Orchid Island Capital, Inc.
Form 10-Q
April 27, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from __________ to ___________

Commission File Number: 001-35236

Orchid Island Capital, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-3269228
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No

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

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

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

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

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

Number of shares outstanding at April 27, 2018: 53,098,115

ORCHID ISLAND CAPITAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
($ in thousands, except per share data)

	(Unaudited) March 31, 2018	December 31, 2017
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$3,643,718	$3,712,561
Unpledged	102,066	32,250
Total mortgage-backed securities	3,745,784	3,744,811
Cash and cash equivalents	127,168	214,363
Restricted cash	36,837	32,349
Accrued interest receivable	15,384	14,444
Derivative assets, at fair value	36,179	17,160
Receivable for securities sold, pledged to counterparties	160,919	-
Other assets	427	216
Total Assets	$4,122,698	$4,023,343
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$3,619,280	$3,533,786
Payable for unsettled securities purchased	32,054	-
Dividends payable	4,776	7,429
Derivative liabilities, at fair value	2,582	2,038
Accrued interest payable	7,152	6,516
Due to affiliates	796	797
Other liabilities	26,607	10,566
Total Liabilities	3,693,247	3,561,132
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of March 31, 2018 and December 31, 2017	-	-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 53,072,169 shares issued and outstanding as of March 31, 2018 and 53,061,904 shares issued and outstanding as of December 31, 2017	531	531
Additional paid-in capital	445,297	461,680
Accumulated (deficit) retained earnings	(16,377)	-
Total Stockholders' Equity	429,451	462,211
Total Liabilities and Stockholders' Equity	$4,122,698	$4,023,343

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three Months Ended March 31, 2018 and 2017
($ in thousands, except per share data)

	2018	2017
Interest income	$39,935	$32,311
Interest expense	(15,149)	(6,715)
Net interest income	24,786	25,596
Realized losses on mortgage-backed securities	(8,338)	(1,350)
Unrealized losses on mortgage-backed securities	(71,712)	(14,958)
Gains (losses) on derivative instruments	41,994	(4,419)
Net portfolio (loss) income	(13,270)	4,869
Expenses:		
Management fees	1,712	1,302
Allocated overhead	382	368
Accrued incentive compensation	11	12
Directors' fees and liability insurance	252	276
Audit, legal and other professional fees	296	170
Direct REIT operating expenses	403	231
Other administrative	51	61
Total expenses	3,107	2,420
Net (loss) income	$(16,377)	$2,449
Basic and diluted net (loss) income per share	$(0.31)	$0.07
Weighted Average Shares Outstanding	53,065,845	33,069,064
Dividends declared per common share	$0.31	$0.42

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Three Months Ended March 31, 2018
($ in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balances, January 1, 2018	$ 531	$ 461,680	$ -	$ 462,211
Net loss	-	-	(16,377)	(16,377)
Cash dividends declared, $0.31 per share	-	(16,463)	-	(16,463)
Issuance of common stock pursuant to stock based compensation plan	-	35	-	35
Amortization of stock based compensation	-	45	-	45
Balances, March 31, 2018	$ 531	$ 445,297	$ (16,377)	$ 429,451

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Three Months Ended March 31, 2018 and 2017
($ in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(16,377)	$2,449
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock based compensation	80	243
Realized and unrealized losses on mortgage-backed securities	80,050	16,308
Realized and unrealized gains on interest rate swaptions	(1,717)	-
Realized and unrealized gains on interest rate swaps	(11,576)	(1,534)
Realized gains on forward settling to-be-announced securities	(8,407)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,105)	(1,676)
Other assets	(251)	(417)
Accrued interest payable	636	164
Other liabilities	218	1,819
Due (from) to affiliates	(1)	262
NET CASH PROVIDED BY OPERATING ACTIVITIES	41,550	17,618
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(517,829)	(1,737,240)
Sales	228,691	1,407,673
Principal repayments	78,720	73,298
Redemption of FHLB stock	-	3
Proceeds from net settlement of to-be-announced securities	9,161	1,119
Purchase of derivative financial instruments, net of margin cash received	10,622	-
NET CASH USED IN INVESTING ACTIVITIES	(190,635)	(255,147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	13,098,449	11,947,907
Principal payments on repurchase agreements	(13,012,955)	(11,691,004)
Cash dividends	(19,116)	(13,869)
Proceeds from issuance of common stock, net of issuance costs	-	12,793
NET CASH PROVIDED BY FINANCING ACTIVITIES	66,378	255,827
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(82,707)	18,298
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	246,712	94,425
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$164,005	$112,723
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$14,513	$6,551
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Securities acquired settled in later period	$32,054	$-

