Orchid Island Capital, Inc.
Form 424B4
March 20, 2014
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Filed pursuant to Rule 424(b)(4)
Registration Statement No. 333-193959

PROSPECTUS

3,200,000 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 3,200,000 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 March 18, 2014, the last reported sales price on the NYSE MKT for our common stock was $12.92 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 24 of this prospectus.

	Per Share	Total

Public Offering Price	$ 12.550	$ 40,160,000
Underwriting Discount and Commissions [1]	$ 0.502	$ 1,606,400
Proceeds to Us (before expenses)	$ 12.048	$ 38,553,600

(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 480,000 shares of common stock within 30 days after the date of this prospectus to cover overallotments, 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 March 24, 2014.

Ladenburg Thalmann & Co. Inc.

Book Running Manager

Mitsubishi UFJ Securities Oppenheimer & Co.

Co-Lead Managers

Aegis Capital Corp. Maxim Group LLC National Securities Corporation

Co-Managers

Prospectus dated March 19, 2014

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You should rely only on the information contained 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. Our business, financial condition and prospects may have changed since such dates.

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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, 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 the underwriters will not exercise their option to purchase up to an additional 480,000 shares of our common stock to cover overallotments, if any.

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

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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.

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

Asset Categories	Principal Assets
Pass-through Agency RMBS	*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.

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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.

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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 February 28, 2014, our Agency RMBS portfolio had a preliminary estimated fair value of approximately $538.0 million and was comprised of approximately 94.7% pass-through Agency RMBS and 5.3% structured Agency RMBS. As of January 31, 2014, our preliminary estimated net asset value 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 24 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.

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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.

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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 February 28, 2014, our portfolio consisted of Agency RMBS with a preliminary estimated aggregate fair value of approximately $538.0 million and a preliminary estimated weighted average coupon of 4.03%. The following table summarizes our portfolio as of February 28, 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	Realized CPR [2]
Pass-through Agency RMBS backed by:									
Adjustable Rate Mortgages	$ 5,200	1.0%	3.95%	245	9-1-35	2.61	10.13%	2.00%	48.73%
Fixed Rate Mortgages	427,950	79.5	4.24	311	3-1-44	n/a	n/a	n/a	3.70%
Hybrid Adjustable Rate Mortgages	76,352	14.2	2.55	348	8-1-43	107.60	7.56	2.00	3.46%
Total/Weighted Average Mortgage Pass-through Agency RMBS	$ 509,502	94.7%	3.98%	316	3-1-44	100.90	7.72%	2.00%	4.18%
Structured Agency RMBS:									
CMOs	$	%	%						%
IOs	21,432	4.0	4.48	270	11-25-40	n/a	n/a	n/a	16.91%

IIOs	7,022	1.3	6.08	315	12-15-40	n/a	4.17	n/a	11.65%
POs									
Total/Weighted Average Structured Agency RMBS	28,454	5.3%	4.88%	281	12-15-40	n/a	n/a	n/a	15.63%
Total/Weighted Average	$ 537,956	100.0%	4.03%	314	3-1-44	n/a	n/a	n/a	7.87%

(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 February 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 December 31, 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.

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

Gains (Losses) on Eurodollar Futures Contracts (*in thousands*)

Three Months Ended	Recognized in Income Statement	Attributed to Future Periods (Non-GAAP)	Attributed to Current Period (Non-GAAP)
December 31, 2013	$ 732	$ 774	$ (42)
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	(1)	61	(62)
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.

(dollars in thousands)		Interest Expense on Repurchase Agreements			Net Interest Income	
Three Months Ended	Interest Income	GAAP Interest Expense	Gains (Losses) on Eurodollar Futures Contracts Attributed to Current Period [(1)]	Economic Interest Expense [(2)]	GAAP Net Interest Income	Economic Net Interest Income [(3)]
December 31, 2013	$ 2,806	$ 309	$ (42)	$ 351	$ 2,497	$ 2,455
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

(1) Reflects the effect of Eurodollar futures contract hedges for only the period presented.

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

(3)

Calculated by adding the effect of Eurodollar hedges attributed to the period presented to GAAP net interest income.

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The table below provides information on our portfolio average balances, interest income, yield on assets, average repurchase agreement balances, economic interest expense, economic cost of funds, economic net interest income and economic net interest spread for the years ended December 31, 2013 and 2012 and for each quarter in 2013 and 2012.

(dollars in thousands)

Three Months Ended	Average MBS Securities Held [1]	Interest Income [2]	Yield On Average MBS Securities	Average Repurchase Agreements [1]	Economic Interest Expense [3]	Average Economic Cost of Funds [4]	Economic Net Interest Income [3]	Economic Net Interest Spread [5]
December 31, 2013	$ 341,505	$ 2,806	3.29%	$ 310,107	$ 351	0.45%	$ 2,455	2.84%
September 30, 2013	335,467	2,551	3.04%	305,196	322	0.42%	2,229	2.62%
June 30, 2013	349,704	2,429	2.78%	312,591	326	0.42%	2,103	2.36%
March 31, 2013	237,820	1,412	2.38%	210,194	266	0.51%	1,146	1.87%
December 31, 2012	91,094	473	2.08%	80,256	156	0.78%	317	1.30%
September 30, 2012	64,378	697	4.33%	53,698	86	0.64%	611	3.69%
June 30, 2012	73,559	769	4.18%	62,407	84	0.54%	685	3.64%
March 31, 2012	70,585	759	4.30%	59,157	55	0.37%	704	3.93%
Years Ended								
December 31, 2013	$ 316,124	$ 9,198	2.91%	$ 284,522	$ 1,265	0.44%	$ 7,933	2.47%
December 31, 2012	74,904	2,698	3.60%	63,880	381	0.60%	2,317	3.00%

