ORCHID ISLAND CAPITAL, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

For the Nine Months Ended September 30, 2015
(\$ in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balances, January 1, 2015	\$167	\$217,419	\$492	\$218,078
Net loss	-	-	(6,738)	(6,738)
Cash dividends declared, \$1.50 per share	-	(29,598)	-	(29,598)
Issuance of common stock pursuant to public offerings	63	83,212	-	83,275
Issuance of common stock pursuant to equity compensation plan	-	257	-	257
Amortization of equity compensation	-	107	-	107
Shares repurchased and retired	(11)	(9,501)	-	(9,512)
Balances, September 30, 2015	\$219	\$261,896	\$(6,246)	\$255,869

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended September 30, 2015 and 2014
(\$ in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(6,738)	\$20,999
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock based compensation	364	118
Realized and unrealized losses (gains) on mortgage-backed securities	10,102	(10,651)
Realized losses on interest rate swaptions	1,217	1,120
Realized gains on forward settling to-be-announced securities	(24)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,973)	(4,006)
Other assets	(488)	(253)
Accrued interest payable	(176)	296
Other liabilities	9	532
Due to affiliates	89	221
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,382	8,376
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(2,106,110)	(1,521,606)
Sales	1,364,754	470,012
Principal repayments	166,910	52,335
Increase in restricted cash	(3,444)	(5,335)
Proceeds from net settlement of to-be-announced securities	24	-
Purchase of interest rate swaptions, net of margin cash received	(1,364)	(1,250)
NET CASH USED IN INVESTING ACTIVITIES	(579,230)	(1,005,844)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	13,608,591	5,306,416
Principal payments on repurchase agreements	(13,101,943)	(4,368,995)
Cash dividends	(29,598)	(14,544)
Proceeds from issuance of common stock, net of issuance costs	83,275	121,449
Common stock repurchases	(9,512)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	550,813	1,044,326
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,035)	46,858
CASH AND CASH EQUIVALENTS, beginning of the period	93,137	8,169
CASH AND CASH EQUIVALENTS, end of the period	\$67,102	\$55,027
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$5,076	\$1,608
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		

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Securities acquired settled in later period	\$92,325	\$66,812
Securities sold settled in later period	87,558	249,410
See Notes to Financial Statements		

ORCHID ISLAND CAPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2015

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Orchid Island Capital, Inc. (“Orchid” or the “Company”), was incorporated in Maryland on August 17, 2010 for the purpose of creating and managing a leveraged investment portfolio consisting of residential mortgage-backed securities (“RMBS”). From incorporation to February 20, 2013 Orchid was a wholly owned subsidiary of Bimini Capital Management, Inc. (“Bimini”). Orchid began operations on November 24, 2010 (the date of commencement of operations). From incorporation through November 24, 2010, Orchid’s only activity was the issuance of common stock to Bimini.

On February 20, 2013, Orchid completed the initial public offering (“IPO”) of its common stock in which it sold approximately 2.4 million shares of its common stock and raised gross proceeds of \$35.4 million. Orchid is an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”).

Orchid completed a secondary offering of 1,800,000 common shares on January 23, 2014. The underwriters exercised their overallotment option in full for an additional 270,000 shares on January 29, 2014. The aggregate net proceeds to Orchid were approximately \$24.2 million which were invested in RMBS that are issued and the principal and interest of which are guaranteed by a federally chartered corporation or agency (“Agency RMBS”) on a leveraged basis.

Orchid completed a secondary offering of 3,200,000 common shares on March 24, 2014. The underwriters exercised their overallotment option in full for an additional 480,000 shares on April 11, 2014. The aggregate net proceeds to Orchid were approximately \$44.0 million which were invested in Agency RMBS securities on a leveraged basis.

On June 17, 2014, Orchid entered into an equity distribution agreement (the “June 2014 Equity Distribution Agreement”) with two sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of \$35,000,000 of shares of the Company’s common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. The Company issued a total of 2,528,416 shares under the June 2014 Equity Distribution Agreement for aggregate proceeds of approximately \$34.2 million, net of commissions and fees, prior to its termination.

On September 3, 2014, Orchid entered into a second equity distribution agreement (the “September 2014 Equity Distribution Agreement”) with two sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of \$75,000,000 of shares of the Company’s common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. The September 2014 Equity Distribution Agreement replaced the June 2014 Equity Distribution Agreement. The Company issued a total of 5,087,646 shares under the September 2014 Equity Distribution Agreement for aggregate proceeds of approximately \$69.1 million, net of commissions and fees, prior to its termination.

On March 2, 2015, Orchid entered into a third equity distribution agreement (the “March 2015 Equity Distribution Agreement”) with two sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of \$100,000,000 of shares of the Company’s common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. The March 2015 Equity Distribution Agreement replaced

the September 2014 Equity Distribution Agreement. Through September 30, 2015, the Company issued a total of 6,221,102 shares under the March 2015 Equity Distribution Agreement for aggregate proceeds of approximately \$83.1 million, net of commissions and fees.

