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

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**Amendment No.1**  
**to**  
**Form S-11**  
**FOR REGISTRATION**  
**UNDER**  
**THE SECURITIES ACT OF 1933**  
**OF CERTAIN REAL ESTATE COMPANIES**

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**ORCHID ISLAND CAPITAL, INC.**

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

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

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

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**Robert E. Cauley**  
**Chairman and Chief Executive Officer**  
**Orchid Island Capital, Inc.**

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

(Name, address, including zip code and telephone number, including area code, of agent for service)

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

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

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

**SUBJECT TO COMPLETION, DATED MARCH 7, 2014**

**PRELIMINARY PROSPECTUS**

## Shares



## Common Stock

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

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

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

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

**Investing in our common stock involves a high degree of risk. See ["Risk Factors"](#) beginning on page 24 of this prospectus.**

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

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

We have granted the underwriters the option to purchase up to an additional \_\_\_\_\_ shares of common stock within 30 days after the date of this prospectus to cover 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 \_\_\_\_\_, 2014.

**Ladenburg Thalmann & Co. Inc.**

Prospectus dated \_\_\_\_\_, 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.**

## 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 (i) the underwriters will not exercise their option to purchase up to an additional shares of our common stock to cover overallocments, if any, and (ii) that the shares of our common stock to be sold in this offering will be sold at \$ per share, which was the last reported sales price of our common stock on March , 2014, as reported on the NYSE MKT.*

### **Our Company**

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

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

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

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

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

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

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

## **Our Investment and Capital Allocation Strategy**

### *Our Investment Strategy*

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

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

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

**Asset Categories**

Pass-through Agency RMBS

**Principal Assets**

*Residential Mortgage Pass-Through Certificates.* Residential mortgage pass-through certificates are securities representing interests in “pools” of mortgage loans secured by residential real property where payments of both interest and principal, plus pre-paid principal, on the securities are made monthly to holders of the securities, in effect “passing through” monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. Pass-through certificates can be divided into various categories based on the characteristics of the underlying mortgages, such as the term or whether the interest rate is fixed or variable.

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

- *Fixed-Rate Mortgages.* Fixed-rate mortgages are mortgages for which the borrower pays an interest rate that is constant throughout the term of the loan.
- *Adjustable-Rate Mortgages (ARMs).* ARMs are mortgages for which the borrower pays an interest rate that varies over the term of the loan.
- *Hybrid ARMs.* Hybrid ARMs are mortgages that have a fixed-rate for the first few years of the loan, often three, five, seven or ten years, and thereafter reset periodically like a traditional ARM.

Structured Agency RMBS

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

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

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

Asset Categories

Principal Assets

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

Our investment strategy consists of the following components:

- investing in pass-through Agency RMBS and certain structured Agency RMBS, such as fixed and floating rate tranches of CMOs and POs, on a leveraged basis to increase returns on the capital allocated to this portfolio;
- investing in certain structured Agency RMBS, such as IOs and IIOs, generally on an unleveraged basis in order to (i) increase returns due to the structural leverage contained in such securities, (ii) enhance liquidity due to the fact that these securities will be unencumbered or, when encumbered, retain the cash from such borrowings and (iii) diversify portfolio interest rate risk due to the different interest rate sensitivity these securities have compared to pass-through Agency RMBS;
- investing in Agency RMBS in order to minimize credit risk;
- investing in assets that will cause us to maintain our exclusion from regulation as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act; and
- investing in assets that will allow us to qualify and maintain our qualification as a REIT.

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

*Capital Allocation Strategy*

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

During periods of rising interest rates, refinancing opportunities available to borrowers typically decrease because borrowers are not able to refinance their current mortgage loans with new mortgage loans at lower interest rates. In such instances, securities that are highly sensitive to refinancing activity, such as IOs and IIOs, typically increase in value. Our capital allocation strategy allows us to redeploy our capital into such securities when and if we believe interest rates will be higher in the future, thereby allowing us to hold securities the value of which we believe is likely to increase as interest rates rise. Also, by being able to re-allocate capital into structured Agency RMBS, such as IOs, during periods of rising interest rates, we may be able to offset the likely decline in the value of our pass-through Agency RMBS, which are negatively impacted by rising interest rates.

## Competitive Strengths

We believe that our competitive strengths include:

- *Ability to Successfully Allocate Capital between Pass-Through and Structured Agency RMBS.* We seek to maximize our risk-adjusted returns by investing exclusively in Agency RMBS, which has limited credit risk due to the guarantee of principal and interest payments on such securities by Fannie Mae, Freddie Mac or Ginnie Mae. Our Manager will allocate capital between pass-through Agency RMBS and structured Agency RMBS. The percentage of our capital we allocate to our two asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments and provide us with a competitive advantage over other REITs that invest in only pass-through Agency RMBS. This is because, among other reasons, our investment and capital allocation strategies allow us to move capital out of pass-through Agency RMBS and into structured Agency RMBS in a rising interest rate environment, which will protect our portfolio from excess margin calls on our pass-through Agency RMBS portfolio and reduced net interest margins, and allow us to invest in securities, such as IOs, that have historically performed well in a rising interest rate environment.
- *Experienced RMBS Investment Team.* Robert Cauley, our Chief Executive Officer and co-founder of Bimini, and Hunter Haas, our Chief Investment Officer, have 20 and 13 years of experience, respectively, in analyzing, trading and investing in Agency RMBS. Additionally, Messrs. Cauley and Haas have over ten and nine years, respectively, of experience managing Bimini, which is a publicly-traded REIT that has invested in Agency RMBS since its inception in 2003. Messrs. Cauley and Haas managed Bimini through the recent housing market collapse and the related adverse effects on the banking and financial system, repositioning Bimini's portfolio in response to adverse market conditions. We believe this experience has enabled them to recognize portfolio risk in advance, hedge such risk accordingly and manage liquidity and borrowing risks during adverse market conditions. We believe that Messrs. Cauley's and Haas' experience provides us with a competitive advantage over other management teams that may not have experience managing a publicly-traded mortgage REIT or managing a business similar to ours during various interest rate and credit cycles, including the recent housing market collapse.
- *Clean Balance Sheet With an Implemented Investment Strategy.* We completed our initial public offering in February 2013 and completed a follow on offering in January 2014, and we intend to build on our existing investment portfolio. As of January 31, 2014, our Agency RMBS portfolio had a preliminary estimated fair value of approximately \$515.4 million and was comprised of approximately 94.4% pass-through Agency RMBS and 5.6% structured Agency RMBS. Our preliminary estimated net asset value as of January 31, 2014 was approximately \$69.1 million. Bimini managed our portfolio from our inception until the closing of our initial public offering utilizing the same investment strategy that our Manager and its experienced RMBS investment team have employed since our initial public offering.
- *Alignment of Interests.* Bimini owns 981,665 shares of our common stock, which represents approximately 18.1% of the aggregate outstanding shares of our common stock. We believe that Bimini's ownership of our common stock aligns our Manager's interests with our interests.

## Summary Risk Factors

An investment in our common stock involves a high degree of material risks. Each prospective purchaser of our common stock should consider carefully the matters discussed under "Risk Factors" beginning on page 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.



- The U.S. Federal Reserve's recent announcement that it would reduce its monthly purchases pursuant to QE3 could impact the market for and value of the Agency RMBS in which we invest as well as our net asset value and net interest margin.
- Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements.
- Separate legislation has been introduced in both houses of the U.S. congress, which would, among other things, revoke the charters of Fannie Mae and Freddie Mac, and we could be materially adversely affected if these proposed laws were enacted.
- The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Continued adverse developments in the broader residential mortgage market have adversely affected Bimini and may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Interest rate mismatches between our Agency RMBS and our borrowings may reduce our net interest margin during periods of changing interest rates, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Increased levels of prepayments on the mortgages underlying our Agency RMBS might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- We invest in structured Agency RMBS, including CMOs, IOs, IIOs and POs. Although structured Agency RMBS are generally subject to the same risks as our pass-through Agency RMBS, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.
- Our use of leverage could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Adverse market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets were insufficient to meet these collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Hedging against interest rate exposure may not completely insulate us from interest rate risk and could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- We are completely dependent upon our Manager and certain key personnel of Bimini who provide services to us through the management agreement, and we may not find suitable replacements for our Manager or these personnel if the management agreement is terminated or such key personnel are no longer available to us.
- There are various conflicts of interest in our relationship with our Manager and Bimini, which could result in decisions that are not in the best interest of our stockholders, including possible conflicts created by our Manager's compensation whereby it is entitled to receive a management fee that is not tied to the performance of our portfolio and possible conflicts of duties that may result from the fact that all of our Manager's officers are also employees of Bimini.

- Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to pay distributions to our stockholders.
- Our failure to qualify, or maintain our qualification, as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.
- Legal proceedings involving Bimini and certain of its subsidiaries have adversely affected Bimini, may materially adversely affect Bimini's and our Manager's ability to effectively manage our business and could materially adversely affect our reputation, business, operations, financial condition and results of operations and our ability to pay distributions to our stockholders.
- There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell the common stock you purchase.

**Our Portfolio**

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

Asset Category	Fair Value (1)	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap	Realized CPR (2)
<b>Pass-through Agency RMBS backed by:</b>									
Adjustable Rate Mortgages	\$ 5,316	1.0%	3.92%	245	9-1-35	3.23	10.13%	2.00%	19.95%
Fixed Rate Mortgages	404,332	78.5	4.19	308	2-1-44	n/a	n/a	n/a	2.23%
Hybrid Adjustable Rate Mortgages	76,880	14.9	2.56	348	8-1-43	108.62	7.55	2.00	6.24%
Total/Weighted Average Mortgage									
Pass-through Agency RMBS	\$486,528	94.4%	3.93%	313	2-1-44	101.80	7.72%	2.00%	3.88%
<b>Structured Agency RMBS:</b>									
CMOs	\$ —	— %	— %	—	—	—	—	—	— %
IOs	21,800	4.2	4.47	267	11-25-40	n/a	n/a	n/a	18.72%
IIOs	7,048	1.4	6.07	315	12-15-40	n/a	4.21	n/a	14.02
POs	—	—	—	—	—	—	—	—	—
Total/Weighted Average Structured Agency RMBS	28,848	5.6%	4.86%	279	12-15-40	n/a	n/a	n/a	17.65%
<b>Total/Weighted Average</b>	<b>\$515,376</b>	<b>100.0%</b>	<b>3.98%</b>	<b>312</b>	<b>2-1-44</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>9.45%</b>

(1) In thousands.

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

*GAAP and Non-GAAP Reconciliation*

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

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, accounting principles generally accepted in the United States, or GAAP, interest expense has been adjusted to reflect the realized gains or losses on specific Eurodollar contracts that pertain to each period presented. As of 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.