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

(2) Interest income presented in the table above includes only interest earned on the Company s MBS investments and excludes interest earned on cash balances, and excludes the impact of discounts or premiums on MBS investments, as discounts or premiums are not amortized under the fair value option. Interest income and net portfolio interest income may not agree with the information presented in the statements of operations.

(3) Economic interest expense and economic net interest income presented in the table above and the table above includes the effect of Eurodollar futures contract hedges for only the period presented. For the three month periods ended December 31, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $(732,500) and $(225), respectively. For the years ended December 31, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $4,828,288 and $(39,725), respectively.

(4) Represents interest cost of our borrowings and effect on Eurodollar futures contracts hedges attributed to the period related to hedging activities Divided by Average MBS Securities Held.

(5) Economic Net Interest Spread is calculated by subtracting Average Economic Cost of Funds from Yield on Average MBS Securities.

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The following table sets forth, for the periods indicated, information regarding leverage ratio and weighted average CPR.

Three Months Ended	Leverage Ratio (1)	Weighted Average CPR (2)
December 31, 2013	7.1x	9.94%
September 30, 2013	6.7x	12.57%
June 30, 2013	6.5x	16.25%
March 31, 2013	6.3x	19.97%
December 31, 2012	7.1x	28.56%
September 30, 2012	3.8x	25.02%
June 30, 2012	3.7x	38.65%
March 31, 2012	5.2x	23.80%
December 31, 2011	3.2x	29.66%
September 30, 2011	2.9x	21.12%
June 30, 2011	3.0x	18.74%
March 31, 2011	3.0x	5.67%

(1) Leverage ratio is calculated by dividing our total liabilities by total equity at the end of each period. At September 30, 2013, $38.7 million of payable for unsettled securities purchased has been excluded from total liabilities for the purpose of calculating this ratio.
(2) The CPR in the chart above represents the three month prepayment rate of the securities in their respective asset category.

Our Financing Strategy

We borrow against our Agency RMBS using short term repurchase agreements. We may use other sources of leverage, such as secured or unsecured debt or issuances of preferred stock. We do not have a policy limiting the amount of leverage we may incur. However, we generally expect that the ratio of our total liabilities compared to our equity, which we refer to as our leverage ratio, will be less than 12 to 1. Our amount of leverage may vary depending on market conditions and other factors that we deem relevant. As of February 28, 2014, our preliminary estimated portfolio leverage ratio was approximately 7.3 to 1. As of February 28, 2014, borrowing rates under our repurchase agreements were materially consistent with borrowing rates as of December 31, 2013. As of February 28, 2014, we had entered into master repurchase agreements with 13 counterparties and had funding in place with 11 counterparties, as described below.

Counterparty	Balance (1)	Percent of Total Borrowings	Weighted Average Maturity of Repurchase Agreements in Days
Citigroup Global Markets, Inc.	$ 143,915	28.5%	23
Cantor Fitzgerald & Co.	54,903	10.9	17
South Street Securities, LLC	48,975	9.7	13
Morgan Stanley & Co	38,154	7.6	74

SunTrust Robinson Humphrey, Inc.	45,179	9.0	11
CRT Capital Group, LLC	37,136	7.4	23
KGS-Alpha Capital Markets, L.P.	25,573	5.1	17
Goldman, Sachs & Co	23,919	4.7	14
Mizuho Securities USA, Inc.	48,414	9.6	37
ED&F Man Capital Markets, Inc.	25,079	5.0	17
Mitsubishi UFJ Securities (USA), Inc.	12,703	2.5	28
Total/Weighted Average	**$ 503,950**	**100.0%**	**25**

(1) In thousands.

During the year ended December 31, 2013, the average balance of our repurchase agreement financing was $284.5 million.

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Recent Developments

In January 2014, we completed a public offering of 2,070,000 shares of our common stock (including 270,000 shares sold pursuant to the full exercise of the overallotment option granted to the underwriters which closed on January 29, 2014) for net proceeds of $24.2 million after deducting underwriters discounts and commissions and offering expenses.

On February 11, 2014, we announced that our preliminary estimate of our book value per share as of January 31, 2014 was $12.76. We compute book value per share by dividing total stockholders equity by the total number of shares of our common stock outstanding. At January 31, 2014, our preliminary estimated total stockholders equity was approximately $69.1 million with 5,411,665 shares of common stock outstanding. This preliminary estimate of our book value per share and stockholders equity as of January 31, 2014 could differ from our actual results due to several factors that include, but are not limited to: (i) additional adjustments in the calculation of our book value as of January 31, 2014, (ii) discovery of new information that alters expectations about month-end results or impacts valuation methodologies underlying these results, (iii) errors in the assessment of portfolio value, and (iv) accounting changes required by GAAP. The amounts as of January 31, 2014 and for the month then ended have not been subjected to an audit or review as defined by professional standards by our independent registered public accounting firm and consequently are not considered final and remain subject to change.