On July 29, 2015 the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company's discretion without prior notice. Through September 30, 2015, the Company repurchased a total of 1,069,720 shares at an aggregate cost of approximately \$9.5 million, net of commissions and fees.

Basis of Presentation and Use of Estimates

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of RMBS, Eurodollar and Treasury note ("T-Note") futures contracts, to-be-announced ("TBA") securities, as discussed below, and interest rate swaptions.

Statement of Comprehensive Income (Loss)

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. At September 30, 2015, restricted cash consisted of \$9.2 million of cash held by a broker as margin on Eurodollar futures contracts and \$2.0 million of cash held on deposit as collateral with repurchase agreement counterparties. At December 31, 2014 restricted cash consisted of approximately \$5.2 million of cash held by a broker as margin on Eurodollar futures contracts and \$2.6 million of cash held on deposit as collateral with repurchase agreement counterparties.

The Company maintains cash balances at four banks, and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to \$250,000 per depositor at each financial institution. At September 30, 2015, the Company's cash deposits exceeded federally insured limits by approximately \$65.9 million. Restricted cash balances are

uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known bank and derivative counterparties and believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through (“PT”) certificates, collateralized mortgage obligations, and interest only (“IO”) securities and inverse interest only (“IIO”) securities representing interest in or obligations backed by pools of RMBS. These investments meet the requirements to be classified as available for sale under ASC 320-10-25, Debt and Equity Securities (which requires the securities to be carried at fair value on the balance sheet with changes in fair value charged to other comprehensive income, a component of stockholders’ equity). However, the Company has elected to account for its investment in RMBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the statement of operations, which, in management’s view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

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

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

Income on PT RMBS securities is based on the stated interest rate of the security. Premiums or discounts present at the date of purchase are not amortized. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset’s carrying value. At each reporting date, the effective yield is adjusted prospectively from the reporting period based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of RMBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying statements of operations.

Derivative Financial Instruments

The Company uses derivative instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The principal instruments that the Company has used to date are T-Note and Eurodollar futures contracts and options to enter in interest rate swaps (“interest rate swaptions”), but may enter into other derivatives in the future.

The Company purchases a portion of its Agency RMBS through delayed delivery transactions (forward purchase commitments), including TBA securities. At times when market conditions are conducive, the Company may choose to move the settlement of these TBA securities out to a later date by entering into an offsetting short position, which is then net settled for cash, and simultaneously entering into a substantially similar TBA securities trade for a later settlement date. Such a set of transactions is referred to as a TBA “dollar roll” transaction. The TBA securities purchased at the later settlement date are typically priced at a discount to securities for settlement in the current month. This difference is referred to as the “price drop.” The price drop represents compensation to us for foregoing net interest margin and is referred to as TBA “dollar roll income.” Specified pools of mortgage loans can also be the subject of a dollar roll transaction, when market conditions allow.

The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception and throughout the term of the TBA security that it will take physical delivery of the Agency RMBS for a long position, or make delivery of the Agency RMBS for a short position, upon settlement of the trade. The Company accounts for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with TBA securities and dollar roll transactions are reported in gain (loss) on derivative instruments in the accompanying statements of operations. The fair value of TBA securities is estimated based on similar methods used to value RMBS securities.

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

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

Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. RMBS, Eurodollar and T-Note futures contracts, interest rate swaptions and TBA securities are accounted for at fair value in the balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 11 of the financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, receivable for securities sold, other assets, due to affiliates, repurchase agreements, payable for unsettled securities purchased, accrued interest payable and other liabilities generally approximates their carrying values as of September 30, 2015 and December 31, 2014 due to the short-term nature of these financial instruments.

Repurchase Agreements

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

Manager Compensation

The Company is externally managed by Bimini Advisors, LLC (the “Manager” or “Bimini Advisors”), a Maryland limited liability company and wholly-owned subsidiary of Bimini. The Company’s management agreement with the Manager provides for payment to the Manager of a management fee and reimbursement of certain operating expenses, which are accrued and expensed during the period for which they are earned or incurred. Refer to Note 12 for the terms of the management agreement.

Earnings Per Share

The Company follows the provisions of FASB ASC 260, Earnings Per Share. Basic earnings per share (“EPS”) is calculated as net income or loss attributable to common stockholders divided by the weighted average number of shares of common stock outstanding or subscribed during the period. Diluted EPS is calculated using the treasury stock or two-class method, as applicable, for common stock equivalents, if any. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Income Taxes

Orchid has qualified and elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders at least 90% of their REIT taxable income on an annual basis. In addition, a REIT must meet other provisions of the Code to retain its tax status.

Orchid measures, recognizes and presents its uncertain tax positions in accordance with FASB ASC 740, Income Taxes. Under that guidance, Orchid assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. All of Orchid’s tax positions are categorized as highly certain. There is no accrual for any tax, interest or penalties related to Orchid’s tax position assessment. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change.