Securities sold settled in later period	159,300	-

See Notes to Consolidated Financial Statements

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ORCHID ISLAND CAPITAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
MARCH 31, 2018

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, which were invested in RMBS that were issued and the principal and interest of which were guaranteed by a federally chartered corporation or agency ("Agency RMBS") on a leveraged basis. Orchid is an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act").

On July 29, 2016, Orchid entered into an equity distribution agreement (the "July 2016 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 $125,000,000 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 10,174,992 shares under the July 2016 Equity Distribution Agreement for aggregate gross proceeds of $110.0 million, and net proceeds of approximately $108.2 million, net of commissions and fees, prior to its termination in February 2017.

On February 23, 2017, Orchid entered into another equity distribution agreement, as amended and restated on May 10, 2017, (the "May 2017 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 $125,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. The Company issued a total of 12,299,032 shares under the May 2017 Equity Distribution Agreement for aggregate gross proceeds of $125.0 million, and net proceeds of approximately $122.9 million, net of commissions and fees, prior to its termination in August 2017.

On August 2, 2017, Orchid entered into another equity distribution agreement (the "August 2017 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 $125,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through March 31, 2018, the Company issued a total of 7,746,052 shares under the August 2017 Equity Distribution Agreement for aggregate gross proceeds of approximately $76.0 million, and net proceeds of approximately $74.7 million, net of commissions and fees.

Basis of Presentation and Use of Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements include the accounts of our wholly-owned subsidiary, Orchid Island Casualty, LLC. Significant intercompany accounts and transactions have been eliminated. 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 three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

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 and derivatives.

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. Restricted cash includes cash pledged as collateral for repurchase agreements and other borrowings, and interest rate swaps and other derivative instruments.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

(in thousands)

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$127,168	$214,363
Restricted cash	36,837	32,349
Total cash, cash equivalents and restricted cash	$164,005	$246,712

The Company maintains cash balances at four banks and excess margin on account at derivative exchanges, 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 March 31, 2018, the Company's cash deposits exceeded federally insured limits by approximately $125.4 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 exchanges 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. 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 consolidated statement of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

The Company records 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. Premium lost and discount accretion resulting from monthly principal repayments are reflected in unrealized gains (losses) on RMBS in the consolidated statements of operations. For IO securities, the income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively 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 consolidated 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 Treasury Note ("T-Note") and Eurodollar futures contracts, interest rate swaps, options to enter in interest rate swaps ("interest rate swaptions") and "to-be-announced" ("TBA") securities transactions, but may enter into other derivatives in the future.

The Company purchases a portion of its Agency RMBS through forward settling transactions, including TBA securities transactions. At times when market conditions are conducive, the Company may choose to move the settlement of these TBA securities transactions 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 the Company for foregoing net interest margin and is referred to as TBA "dollar roll income."

The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception of the TBA transaction, or throughout its term, that it will take physical delivery of the 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 transactions and dollar roll transactions are reported in gain (loss) on derivative instruments in the accompanying consolidated statements of operations. The fair value of TBA securities is estimated based on similar methods used to value RMBS securities.

The Company has elected not to 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 and exchanges 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 and exchanges 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 swaps, interest rate swaptions and TBA securities are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 12 of the consolidated 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 March 31, 2018 and December 31, 2017 due to the short-term nature of these financial instruments.

Repurchase Agreements

The Company finances the acquisition of the majority of its 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 13 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 November 2016, the FASB issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows – (Topic 230): Restricted Cash. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company early adopted the ASU beginning with the first quarter of 2017.

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

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements.