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

Three Months Ended	Gains (Losses) on Eurodollar Futures Contracts (in thousands)		
	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.

Three Months Ended	Interest Expense on Repurchase Agreements				Net Interest Income	
	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%
<b>Years Ended</b>								
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.

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

<u>Three Months Ended</u>	<u>Leverage Ratio (1)</u>	<u>Weighted Average CPR (2)</u>
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 January 31, 2014, our preliminary estimated portfolio leverage ratio was approximately 6.7 to 1. As of January 31, 2014, borrowing rates under our repurchase agreements were materially consistent with borrowing rates as of December 31, 2013. As of January 31, 2014, we had entered into master repurchase agreements with nine counterparties and had funding in place with nine counterparties, as described below.

<u>Counterparty</u>	<u>Balance (1)</u>	<u>Percent of Total Borrowings</u>	<u>Weighted Average Maturity of Repurchase Agreements in Days</u>
Citigroup Global Markets, Inc.	\$144,149	31.3%	20
Cantor Fitzgerald & Co.	61,284	13.3	14
South Street Securities, LLC	48,721	10.6	13
Morgan Stanley & Co	48,367	10.5	12
SunTrust Robinson Humphrey, Inc.	44,894	9.7	12
CRT Capital Group, LLC	37,229	8.1	21
KGS-Alpha Capital Markets, L.P.	30,431	6.6	21
Goldman, Sachs & Co	24,017	5.2	24
Mizuho Securities USA, Inc.	21,629	4.7	46
<b>Total/Weighted Average</b>	<b>\$460,721</b>	<b>100.0%</b>	<b>18</b>

(1) In thousands.

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

## 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.

## 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:

<u>Fee</u>	<u>Summary Description</u>
Management Fee	<p>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.</p> <p>"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.</p> <p>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.</p>
Stock-Based Compensation	<p>Our Manager's officers and employees are eligible to receive stock awards pursuant to our 2012 Equity Incentive Plan.</p>

<u>Fee</u>	<u>Summary Description</u>
Expense Reimbursement	<p>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.</p> <p>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.</p>
Termination Fee	<p>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.</p>

### **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 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.

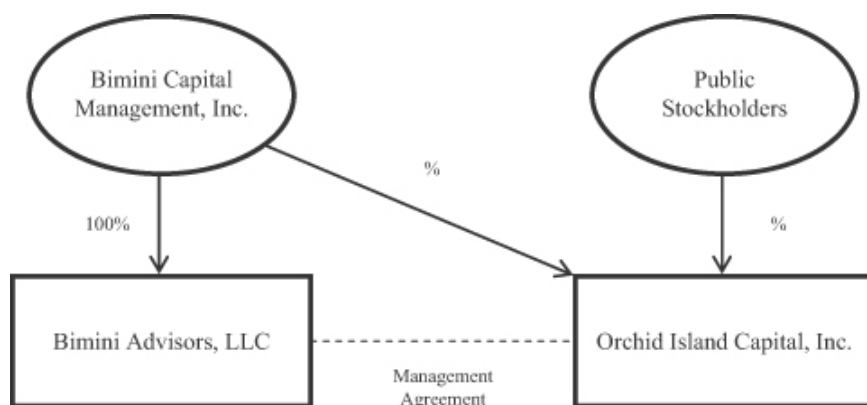
John B. Van Heuvelen, one of our independent director nominees, owns shares of common stock of Bimini. Mr. Cauley, our Chief Executive Officer and Chairman of our Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock 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](http://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.

### The Offering

Common stock offered by us in this offering	shares (1)
Common stock to be outstanding after this offering	shares (1)(2)
Use of proceeds	<p>We estimate that the net proceeds we will receive from this offering will be approximately \$      million (or approximately \$      million if the underwriters fully exercise their overallotment option), after deducting the underwriting discount and commissions of approximately \$      million (or approximately \$      million if the underwriters fully exercise their overallotment option) and estimated offering expenses of approximately \$      million payable by us.</p> <p>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:</p> <ul style="list-style-type: none"><li>• 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:<ul style="list-style-type: none"><li>• approximately 50% to 100% in pass-through Agency RMBS backed by fixed-rate mortgage loans;</li><li>• approximately 0% to 75% in pass-through Agency RMBS backed by ARMs; and</li><li>• approximately 0% to 75% in pass-through Agency RMBS backed by hybrid ARMs.</li></ul></li><li>• The remaining 20% to 60% of the proceeds will be allocated to structured Agency RMBS.</li></ul> <p>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.</p>
Distribution policy	<p>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</p>

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 \_\_\_\_\_ 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.



## 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, we intend to 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.

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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.

## 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 Manager, 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 Manager, 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.

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*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, 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, 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

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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.

*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, which could materially adversely affect us if these proposed laws were enacted.*

On June 25, 2013, a bipartisan group of senators introduced the Housing Finance Reform and Taxpayer Protection Act of 2013, which may serve as a catalyst for congressional discussion on the reform of Fannie Mae and Freddie Mac, to the U.S. Senate. On July 11, 2013, members of the House Committee on Financial Services introduced the Protecting American Taxpayers and Homeowners Act to the U.S. House of Representatives.

While the two bills are distinguishable in many respects, they have some notable commonalities. Both bills call for the revocation of the charters of Fannie Mae and Freddie Mac and seek to increase the opportunities for private capital to participate in, and consequently bear the risk of loss in connection with, government-guaranteed mortgage back securities. Both bills also have considerable support in their respective houses of Congress, which suggests that efforts to reform and possibly eliminate Fannie Mae and Freddie Mac may be gaining momentum.

The passage of any new legislation affecting Fannie Mae and Freddie Mac may create market uncertainty and reduce the actual or perceived credit quality of securities issued or guaranteed by the U.S. government through a new or existing successor entity to Fannie Mae and Freddie Mac. If the charters of Fannie Mae and Freddie Mac are revoked, it is unclear what effect, if any, this would have on the value of the existing Fannie Mae and Freddie Mac Agency RMBS. It is also possible that the above-referenced proposed legislation, if made law, could adversely impact the market for securities issued or guaranteed by the U.S. government and the spreads at which they trade. The foregoing could materially adversely affect the pricing, supply, liquidity and value of our target assets and otherwise materially adversely affect our business, operations and financial condition.

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*We cannot predict the impact, if any, on our earnings or cash available for distribution to our stockholders of the FHFA's proposed revisions to Fannie Mae's, Freddie Mac's and Ginnie Mae's existing infrastructures to align the standards and practices of the three entities.*

On February 21, 2012, the FHFA released its *Strategic Plan for Enterprise Conservatorships*, which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships. These three goals are to (i) build a new infrastructure for the secondary mortgage market, (ii) gradually contract Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. On October 4, 2012, the FHFA released its white paper entitled *Building a New Infrastructure for the Secondary Mortgage Market*, which proposes a new infrastructure for Fannie Mae and Freddie Mac that has two basic goals.

The first such goal is to replace the current, outdated infrastructures of Fannie Mae and Freddie Mac with a common, more efficient infrastructure that aligns the standards and practices of the two entities, beginning with core functions performed by both entities such as issuance, master servicing, bond administration, collateral management and data integration. The second goal is to establish an operating framework for Fannie Mae and Freddie Mac that is consistent with the progress of housing finance reform and encourages and accommodates the increased participation of private capital in assuming credit risk associated with the secondary mortgage market.

The FHFA recognizes that there are a number of impediments to their goals which may or may not be surmountable, such as the absence of any significant secondary mortgage market mechanisms beyond Fannie Mae, Freddie Mac and Ginnie Mae, and that their proposals are in the formative stages. As a result, it is unclear if the proposals will be enacted. If such proposals are enacted, it is unclear how closely what is enacted will resemble the proposals from the FHFA white paper or what the effects of the enactment will be in terms of our net asset value, earnings or cash available for distribution to our stockholders.

*Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our Agency RMBS, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

During the second half of 2008, the U.S. Government commenced programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

In addition, in February 2008, the U.S. Treasury announced the Homeowner Affordability and Stability Plan, or HASP, which is a multi-faceted plan intended to prevent residential mortgage foreclosures by, among other things:

- allowing certain homeowners whose homes are encumbered by Fannie Mae or Freddie Mac conforming mortgages to refinance those mortgages into lower interest rate mortgages with either Fannie Mae or Freddie Mac;
- creating the Homeowner Stability Initiative, which is intended to utilize various incentives for banks and mortgage servicers to modify residential mortgage loans with the goal of reducing monthly mortgage principal and interest payments for certain qualified homeowners; and
- allowing judicial modifications of Fannie Mae and Freddie Mac conforming residential mortgages loans during bankruptcy proceedings.

In October 2011, the FHFA announced proposed changes to the Home Affordable Refinance Program, or HARP, that would expand access to refinancing for qualified individuals and families whose homes have lost value by, among other things, increasing the HARP loan-to-value ratio above 125%. However, this would only

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apply to mortgages guaranteed by the GSEs. There are many challenging issues to this proposal, notably the question as to whether a loan with a loan-to-value ratio of 125% qualifies as a mortgage or an unsecured consumer loan.

On January 4, 2012, the Federal Reserve issued a white paper outlining additional ideas with regard to refinancings and loan modifications. It is likely that loan modifications would result in increased prepayments on some Agency RMBS. As described elsewhere, prepayments could negatively affect the value of our Agency RMBS, which could result in reduced earnings or losses and negatively affect the cash available for distribution to our stockholders. These initiatives, any future loan modification programs and future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans may adversely affect the value of, and the returns on, the Agency RMBS in which we invest.

*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.*

The structured Agency RMBS in which we invest are securitizations (i) issued by Fannie Mae, Freddie Mac or Ginnie Mae, (ii) collateralized by Agency RMBS and (iii) divided into various tranches that have different characteristics (such as different maturities or different coupon payments). These securities may carry greater risk than an investment in pass-through Agency RMBS. For example, certain types of structured Agency RMBS, such as IOs, IIOs and POs, are more sensitive to prepayment risks than pass-through Agency RMBS. If we were to invest in structured Agency RMBS that were more sensitive to prepayment risks relative to other types of structured Agency RMBS or pass-through Agency RMBS, we may increase our portfolio-wide prepayment risk.