Recent Accounting Pronouncements

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

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

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of September 30, 2015 and December 31, 2014:

(in thousands)

	September 30, 2015	December 31, 2014
Pass-Through RMBS Certificates:		
Hybrid Adjustable-rate Mortgages	\$54,655	\$70,400
Adjustable-rate Mortgages	3,090	3,794
Fixed-rate Mortgages	1,955,664	1,412,593
Total Pass-Through Certificates	2,013,409	1,486,787
Structured RMBS Certificates:		
Interest-Only Securities	64,351	46,611
Inverse Interest-Only Securities	39,849	15,773
Total Structured RMBS Certificates	104,200	62,384
Total	\$2,117,609	\$1,549,171

The following table summarizes the Company's RMBS portfolio as of September 30, 2015 and December 31, 2014, according to the contractual maturities of the securities in the portfolio. Actual maturities of RMBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

	September 30, 2015	December 31, 2014
Greater than five years and less than ten years	\$544	\$967
Greater than or equal to ten years	2,117,065	1,548,204
Total	\$2,117,609	\$1,549,171

The Company generally pledges its RMBS assets as collateral under repurchase agreements. At September 30, 2015 and December 31, 2014, the Company had unpledged securities totaling \$142.4 million and \$31.9 million, respectively. The unpledged balance at September 30, 2015 includes unsettled security purchases with a fair value of approximately \$92.3 million that will be pledged as collateral under repurchase agreements on its settlement date in October 2015.

NOTE 3. REPURCHASE AGREEMENTS

As of September 30, 2015, the Company had outstanding repurchase obligations of approximately \$1,943.3 million with a net weighted average borrowing rate of 0.47%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately \$2,066.5 million (including unsettled securities sold with a fair value, including accrued interest, of approximately \$84.1 million), and cash pledged to counterparties of approximately \$2.0 million. As of December 31, 2014, the Company had outstanding repurchase obligations of approximately \$1,436.7 million with a net weighted average borrowing rate of 0.36%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately \$1,522.9 million and cash pledged to counterparties of approximately \$2.6 million.

As of September 30, 2015 and December 31, 2014, the Company's repurchase agreements had remaining maturities as summarized below:

(\$ in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
September 30, 2015					
Fair market value of securities pledged, including					
accrued interest receivable	\$ 44,128	\$ 1,834,255	\$ 188,067	\$-	\$ 2,066,450
Repurchase agreement liabilities associated with					
these securities	\$ 42,074	\$ 1,722,614	\$ 178,611	\$-	\$ 1,943,299
Net weighted average borrowing rate	0.45	% 0.48	% 0.47	% -	0.47 %
December 31, 2014					
Fair market value of securities pledged, including					
accrued interest receivable	\$ -	\$ 984,823	\$ 534,238	\$ 3,844	\$ 1,522,905
Repurchase agreement liabilities associated with					
these securities	\$ -	\$ 929,831	\$ 502,947	\$ 3,873	\$ 1,436,651
Net weighted average borrowing rate	-	0.36	% 0.37	% 0.38	% 0.36 %

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At September 30, 2015, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable and securities posted by the counterparty (if any), and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately \$122.7 million. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at September 30, 2015 and December 31, 2014.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

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

In addition, the Company utilizes TBA securities as a means of investing in and financing Agency RMBS or as a means of reducing its exposure to Agency RMBS, and not as a hedge. The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception and throughout the term of the TBA securities that it will take

physical delivery of the Agency RMBS for a long position, or make delivery of the Agency RMBS for a short position, upon settlement of the trade.

Derivative Assets (Liability), at Fair Value

The table below summarizes fair value information about our derivative assets and liability as of September 30, 2015 and December 31, 2014.

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	September 30, 2015	December 31, 2014
Assets			
Futures contracts - Margin posted to counterparty	Restricted cash	\$9,188	\$5,174
Payer swaptions	Derivative assets, at fair value	-	1,217
		\$9,188	\$6,391
Liability			
Payer swaptions - Margin posted by counterparty	Other liabilities	\$-	\$(1,364)

The tables below present information related to the Company's Eurodollar and T-Note futures positions at September 30, 2015 and December 31, 2014.

(\$ in thousands)

Expiration Year	Average Contract Notional Amount	September 30, 2015			Open Equity(1)
		Average Weighted Entry Rate	Weighted Average Effective Rate	Weighted Average Effective Rate	
Eurodollar Futures Contracts (Short Positions)					
2015	\$1,400,000	0.79 %	0.42 %	0.42 %	\$(1,303)
2016	900,000	1.51 %	0.72 %	0.72 %	(7,035)
2017	900,000	2.31 %	1.26 %	1.26 %	(9,486)
2018	900,000	2.77 %	1.70 %	1.70 %	(9,625)
2019	900,000	2.56 %	1.94 %	1.94 %	(1,372)
Total / Weighted Average	\$935,714	2.07 %	1.19 %	1.19 %	\$(28,821)

Treasury Note Futures Contracts (Short Position)(2)

December 2015 10 year T-Note futures (Dec 2015 - Dec 2025 Hedge Period)	\$185,000	1.94 %	1.71 %	1.71 %	\$(2,818)
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(\$ in thousands)