On March 11, 2014, we announced that our Board of Directors declared a dividend for the month of March 2014 of $0.18 per share to be paid on March 31, 2014 to holders of record on March 26, 2014 with an ex-dividend date of March 24, 2014. We expect that purchasers of common stock in this offering will be entitled to receive this dividend.

Risk Management

We invest in Agency RMBS to mitigate credit risk. Additionally, our Agency RMBS are backed by a diversified base of mortgage loans to mitigate geographic, loan originator and other types of concentration risks.

Interest Rate Risk Management

We believe that the risk of adverse interest rate movements represents the most significant risk to our portfolio. This risk arises because (i) the interest rate indices used to calculate the interest rates on the mortgages underlying our assets may be different from the interest rate indices used to calculate the interest rates on the related borrowings, and (ii) interest rate movements affecting our borrowings may not be reasonably correlated with interest rate movements affecting our assets. We attempt to mitigate our interest rate risk by using the following techniques:

Agency RMBS Backed by ARMs. We seek to minimize the differences between interest rate indices and interest rate adjustment periods of our Agency RMBS backed by ARMs and related borrowings. At the time of funding, we typically align (i) the underlying interest rate index used to calculate interest rates for our Agency RMBS backed by ARMs and the related borrowings and (ii) the interest rate adjustment periods for our Agency RMBS backed by ARMs and the interest rate adjustment periods for our related borrowings. As our borrowings mature or are renewed, we may adjust the index used to calculate interest expense, the duration of the reset periods and the maturities of our borrowings.

Agency RMBS Backed by Fixed-Rate Mortgages. As interest rates rise, our borrowing costs increase; however, the income on our Agency RMBS backed by fixed-rate mortgages remains unchanged. Subject to qualifying and maintaining our qualification as a REIT, we may seek to limit increases to our borrowing costs through the use of interest rate swap or cap agreements, options, put or call agreements, futures contracts, forward rate agreements or similar financial instruments to effectively convert our floating-rate borrowings into fixed-rate borrowings.

Agency RMBS Backed by Hybrid ARMs. During the fixed-rate period of our Agency RMBS backed by hybrid ARMs, the security is similar to Agency RMBS backed by fixed-rate mortgages. During this period, subject to qualifying and maintaining our qualification as a REIT, we may employ the same hedging strategy that we employ for our Agency RMBS backed by fixed-rate mortgages. Once our Agency RMBS backed by hybrid ARMs convert to floating rate securities, we may employ the same hedging strategy as we employ for our Agency RMBS backed by ARMs.

Additionally, our structured Agency RMBS generally exhibit sensitivities to movements in interest rates different than our pass-through Agency RMBS. To the extent they do so, our structured Agency RMBS may protect us against declines in the market value of our combined portfolio that result from adverse interest rate movements, although we cannot assure you that this will be the case.

Prepayment Risk Management

The risk of mortgage prepayments is another significant risk to our portfolio. When prevailing interest rates fall below the coupon rate of a mortgage, mortgage prepayments are likely to increase. Conversely, when prevailing interest rates increase above the coupon rate of a mortgage, mortgage prepayments are likely to decrease.

When prepayment rates increase, we may not be able to reinvest the money received from prepayments at yields comparable to those of the securities prepaid. Also, some ARMs and hybrid ARMs which back our Agency RMBS may bear initial teaser interest rates that are lower than their fully-indexed interest rates. If these mortgages are prepaid during this teaser period, we may lose the opportunity to receive interest payments at the higher, fully-indexed rate over the expected life of the security. Additionally, some of our structured Agency RMBS, such as IOs and IIOs, may be negatively affected by an increase in prepayment rates because their value is wholly contingent on the underlying mortgage loans having an outstanding principal balance.

A decrease in prepayment rates may also have an adverse effect on our portfolio. For example, if we invest in POs, the purchase price of such securities will be based, in part, on an assumed level of prepayments on the underlying mortgage loan. Because the returns on POs decrease the longer it takes the principal payments on the underlying loans to be paid, a decrease in prepayment rates could decrease our returns on these securities.

Prepayment risk also affects our hedging activities. When an Agency RMBS backed by a fixed-rate mortgage or hybrid ARM is acquired with borrowings, we may cap or fix our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related Agency RMBS. If prepayment rates are different than our projections, the term of the related hedging instrument may not match the fixed-rate portion of the security, which could cause us to incur losses.