*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.*

In the case of residential mortgages, there are seldom any restrictions on borrowers' ability to prepay their loans. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. Prepayment rates also may be affected by other factors, including, without limitation, conditions in the housing and financial markets, governmental action, general economic conditions and the relative interest rates on ARMs, hybrid ARMs and fixed-rate mortgage loans. With respect to pass-through Agency RMBS, faster-than-expected prepayments could also materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders in various ways, including the following:

- a portion of our pass-through Agency RMBS backed by ARMs and hybrid ARMs may initially bear interest at rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If a pass-through Agency RMBS backed by ARMs or hybrid ARMs is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we will have held that Agency RMBS while it was less profitable and lost the opportunity to receive interest at the fully-indexed rate over the remainder of its expected life.
- if we are unable to acquire new Agency RMBS to replace the prepaid Agency RMBS, our returns on capital may be lower than if we were able to quickly acquire new Agency RMBS.

When we acquire structured Agency RMBS, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying our structured Agency RMBS are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our IOs and IIOs are extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. Therefore, if the mortgage loans underlying our IOs and IIOs are prepaid, such securities would cease to have any value, which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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While we seek to minimize prepayment risk, we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment or other such risks.

*A decrease in prepayment rates 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.*

Certain of our structured Agency RMBS may be adversely affected by a decrease in prepayment rates. For example, because POs are similar to zero-coupon bonds, our expected returns on such securities will be contingent on our receiving the principal payments of the underlying mortgage loans at expected intervals that assume a certain prepayment rate. If prepayment rates are lower than expected, we will not receive principal payments as quickly as we anticipated and, therefore, our expected returns on these securities will be adversely affected, which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

While we seek to minimize prepayment risk, we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment or other such risks.

*Interest rate caps on the ARMs and hybrid ARMs backing our Agency RMBS may reduce our net interest margin during periods of rising interest rates, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

ARMs and hybrid ARMs are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of the loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, our financing costs could increase without limitation while caps could limit the interest we earn on the ARMs and hybrid ARMs backing our Agency RMBS. This problem is magnified for ARMs and hybrid ARMs that are not fully indexed because such periodic interest rate caps prevent the coupon on the security from fully reaching the specified rate in one reset. Further, some ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on Agency RMBS backed by ARMs and hybrid ARMs than necessary to pay interest on our related borrowings. Interest rate caps on Agency RMBS backed by ARMs and hybrid ARMs could reduce our net interest margin if interest rates were to increase beyond the level of the caps, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.*

We rely on analytical models, and information and other data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and in connection with our asset management activities. If our models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon could expose us to potential risks.

Our reliance on models and data may induce us to purchase certain assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some models, such as prepayment models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by us may differ substantially from those models used by other market



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participants, resulting in valuations based on these predictive models that may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation and are therefore more speculative and less reliable.

All valuation models rely on correct market data input. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is inputted correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected.

*Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. As a result, the values of some of our assets are uncertain.*

While in many cases our determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, we can and do value assets based upon our judgment, and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. The valuation process has been particularly difficult recently because market events have made valuations of certain assets more difficult and unpredictable and the disparity of valuations provided by third-party dealers has widened.

Our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected if our fair value determinations of these assets were materially higher than the values that would exist if a ready market existed for these assets.

*An increase in interest rates may cause a decrease in the volume of newly issued, or investor demand for, Agency RMBS, which could materially adversely affect our ability to acquire assets that satisfy our investment objectives and our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

Rising interest rates generally reduce the demand for consumer credit, including mortgage loans, due to the higher cost of borrowing. A reduction in the volume of mortgage loans may affect the volume of Agency RMBS available to us, which could affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause Agency RMBS that were issued prior to an interest rate increase to provide yields that exceed prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of Agency RMBS or Agency RMBS with a yield that exceeds our borrowing costs, our ability to satisfy our investment objectives and to generate income and pay dividends, our business, financial condition and results of operations and our ability to pay distributions to our stockholders may be materially adversely affected.

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*Because the assets that we acquire might experience periods of illiquidity, we might be prevented from selling our Agency RMBS at favorable times and prices, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

Agency RMBS might experience periods of illiquidity. Such conditions are more likely to occur for structured Agency RMBS because such securities are generally traded in markets much less liquid than the pass-through Agency RMBS market. As a result, we may be unable to dispose of our Agency RMBS at advantageous times and prices or in a timely manner. The lack of liquidity might result from the absence of a willing buyer or an established market for these assets as well as legal or contractual restrictions on resale. The illiquidity of Agency RMBS could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*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.*

We calculate our leverage ratio by dividing our total liabilities by total equity at the end of each period. Under normal market conditions, we generally expect our leverage ratio to be less than 12 to 1, although at times our borrowings may be above or below this level. We incur this indebtedness by borrowing against a substantial portion of the market value of our pass-through Agency RMBS and a portion of our structured Agency RMBS. Our total indebtedness, however, is not expressly limited by our policies and will depend on our prospective lenders' estimates of the stability of our portfolio's cash flow. As a result, there is no limit on the amount of leverage that we may incur. We face the risk that we might not be able to meet our debt service obligations or a lender's margin requirements from our income and, to the extent we cannot, we might be forced to liquidate some of our Agency RMBS at unfavorable prices. Our use of leverage could materially adversely affect our business, financial condition and results of operation and our ability to pay distributions to our stockholders. For example:

- our borrowings are secured by our pass-through Agency RMBS and a portion of our structured Agency RMBS under repurchase agreements. A decline in the market value of the pass-through Agency RMBS or structured Agency RMBS used to secure these debt obligations could limit our ability to borrow or result in lenders requiring us to pledge additional collateral to secure our borrowings. In that situation, we could be required to sell Agency RMBS under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the Agency RMBS, we would experience losses.
- to the extent we are compelled to liquidate qualifying real estate assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of gross income could be negatively affected, which could jeopardize our qualification as a REIT. Losing our REIT qualification would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and would decrease profitability and cash available for distributions to stockholders.

If we experience losses as a result of our use of leverage, such losses could materially adversely affect our business, results of operations and financial condition and our ability to make distributions to our stockholders.

*We may incur increased borrowing costs, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

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

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of our Agency RMBS.

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All of our current short-term borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, our business, financial condition and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

*Failure to procure adequate repurchase agreement financing, or to renew or replace existing repurchase agreement financing as it matures, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.*

We intend to maintain master repurchase agreements with several counterparties. We cannot assure you that any, or sufficient, repurchase agreement financing will be available to us in the future on terms that are acceptable to us. Any decline in the value of Agency RMBS, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with the terms of any financing arrangements already in place. Additionally, our lenders may have owned or financed RMBS that have declined in value and caused the lender to suffer losses as a result of the recent downturn in the residential mortgage market. If these conditions persist, these institutions may be forced to exit the repurchase market, become insolvent or further tighten lending standards or increase the amount of equity capital, or haircuts, required to obtain financing, and in such event, could make it more difficult for us to obtain financing on favorable terms or at all. Additionally, we may be unable to diversify the credit risk associated with our lenders. In the event that we cannot obtain sufficient funding on acceptable terms, our business, financial condition and results of operations and our ability to pay distributions to our stockholders may be materially adversely effected.

Furthermore, because we intend to rely primarily on short-term borrowings to fund our acquisition of Agency RMBS, our ability to achieve our investment objective will depend not only on our ability to borrow money in sufficient amounts and on favorable terms, but also on our ability to renew or replace on a continuous basis our maturing short-term borrowings. If we are not able to renew or replace maturing borrowings, we will have to sell some or all of our assets, possibly under adverse market conditions. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, based on, among other factors, the regulatory environment and their management of perceived risk.

*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.*

Adverse market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of Agency RMBS, might reduce the market value of our portfolio, which might cause our lenders to initiate margin calls. A margin call means that the lender requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The specific collateral value to borrowing ratio that would trigger a margin call is not set in the master repurchase agreements and not determined until we engage in a repurchase transaction under these agreements. Our fixed-rate Agency RMBS generally are more susceptible to margin calls as increases in interest rates tend to more negatively affect the market value of fixed-rate securities. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat or occurrence of a margin call could force us to sell either directly or through a foreclosure our Agency RMBS under adverse market conditions. Because of the significant leverage we expect to have, we may incur substantial losses upon the threat or occurrence of a margin call, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders. Additionally, the liquidation of

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collateral may jeopardize our ability to qualify or maintain our qualification as a REIT, as we must comply with requirements regarding our assets and our sources of gross income. If we are compelled to liquidate our Agency RMBS, we may be unable to comply with these requirements, ultimately jeopardizing our ability to qualify or maintain our qualification as a REIT. Our failure to qualify as a REIT or maintain our qualification would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our net taxable income.

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

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay if we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that any of our lenders files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either our lenders or us. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our investment under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes.

*If we fail to maintain our relationship with AVM, L.P. or if we do not establish relationships with other repurchase agreement trading, clearing and administrative service providers, our business, financial condition and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.*

We have engaged AVM, L.P. to provide us with certain repurchase agreement trading, clearing and administrative services. If we are unable to maintain our relationship with AVM, L.P. or we are unable to establish successful relationships with other repurchase agreement trading, clearing and administrative service providers, our business, financial condition and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

*If our lenders default on their obligations to resell the Agency RMBS back to us at the end of the repurchase transaction term, or if the value of the Agency RMBS has declined by the end of the repurchase transaction term or if we default on our obligations under the repurchase transaction, we will lose money on these transactions, which, in turn, may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

When we engage in a repurchase transaction, we initially sell securities to the financial institution under one of our master repurchase agreements in exchange for cash, and our counterparty is obligated to resell the securities to us at the end of the term of the transaction, which is typically from 24 to 90 days but may be up to 364 days or more. The cash we receive when we initially sell the securities is less than the value of those securities, which is referred to as the haircut. Many financial institutions from which we may obtain repurchase agreement financing have increased their haircuts in the past and may do so again in the future. If these haircuts are increased, we will be required to post additional cash or securities as collateral for our Agency RMBS. If our counterparty defaults on its obligation to resell the securities to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). We would also lose money on a repurchase transaction if the value of the underlying securities had declined as of the end of the transaction term, as we would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Any losses we incur on our repurchase transactions could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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If we default on one of our obligations under a repurchase transaction, the counterparty can terminate the transaction and cease entering into any other repurchase transactions with us. In that case, we would likely need to establish a replacement repurchase facility with another financial institution in order to continue to leverage our portfolio and carry out our investment strategy. There is no assurance we would be able to establish a suitable replacement facility on acceptable terms or at all.

*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.*

To the extent consistent with qualifying and maintaining our qualification as a REIT, we may enter into interest rate cap or swap agreements or pursue other hedging strategies, including the purchase of puts, calls or other options and futures contracts in order to hedge the interest rate risk of our portfolio. In general, our hedging strategy depends on our view of our entire portfolio consisting of assets, liabilities and derivative instruments, in light of prevailing market conditions. We could misjudge the condition of our investment portfolio or the market. Our hedging activity will vary in scope based on the level and volatility of interest rates and principal prepayments, the type of Agency RMBS we hold and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things:

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

There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Alternatively, we may fail to properly assess a risk to our investment portfolio or may fail to recognize a risk entirely, leaving us exposed to losses without the benefit of any offsetting hedging activities. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. The nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging activities could result in losses if the event against which we hedge does not occur.