Expiration Year	Average Contract Notional Amount	December 31, 2014			Open Equity(1)
		Average Weighted Entry Rate	Weighted Average Effective Rate	Weighted Average Effective Rate	
Eurodollar Futures Contracts (Short Positions)					
2015	\$650,000	0.79 %	0.63 %	0.63 %	\$(1,039)
2016	800,000	1.52 %	1.54 %	1.54 %	139
2017	800,000	2.36 %	2.23 %	2.23 %	(1,041)
2018	800,000	2.94 %	2.54 %	2.54 %	(2,361)

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Total / Weighted Average	\$760,000	1.88	%	1.73	%	\$(4,302))
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- (1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.
- (2) T-Note futures contracts were valued at a price of \$128.73 at September 30, 2015. The nominal value of the short position was \$238.2 million.

The table below presents information related to the Company's interest rate swaption positions at December 31, 2014.

(\$ in thousands)

Expiration	Cost	Option		Underlying Swap			Weighted Average Term (Years)
		Fair Value	Weighted Average Months to Expiration	Notional Amount	Fixed Pay Rate	Receive Rate (LIBOR)	
December 31, 2014							
≤ 1 year	\$5,350	\$1,217	6	\$375,000	2.79%	3 Month	7.3

Gain (Loss) From Derivative Instruments, Net

The table below presents the effect of the Company's derivative financial instruments on the statements of operations for the nine and three months ended September 30, 2015 and 2014.

(in thousands)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Eurodollar futures contracts (short positions)	\$(26,406)	\$(3,316)	\$(15,446)	\$2,820
T-Note futures contracts (short position)	(8,061)	72	(7,050)	72
Payer swaptions	(1,217)	(1,120)	(65)	165
Net TBA securities	24	-	55	-
	\$(35,660)	\$(4,364)	\$(22,506)	\$3,057

Credit Risk-Related Contingent Features

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

NOTE 5. OFFSETTING ASSETS AND LIABILITIES

The Company's derivatives and repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis.

The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of September 30, 2015 and December 31, 2014.

(in thousands)

	Offsetting of Assets			Gross Amount Not Offset in the Balance Sheet			Net Amount
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Instruments as Received as Collateral	Cash Received as Collateral	Net Amount	
December 31, 2014							
Derivative asset - Payer swaption	\$1,217	\$-	\$1,217	\$-	\$(1,217)		\$-

(in thousands)

	Offsetting of Liabilities			Gross Amount Not Offset in the Balance Sheet			Net Amount
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount	
September 30, 2015							
Repurchase Agreements	\$1,943,299	\$-	\$1,943,299	\$(1,941,253)	\$(2,046)		\$-
December 31, 2014							
Repurchase Agreements	\$1,436,651	\$-	\$1,436,651	\$(1,434,035)	\$(2,616)		\$-

The amounts disclosed for collateral received by or posted to the same counterparty up to and not exceeding the net amount of the asset or liability presented in the balance sheet. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Notes 3 and 4 for a discussion of collateral posted or received against or for repurchase obligations and derivative instruments.

NOTE 6. CAPITAL STOCK

Common Stock Issuances

During 2015 and 2014, the Company completed the following public offerings of shares of its common stock.

(\$ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share(1)	Shares	Net Proceeds(2)
2015				
At the Market Offering Program(3)	First Quarter	\$ 13.66	1,210,487	\$ 16,175
At the Market Offering Program(3)	Second Quarter	13.65	5,024,530	67,100
At the Market Offering Program(3)	Third Quarter	-	-	-
			6,235,017	\$ 83,275
2014				
Secondary Offering	First Quarter	\$ 12.50	2,070,000	\$ 24,174
Secondary Offering(4)	First Quarter	12.55	3,680,000	43,989
At the Market Offering Program(3)	Second Quarter	13.14	537,499	6,914
At the Market Offering Program(3)	Third Quarter	13.99	3,389,441	46,372
At the Market Offering Program(3)	Fourth Quarter	13.87	3,675,207	49,846
			13,352,147	\$ 171,295

(1) Weighted average price received per share is gross of underwriters' discount, if applicable, and other offering costs.

(2) Net proceeds are net of the underwriters' discount, if applicable, and other offering costs.

(3) The Company has entered into three equity distribution agreements, two of which have been cancelled and replaced with the current agreement, to publicly offer and sell shares of the Company's common stock in at the market and privately negotiated transactions from time to time. As of September 30, 2015, shares with a value of \$15.0 million remain available for issuance under the March 2015 Equity Distribution Agreement.

(4) Includes net proceeds received of \$5.7 million for 480,000 shares issued to the underwriters in April 2014 pursuant to the exercise of their overallotment option related to the March 2014 offering.

Stock Repurchase Program

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. As part of the stock repurchase program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or

discontinued at the Company's discretion without prior notice.