Because our business may be adversely affected if prepayment rates are different than our projections, we seek to invest in Agency RMBS backed by mortgages with well-documented and predictable prepayment histories. To protect against increases in prepayment rates, we invest in Agency RMBS backed by mortgages that we believe are less likely to be prepaid. For example, we invest in Agency RMBS backed by mortgages (i) with loan balances low enough such that a borrower would likely have little incentive to refinance, (ii) extended to borrowers with credit histories weak enough to not be eligible to refinance their mortgage loans, (iii) that are newly originated fixed-rate or hybrid ARMs or (iv) that have interest rates low enough such that a borrower would likely have little incentive to refinance. To protect against decreases in prepayment rates, we may also invest in Agency RMBS backed by mortgages with characteristics opposite to those described above, which would typically be more likely to be refinanced. We may also invest in certain types of structured Agency RMBS as a means of mitigating our portfolio-wide prepayment risks. For example, certain tranches of CMOs are less sensitive to increases in prepayment rates, and we may invest in those tranches as a means of hedging against increases in prepayment rates.

Liquidity Management Strategy

Because of our use of leverage, we manage liquidity to meet our lenders margin calls using the following measures:

- Maintaining cash balances or unencumbered assets well in excess of anticipated margin calls; and
- Making margin calls on our lenders when we have an excess of collateral pledges against our borrowings.

We also attempt to minimize the number of margin calls we receive by:

- Deploying capital from our leveraged Agency RMBS portfolio to our unleveraged Agency RMBS portfolio;
- Investing in Agency RMBS backed by mortgages that we believe are less likely to be prepaid to decrease the risk of excessive margin calls when monthly prepayments are announced. Prepayments are declared, and the market value of the related security declines, before the receipt of the related cash flows. Prepayment declarations give rise to a temporary collateral deficiency and generally results in margin calls by lenders;
- Obtaining funding arrangements which defer or waive prepayment-related margin requirements in exchange for payments to the lender tied to the dollar amount of the collateral deficiency and a predetermined interest rate; and
- Reducing our overall amount of leverage.

Our Management Strategy

On February 20, 2013, we entered into a management agreement with our Manager that governs the relationship between us and our Manager and describes the services provided by our Manager and the compensation for those services. Under the management agreement, our Manager, subject to the supervision of our Board of Directors, is required to oversee our business affairs in conformity with our operating policies and our investment guidelines that are proposed by the investment committee of our Manager and approved by our Board of Directors. Our Manager s obligations and responsibilities under the management agreement include asset selection, asset and liability management and investment portfolio risk management.

The management agreement has an initial term expiring on February 20, 2016, and will automatically be renewed for one-year terms thereafter unless terminated by us for cause or by us or our Manager upon at least 180-days notice prior to the end of the initial term or any automatic renewal term.

The following table summarizes the fees that are payable to our Manager pursuant to the management agreement:

Fee	Summary Description

Management Fee	The management fee is payable monthly in arrears in an amount equal to 1/12th of (a) 1.50% of the first $250,000,000 of our equity (as defined below), (b) 1.25% of our equity that is greater than $250,000,000 and less than or equal to $500,000,000, and (c) 1.00% of our equity that is greater than $500,000,000.
	Equity equals our month-end stockholders equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or other comprehensive income (loss), as computed in accordance with GAAP.
	Under the management agreement, we paid our manager aggregate management fees of $628,800 for the period beginning on February 20, 2013 and ended December 31, 2013.

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Fee	Summary Description
Stock-Based Compensation	Our Manager s officers and employees are eligible to receive stock awards pursuant to our 2012 Equity Incentive Plan.
Expense Reimbursement	We reimburse any expenses directly related to our operations incurred by our Manager, excluding personnel-related expenses of our Manager or of Bimini (other than the compensation of our Chief Financial Officer), which include services provided to us pursuant to the management agreement. We reimburse our Manager for our allocable share of the compensation of our Chief Financial Officer based on our percentage of the aggregate amount of our Manager s assets under management and Bimini s assets. We also reimburse our pro rata portion of our Manager s and Bimini s overhead expenses based on our percentage of the aggregate amount of our Manager s assets under management and Bimini s assets.
	We have not reimbursed our Manager for any expenses for the period beginning February 20, 2013 and ended December 31, 2013. Pursuant to the terms of the management agreement, we are not obligated to reimburse our pro rata portion of our Manager s and Bimini s overhead expenses until our aggregate stockholders equity equals $100 million or more.
Termination Fee	The termination fee, payable for non-renewal of the management agreement without cause, will be equal to three times the sum of the average annual management fee earned by our Manager during the prior 24-month period immediately preceding the most recently completed calendar quarter prior to the effective date of termination.

Overhead Sharing Agreement

On February 20, 2013, our Manager entered into an overhead sharing agreement with Bimini. Pursuant to this agreement, our Manager is provided with access to, among other things, Bimini s portfolio management, asset valuation, risk management and asset management services as well as administration services addressing accounting, financial reporting, legal, compliance, investor relations and information technologies necessary for the performance of our Manager s duties in exchange for a reimbursement of the Manager s allocable cost for these services. The reimbursement paid by our Manager pursuant to this agreement will not constitute an expense under the management agreement.