Because of the foregoing risks, our hedging activity could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*Our use of certain hedging techniques may expose us to counterparty risks.*

If an interest rate swap counterparty cannot perform under the terms of the interest rate swap, we may not receive payments due under that swap, and thus, we may lose any unrealized gain associated with the interest rate swap. The hedged liability could cease to be hedged by the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Similarly, if an interest rate cap counterparty fails to perform under the terms of the interest rate cap agreement, we may not receive payments due under that agreement that would off-set our interest expense and then could incur a loss for the then remaining fair market value of the interest rate cap.

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*Clearing facilities or exchanges upon which some of our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.*

In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments, such as Eurodollar futures contracts, are traded may require us to post additional collateral against our hedging instruments. In response to the U.S. approaching its debt ceiling without resolution and the government shutdown, the Chicago Mercantile Exchange announced on October 15, 2013 that it would increase margin requirements by 12% for all over-the-counter interest rate swap portfolios that its clearinghouse guaranteed. This increase was subsequently rolled back on October 17, 2013 upon the news that Congress passed legislation to temporarily suspend the debt ceiling and reopen the government, which allowed time for broader negotiations concerning budgetary issues. In the event that future adverse economic developments or market uncertainty result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations.

*Our ability to achieve our investment objectives will depend on our ability to manage future growth effectively.*

Our ability to achieve our investment objectives will depend on our ability to grow, which will depend, in turn, on our Manager's ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis largely will be a function of our Manager's structuring and implementation of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. Our Manager has substantial responsibilities, and, in order to grow, needs to hire, train, supervise and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent, which may result in riskier investments. In addition, our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders.*

Our Board of Directors has the authority to change our investment strategy or asset allocation at any time without notice to or consent from our stockholders. To the extent that our investment strategy changes in the future, we may make investments that are different from, and possibly riskier than, the investments described in this annual report. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our allocating assets in a different manner than as described in this annual report.

In addition, our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to qualify as a REIT. These changes could materially adversely affect our business, financial condition, results of operations, the market value of our common stock and our ability to make distributions to our stockholders.

*Competition might prevent us from acquiring Agency RMBS at favorable yields, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire Agency RMBS at favorable spreads over our borrowing costs. In acquiring Agency RMBS, we compete with a variety of institutional investors, including other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders, other entities that purchase Agency RMBS, the Federal Reserve, other governmental entities and government-sponsored entities, many of which have

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greater financial, technical, marketing and other resources than we do. Several other REITs have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. Government. Additionally, many of our competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments. Furthermore, competition for investments in Agency RMBS may lead the price of such investments to increase, which may further limit our ability to generate desired returns. As a result, we may not be able to acquire sufficient Agency RMBS at favorable spreads over our borrowing costs, which would materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*Actions of the U.S. Government for the purpose of stabilizing the financial markets may adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

The U.S. Government, through the Federal Reserve, the U.S. Treasury, the SEC, the Federal Housing Administration, or the FHA, the Federal Deposit Insurance Corporation, or the FDIC, and other governmental and regulatory bodies has taken or is considering taking various actions to address the recent financial crisis. For example, on July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. Additionally, we cannot predict whether there will be additional proposed laws or reforms that would affect us, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

In addition to the foregoing, the U.S. Congress and/or various state and local legislatures may enact additional legislation or regulatory action designed to address the current economic crisis or for other purposes that could have a material adverse effect on our ability to execute our business strategies. To the extent the market does not respond favorably to these initiatives or they do not function as intended, our business, financial condition and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

*We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.*

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and as such, we are not required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, we have reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and we are exempt from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. 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. We cannot predict if investors will find our shares of common stock less attractive because we may rely on these provisions. If some investors find our shares of common stock less attractive as a result, there may be a less active trading market for our shares and our share price may be more volatile.

*Our obligation to comply with the requirements of the Sarbanes-Oxley Act will increase.*

As long as we remain an emerging growth company, as that term is defined in the JOBS Act, we will be permitted to gradually comply with certain of the on-going reporting and disclosure obligations of public

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companies pursuant to the Sarbanes-Oxley Act. We cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our ordinary shares less attractive to investors.

Management is required to deliver a report that assesses the effectiveness of our internal controls over financial reporting pursuant to Section 302 of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act may require our auditors to deliver an attestation report on the effectiveness of our internal controls over financial reporting in conjunction with their opinion on our audited financial statements in future years. Substantial work on our part is required to implement appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their operation. This process is expected to be both costly and challenging. We cannot give any assurances that material weaknesses will not be identified in the future in connection with our compliance with the provisions of Section 302 and 404 of the Sarbanes-Oxley Act. The existence of any material weakness described above would preclude a conclusion by management and our independent auditors that we maintained effective internal control over financial reporting. Our management may be required to devote significant time and expense to remediate any material weaknesses that may be discovered and may not be able to remediate any material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, all of which could lead to a decline in the trading price of our common stock.

*Terrorist attacks and other acts of violence or war may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

We cannot assure you that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact the property underlying our Agency RMBS or the securities markets in general. Losses resulting from these types of events are uninsurable. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in economic uncertainty in the United States or abroad. Adverse economic conditions could harm the value of the property underlying our Agency RMBS or the securities markets in general, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*We are highly dependent on communications and information systems operated by third parties, and systems failures could significantly disrupt our business, which may, in turn, adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.*

Our business is highly dependent on communications and information systems that allow us to monitor, value, buy, sell, finance and hedge our investments. These systems are operated by third parties and, as a result, we have limited ability to ensure their continued operation. In the event of a systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities, including Agency RMBS trading activities, which could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*If we issue debt securities, our operations may be restricted and we will be exposed to additional risk.*

If we decide to issue debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities. Holders of debt securities may be granted specific rights, including but not limited to, the right to hold a perfected security interest in certain of our assets, the right to accelerate payments



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due under the indenture, rights to restrict dividend payments, and rights to approve the sale of assets. Such additional restrictive covenants and operating restrictions could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

*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.*

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. In January 2013, the Basel Committee agreed to delay implementation of the Basel III standards and expanded the scope of assets permitted to be included in a bank's liquidity measurement.

U.S. regulators have elected to implement substantially all of the Basel III standards. Financial institutions will have until 2019 to fully comply with the Basel III standards, which could cause an increase in capital requirements for, and could place constraints on, the financial institutions from which we borrow.

Shortly after approving the Basel III standards, U.S. regulators also issued a notice of proposed rule-making calling for enhanced supplementary leverage ratio standards, which would impose capital requirements more stringent than those of the Basel III standards for the most systematically significant banking organizations in the U.S. The enhanced standards are currently subject to public comment, and there can be no assurance that they will be adopted or, if adopted, that they will resemble the current proposal. Adoption and implementation of the Basel III standards and the supplemental regulatory standards proposed by U.S. regulators may negatively impact our access to financing or affect the terms of our future financing arrangements.

### **Risks Related to Conflicts of Interest in Our Relationship with Our Manager and Bimini**

*The management agreement with our Manager was not negotiated on an arm's-length basis and the terms, including fees payable and our inability to terminate, or our election not to renew, the management agreement based on our Manager's poor performance without paying our Manager a significant termination fee, except for a termination of the Manager with cause, may not be as favorable to us as if it were negotiated with an unaffiliated third party.*

The management agreement with our Manager was negotiated between related parties, and we did not have the benefit of arm's-length negotiations of the type normally conducted with an unaffiliated third party. The terms of the management agreement with our Manager, including fees payable and our inability to terminate, or our election not to renew, the management agreement based on our Manager's poor performance without paying our Manager a significant termination fee, except for a termination of the Manager with cause, may not reflect the terms we may have received if it was negotiated with an unrelated third party. In addition, as a result of the relationship with our Manager, we may choose not to enforce, or to enforce less vigorously, our rights under the management agreement because of our desire to maintain our ongoing relationship with our Manager.

*We have no employees, and our Manager is responsible for making all of our investment decisions. None of our or our Manager's officers are required to devote any specific amount of time to our business, and each of them may provide their services to Bimini, which could result in conflicts of interest.*

Our Manager is responsible for making all of our investments. We do not have any employees, and we are completely reliant on our Manager to provide us with investment advisory services. Each of our and our Manager's officers is an employee of Bimini and none of them will devote their time to us exclusively. Each of Messrs. Cauley and Haas, who will be the initial members of our Manager's investment committee, is an officer of Bimini and has significant responsibilities to Bimini. Due to the fact that each of our officers is responsible for providing services to Bimini, they may not devote sufficient time to the management of our business operations. At times when there are turbulent conditions in the mortgage markets or distress in the credit markets or other

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times when we will need focused support and assistance from our executive officers and our Manager, Bimini and its affiliates will likewise require greater focus and attention from them. In such situations, we may not receive the level of support and assistance that we otherwise would likely have received if we were internally managed or if such executives were not otherwise committed to provide support to Bimini.

Our Board of Directors has adopted investment guidelines that require that any investment transaction between us and Bimini or any affiliate of Bimini receive the prior approval of a majority of our independent directors. However, this policy will not eliminate the conflicts of interest that our officers will face in making investment decisions on behalf of Bimini and us. Further, we do not have any agreement or understanding with Bimini that would give us any priority over Bimini or any of its affiliates. Accordingly, we may compete for access to the benefits that we expect our relationship with our Manager and Bimini to provide.

*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 and these personnel if the management agreement is terminated or such key personnel are no longer available to us.*

We are completely dependent on our Manager to conduct our operations pursuant to the management agreement. Because we do not have any employees or separate facilities, we are reliant on our Manager to provide us with the personnel, services and resources necessary to carry out our day-to-day operations. Our management agreement does not require our Manager to dedicate specific personnel to our operations or a specific amount of time to our business. Additionally, because we are affiliated with Bimini, we may be negatively impacted by an event or factors, including ongoing and potential legal proceedings against Bimini and its subsidiaries, that negatively impacts or could negatively impact Bimini's business or financial condition.

After the initial term of the management agreement, which expires on February 20, 2016, or upon the expiration of any automatic renewal term, our Manager may elect not to renew the management agreement without cause, and without penalty, on 180-days' prior written notice to us. If we elect not to renew the management agreement without cause, we would have to pay a termination fee equal to three times 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. During the term of the management agreement and for two years after its expiration or termination, we may not, without the consent of our Manager, employ any employee of the Manager or any of its affiliates or any person who has been employed by our Manager or any of its affiliates at any time within the two-year period immediately preceding the date on which the person commences employment with us. We do not have retention agreements with any of our officers. We believe that the successful implementation of our investment and financing strategies depends to a significant extent upon the experience of Bimini's executive officers. None of these individuals' continued service is guaranteed. If the management agreement is terminated or these individuals leave Bimini, we may be unable to execute our business plan.