Through September 30, 2015, the Company repurchased a total of 1,069,720 shares under the stock repurchase program at an aggregate cost of approximately \$9.5 million, net of commissions and fees, for a weighted average price of \$8.89 per share.

(\$ in thousands, except per share amounts)

Period	Weighted Average Price Paid Per Share	Shares Repurchased	Net Cost
2015			
Third Quarter	\$8.89	1,069,720	\$9,512

Cash Dividends

The table below presents the cash dividends declared on the Company's common stock during 2015 and 2014.

(in thousands, except per share amount)

Declaration Date	Record Date	Payment Date	Per Share Amount	Total
2015				
October 8, 2015(1)	October 26, 2015	October 30, 2015	\$0.14	\$3,051
September 11, 2015	September 25, 2015	September 30, 2015	0.14	3,069
August 11, 2015	August 26, 2015	August 31, 2015	0.14	3,132
July 9, 2015	July 27, 2015	July 31, 2015	0.14	3,218
June 9, 2015	June 22, 2015	June 30, 2015	0.18	4,057
May 11, 2015	May 26, 2015	May 29, 2015	0.18	3,580
April 9, 2015	April 27, 2015	April 30, 2015	0.18	3,303
March 10, 2015	March 27, 2015	March 31, 2015	0.18	3,205
February 10, 2015	February 25, 2015	February 27, 2015	0.18	3,017
January 13, 2015	January 26, 2015	January 30, 2015	0.18	3,017
Totals			\$1.64	\$32,649
2014				
December 9, 2014	December 26, 2014	December 30, 2014	\$0.18	\$3,004
November 12, 2014	November 25, 2014	November 28, 2014	0.18	2,737
October 9, 2014	October 28, 2014	October 31, 2014	0.18	2,358
September 9, 2014	September 25, 2014	September 30, 2014	0.18	2,348
August 12, 2014	August 26, 2014	August 29, 2014	0.18	1,999
July 10, 2014	July 28, 2014	July 31, 2014	0.18	1,759
June 11, 2014	June 25, 2014	June 30, 2014	0.18	1,712
May 8, 2014	May 27, 2014	May 30, 2014	0.18	1,641
April 8, 2014	April 25, 2014	April 30, 2014	0.18	1,636
March 11, 2014	March 26, 2014	March 31, 2014	0.18	1,550
February 11, 2014	February 25, 2014	February 28, 2014	0.18	974
January 9, 2014	January 27, 2014	January 31, 2014	0.18	925
Totals			\$2.16	\$22,643

- (1) The effect of the dividend declared in October 2015 is not reflected in the Company's financial statements as of September 30, 2015.

NOTE 7. STOCK INCENTIVE PLAN

In October 2012, the Company's Board of Directors adopted and Bimini, then the Company's sole stockholder, approved, the Orchid Island Capital, Inc. 2012 Equity Incentive Plan (the "Incentive Plan") to recruit and retain employees, directors and other service providers, including employees of the Manager and other affiliates. The Incentive Plan provides for the award of stock options, stock appreciation rights, stock award, performance units, other equity-based awards (and dividend equivalents with respect to awards of performance units and other equity-based awards) and incentive awards. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors except that the Company's full Board of Directors will administer awards made to directors who are not employees of the Company or its affiliates. The Incentive Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 4,000,000 shares of the Company's common stock that may be issued under the Incentive Plan.

Restricted Stock Awards

On April 25, 2014, the Compensation Committee granted each of our non-employee directors 6,000 shares of restricted common stock subject to a three year vesting schedule whereby 2,000 shares of the award vest on the first, second and third anniversaries of the award date. Directors will have all the rights of a stockholder with respect to the awards, including the right to receive dividends and vote the shares. The awards are subject to forfeiture should the director no longer be a member of the Board of Directors of the Company prior to the respective vesting dates. A total of 8,000 shares of restricted stock vested and were issued during the nine months ended September 30, 2015. There were no vested and unissued restricted stock awards at September 30, 2015 and December 31, 2014.

The table below presents information related to the Company's restricted common stock at September 30, 2015 and 2014.

(\$ in thousands, except per share data)

	Nine Months Ended September 30,		2014	
	2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	24,000	\$12.23	-	\$-
Granted	-	-	24,000	12.23
Vested and issued	(8,000)	12.23	-	-
Unvested, end of period	16,000	\$12.23	24,000	\$12.23
Compensation expense during period		\$73		\$41
Unrecognized compensation expense, end of period		\$155		\$253
Intrinsic value, end of period		\$148		\$318
Weighted-average remaining vesting term (in years)		1.6		2.6

Stock Awards

The Company issues immediately vested common stock under the Incentive Plan to certain executive officers and directors. The following table presents information related to fully vested common stock issued during the nine months ended September 30, 2015 and 2014.

(\$ in thousands, except per share data)

	Nine Months Ended September 30,	
	2015	2014
Fully vested shares granted(1)(2)	27,295	5,844
Weighted average grant date price	\$13.08	\$13.16
Compensation expense related to fully vested common share awards(1)	\$357	\$77

- (1) The table above includes 21,715 shares of fully vested shares which were granted in January 2015 with respect to service performed during 2014. Approximately \$288,000 of compensation expense related to these share awards were accrued and recognized in 2014.
- (2) The table above includes 7,475 shares with a fair value of approximately \$100,000 surrendered for the satisfaction of tax withholding obligations.