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of March 31, 2018 and December 31, 2017:

(in thousands)

	March 31, 2018	December 31, 2017
Pass-Through RMBS Certificates:		
Hybrid Adjustable-rate Mortgages	$26,482	$27,398
Adjustable-rate Mortgages	1,754	1,754
Fixed-rate Mortgages	3,569,133	3,594,533
Total Pass-Through Certificates	3,597,369	3,623,685
Structured RMBS Certificates:		
Interest-Only Securities	120,199	86,918
Inverse Interest-Only Securities	28,216	34,208
Total Structured RMBS Certificates	148,415	121,126
Total	$3,745,784	$3,744,811

The following table summarizes the Company's RMBS portfolio as of March 31, 2018 and December 31, 2017, 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)

	March 31, 2018	December 31, 2017
Greater than one year and less than five years	$15	$29
Greater than five years and less than ten years	3,049	3,281
Greater than or equal to ten years	3,742,720	3,741,501
Total	$3,745,784	$3,744,811

The Company generally pledges its RMBS assets as collateral under repurchase agreements. At March 31, 2018 and December 31, 2017, the Company had unpledged securities totaling $102.1 million and $32.3 million, respectively. The unpledged balance at March 31, 2018 includes unsettled security purchases with a fair value of approximately $14.6 million that will be pledged as collateral under repurchase agreements on their respective settlement dates in April 2018.

NOTE 3. REPURCHASE AGREEMENTS AND OTHER BORROWINGS

The Company pledges certain of its RMBS as collateral under repurchase agreements with financial institutions. Interest rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is generally paid at the termination of a borrowing. If the fair value of the pledged securities declines, lenders will typically require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of the pledged securities increases, lenders may release collateral back to the Company. As of March 31, 2018, the Company had met all margin call requirements.

As of March 31, 2018, the Company had outstanding repurchase obligations of approximately $3,619.3 million with a net weighted average borrowing rate of 1.86%. These agreements were collateralized by RMBS with a fair value, including accrued interest and securities pledged related to securities sold but not yet settled, of approximately

$3,818.6 million, and cash pledged to the counterparties of approximately $28.6 million. As of December 31, 2017, the Company had outstanding repurchase obligations of approximately $3,533.8 million with a net weighted average borrowing rate of 1.54%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately $3,726.5 million, and cash pledged to the counterparties of approximately $25.3 million.

As of March 31, 2018 and 2017, the Company's repurchase agreements had remaining maturities as summarized below:

($ in thousands)

	OVERNIGHT (1 DAY OR LESS)	BETWEEN 2 AND 30 DAYS	BETWEEN 31 AND 90 DAYS	GREATER THAN 90 DAYS	TOTAL
March 31, 2018					
Fair market value of securities pledged, including accrued interest receivable	$ -	$2,263,087	$1,096,463	$459,040	$3,818,590
Repurchase agreement liabilities associated with these securities	$ -	$2,127,683	$1,038,162	$453,435	$3,619,280
Net weighted average borrowing rate	-	1.91 %	1.88 %	1.57 %	1.86 %
December 31, 2017					
Fair market value of securities pledged, including accrued interest receivable	$ -	$1,983,958	$1,266,590	$475,975	$3,726,523
Repurchase agreement liabilities associated with these securities	$ -	$1,871,833	$1,208,518	$453,435	$3,533,786
Net weighted average borrowing rate	-	1.53 %	1.53 %	1.57 %	1.54 %

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 March 31, 2018, 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 $220.7 million. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at March 31, 2018 and December 31, 2017.

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, the Company has entered into Eurodollar and T-Note futures contracts, interest rate swaps, 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. 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 (Liabilities), at Fair Value

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

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	March 31, 2018	December 31, 2017
Assets			
Interest rate swaps	Derivative assets, at fair value	$25,107	$ 13,745
Payer swaptions	Derivative assets, at fair value	10,296	3,405
Receiver swaptions	Derivative assets, at fair value	760	-
TBA securities	Derivative assets, at fair value	16	10
Total derivative assets, at fair value		$36,179	$ 17,160
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$-	$ 215
TBA securities	Derivative liabilities, at fair value	2,582	1,823
Total derivative liabilities, at fair value		$2,582	$ 2,038
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$5,415	$ 5,545
TBA securities	Restricted cash	2,857	1,508
TBA securities	Other liabilities	-	(59)
Interest rate swaption contracts	Other liabilities	(7,169)	(3,505)
Total margin balances on derivative contracts		$1,103	$ 3,489