*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.*

Bimini and its subsidiaries are currently subject to certain ongoing legal proceedings and could be subject to further legal proceedings in the future. Most of these legal proceedings arise out of the mortgage-related operations of Bimini's mortgage origination subsidiary that discontinued operations in 2007. In the past, Bimini and certain of its subsidiaries have been subject to similar actions, including proceedings alleging violations of the federal securities laws and for breach of duty arising from the sale of certain mortgage-related securities, which have now been satisfactorily resolved. Bimini and its subsidiaries could be subject to similar actions in the future.

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We are externally managed and advised by our Manager pursuant to the terms of a Management Agreement. Because our officers are also officers of Bimini and our Manager, any legal proceedings or regulatory inquiries involving Bimini or our Manager, whether meritorious or not, may divert the time and attention of our Manager and certain of its key personnel from us and our investment strategy and may negatively affect Bimini's business, operations and financial condition. In addition, due to our relationship with Bimini and our Manager, such events could result in a material adverse effect on our reputation, business, financial condition and results of operations and our ability to pay distributions to our stockholders. Furthermore, if these legal proceedings were to result in a bankruptcy of Bimini or our Manager, we would not be able to terminate the Management Agreement until 30 days after we provide written notice of termination to our Manager and could experience difficulty in finding another manager or hiring personnel to conduct our business. Alternatively, a bankruptcy court could prevent us from exercising such termination rights, regardless of the provisions of the management agreement.

*We, Bimini and other accounts managed by our Manager may compete for opportunities to acquire assets, which are allocated in accordance with the Investment Allocation Agreement by and among Bimini, our Manager and us.*

From time to time Bimini may seek to purchase for itself the same or similar assets that our Manager seeks to purchase for us, or our Manager may seek to purchase the same or similar assets for us as it does for other accounts that may be managed by our Manager in the future. In such an instance, our Manager has no duty to allocate such opportunities in a manner that preferentially favors us. Bimini and our Manager 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 the Investment Allocation Agreement.

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, the Investment Allocation Agreement will require the allocation of such assets to multiple accounts in proportion to their needs and available capital. The Investment Allocation Agreement 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 that case, the Investment Allocation Agreement allows for a protocol of allocating assets so that, on an overall basis, each account is treated equitably.

*There are conflicts of interest in our relationships with our Manager and Bimini, which could result in decisions that are not in the best interests of our stockholders.*

We are subject to conflicts of interest arising out of our relationships with Bimini and our Manager. All of our executive officers are employees of Bimini. As a result, our officers may have conflicts between their duties to us and their duties to Bimini or our Manager.

We may acquire or sell assets in which Bimini or its affiliates have or may have an interest. Similarly, Bimini or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with Bimini or its affiliates, including the purchase and sale of all or a portion of a portfolio asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Bimini may have economic interests in or other relationships with others whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be

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pari passu, senior or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents or employees of such persons serve on the board of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, our Manager may, in its sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made for us with respect to such securities and may take actions (or omit to take actions) in the context of these other economic interests or relationships that may have consequences adverse to our interests.

The officers of Bimini and our Manager devote as much time to us as our Manager deems appropriate. However, these officers may have conflicts in allocating their time and services among us, Bimini and our Manager. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our Manager's officers and Bimini's employees, Bimini and other entities for which our Manager may serve as a manager in the future will likewise require greater focus and attention, placing our Manager's and Bimini's resources in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed.

We, directly or through Bimini or our Manager, may obtain confidential information about the companies or securities in which we have invested or may invest. If we possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our Manager's management of other accounts could create a conflict of interest to the extent our Manager or Bimini is aware of material non-public information concerning potential investment decisions. We have implemented compliance procedures and practices designed to ensure that investment decisions are not made while in possession of material non-public information. We cannot assure you, however, that these procedures and practices will be effective. In addition, this conflict and these procedures and practices may limit the freedom of our Manager to make potentially profitable investments, which could have an adverse effect on our operations. These limitations imposed by access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

John B. Van Heuvelen, one of our independent directors, 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.

As of February 21, 2014, Bimini owns approximately 18.1% of our outstanding shares of common stock. In evaluating opportunities for us and other management strategies, this may lead our Manager to emphasize certain asset acquisition, disposition or management objectives over others, such as balancing risk or capital preservation objectives against return objectives. This could increase the risks or decrease the returns of your investment.

*If we elect to not renew the management agreement without cause, we would be required to pay our Manager a substantial termination fee. These and other provisions in our management agreement make non-renewal of our management agreement difficult and costly.*

Electing not to renew the management agreement without cause would be difficult and costly for us. With the consent of the majority of our independent directors, we may elect not to renew our management agreement after the initial term of the management agreement, which expires on February 20, 2016, or upon the expiration of any automatic renewal term, both upon 180-days' prior written notice. If we elect to not renew the agreement because of a decision by our Board of Directors that the management fee is unfair, our Manager has the right to

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renegotiate a mutually agreeable management fee. If we elect to not renew the management agreement without cause, we are required to pay our Manager a termination fee equal to three times 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. These provisions may increase the effective cost to us of electing to not renew the management agreement, thereby adversely affecting our inclination to end our relationship with our Manager even if we believe our Manager's performance is unsatisfactory.

*Our Manager's management fee is payable regardless of our performance.*

Our Manager is entitled to receive a management fee from us that is based on the amount of our equity (as defined in the management agreement), regardless of the performance of our investment portfolio. For example, we would pay our Manager a management fee for a specific period even if we experienced a net loss during the same period. Our Manager's entitlement to substantial nonperformance-based compensation may reduce its incentive to devote sufficient time and effort to seeking investments that provide attractive risk-adjusted returns for our investment portfolio. This in turn could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

*Our Manager will not be liable to us for any acts or omissions performed in accordance with the management agreement, including with respect to the performance of our investments.*

Our Manager has not assumed any responsibility other than to render the services called for under the management agreement in good faith and is not responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations, including as set forth in the investment guidelines. Our Manager and its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, will not be liable to us, our Board of Directors or our stockholders for any acts or omissions performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their respective duties under the management agreement. We have agreed to indemnify our Manager and its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, with respect to all expenses, losses, damages, liabilities, demands, charges and claims in respect of or arising from any acts or omissions of our Manager, its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, performed in good faith under the management agreement and not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their respective duties. Therefore, our stockholders have no recourse against our Manager with respect to the performance of investments made in accordance with the management agreement.

### **Risks Related to Our Common Stock**

*Investing in our common stock may involve a high degree of risk.*

The investments we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our common stock may not be suitable for someone with lower risk tolerance.

*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 common stock is listed on the NYSE MKT under the symbol "ORC." Trading on the NYSE MKT does not ensure that there is or will be an actual market for our common stock. Accordingly, no assurance can be given as to:

- the likelihood that an actual market for our common stock will develop, or be continued once developed;
- the liquidity of any such market;

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- the ability of any holder to sell shares of our common stock; or
- the prices that may be obtained for our common stock.

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

We intend to continue to make monthly distributions to our stockholders in amounts such that we distribute all or substantially all of our REIT taxable income in each year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to make distributions might be harmed by the risk factors described in this prospectus. All distributions will be made at the discretion of our Board of Directors out of funds legally available therefor and will depend on our earnings, our financial condition, qualifying and maintaining our qualification as a REIT and such other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that we will have the ability to make distributions to our stockholders in the future. To the extent that we decide to pay distributions from the proceeds of a securities offerings, such distributions would generally be considered a return of capital for U.S. federal income tax purposes. A return of capital reduces the basis of a stockholder's investment in our common stock to the extent of such basis and is treated as capital gain thereafter.

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

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock, as well as warrants to purchase shares of common stock or convertible preferred stock. Upon the liquidation of the Company, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us may dilute the holdings of our existing stockholders or reduce the market value of our common stock, or both. Our preferred stock, if issued, would have a preference on distributions that could limit our ability to make distributions to the holders of our common stock. Furthermore, a majority of our entire Board of Directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue, and our Board of Directors, without stockholder approval, may also classify or reclassify any unissued shares of common stock or preferred stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Our stockholders are therefore subject to the risk of our future securities offerings reducing the market price of our common stock and diluting their common stock.

*The market value of our common stock may be volatile.*

The market value of shares of our common stock may be based primarily upon current and expected 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 could adversely affect the market price of shares 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 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 expect a higher dividend yield;

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- 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.

We cannot make any assurances that the market price of our common stock will not fluctuate or decline significantly in the future.

*Broad market fluctuations could harm the market price of our common stock.*

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

*Shares of our common stock eligible for future sale may harm our share price.*

We cannot predict the effect, if any, of future sales of shares of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of these shares of our common stock, or the perception that these sales could occur, may harm prevailing market prices for our common stock. The 2012 Equity Incentive Plan provides for grants 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 award, subject to a maximum aggregate number of shares of common stock that may be issued under the 2012 Equity Incentive Plan of 4,000,000 shares of common stock. Bimini currently owns 981,665 shares of our common stock. If Bimini sells a large number of our securities in the public market, the sale could reduce the market price of our common stock and could impede our ability to raise future capital.

*An increase in market interest rates may cause a material decrease in the market price of our common stock.*

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and returns that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions are likely to adversely affect the market price of our common stock. For instance, if market rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and pay distributions.

### **Risks Related to Our Organization and Structure**

*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.*

We have operated and intend to continue to operate our business so as to be exempt from registration under the Investment Company Act, because we are "primarily engaged in the business of purchasing or otherwise

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acquiring mortgages and other liens on and interests in real estate.” Specifically, we invest and intend to continue to invest so that at least 55% of the assets that we own on an unconsolidated basis consist of qualifying mortgages and other liens and interests in real estate, which are collectively referred 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 Fannie Mae, Freddie Mac and Ginnie Mae whole-pool residential mortgage pass-through securities issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets based on no-action letters issued by the SEC. To the extent that the SEC publishes new or different guidance with respect to these matters, we may fail to qualify for this exemption.

On August 31, 2011, the SEC issued a concept release (No. IC-29778; File No. SW7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments) pursuant to which it is reviewing whether certain companies that invest in RMBS and rely on the exemption from registration under Section 3(c)(5)(C) of the Investment Company Act (such as us) should continue to be allowed to rely on such exemption from registration.