Performance Units

The Company may issue performance units under the Incentive Plan to certain executive officers. "Performance Units" vest after the end of a defined performance period, based on satisfaction of the performance conditions set forth in the performance unit agreement. When earned, each Performance Unit will be settled by the issuance of one share of the Company's Common Stock, at which time the Performance Unit will be cancelled. The Performance Units contain dividend equivalent rights which entitle the Participants to receive distributions declared by the Company on Common Stock, but do not include the right to vote the shares. Performance Units are subject to forfeiture should the participant no longer serve as an executive officer for the Company. Compensation expense for the Performance Units are recognized over the remaining vesting period once it becomes probable that the performance conditions will be achieved.

The following table presents information related to Performance Units outstanding during the nine months ended September 30, 2015.

(\$ in thousands, except per share data)

Performance units granted during the period	7,508
Weighted average grant date price	\$13.32
Compensation expense related to performance units	\$34
Intrinsic value, at period end	\$69
Unrecognized compensation expense, at period end	\$66
Weighted average remaining vesting term (in years), at period end	1.6

NOTE 8. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any reported or unreported contingencies at September 30, 2015.

NOTE 9. INCOME TAXES

The Company will generally not be subject to federal income tax on its REIT taxable income to the extent that it distributes its REIT taxable income to its stockholders and satisfies the ongoing REIT requirements, including meeting certain asset, income and stock ownership tests. A REIT must generally distribute at least 90% of its REIT taxable income to its stockholders, of which 85% generally must be distributed within the taxable year, in order to avoid the imposition of an excise tax. The remaining balance may be distributed up to the end of the following taxable year, provided the REIT elects to treat such amount as a prior year distribution and meets certain other requirements.

NOTE 10. EARNINGS PER SHARE (EPS)

The Company had dividend eligible shares of restricted common stock and Performance Units that were outstanding during the nine and three months ended September 30, 2015. The basic and diluted per share computations include these unvested shares of restricted common stock and performance units if there is income available to Common Stock, as they have dividend participation rights. The shares of restricted common stock and Performance Units have no contractual obligation to share in losses. Because there is no such obligation, the shares of restricted common stock and Performance Units are not included in the basic and diluted EPS computations when no income is available to Common Stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the nine and three months ended September 30, 2015 and 2014.

(in thousands, except per-share information)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Basic and diluted EPS per common share:				
Numerator for basic and diluted EPS per common share:				
Net (loss) income - Basic and diluted	\$(6,738)	\$20,999	\$(9,417)	\$6,768
Weighted average common shares:				
Common shares outstanding at the balance sheet date	21,893	13,024	21,893	13,024
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	24	-	24
Effect of weighting	(2,167)	(4,733)	652	(2,338)
Weighted average shares-basic and diluted	19,726	8,315	22,545	10,710
(Loss) income per common share:				
Basic and diluted	\$(0.34)	\$2.53	\$(0.42)	\$0.63

The average number of restricted common stock and Performance Units that were anti-dilutive and not included in diluted earnings per share for the nine and three months ended September 30, 2015 were 26,300 and 23,508, respectively.

NOTE 11. FAIR VALUE

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair

value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of non-performance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These stratifications are:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

The Company's RMBS, interest rate swaptions and TBA securities are valued using Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third party broker quotes, when available. Because the price estimates may vary, the Company must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. Alternatively, the Company could opt to have the value of all of our positions in RMBS, interest rate swaptions and TBA securities determined by either an independent third-party or do so internally.

RMBS, interest rate swaptions, TBA securities and Eurodollar and T-Note futures contracts were recorded at fair value on a recurring basis during the nine and three months ended September 30, 2015 and 2014. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

(in thousands)

	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Mortgage-backed securities	\$ 2,117,609	\$-	\$2,117,609	\$ -
Eurodollar and T-Note futures contracts	9,188	9,188	-	-
December 31, 2014				
Mortgage-backed securities	\$ 1,549,171	\$-	\$1,549,171	\$ -
Eurodollar futures contracts	5,174	5,174	-	-
Payer swaptions	1,217	-	1,217	-

During the nine and three months ended September 30, 2015 and 2014, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 12. RELATED PARTY TRANSACTIONS

Management Agreement

At the completion of its IPO, the Company entered into a management agreement with Bimini Advisors (the “Manager”), which provides for an initial term through February 20, 2016 with automatic one-year extensions and is subject to certain termination rights. Under the terms of the management agreement, Bimini Advisors is responsible for administering the business activities and day-to-day operations of the Company. Bimini Advisors receives a monthly management fee in the amount of:

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

The Company is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf. In addition, Bimini Advisors began allocating to the Company its pro rata portion of certain overhead costs set forth in the management agreement commencing with the calendar quarter beginning July 1, 2014. Should the Company terminate the management agreement without cause, it shall pay to Bimini Advisors a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the initial term or automatic renewal term.