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

($ in thousands)

	March 31, 2018			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[1]
Eurodollar Futures Contracts (Short Positions)				
2018	$1,333,333	1.92 %	2.40 %	$4,743
2019	1,500,000	2.16 %	2.69 %	8,060
2020	1,500,000	2.64 %	2.81 %	2,480
Total / Weighted Average	$1,454,545	2.28 %	2.66 %	$15,283
Treasury Note Futures Contracts (Short Position)[2]				
June 2018 5-year T-Note futures				
(June 2018 - June 2023 Hedge Period)	$165,000	2.94 %	2.87 %	$(472)

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($ in thousands)

	December 31, 2017			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[1]
Eurodollar Futures Contracts (Short Positions)				
2018	$ 1,212,500	1.86 %	1.98 %	$ 1,418
2019	1,350,000	2.11 %	2.27 %	2,152
2020	987,500	2.59 %	2.36 %	(2,360)
Total / Weighted Average	$ 1,183,333	2.16 %	2.20 %	$ 1,210
Treasury Note Futures Contracts (Short Position)[2]				
March 2018 10 year T-Note futures				
(Mar 2018 - Mar 2028 Hedge Period)	$ 140,000	2.23 %	2.33 %	$ 755

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.
T-Note futures contracts were valued at a price of $114.46 at March 31, 2018 and $124.05 at December 31, 2017.
(2) The notional contract values of the short positions were $188.9 million and $173.7 million at March 31, 2018 and December 31, 2017, respectively.

Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on the London Interbank Offered Rate ("LIBOR") ("payer swaps"). The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. We are typically required to post collateral on our interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at March 31, 2018 and December 31, 2017.

($ in thousands)

	Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
March 31, 2018					
Expiration > 1 to ≤ 3 years	$ 650,000	1.09 %	1.81 %	$ 17,232	1.8
Expiration > 3 to ≤ 5 years	360,000	2.05 %	2.03 %	7,875	4.0
	$ 1,010,000	1.43 %	1.89 %	$ 25,107	2.6
December 31, 2017					
Expiration > 1 to ≤ 3 years	$ 650,000	1.09 %	1.31 %	$ 10,318	2.1
Expiration > 3 to ≤ 5 years	360,000	2.05 %	1.32 %	(2,216)	4.3
	$ 1,010,000	1.43 %	1.31 %	$ 8,102	2.8

The table below presents information related to the Company's interest rate swaption positions at March 31, 2018 and December 31, 2017.

($ in thousands)

	Option			Underlying Swap			
Expiration	Cost	Fair Value	Weighted Average Months to Expiration	Notional Amount	Average Fixed Rate	Average Adjustable Rate (LIBOR)	Weighted Average Term (Years)
March 31, 2018							
≤ 1 year							
Payer Swaptions	$11,062	$10,296	9.3	$750,000	3.00%	3 Month	9.2
Receiver Swaptions	820	760	10.4	100,000	2.60%	3 Month	5.0
December 31, 2017							
≤ 1 year							
Payer Swaptions	$2,367	$3,405	8.0	$200,000	2.16%	3 Month	6.0

The following table summarizes our contracts to purchase and sell TBA securities as of March 31, 2018 and December 31, 2017.

($ in thousands)

	Notional Amount Long (Short)(1)	Cost Basis(2)	Market Value(3)	Net Carrying Value(4)
March 31, 2018				
30-Year TBA securities:				
3.0%	$(400,000)	$(387,621)	$(390,187)	$(2,566)
December 31, 2017				
30-Year TBA securities:				
3.0%	$(300,000)	$(299,371)	$(300,153)	$(782)
4.0%	(357,000)	(373,403)	(373,477)	(74)
4.5%	356,556	380,371	379,414	(957)
Total	$(300,444)	$(292,403)	$(294,216)	$(1,813)

(1) Notional amount represents the par value (or principal balance) of the underlying Agency RMBS.

(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.

(3) Market value represents the current market value of the TBA securities (or of the underlying Agency RMBS) as of period-end.

(4) Net carrying value represents the difference between the market value and the cost basis of the TBA securities as of period-end and is reported in derivative assets (liabilities), at fair value in our consolidated balance sheets.