Conflicts of Interest; Equitable Allocation of Opportunities

Bimini invests solely in Agency RMBS and, because it is internally-managed, does not pay a management fee. Additionally, Bimini, as the sole member of our Manager, will indirectly receive the management fees earned by our Manager through reimbursement payments under the overhead sharing agreement and our Manager s payment of distributions to Bimini. Our Manager may in the future manage other funds, accounts and investment vehicles that have strategies that are similar to our strategy, although our Manager currently does not manage any other funds, accounts or investment vehicles. Our Manager and Bimini make available to us opportunities to acquire assets that they determine, in their reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with their written investment allocation procedures and policies,

subject to the exception that we might not be offered each such opportunity, but will on an overall basis equitably participate with Bimini and our Manager s other accounts in all such opportunities when considered together. Bimini and our Manager have agreed not to sponsor another

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REIT that has substantially the same investment strategy as Bimini or us prior to the earlier of (i) the termination or expiration of the management agreement or (ii) our Manager no longer being a subsidiary or affiliate of Bimini.

Because many of our targeted assets are typically available only in specified quantities and because many of our targeted assets are also targeted assets for Bimini and may be targeted assets for other accounts our Manager may manage in the future, neither Bimini nor our Manager may be able to buy as much of any given asset as required to satisfy the needs of Bimini, us and any other account our Manager may manage in the future. In these cases, our Manager s and Bimini s investment allocation procedures and policies will typically allocate such assets to multiple accounts in proportion to their needs and available capital. The policies will permit departure from such proportional allocation when (i) allocating purchases of whole-pool Agency RMBS, because those securities cannot be divided into multiple parts to be allocated among various accounts, and (ii) such allocation would result in an inefficiently small amount of the security being purchased for an account. In these cases, the policy allows for a protocol of allocating assets so that, on an overall basis, each account is treated equitably. Specifically, the investment allocation procedures and policies stipulate that our Manager and Bimini will base the allocation of investment opportunities in good faith and principally on the following factors:

- the primary investment strategy and the stage of portfolio development of each account;
- the effect of the potential investment on the diversification of each account s portfolio by coupon, purchase price, size, prepayment characteristics and leverage;
- the cash requirements of each account;
- the anticipated cash flow of each account s portfolio; and
- the amount of funds available to each account and the length of time such funds have been available for investment.

Our independent directors conduct quarterly reviews with our Manager of its allocation decisions, if any, and discuss with our Manager the portfolio needs of each account for the next quarter and whether such needs will give rise to an asset allocation conflict and, if so, the potential resolution of such conflict.

Other policies that our Manager applies to the management of the Company include controls for cross transactions (transactions between managed accounts (including us)), principal transactions (transactions between Bimini or our Manager and a managed account (including us)) and split price executions. To date we have not entered into any cross transactions but we have entered into one principal transaction prior to our initial public offering and have conducted split price executions. See Our Manager and the Management Agreement Conflicts of Interest; Equitable Allocation of Opportunities and Certain Relationships and Related Transactions for a more detailed description of these types of transactions, the principal transaction we have entered into with Bimini and the policies of Bimini and our Manager that govern these types of transactions. We currently do not anticipate that we will enter into any additional cross transactions or principal transactions.

We are entirely dependent on our Manager for our day-to-day management and do not have any independent officers. Our executive officers are also executive officers of Bimini and our Manager, and none of them will devote his time to us exclusively. We compete with Bimini and will compete with any other account managed by our Manager or other RMBS investment vehicles that may be sponsored by Bimini in the future for access to these individuals.

John B. Van Heuvelen, one of our independent director nominees, owns shares of common stock of Bimini. Mr. 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. Mr. 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. Accordingly, Messrs. Van Heuvelen, Cauley and Haas may have a conflict of interest with respect to actions by our Board of Directors that relate to Bimini or our Manager.

Because our executive officers are also officers of our Manager, the terms of our management agreement, including fees payable, were not negotiated on an arm s-length basis, and its terms may not be as favorable to us as if it was negotiated with an unaffiliated party.

The management fee we pay to our Manager will be paid regardless of our performance and it may not provide sufficient incentive to our Manager to seek to achieve attractive risk-adjusted returns for our investment portfolio.

Our Formation and Structure

We were formed by Bimini as a Maryland corporation in August 2010. Bimini currently owns approximately 18.1% of our outstanding common stock. The following chart illustrates our ownership structure immediately after completion of this offering assuming no exercise of the underwriters overallotment option.

Tax Structure

We have been organized and have operated so as to qualify to be taxed as a REIT. 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. Our qualification as a REIT and the maintenance of such qualification depends upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and we intend to continue to operate in a manner that will enable us to meet the requirements for qualification and taxation as a REIT. In connection with this offering, we will receive an opinion from Hunton & Williams LLP to the effect that we qualified to be taxed as a REIT under the Code for our taxable year ended December 31, 2013, and that our organization and current and proposed method of operation will enable us to continue to qualify for taxation as a REIT for our taxable year ending December 31, 2014 and thereafter.

As a REIT, we generally are not subject to U.S. federal income tax on the REIT taxable income that we currently distribute to our stockholders, but taxable income generated by any taxable REIT subsidiary, or TRS,

that we may form or acquire will be subject to federal, state and local income tax. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute annually at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify as a REIT in any calendar year and do not qualify for certain statutory relief provisions, our income would be subject to U.S. federal income tax (and any applicable state and local taxes), and we would likely be precluded from qualifying for treatment as a REIT until the fifth calendar year following the year in which we failed to qualify. As a REIT, we may still be subject to certain federal, state and local taxes on our income and assets and to U.S. federal income and excise taxes on our undistributed income.