Total expenses recorded during the nine months ended September 30, 2015 and 2014 for the management fee and costs incurred were approximately \$3.7 million and \$1.5 million, respectively. Total expenses recorded during the three months ended September 30, 2015 and 2014 for the management fee and costs incurred were approximately \$1.3 million and \$0.7 million, respectively.

At September 30, 2015 and December 31, 2014, the net amount due to affiliates was approximately \$0.4 million and \$0.3 million, respectively.

Other Relationships with Bimini

John B. Van Heuvelen, one of our independent director nominees, owns shares of common stock of Bimini. Robert Cauley, our Chief Executive Officer and Chairman of our Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. Hunter Haas, our Chief Financial Officer, Chief Investment Officer, Secretary and a member of our Board of Directors, also serves as the Chief Financial Officer, Chief Investment Officer and Treasurer of Bimini and owns shares of common stock of Bimini.

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

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

Overview

We are a specialty finance company that invests in residential mortgage-backed securities ("RMBS") which are issued and guaranteed by a federally chartered corporation or agency ("Agency RMBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS ("PT RMBS") and (ii) structured Agency RMBS, such as collateralized mortgage obligations ("CMOs"), interest only securities ("IOs"), inverse interest only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency RMBS. We were formed by Bimini in August 2010, commenced operations on November 24, 2010 and completed our initial public offering ("IPO") on February 20, 2013. We are externally managed by Bimini Advisors, a registered investment adviser with the Securities and Exchange Commission (the "SEC").

Our business objective is to provide attractive risk-adjusted total returns 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 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 through short-term borrowings structured as repurchase agreements. 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 operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). We generally will not be subject to U.S. federal income tax to the extent that we currently distribute all of our REIT taxable income to our stockholders and maintain our REIT qualification.

The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "ORC".

Capital Raising Activities

We completed secondary offerings in January and March 2014, raising aggregate net proceeds of approximately \$68.2 million from the sale of 5,750,000 shares of our common stock inclusive of the \$5.7 million of net proceeds received from the exercise of the underwriters' overallotment option granted in the March 2014 offering, which closed in April 2014.

On June 17, 2014, we entered into an equity distribution agreement (the “June 2014 Equity Distribution Agreement”) with two sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of \$35,000,000 of shares of our common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. We issued a total of 2,528,416 shares under the June 2014 Equity Distribution Agreement for aggregate proceeds of approximately \$34.2 million, net of commissions and fees, prior to its termination.

On September 3, 2014, we entered into a second equity distribution agreement (the “September 2014 Equity Distribution Agreement”) with two sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of \$75,000,000 of shares of our common stock in transactions that were deemed to be “at the market” offerings and privately negotiated transactions. The September 2014 Equity Distribution Agreement replaced the June 2014 Equity Distribution Agreement. We issued a total of 5,087,646 shares under the September 2014 Equity Distribution Agreement for aggregate proceeds of approximately \$69.1 million, net of commissions and fees, prior to its termination.

On March 2, 2015, we entered into a third equity distribution agreement (the “March 2015 Equity Distribution Agreement”) with two sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of \$100,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. The March 2015 Equity Distribution Agreement replaced the September 2014 Equity Distribution Agreement. Through September 30, 2015, we had issued a total of 6,221,102 shares under the March 2015 Equity Distribution Agreement for aggregate proceeds of approximately \$83.1 million, net of commissions and fees.

On July 29, 2015, the Company’s Board of Directors authorized the repurchase of up to 2,000,000 shares of our common stock. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company’s discretion without prior notice. Through September 30, 2015, we repurchased a total of 1,069,720 shares at an aggregate cost of approximately \$9.5 million, net of commissions and fees.

Factors that Affect our Results of Operations and Financial Condition

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

- interest rate trends;
- the difference between Agency RMBS yields and our funding and hedging costs;
 - competition for investments in Agency RMBS;
 - actions taken by the Federal Reserve and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency RMBS, and credit trends insofar as they affect prepayment rates; and
- other market developments.

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

- our degree of leverage;
- our access to funding and borrowing capacity;
 - our borrowing costs;
 - our hedging activities;
 - the market value of our investments; and
- the requirements to qualify as a REIT and the requirements to qualify for a registration exemption under the Investment Company Act.

Results of Operations

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Described below are the Company's results of operations for the nine and three months ended September 30, 2015, as compared to the Company's results of operations for the nine and three months ended September 30, 2014.