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Gain (Loss) From Derivative Instruments, Net

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months ended March 31, 2018 and 2017.

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Eurodollar futures contracts (short positions)	$14,541	$(571)
T-Note futures contracts (short position)	6,821	(3,851)
Interest rate swaps	10,508	3
Receiver swaptions	(349)	-
Payer swaptions	2,066	-
Net TBA securities	8,407	-
Total	$41,994	$(4,419)

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 consolidated balance sheets.

NOTE 5. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes our assets pledged as collateral under our repurchase agreements and derivative agreements by type, including securities pledged related to securities sold but not yet settled, as of March 31, 2018 and December 31, 2017.

(in thousands)

	March 31, 2018			December 31, 2017		
Assets Pledged to Counterparties	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
PT RMBS - fair value	$3,529,357	$ -	$3,529,357	$3,612,244	$ -	$3,612,244
Structured RMBS - fair value	114,361	-	114,361	100,317	-	100,317
Accrued interest on pledged securities	14,568	-	14,568	13,962	-	13,962
Receivable for securities sold	160,304	-	160,304	-	-	-
Restricted cash	28,565	8,272	36,837	25,296	7,053	32,349
Total	$3,847,155	$ 8,272	$3,855,427	$3,751,819	$ 7,053	$3,758,872

Assets Pledged from Counterparties

The table below summarizes our assets pledged to us from counterparties under our repurchase agreements as of March 31, 2018 and December 31, 2017.

(in thousands)

	March 31, 2018			December 31, 2017		
Assets Pledged to Orchid	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
Cash	$1,146	$ 7,169	$8,315	$ 67	$ 3,564	$3,631
PT RMBS - fair value	548	-	548	-	-	-
U.S. Treasury securities - fair value	1,077	-	1,077	-	-	-
Total	$2,771	$ 7,169	$9,940	$ 67	$ 3,564	$3,631

PT RMBS and U.S. Treasury securities received as margin under our repurchase agreements are not recorded in the consolidated balance sheets because the counterparty retains ownership of the security. Cash received as margin is recognized in cash and cash equivalents with a corresponding amount recognized as an increase in repurchase agreements or other liabilities in the consolidated balance sheets.

NOTE 6. 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 March 31, 2018 and December 31, 2017.

(in thousands)
Offsetting of Assets

				Gross Amount Not Offset in the Consolidated Balance Sheet		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount of Assets Presented in the Consolidated Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
March 31, 2018						
Interest rate swaps	$ 25,107	$ -	$ 25,107	$-	$ -	$25,107
Interest rate swaptions	11,056	-	11,056	-	(7,169)	3,887
TBA securities	16	-	16	-	-	16
	$ 36,179	$ -	$ 36,179	$-	$ (7,169)	$29,010
December 31, 2017						

Interest rate swaps	$ 13,745	$ -	$ 13,745	$ -	$ -	$ 13,745
Interest rate swaptions	3,405	-	3,405	-	(3,405)	-
TBA securities	10	-	10	-	(10)	-
	$ 17,160	$ -	$ 17,160	$ -	$ (3,415)	$ 13,745

(in thousands)
Offsetting of Liabilities

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount of Assets Presented in the Consolidated Balance Sheet	Gross Amount Not Offset in the Consolidated Balance Sheet Financial Instruments Posted as Collateral	Cash Posted Collateral	Net Amount
March 31, 2018						
Repurchase Agreements	$3,619,280	$ -	$3,619,280	$(3,590,715)	$(28,565)	$ -
TBA securities	2,582	-	2,582	-	(2,582)	-
	$3,621,862	$ -	$3,621,862	$(3,590,715)	$(31,147)	$ -
December 31, 2017						
Repurchase Agreements	$3,533,786	$ -	$3,533,786	$(3,508,490)	$(25,296)	$ -
Interest rate swaps	215	-	215	-	-	215
TBA securities	1,823	-	1,823	-	(1,508)	315
	$3,535,824	$ -	$3,535,824	$(3,508,490)	$(26,804)	$ 530

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 consolidated balance sheets. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Note 5 for a discussion of collateral posted or received against or for repurchase obligations and derivative instruments.