Our Distribution Policy

To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We are subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See Material U.S. Federal Income Tax Considerations. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes pursuant to GAAP. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Code, and we may be required to borrow money, sell assets or make taxable distributions of our capital stock or debt securities to satisfy the distribution requirements. Additionally, we may pay future distributions from the proceeds from this offering or other securities offerings, and thus all or a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes. We do not currently intend to pay future distributions from the proceeds of this offering.

Any distributions that we make on our common stock will be authorized by and at the discretion of our Board of Directors and declared by us based upon a variety of factors deemed relevant by our directors, which may include among other things, our actual results of operations, restrictions under applicable law, our capital requirements and the REIT requirements of the Code. We have not established a minimum payment distribution level, and we cannot assure you of our ability to make distributions to our stockholders in the future.

Distributions to stockholders generally will be taxable to our stockholders as ordinary income, although a portion of such distributions may be designated by us as long-term capital gain or qualified dividend income or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment. For a discussion of the U.S. federal income tax treatment of our distributions, see Material U.S. Federal Income Tax Considerations.

Restrictions on Ownership and Transfer of Our Capital Stock

Due to limitations on the concentration of ownership of REIT stock imposed by the Code, subject to certain exceptions, our charter provides that no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock, except that Bimini may own up to 35.0% of our common stock so long as Bimini continues to qualify as a REIT. See Description of Our Capital Stock Restrictions on Ownership and Transfer.

Our charter also prohibits any person from, among other matters:

beneficially or constructively owning or transferring shares of our capital stock if such ownership or transfer would result in our being closely held within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT; and

transferring shares of our capital stock if such transfer would result in our capital stock being owned by less than 100 persons (determined under the principles of Section 856(a)(5) of the Code).

Our Board of Directors may, in its sole discretion, exempt (prospectively or retroactively) a person from the 9.8% ownership limit and other restrictions in our charter and may establish or increase an excepted holder percentage limit for such person if our Board of Directors obtains such representations, covenants and undertakings as it deems appropriate in order to conclude that granting the exemption and/or establishing or increasing the excepted holder percentage limit will not cause us to lose our qualification as a REIT.

Our charter also provides that any ownership or purported transfer of our capital stock in violation of the foregoing restrictions will result in the shares owned or transferred in such violation being automatically transferred to a charitable trust for the benefit of a charitable beneficiary and the purported owner or transferee acquiring no rights in such shares, except that any transfer that results in the violation of the restriction relating to shares of our capital stock being beneficially owned by fewer than 100 persons will be void ab initio. Additionally, if the transfer to the trust is ineffective for any reason to prevent a violation of the restriction, the transfer that would have resulted in such violation will be void ab initio.

Investment Company Act Exemption

We operate our business so that we are exempt from registration under the Investment Company Act. We rely on the exemption provided by Section 3(c)(5)(C) of the Investment Company Act, which applies to companies in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. We monitor our portfolio periodically and prior to each investment to confirm that we continue to qualify for the exemption. To qualify for the exemption, we make investments so that at least 55% of the assets we own on an unconsolidated basis consist of qualifying mortgages and other liens on and interests in real estate, which we refer to as qualifying real estate assets, and so that at least 80% of the assets we own on an unconsolidated basis consist of real estate-related assets, including our qualifying real estate assets.

We treat whole-pool pass-through Agency RMBS as qualifying real estate assets based on no-action letters issued by the Staff of the Securities and Exchange Commission, or the SEC. In August 2011, the SEC, through a concept release, requested comments on interpretations of Section 3(c)(5)(C). To the extent that the SEC or its staff publishes new or different guidance with respect to these matters, we may fail to qualify for this exemption. Our Manager intends to manage our pass-through Agency RMBS portfolio such that we will have sufficient whole-pool pass-through Agency RMBS to ensure we retain our exemption from registration under the Investment Company Act. At present, we generally do not expect that our investments in structured Agency RMBS will constitute qualifying real estate assets but will constitute real estate-related assets for purposes of the Investment Company Act.

Our Corporate Information

Our offices are located at 3305 Flamingo Drive, Vero Beach, Florida 32963, and the telephone number of our offices is (772) 231-1400. Our internet address is www.orchidislandcapital.com. Our internet site and the information contained therein or connected thereto do not constitute a part of this prospectus or any amendment or supplement thereto.

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The Offering

Common stock offered by us in this offering	3,200,000 shares [(1)]
Common stock to be outstanding after this offering	8,611,665 shares [(1)(2)]
Use of proceeds	We estimate that the net proceeds we will receive from this offering will be approximately $38.39 million (or approximately $44.18 million if the underwriters fully exercise their overallotment option), after deducting the underwriting discount and commissions of approximately $1.61 million (or approximately $1.85 million if the underwriters fully exercise their overallotment option) and estimated offering expenses of approximately $0.16 million payable by us.