If we fail to qualify for this exemption, we could be required to restructure our activities in a manner that, or at a time when, we would not otherwise choose to do so, which could negatively affect the value of shares of our common stock and our ability to distribute dividends. For example, if the market value of our investments in CMOs or structured Agency RMBS, neither of which are qualifying real estate assets for Investment Company Act purposes, were to increase by an amount that resulted in less than 55% of our assets being invested in pass-through Agency RMBS, we might have to sell CMOs or structured Agency RMBS in order to maintain our exemption from the Investment Company Act. The sale could occur during adverse market conditions, and we could be forced to accept a price below that which we believe is acceptable.

Alternatively, if we fail to qualify for this exemption, we may have to register under the Investment Company Act and we could become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

We may be required at times to adopt less efficient methods of financing certain of our securities, and we may be precluded from acquiring certain types of higher yielding securities. The net effect of these factors would be to lower our net interest income. If we fail to qualify for an exemption from registration as an investment company or an exclusion from the definition of an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described in this prospectus. Our business will be materially and adversely affected if we fail to qualify for and maintain an exemption from regulation pursuant to the Investment Company Act.

*Failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business and financial condition.*

The Dodd-Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” As a result, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operators (in some cases the fund’s directors) to be regulated as “commodity pool operators” (“CPOs”). Under new rules adopted by the U.S. Commodity Futures Trading Commission, (the “CFTC”), those funds that become commodity pools solely because of their use of swaps must register with the National Futures Association (the “NFA”). Registration requires compliance with the CFTC’s regulations and the NFA’s rules with respect to capital raising, disclosure, reporting, recordkeeping and other business conduct. However, the CFTC’s Division of Swap Dealer and Intermediary Oversight recently issued a no-action letter saying, although it believes that mortgage REITs are properly considered commodity pools, it



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would not recommend that the CFTC take enforcement action against the operator of a mortgage REIT who does not register as a CPO if, among other things, the mortgage REIT limits the initial margin and premiums required to establish its swaps, futures and other commodity interest positions to not more than five percent (5%) of its total assets, the mortgage REIT limits the net income derived annually from those commodity interest positions which are not qualifying hedging transactions to less than five percent (5%) of its gross income and interests in the mortgage REIT are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options or swaps markets.

We use hedging instruments in conjunction with our investment portfolio and related borrowings to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments include interest rate swaps, interest rate futures and options on interest rate futures. We do not currently engage in any speculative derivatives activities or other non-hedging transactions using swaps, futures or options on futures. We do not use these instruments for the purpose of trading in commodity interests, and we do not consider our company or its operations to be a commodity pool as to which CPO registration or compliance is required. We have claimed the relief afforded by the above-described no-action letter. Consequently, we will be restricted to operating within the parameters discussed in the no-action letter and will not enter into hedging transactions covered by the no-action letter if they would cause us to exceed the limits set forth in the no-action letter. However, there can be no assurance that the CFTC will agree that we are entitled to the no-action letter relief claimed.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. For example, the CFTC may suspend or revoke the registration of or the no-action relief afforded to a person who fails to comply with commodities laws and regulations, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. In the event that the CFTC asserts that we are not entitled to the no-action letter relief claimed, we may be obligated to furnish additional disclosures and reports, among other things. Further, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event that we fail to comply with statutory requirements relating to derivatives or with the CFTC's rules thereunder, including the no-action letter described above, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

*Our ownership limitations and certain other provisions of applicable law and our charter and bylaws may restrict business combination opportunities that would otherwise be favorable to our stockholders.*

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change in control or other transaction that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders, including business combination provisions, supermajority vote and cause requirements for removal of directors, provisions that vacancies on our Board of Directors may be filled only by the remaining directors, for the full term of the directorship in which the vacancy occurred, the power of our Board of Directors to increase or decrease the aggregate number of authorized shares of stock or the number of shares of any class or series of stock, to cause us to issue additional shares of stock of any class or series and to fix the terms of one or more classes or series of stock without stockholder approval, the restrictions on ownership and transfer of our stock and advance notice requirements for director nominations and stockholder proposals.

To assist us in qualifying as a REIT, among other purposes, ownership of our stock by any person will generally be 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. Additionally, our charter will prohibit beneficial or constructive ownership of our stock that would otherwise result in our failure to qualify as a REIT. The ownership rules in our charter are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be owned by one

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individual or entity. As a result, these ownership rules could cause an individual or entity to unintentionally own shares beneficially or constructively in excess of our ownership limits. Any attempt to own or transfer shares of our common stock or preferred stock in excess of our ownership limits without the consent of our Board of Directors will result in such shares being transferred to a charitable trust. These provisions may inhibit market activity and the resulting opportunity for our stockholders to receive a premium for their stock that might otherwise exist if any person were to attempt to assemble a block of shares of our stock in excess of the number of shares permitted under our charter and that may be in the best interests of our security holders.

A majority of our entire Board of Directors may, without stockholder approval, amend our charter to increase or decrease the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and our Board of Directors, without stockholder approval, may also classify or reclassify any unissued shares of common stock or preferred stock, and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our Board of Directors may take actions with respect to our common stock or preferred stock that may have the effect of delaying or preventing a change in control, including transactions at a premium over the market price of our shares, even if stockholders believe that a change in control is in their interest. These provisions, along with the restrictions on ownership and transfer contained in our charter and certain provisions of Maryland law described below, could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities.

*Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.*

Our charter limits the liability of our directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our present and former directors and officers will not have any liability to us or our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

We have entered into indemnification agreements with our directors and executive officers that obligate us to indemnify them to the maximum extent permitted by Maryland law. In addition, our charter authorizes the Company to obligate itself, and our bylaws obligate us, to indemnify our present and former directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. In addition, we may be obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the provisions in our charter, bylaws and indemnification agreements or that might exist with other companies.

*Certain provisions of Maryland law could inhibit changes in control.*

Certain provisions of the Maryland General Corporation Law (the “MGCL”), may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding stock) or an affiliate of

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an interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder, and thereafter require two supermajority stockholder votes to approve any such combination; and

- “control share” provisions that provide that a holder of “control shares” of the Company (defined as voting shares of stock which, when aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares,” subject to certain exceptions) generally has no voting rights with respect to the control shares except to the extent approved by our stockholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt-out of these provisions of the MGCL, in the case of the business combination provisions, by resolution of our Board of Directors (provided that such business combination is first approved by our Board of Directors, including a majority of our directors who are not affiliates or associates of such person), and in the case of the control share provisions, pursuant to a provision in our bylaws. However, our Board of Directors may by resolution elect to repeal the foregoing opt-out from the business combination provisions of the MGCL, and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

*We may be subject to adverse legislative or regulatory changes that could reduce the market price of our common stock.*

At any time, laws or regulations, or the administrative interpretations of those laws or regulations, that impact our business and Maryland corporations may be amended. In addition, the markets for RMBS and derivatives, including interest rate swaps, have been the subject of intense scrutiny in recent months. We cannot predict when or if any new law, regulation or administrative interpretation, or any amendment to any existing law, regulation or administrative interpretation, will be adopted or promulgated or will become effective. Additionally, revisions to these laws, regulations or administrative interpretations could cause us to change our investments. We could be materially adversely affected by any such change to any existing, or any new, law, regulation or administrative interpretation, which could reduce the market price of our common stock.

### **U.S. Federal Income Tax Risks**

*Your investment has various U.S. federal income tax risks.*

This summary of certain tax risks is limited to the federal tax risks addressed below. Additional risks or issues may exist that are not addressed in this prospectus and that could affect the federal tax treatment of us or our stockholders. This is not intended to be used and cannot be used by any stockholder to avoid penalties that may be imposed on stockholders under the Code. We strongly urge you to seek advice based on your particular circumstances from an independent tax advisor concerning the effects of federal, state and local income tax law on an investment in common stock and on your individual tax situation.

*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.*

We believe that commencing with our short taxable year ended December 31, 2013, we have been organized and have operated in conformity with the requirements for qualification as a REIT under the Code, and we intend to operate in a manner that will enable us to continue to meet the requirements for qualification and taxation as a REIT. However, we cannot assure you that we will qualify and remain qualified as a REIT.

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Moreover, our qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal tax laws. Accordingly, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

If we fail to qualify as a REIT in any calendar year, we would be required to pay U.S. federal income tax (and any applicable state and local tax), including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

*If Bimini failed to qualify as a REIT in its 2009 through 2013 taxable years, we would be prevented from electing to qualify as a REIT under applicable Treasury Regulations.*

We were formed by Bimini in August 2010. We believe that from the time of our formation until the closing of the public offering of our common stock, we were a “qualified REIT subsidiary” of Bimini. However, under applicable Treasury Regulations, if Bimini failed to qualify as a REIT in its 2009 through 2013 taxable years, unless Bimini’s failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we would be prevented from electing to qualify as a REIT prior to the fifth calendar year following the year in which Bimini failed to qualify.

*Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.*

To qualify as a REIT, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including Agency RMBS. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities, and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more TRSs. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and becoming subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income. As a result, we may be required to liquidate from our portfolio otherwise attractive investments or contribute such investments to a TRS. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

*Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.*

To qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined without regard to the deduction for

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dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- any undistributed taxable income from prior years.

We intend to distribute our REIT taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid both corporate income tax and the 4% nondeductible excise tax. However, there is no requirement that TRSs distribute their after-tax net income to their parent REIT or their stockholders.

Our taxable income may be substantially different than our net income as determined based on generally accepted accounting principles in the United States (“GAAP”), because, for example, realized capital losses will be deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. In addition, unrealized portfolio gains and losses are included in GAAP net income, but are not included in REIT taxable income. Also, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year. To the extent that we generate such non-cash taxable income in a taxable year, we may incur corporate income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, sell assets, make taxable distributions of our stock or debt securities or liquidate non-cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

*Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.*

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, any TRSs we form will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

*The failure of Agency RMBS subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT.*

We have entered and intend to continue to enter into repurchase agreements under which we will nominally sell certain of our Agency RMBS to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that for U.S. federal income tax purposes these transactions will be treated as secured debt and we will be treated as the owner of the Agency RMBS that are the subject of any such agreement notwithstanding that such agreement may transfer record ownership of such assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we do not own the Agency RMBS during the term of the repurchase agreement, in which case we could fail to qualify as a REIT.

*Our ability to invest in and dispose of contracts for delayed delivery transactions, or delayed delivery contracts, including “to be announced” securities, could be limited by the requirements necessary to qualify as a REIT, and we could fail to qualify as a REIT as a result of these investments.*

We may purchase Agency RMBS through delayed delivery contracts, including “to-be-announced” forward contracts, or TBAs. We may recognize income or gains on the disposition of delayed delivery contracts. For

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example, rather than take delivery of the Agency RMBS subject to a TBA, we may dispose of the TBA through a “roll” transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. The law is unclear regarding whether delayed delivery contracts will be qualifying assets for the 75% asset test and whether income and gains from dispositions of delayed delivery contracts will be qualifying income for the 75% gross income test.