NOTE 7. CAPITAL STOCK

Common Stock Issuances

During 2017, the Company completed the following public offerings of shares of its common stock. There were no common stock issuances through public offerings during the three months ended March 31, 2018 and September 30, 2017.

($ in thousands, except per share amounts)

Type of Offering	Period	Book Value Per Share Beginning	Book Value Per Share Ending	Weighted Average Price Received Per Share(1)	Shares	Net Proceeds(2)
2017						
At the Market Offering Program(3)	First Quarter	$ 10.10	$ 9.75	$ 10.13	1,286,196	$ 12,792
At the Market Offering Program(3)	Second Quarter	9.75	9.23	10.17	11,012,836	110,065
At the Market Offering Program(3)	Fourth Quarter	9.15	8.71	9.81	7,746,052	74,750
					20,045,084	$ 197,607

(1) Weighted average price received per share is before deducting the 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 six equity distribution agreements, five of which have either been terminated because all shares were sold or were replaced with a subsequent agreement.

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. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 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.

From the inception of the stock repurchase program through March 31, 2018, the Company repurchased a total of 1,216,243 shares at an aggregate cost of approximately $10.8 million, including commissions and fees, for a weighted average price of $8.92 per share. No shares were repurchased during the year ended December 31, 2017 or the three months ended March 31, 2018. As of March 31, 2018, the remaining authorization under the repurchase program is for up to 5,306,579 shares of the Company's common stock.

Cash Dividends

The table below presents the cash dividends declared on the Company's common stock.

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016	1.680	41,388
2017	1.680	70,717
2018 - YTD[(1)]	0.400	21,249
Totals	$ 9.235	$ 199,407

(1) On April 11, 2018, the Company declared a dividend of $0.09 per share to be paid on May 10, 2018. The effect of this dividend is included in the table above, but is not reflected in the Company's financial statements as of March 31, 2018.

NOTE 8. 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

The table below presents information related to the Company's restricted common stock at March 31, 2018 and 2017.

($ in thousands, except per share data)

	Three Months Ended March 31,			
	2018		2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	-	$ -	8,000	$ 12.23
Granted	-	-	-	-
Vested and issued	-	-	-	-
Unvested, end of period	-	$ -	8,000	$ 12.23
Compensation expense during period		$ -		$ 24
Unrecognized compensation expense, end of period		$ -		$ 8
Intrinsic value, end of period		$ -		$ 80
Weighted-average remaining vesting term (in years)		-		0.1

Stock Awards

The Company issues immediately vested common stock under the Incentive Plan to certain executive officers, employees and directors. The following table presents information related to fully vested common stock issued during the three months ended March 31, 2018 and 2017. All of the fully vested shares of common stock issued during the three months ended March 31, 2018 and 2017, and the related compensation expense, were granted with respect to service performed during the previous fiscal year.

($ in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Fully vested shares granted	3,886	17,335
Weighted average grant date price per share	$9.28	$9.67
Compensation expense related to fully vested shares of common stock awards	$36	$168

Performance Units

The Company may issue performance units under the Incentive Plan to certain executive officers and employees. "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 or employee 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 three months ended March 31, 2018 and 2017.

($ in thousands, except per share data)

	Three Months Ended March 31,			
	2018		2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	41,693	$ 9.95	45,305	$ 10.33
Granted	-	-	15,707	9.55
Vested and issued	(6,406)	10.28	(4,830)	10.52
Unvested, end of period	35,287	$ 9.89	56,182	$ 10.10
Compensation expense during period		$ 45		$ 62
Unrecognized compensation expense, end of period		$ 121		$ 344
Intrinsic value, end of period		$ 260		$ 561
Weighted-average remaining vesting term (in years)		0.9		1.5

NOTE 9. 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 March 31, 2018.

NOTE 10. 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 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible shares of restricted common stock and Performance Units that were outstanding during the three months ended March 31, 2018 and 2017. 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 three months ended March 31, 2018 and 2017.