We intend to invest the net proceeds of this offering in (i) pass-through Agency RMBS backed by hybrid ARMs, ARMs and fixed-rate mortgage loans and (ii) structured Agency RMBS. Specifically, we intend to invest the net proceeds of this offering as follows:

- Approximately 40% to 80% in pass-through Agency RMBS. Of the 40% to 80% of the net proceeds allocated to pass-through Agency RMBS, the net proceeds will be further allocated as follows:
  - approximately 50% to 100% in pass-through Agency RMBS backed by fixed-rate mortgage loans;
  - approximately 0% to 75% in pass-through Agency RMBS backed by ARMs; and
  - approximately 0% to 75% in pass-through Agency RMBS backed by hybrid ARMs.
- The remaining 20% to 60% of the proceeds will be allocated to structured Agency RMBS.

We expect to borrow against the pass-through Agency RMBS and certain of our structured Agency RMBS that we purchase with the net proceeds of this offering through repurchase agreements and use the proceeds of the borrowings to acquire additional pass-through Agency RMBS and structured Agency RMBS in accordance with a similar targeted allocation. We reserve the right to change our targeted allocation depending on prevailing market conditions, including, among others, the pricing and supply of pass-through Agency RMBS and structured Agency RMBS, the performance of our portfolio and the availability and terms of financing.

Distribution policy

To qualify as a REIT, U.S. federal income tax law generally requires that we distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and that we pay tax at regular corporate rates on any undistributed REIT taxable income. We have not

	established a minimum distribution payment level, and we cannot assure you of our ability to make distributions to our stockholders in the future. In connection with these requirements, we intend to make regular monthly distributions of all or substantially all of our net taxable income to our stockholders. Any distributions we make will be authorized by and at the discretion of our Board of Directors and will depend upon a variety of factors deemed relevant by our directors, including, among other things, our actual results of operations, restrictions under applicable law, our capital requirements and the REIT requirements of the Code. For more information, please see Distribution Policy and Material U.S. Federal Income Tax Considerations.
NYSE MKT symbol	ORC
Ownership and transfer restrictions	To assist us in qualifying as a REIT, among other purposes, our charter generally limits beneficial and constructive ownership by any person to no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock, except that Bimini may own up to 35.0% of our common stock so long as Bimini continues to qualify as a REIT. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock. See Description of Capital Stock Restrictions on Ownership and Transfer.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 24.

(1) Assumes the underwriters overallotment option to purchase up to an additional 480,000 shares of our common stock is not exercised.

(2) The number of shares of common stock to be outstanding immediately after the closing of this offering excludes an aggregate of 4,000,000 shares of common stock available for issuance pursuant to our 2012 Equity Incentive Plan.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, intend, should, may, plans, projects, will, or similar expressions, or the negative of these words, identify forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our ability to deploy effectively and timely the net proceeds of this offering;
- our expected operating results;
- our ability to acquire investments on attractive terms;
- the effect of the U.S. Federal Reserve s and the U.S. Treasury s recent actions on the liquidity of our target assets and the capital markets;
- 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;
- mortgage loan modification programs and future legislative action;
- our ability to access the capital markets;
- our ability to obtain future financing arrangements;
- our ability to successfully hedge the interest rate risk and prepayment risk associated with our portfolio;
- our ability to make distributions to our stockholders in the future;
- our understanding of our competition and our ability to compete effectively;

our ability to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes;

our ability to maintain our exemption from registration under the Investment Company Act;

our ability to maintain the listing of our common stock on the NYSE MKT;

market trends;

the impact of an inability to reach an agreement on the national debt ceiling;

the effect of actual or proposed actions of the U.S. Federal Reserve with respect to monetary policy, inflation or the taper of existing financial asset purchases;

expected capital expenditures; and

the impact of technology on our operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Except as required by law, we are not obligated to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

When considering forward-looking statements, you should keep in mind the risks and other cautionary statements set forth in this prospectus, including those contained in Risk Factors. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our views as of the date of this prospectus. You should carefully consider these risks when you make a decision concerning an investment in our common stock, along with the following factors, among others, that may cause actual results to vary from our forward-looking statements:

- general volatility of the securities markets in which we invest and the market price of our common stock;
- our limited operating history;
- changes in our business or investment strategy;
- changes in interest rate spreads or the yield curve;
- availability, terms and deployment of debt and equity capital;
- availability of qualified personnel;
- the degree and nature of our competition;
- increased prepayments of the mortgage loans underlying our Agency RMBS;
- risks associated with our hedging activities;
- changes in governmental regulations, tax rates and similar matters; and
- defaults on our investments.

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RISK FACTORS

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

Risks Related to this Offering

The market of our common stock may be volatile following this offering.

The market value of shares of our common stock may be based primarily upon current and future cash dividends, and the market price of shares of our common stock will be influenced by the dividends on those shares relative to market interest rates. Rising interest rates may lead potential buyers of our common stock to expect a higher dividend rate, which would adversely affect the market price of our common stock. As a result, the market price of our common stock may be highly volatile and subject to wide price fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect the share price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;
- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;
- increases in market interest rates that lead purchasers of our common stock to demand a higher dividend yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- a change in our Manager or additions or departures of key management personnel;
- actions by institutional stockholders;

- speculation in the press or investment community; and

- general market and economic conditions.