Until we receive a favorable private letter ruling from the IRS or we are advised by counsel that delayed delivery contracts should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in delayed delivery contracts and any non-qualifying assets to no more than 25% of our total gross assets at the end of any calendar quarter and will limit the delayed delivery contracts issued by any one issuer to no more than 5% of our total gross assets at the end of any calendar quarter. Further, until we receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from the disposition of delayed delivery contracts should be treated as qualifying income for purposes of the 75% gross income test, we will limit our income and gains from dispositions of delayed delivery contracts and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to purchase Agency RMBS through delayed delivery contracts and to dispose of delayed delivery contracts through roll transactions or otherwise, could be limited.

Moreover, even if we are advised by counsel that delayed delivery contracts should be treated as qualifying assets or that income and gains from dispositions of delayed delivery contracts should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our delayed delivery contracts together with our non-qualifying assets for the 75% asset test, exceeded 25% of our total gross assets at the end of any calendar quarter, (ii) the value of our delayed delivery contracts, including TBAs, issued by any one issuer exceeds 5% of our total assets at the end of any calendar quarter, or (iii) our income and gains from the disposition of delayed delivery contracts together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

*Complying with REIT requirements may limit our ability to hedge effectively.*

The REIT provisions of the Code substantially limit our ability to hedge. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

*Our ownership of and relationship with any TRSs that we form will be limited and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.*

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis. Any domestic TRS that we may form will pay federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification.

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*We may pay taxable dividends in cash and our common stock, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock.*

We may make taxable dividends that are payable partly in cash and partly in our common stock. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by the taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/stock dividends, but that revenue procedure has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and common stock. Although we have no current intention of paying dividends in our own stock, if in the future we choose to pay dividends in our common stock, our stockholders may be required to pay tax in excess of the cash that they receive. If a U.S. stockholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. If we pay dividends in our common stock and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

*Our ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their stock.*

In order for us to qualify as a REIT for each taxable year after 2013, no more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order 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.

These ownership limitations could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their common stock over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

*Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.*

The maximum tax rate applicable to "qualified dividend income" payable to U.S. stockholders that are taxed at individual rates is lower than ordinary income tax rates. Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

*We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.*

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such

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law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

*Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our stockholders.*

We currently do not intend to enter into any transactions that could result in our, or a portion of our assets, being treated as a taxable mortgage pool for U.S. federal income tax purposes. If we enter into such a transaction in the future, we will be taxable at the highest corporate income tax rate on a portion of the income arising from a taxable mortgage pool, referred to as “excess inclusion income,” that is allocable to the percentage of our stock held in record name by disqualified organizations (generally tax-exempt entities that are exempt from the tax on unrelated business taxable income, such as state pension plans, charitable remainder trusts and government entities). In that case, under our charter, we will reduce distributions to such stockholders by the amount of tax paid by us that is attributable to such stockholder’s ownership.

If we were to realize excess inclusion income, IRS guidance indicates that the excess inclusion income would be allocated among our stockholders in proportion to our dividends paid. Excess inclusion income cannot be offset by losses of our stockholders. If the stockholder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is a foreign person, it would be subject to U.S. federal income tax at the maximum tax rate and withholding will be required on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

*Our recognition of “phantom” income may reduce a stockholder’s after-tax return on an investment in our common stock.*

We may recognize taxable income in excess of our economic income, known as phantom income, in the first years that we hold certain investments, and experience an offsetting excess of economic income over our taxable income in later years. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions that economically represent a return of capital rather than a dividend. These distributions would be offset in later years by distributions representing economic income that would be treated as returns of capital for U.S. federal income tax purposes. Taking into account the time value of money, this acceleration of U.S. federal income tax liabilities may reduce a stockholder’s after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income.

*Liquidation of our assets may jeopardize our REIT qualification.*

To qualify and maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our assets to repay obligations to our lenders, we may be unable to comply with these requirements, thereby jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

*Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.*

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75% gross income test. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.



## USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be approximately \$       million (or approximately \$       million if the underwriters fully exercise their overallocation option), after deducting the underwriting discount and commissions of approximately \$       million (or approximately \$       million if the underwriters fully exercise their overallocation option) and estimated offering expenses of approximately \$       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 fully invest the net proceeds of this offering in Agency RMBS within approximately three months of closing the offering and, for our pass-through Agency RMBS portfolio and a certain portion of our structured Agency RMBS portfolio, to implement our leveraging strategy within approximately three additional months. We then expect to borrow against the pass-through Agency RMBS and a portion of our structured Agency RMBS that we purchase with the proceeds of this offering through repurchase agreements and use the net 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 Agency RMBS and structured Agency RMBS, the performance of our portfolio and the availability and terms of financing.

Until these assets can be identified and obtained, we may temporarily invest the balance of the proceeds of this offering in interest-bearing short-term investment grade securities or money market accounts consistent with our intention to qualify and maintain our qualification as a REIT, or we may hold cash. These investments are expected to provide a lower net return than we hope to achieve from our intended investments.

**MARKET PRICE OF OUR COMMON STOCK**

Our common stock trades on the NYSE MKT under the symbol “ORC.” As of March 31, 2014, there were 5,411,665 shares of our common stock outstanding and two stockholders of record. The number of beneficial holders is substantially greater than the number of holders of record as a large portion of our common stock is held through brokerage firms. On March 31, 2014, the closing price of our common stock, as reported on the NYSE MKT, was \$ 13.25. The table below sets forth the high and low sales price per share of our common stock as reported on the NYSE MKT for the periods indicated.

	Orchid Island Capital, Inc. Common Stock	
	High	Low
<b>2014</b>		
First Quarter (through March 31, 2014)	\$	\$
<b>2013</b>		
First Quarter (period from February 14, 2013 through March 31, 2013) <sup>(1)</sup>	\$ 15.40	\$ 13.50
Second Quarter	\$ 14.00	\$ 10.60
Third Quarter	\$ 12.94	\$ 10.02
Fourth Quarter	\$ 13.25	\$ 10.91

(1) Our common stock began trading on the NYSE MKT on February 14, 2013.

## DISTRIBUTION POLICY

We intend to continue to make regular monthly cash distributions to our stockholders, as more fully described below. 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 will be 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.

We have declared and paid the dividends described in the table below since the completion of our initial public offering.

Declaration Date	Dividends Declared per Share of Common Stock		
	Amount	Record Date	Date of Payment
March 8, 2013	\$ 0.135	March 25, 2013	March 27, 2013
April 10, 2013	\$ 0.135	April 25, 2013	April 30, 2013
May 9, 2013	\$ 0.135	May 28, 2013	May 31, 2013
June 10, 2013	\$ 0.135	June 25, 2013	June 28, 2013
July 9, 2013	\$ 0.135	July 25, 2013	July 31, 2013
August 12, 2013	\$ 0.135	August 26, 2013	August 30, 2013
September 10, 2013	\$ 0.135	September 25, 2013	September 30, 2013
October 10, 2013	\$ 0.135	October 25, 2013	October 31, 2013
November 12, 2013	\$ 0.135	November 25, 2013	November 27, 2013
December 10, 2013	\$ 0.180	December 26, 2013	December 30, 2013
January 9, 2014	\$ 0.180	January 27, 2014	January 31, 2014
February 11, 2014	\$ 0.180	February 25, 2014	February 28, 2014

Any additional distributions we make will be authorized by and at the discretion of our Board of Directors based upon a variety of factors deemed relevant by our directors, which may include:

- actual results of operations;
- our financial condition;
- our level of retained cash flows;
- our capital requirements;
- the timing of the investment of the net proceeds of this offering;
- any debt service requirements;
- our taxable income;
- the annual distribution requirements under the REIT provisions of the Code;
- applicable provisions of Maryland law; and
- other factors that our Board of Directors may deem relevant.

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.

Our charter authorizes us to issue preferred stock that could have a preference over our common stock with respect to distributions. We currently have no intention to issue any preferred stock, but if we do, the distribution preference on the preferred stock could limit our ability to make distributions to the holders of our common stock.

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Our ability to make distributions to our stockholders will depend upon the performance of our investment portfolio, and, in turn, upon our Manager's management of our business. To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider various funding sources to cover any shortfall, including selling certain of our assets, borrowing funds or using a portion of the net proceeds we receive in this offering or future offerings (and thus all or a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes). We also may elect to pay all or a portion of any distribution in the form of a taxable distribution of our stock or debt securities. We do not currently intend to pay future distributions from the proceeds of this offering. In addition, our Board of Directors may change our distribution policy in the future. See "Risk Factors."

**CAPITALIZATION**

The following table sets forth our capitalization as of December 31, 2013:

- on an actual basis;
- on an as adjusted basis to effect to the sale of 2,070,000 shares of our common stock for net proceeds of approximately \$24.2 million, after deducting underwriters' discount and commissions and offering expenses, which closed on January 23, 2014 (including 270,000 shares sold pursuant to the full exercise of the overallotment option granted to the underwriters, which closed on January 29, 2014), which we refer to as the January 2014 Offering; and
- on an as adjusted basis to give effect to the January 2014 Offering and the sale of                      shares of our common stock in this offering at \$                      per share for net proceeds of approximately \$                      million, after deducting the underwriting discount and commissions of approximately \$                      million and estimated offering expenses of approximately \$                      million.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and our financial statements and related notes included elsewhere in this prospectus.

	<b>December 31, 2013</b> <b>(in thousands)</b>		
	<u>Actual (1)</u>	<u>As Adjusted for the January 2014 Offering (2)</u>	<u>As Adjusted for this Offering (3)</u>
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, \$0.01 par value per share; 500,000,000 shares authorized; 3,341,665 shares, 5,411,665 shares and                      shares, respectively, issued and outstanding	\$ 33,417	\$ 54,117	\$
Preferred stock, \$0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding, actual and as adjusted	—	—	—
Additional paid-in capital	46,115,961	70,284,104	
Accumulated deficit	<u>(1,384,031)</u>	<u>(1,384,031)</u>	
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>\$44,765,347</u>	<u>\$ 68,954,190</u>	

(1) Does not include up to 4,000,000 shares of common stock reserved for issuance under our 2012 Equity Incentive Plan, with grants under such plan subject to a cap of an aggregate of 10% of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of each award. No shares have been awarded under this plan as of the date of this prospectus.

(2) Gives effect to the sale of 2,070,000 shares of our common stock for net proceeds of approximately \$24.2 million, after deducting underwriters' discount and commissions and offering expenses, which closed on January 23, 2014 (including 270,000 shares sold pursuant to the full exercise of the overallotment option granted to the underwriters, which closed on January 29, 2014).