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Net (Loss) Income Summary

Net loss for the nine months ended September 30, 2015 was \$6.7 million, or \$0.34 per share. Net income for the nine months ended September 30, 2014 was \$21.0 million, or \$2.53 per share. Net loss for the three months ended September 30, 2015 was \$9.4 million, or \$0.42 per share. Net income for the three months ended September 30, 2014 was \$6.8 million, or \$0.63 per share. The components of net (loss) income for the nine and three months ended September 30, 2015 and 2014, along with the changes in those components are presented in the table below:

(in thousands)

	Nine Months Ended September 30,			Three Months Ended, September 30,		
	2015	2014	Change	2015	2014	Change
Interest income	\$49,719	\$19,658	\$30,061	\$18,352	\$9,286	\$9,066
Interest expense	(4,900)	(1,905)	(2,995)	(2,037)	(818)	(1,219)
Net interest income	44,819	17,753	27,066	16,315	8,468	7,847
(Losses) gains on RMBS and derivative contracts	(45,762)	6,288	(52,050)	(23,682)	(307)	(23,375)
Net portfolio (loss) income	(943)	24,041	(24,984)	(7,367)	8,161	(15,528)
Expenses	(5,795)	(3,042)	(2,753)	(2,050)	(1,393)	(657)
Net (loss) income	\$(6,738)	\$20,999	\$(27,737)	\$(9,417)	\$6,768	\$(16,185)

GAAP and Non-GAAP Reconciliations

Economic Interest Expense and Economic Net Interest Income

To date, the Company has used derivatives, specifically Eurodollar and T-Note futures contracts and interest rate swaptions, to hedge a portion of the interest rate risk on repurchase agreements in a rising rate environment. Each interest rate futures contract covers a specific period, but the Company typically has many contracts in place at any point in time—usually covering several years in the aggregate. We currently have Eurodollar and T-Note futures contracts in place. We previously entered into interest rate swaptions agreements that gave us the option to enter into swaps covering future periods. As of September 30, 2015, all of our swaption agreements expired unexercised. During 2015, we entered into forward settling TBA securities that meet the definition of a derivative under GAAP. We have not entered into these TBA securities as a hedge of our interest rate risk.

The Company has not elected to designate its derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board, (the “FASB”), Accounting Standards Codification, (“ASC”), Topic 815, Derivatives and Hedging. Changes in fair value of these instruments are presented in a separate line item in the Company’s statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments. In the future, the Company may use other derivative instruments to hedge its interest expense and/or elect to designate its derivative holdings for hedge accounting treatment.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, GAAP interest expense has been adjusted to reflect the realized gains or losses on specific derivative instruments that pertain to each period presented. As of September 30, 2015, the Company had Eurodollar and T-Note futures contracts in place covering periods through 2019 and 2025, respectively. Adjusting our interest expense for the periods presented by the gains or losses on all derivative instruments would not accurately reflect our economic interest expense for these periods.

For each period presented, the Company has combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on repurchase agreements to reflect total expense for

the applicable period. Interest expense, including the effect of derivative instruments for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of derivative instruments for the period, is referred to as economic net interest income.

However, because the Company has not elected hedging treatment under ASC 815, the gains or losses on all of the Company's derivative instruments held during the period are reflected in our 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.

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

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

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the income statement line item, gains (losses) on derivative instruments, calculated in accordance with GAAP for the nine months ended September 30, 2015 and 2014 and each quarter during 2015 and 2014.

Gains (Losses) on Derivative Instruments

(in thousands)

	Recognized in Income Statement (GAAP)	TBA Securities Income	Funding Hedges	
			Attributed to Current Period (Non-GAAP)	Attributed to Future Periods (Non-GAAP)
Three Months Ended				
September 30, 2015	\$(22,506)	\$55	\$(881)	\$(21,680)
June 30, 2015	(803)	(88)	(595)	(120)
March 31, 2015	(12,351)	57	(306)	(12,102)
December 31, 2014	(9,562)	-	(145)	(9,417)
September 30, 2014	3,057	-	(25)	3,082
June 30, 2014	(5,728)	-	(3)	(5,725)
March 31, 2014	(1,693)	-	(30)	(1,663)
Nine Months Ended				
September 30, 2015	\$(35,660)	\$24	\$(1,782)	\$(33,902)
September 30, 2014	(4,364)	-	(58)	(4,306)

Economic Interest Expense and Economic Net Interest Income

(in thousands)

	Interest Income	GAAP Interest Expense	Interest Expense on Repurchase Agreements Gains (Losses) on Derivative Instruments		Net Interest Income	
			Attributed to Current Period(1)	Economic Interest Expense(2)	GAAP Net Interest Income	Economic Net Interest Income(3)
Three Months Ended						
September 30, 2015	\$18,352	\$2,037	\$(881)	\$2,918	\$16,315	\$15,434
June 30, 2015	16,753	1,567	(595)	2,162	15,186	14,591
March 31, 2015	14,614	1,296	(306)	1,602	13,318	13,012
December 31, 2014	12,146	1,126	(145)	1,271	11,020	10,875
September 30, 2014	9,286	818	(25)	843	8,468	8,443
June 30, 2014	6,589	676	(3)	679	5,913	5,910
March 31, 2014	3,783	411	(30)	441	3,372	3,342
Nine Months Ended						
September 30, 2015	\$49,719	\$4,900	\$(1,782)	\$6,682	\$44,819	43,037
September 30, 2014	19,658	1,905				