If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

You should not rely on lock-up agreements in connection with this offering to limit the amount of our common stock sold into the market.

We and each of our directors and executive officers and Bimini will agree that, for a period of 30 days after the date of this prospectus, without the prior written consent of Ladenburg Thalmann & Co. Inc., we and they will not sell, dispose of or hedge any shares of our common stock, subject to certain exceptions and extensions in certain circumstances.

There are no present agreements between Ladenburg Thalmann & Co. Inc. and any of Bimini, our directors, our executive officers or us to release any of them or us from these lock-up agreements. However, we cannot predict the circumstances or timing under which Ladenburg Thalmann & Co. Inc. may waive these restrictions. These sales or a perception that these sales may occur could reduce the market price of our common stock.

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.

We intend to invest the net proceeds of this offering in (i) pass-through Agency RMBS backed by hybrid ARMs, ARMs and fixed-rate mortgage loans and (ii) structured Agency RMBS. Our management may invest the proceeds as it deems appropriate. In addition, market factors may require our management to allocate portions of the proceeds for other purposes. Accordingly, you will be relying on the judgment of our management with regard to the use of the proceeds from this offering, and you will not have the opportunity, as part of your investment decision, to assess whether we are using the proceeds appropriately. It is possible that we may invest the proceeds in a way that does not yield a favorable, or any, return for us.

There are material limitations in estimating our results for prior periods before the completion of our and our auditors normal review procedures for such period.

The preliminary estimated financial information set forth in this prospectus under the heading Prospectus Summary Recent Developments is not a comprehensive statement of our financial condition as of January 31, 2014 or February 28, 2014, and such estimated information has not been reviewed or audited by our independent registered public accounting firm. Actual financial information as of January 31, 2014 or February 28, 2014, when finally determined, may vary from our estimates and may be materially different from the preliminary estimates we have provided. Accordingly, investors should not place undue reliance on such financial information.

Risks Related to Our Business

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.

On September 13, 2012, the U.S. Federal Reserve announced a third round of quantitative easing (QE3), which is an open-ended program designed to expand the Federal Reserve s holdings of long-term securities by purchasing an additional $40 billion of Agency RMBS per month until key economic indicators, such as the unemployment rate, show signs of improvement. In December 2012, the U.S. Federal Reserve announced that it would begin buying $45 billion of long-term Treasury bonds each month. On December 18, 2013, the U.S. Federal Reserve announced that it would reduce its purchases of Agency RMBS by $5 billion per month and reduce its purchases of Treasury bonds by $5 billion per month beginning in January 2014. On January 29, 2014, the U.S. Federal Reserve announced additional $5 billion reductions to its monthly purchases of both Agency RMBS and Treasury bonds to take effect in February 2014.

The immediate effect of the announcement of QE3 was an increase in Agency RMBS prices. Since the initial price spike, prices for all securities have receded below the price levels that existed before the announcement of QE3. It is unclear what effect, if any, the incremental reduction in the rate of the U.S. Federal Reserve s monthly purchases will have on the value of the Agency RMBS in which we invest. However, it is possible that the market for such securities, the price of such securities and, as a result, our net asset value and net interest margin could be negatively affected.

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

The residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and liquidity concerns over the past few years. In addition, certain

commercial banks, investment banks and insurance companies have announced extensive losses from exposure to the residential mortgage market. These losses have reduced financial industry capital, leading to reduced liquidity for some institutions. These factors have impacted investor perception of the risk associated

with real estate-related assets, including Agency RMBS. As a result, values for RMBS, including some Agency RMBS and other AAA-rated RMBS assets, have been negatively impacted at times. Further increased volatility and deterioration in the broader residential mortgage and RMBS markets may adversely affect the performance and market value of the Agency RMBS in which we invest.

We rely on our Agency RMBS as collateral for our financings. Any decline in their value, or perceived market uncertainty about their value, would likely make it difficult for us to obtain financing on favorable terms or at all or maintain our compliance with terms of any financing arrangements already in place. Additionally, we have elected to account for our investment in RMBS under the fair value option and, therefore, such investment will be reported on our financial statements at fair value with unrealized gains or losses included in earnings. If market conditions result in a decline in the value of our Agency RMBS, our business, financial position and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

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.

Our portfolio includes Agency RMBS backed by ARMs, hybrid ARMs and fixed-rate mortgages, and the mix of these securities in the portfolio may be increased or decreased over time. Additionally, the interest rates on ARMs and hybrid ARMs may vary over time based on changes in a short-term interest rate index, of which there are many.

We finance our acquisitions of pass-through Agency RMBS with short-term financing. During periods of rising short-term interest rates, the income we earn on these securities will not change (with respect to Agency RMBS backed by fixed-rate mortgage loans) or will not increase at the same rate (with respect to Agency RMBS backed by ARMs and hybrid ARMs) as our related financing costs, which may reduce our net interest margin or result in losses.

Members of the U.S. Senate Banking Committee have recently announced an agreement on a housing finance and reform proposal that, among other things, would wind down and eliminate Fannie Mae and Freddie Mac, and we cannot predict how this proposed legislation will