(in thousands, except per-share information)

	Three Months Ended March 31, 2018	2017
Basic and diluted EPS per common share:		
Numerator for basic and diluted EPS per share of common stock:		
Net (loss) income - Basic and diluted	$(16,377)	$2,449
Weighted average shares of common stock:		
Shares of common stock outstanding at the balance sheet date	53,072	34,270
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	64
Effect of weighting	(6)	(1,265)
Weighted average shares-basic and diluted	53,066	33,069
Net (loss) income per common share:		
Basic and diluted	$(0.31)	$0.07

There was an average of 41,550 Performance Units that were anti-dilutive and not included in diluted EPS for the three months ended March 31, 2018.

NOTE 12. 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 swaps, 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 its positions in RMBS, interest rate swaps, interest rate swaptions and TBA securities determined by either an independent third-party or could do so internally.

RMBS (based on the fair value option), interest rate swaps, interest rate swaptions, TBA securities and futures contracts were recorded at fair value on a recurring basis during the three months ended March 31, 2018 and 2017. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets.

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

(in thousands)

	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2018				
Mortgage-backed securities	$ 3,745,784	$ -	$3,745,784	$ -
Interest rate swaps	25,107	-	25,107	-
Interest rate swaptions	11,056	-	11,056	-
TBA securities	(2,566)	-	(2,566)	-
December 31, 2017				
Mortgage-backed securities	$ 3,744,811	$ -	$3,744,811	$ -
Interest rate swaps	13,530	-	13,530	-
Interest rate swaptions	3,405	-	3,405	-
TBA securities	(1,813)	-	(1,813)	-

During the three months ended March 31, 2018 and 2017, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 13. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2019 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager 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 the Manager for any direct expenses incurred on its behalf and to pay the Manager the Company's pro rata portion of certain overhead costs set forth in the management agreement. Should the Company terminate the management agreement without cause, it will pay to the Manager 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 term of the agreement.

Total expenses recorded for the management fee and costs incurred were approximately $2.1 million and $1.7 million for the three months ended March 31, 2018 and 2017, respectively. At March 31, 2018 and December 31, 2017, the net amount due to affiliates was approximately $0.8 million and $0.8 million, respectively.

Other Relationships with 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. George H. 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. In addition, as of March 31, 2018, Bimini owned 1,520,036 shares, or 2.9%, of the Company's common stock.

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 consolidated 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 PT 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 PT RMBS and certain of our structured Agency RMBS through short-term borrowings structured as repurchase agreements. PT 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 (as defined in the Code) 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

On July 29, 2016, we entered into an equity distribution agreement (the "July 2016 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 $125,000,000 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 10,174,992 shares under the July 2016 Equity Distribution Agreement for aggregate gross proceeds of $110.0 million, and net proceeds of approximately $108.2 million, net of commissions and fees, prior to its termination.

On February 23, 2017, we entered into another equity distribution agreement, as amended and restated on May 10, 2017, (the "May 2017 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 $125,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. The May 2017 Equity Distribution Agreement replaced the July 2016 Equity Distribution Agreement. We issued a total of 12,299,032 shares under the May 2017 Equity Distribution Agreement for aggregate gross proceeds of $125.0 million, and net proceeds of approximately $122.9 million, net of commissions and fees, prior to its termination.

On August 2, 2017, we entered into another equity distribution agreement (the "August 2017 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 $125,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. The August 2017 Equity Distribution Agreement replaced the May 2017 Equity Distribution Agreement. Through March 31, 2018, we issued a total of 7,746,052 shares under the August 2017 Equity Distribution Agreement for aggregate gross proceeds of $76.0 million, and net proceeds of approximately $74.7 million, net of commissions and fees.

Stock Repurchase Agreement

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 is determined by the Company in its discretion and is 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. From the inception of the stock repurchase program through December 31, 2015, we repurchased a total of 1,216,243 shares at an aggregate cost of approximately $10.8 million, including commissions and fees, for a weighted average price of $8.92 per share. No shares of common stock were repurchased during 2017 or 2016. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,522,822 shares of the Company's common stock, which results in a total authorization under the repurchase program for up to 5,306,579 shares of our common stock. This stock repurchase program has no termination date. There were no shares purchased under this program during the three months ended March 31, 2018.

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, and supply of, investments in Agency RMBS;
- actions taken by the U.S. government, including the presidential administration, the Federal Reserve (the "Fed"), the Federal Open Market Committee (the "FOMC") and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency 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;