(3) Gives effect to this offering.

## DILUTION

Our net tangible book value as of December 31, 2013 was approximately \$44.8 million, or \$13.40 per share of our common stock. Net tangible book value per share represents the amount of our total tangible assets minus our total liabilities, divided by the aggregate shares of our common stock outstanding. After giving effect to (i) the sale of 2,070,000 shares of our common stock for net proceeds of approximately \$24.2 million, after deducting underwriters' discount and commissions and offering expenses, in the January 2014 Offering, and (ii) the sale of shares of our common stock in this offering at a public offering price of \$      per share, and our receipt of the estimated net proceeds from that sale, our as adjusted net tangible book value would be approximately \$      million, or approximately \$      per share, representing an immediate dilution of approximately \$(      ) per share to our existing stockholders.

The following table illustrates the dilutive effects of this offering on a per share basis:

Public offering price per share	\$
Net tangible book value per share as of December 31, 2013, before giving effect to this offering	\$13.40
Decrease in net tangible book value per share attributable to the January 2014 Offering	\$
As adjusted net tangible book value per share on December 31, 2013, after giving effect to the January 2014 Offering	\$
Decrease in net tangible book value per share attributable to this offering	\$
As adjusted net tangible book value per share on December 31, 2013, after giving effect to this offering	\$
Dilution in as adjusted net tangible book value per share attributable to this offering	\$

**SELECTED FINANCIAL DATA**

The following table presents summary selected financial data as of December 31, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011. The balance sheet data as of December 31, 2013 and 2012 and the statement of operations data for the years ended December 31, 2013, 2012 and 2011 has been derived from our audited financial statements.

Because the information presented below is only a summary and does not provide all of the information contained in our historical financial statements, including the related notes, you should read it in conjunction with the more detailed information contained in our financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Statement of Operations Data:</b>			
Revenues:			
Interest income	\$ 9,198,858	\$ 2,697,922	\$ 1,770,957
Interest expense	(1,126,204)	(277,328)	(96,223)
Net interest income	8,072,654	2,420,594	1,674,734
Realized (losses) gains on mortgage-backed securities	(1,198,160)	(307,795)	409,828
Unrealized losses on mortgage-backed securities	(10,732,690)	(805,932)	(1,544,171)
Gains (losses) on futures contracts	4,828,288	(39,725)	(138,525)
Net portfolio income	970,092	1,267,142	401,866
Total Expenses	1,668,098	732,799	1,592,080
Net (loss) income	<u>\$ (698,006)</u>	<u>\$ 534,343</u>	<u>\$ (1,190,214)</u>
Basic and diluted (loss) income per share of common stock	<u>\$ (0.23)</u>	<u>\$ 0.54</u>	<u>\$ (1.21)</u>

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Balance Sheet Data:</b>		
Total mortgage-backed securities	\$ 351,222,512	\$ 115,379,574
Total assets	363,576,047	118,860,956
Repurchase agreements	318,557,054	103,941,174
Total liabilities	318,810,700	104,135,981
Total stockholders’ equity	44,765,347	14,724,975
Book value per share of our common stock	\$ 13.40	\$ 95.54 <sup>(1)</sup>

(1) The as adjusted net tangible book value per share of our common stock on December 31, 2012, after giving effect to the February 20, 2013 stock dividend, was \$15.00.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion in conjunction with the sections of this prospectus entitled "Risk Factors," "Special Note Regarding Forward-Looking Statements," "Business" and our financial statements and the related notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" and elsewhere in this prospectus.*

### Overview

We are a specialty finance company that invests in 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 CMOs, IOs, IIOs and POs, among other types of structured Agency RMBS. From inception through the closing of the initial public offering of our common stock, we were managed by Bimini. Upon completion of that offering, we became externally managed by Bimini Advisors, a registered investment adviser with the Securities and Exchange Commission.

We were formed by Bimini in August 2010 and commenced operations on November 24, 2010. At December 31, 2012, Bimini was our sole stockholder. We completed our initial public offering on February 20, 2013. In that offering we raised gross proceeds of \$35.4 million from the sale of 2,360,000 shares of our common stock. We completed a secondary offering in January 2014, raising net proceeds of approximately \$24.2 million from the sale of 2,070,000 shares of our common stock.

Our business objective is to provide attractive risk-adjusted total returns over the long term through a combination of capital appreciation and the payment of regular monthly distributions. We intend to achieve this objective by investing in and strategically allocating capital between the two categories of Agency RMBS described above. We seek to generate income from (i) the net interest margin on our leveraged pass-through Agency RMBS portfolio and the leveraged portion of our structured Agency RMBS portfolio, and (ii) the interest income we generate from the unleveraged portion of our structured Agency RMBS portfolio. We intend to fund our pass-through Agency RMBS and certain of our structured Agency RMBS through short-term borrowings structured as repurchase agreements. Pass-through Agency RMBS and structured Agency RMBS typically exhibit materially different sensitivities to movements in interest rates. Declines in the value of one portfolio may be offset by appreciation in the other. The percentage of capital that we allocate to our two Agency RMBS asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe that this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments.

We intend to qualify and will elect to be taxed as a REIT under the Code commencing with our short taxable year ended December 31, 2013 upon the filing of our federal income tax return for that year. We generally will not be subject to U.S. federal income tax to the extent that we currently distribute all of our REIT taxable income to our stockholders and maintain our REIT qualification.

### 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;
- prepayment rates on mortgages underlying our Agency RMBS, and credit trends insofar as they affect prepayment rates;



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- the difference between Agency RMBS yields and our funding and hedging costs;
- competition for investments in Agency RMBS;
- recent actions taken by the Federal Reserve and the U.S. Treasury; and
- other market developments.

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

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

We anticipate that, for any period during which changes in the interest rates for our adjustable rate assets do not coincide with interest rate changes on the corresponding liabilities, such assets will re-price more slowly than the corresponding liabilities. Consequently, changes in interest rates, particularly short term interest rates, may significantly influence our net income.

Our net income may be affected by a difference between actual prepayment rates and our projections. Prepayments on loans and securities may be influenced by changes in market interest rates and homeowners' abilities and desires to refinance their mortgages.

## Results of Operations

Described below are our results of operations for the year ended December 31, 2013, as compared to our results of operations for the year ended December 31, 2012.

### Net (Loss) Income Summary

Net loss for the year ended December 31, 2013 was \$0.7 million, or \$0.23 per share. Net income for the year ended December 31, 2012 was \$0.5 million, or \$0.54 per share. The components of net (loss) income for the years ended December 31, 2013 and 2012, along with the changes in those components are presented in the table below:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Interest income	\$ 9,199	\$ 2,698	\$ 6,501
Interest expense	(1,126)	(277)	(849)
Net interest income	8,073	2,421	5,652
Losses on RMBS and Eurodollar futures	(7,103)	(1,154)	(5,949)
Net portfolio income	970	1,267	(297)
Expenses	(1,668)	(733)	(935)
Net (loss) income	<u>\$ (698)</u>	<u>\$ 534</u>	<u>\$(1,232)</u>

## **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, (the “FASB”), Accounting Standards Codification, (“ASC”), Topic 815, *Derivatives and Hedging*. Changes in fair value of these instruments are presented in a separate line item in our Statements of Operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the Eurodollar futures contracts. In the future, we may use other derivative instruments to hedge our interest expense and 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, 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 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 provide 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 the 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 tables below present a reconciliation of the adjustments to interest expense shown for each period related to our Eurodollar futures, and the income statement line item, gains (losses) on Eurodollar futures, calculated in accordance with GAAP for the years ended December 31, 2013 and 2012 and for each quarter during 2013 and 2012.

### Gains (Losses) on Eurodollar Futures Contracts

<i>(in thousands)</i>	<u>Recognized in Income Statement (GAAP)</u>	<u>Attributed to Current Period (Non-GAAP)</u>	<u>Attributed to Future Periods (Non-GAAP)</u>
<b>Three Months Ended</b>			
December 31, 2013	\$ 732	\$ (42)	\$ 774
September 30, 2013	(2,272)	(28)	(2,244)
June 30, 2013	6,852	(4)	6,856
March 31, 2013	(484)	(65)	(419)
December 31, 2012	(1)	(62)	61
September 30, 2012	(14)	(28)	14
June 30, 2012	(1)	(10)	9
March 31, 2012	(24)	(4)	(20)
<b>Years Ended</b>			
December 31, 2013	\$ 4,828	\$ (139)	\$ 4,967
December 31, 2012	(40)	(104)	64

### Economic Interest Expense and Economic Net Interest Income

<i>(in thousands)</i>	<u>Interest Expense on Repurchase Agreements</u>				<u>Net Interest Income</u>	
	<u>Interest Income</u>	<u>GAAP Interest Expense</u>	<u>Gains (Losses) on Eurodollar Futures Contracts Attributed to Current Period (1)</u>	<u>Economic Interest Expense (2)</u>	<u>GAAP Net Interest Income</u>	<u>Economic Net Interest Income (3)</u>
<b>Three Months Ended</b>						
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
<b>Years Ended</b>						
December 31, 2013	\$9,198	\$ 1,126	\$ (139)	\$ 1,265	\$ 8,072	7,933
December 31, 2012	2,698	277	(104)	381	2,421	2,317

(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

### Net Interest Income

During the year ended December 31, 2013, we generated \$8.1 million of net interest income, consisting of \$9.2 million of interest income from RMBS assets offset by \$1.1 million of interest expense on repurchase

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liabilities. For the comparable period ended December 31, 2012, we generated \$2.4 million of net interest income, consisting of \$2.7 million of interest income from RMBS assets offset by \$0.3 million of interest expense on repurchase liabilities. The increases in interest income and interest expense for the year ended December 31, 2013 primarily reflects the deployment of our IPO proceeds into the RMBS portfolio on a leveraged basis.

On an economic basis, our interest expense on repurchase liabilities for the years ended December 31, 2013 and 2012 was \$1.3 million and \$0.4 million, respectively, resulting in \$7.9 million and \$2.3 million of economic net interest income, respectively.

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

(dollars in thousands)

	Average RMBS Securities Held (1)	Interest Income (2)	Yield on Average RMBS Securities	Average Repurchase Agreements (1)	Interest Expense		Average Cost of Funds	
					GAAP Basis	Economic Basis (3)	GAAP Basis	Economic Basis (4)
<b>Three Months Ended</b>								
December 31, 2013	\$341,505	\$ 2,806	3.29%	\$ 310,107	\$ 309	\$ 351	0.40%	0.45%
September 30, 2013	335,467	2,551	3.04%	305,196	294	322	0.39%	0.42%
June 30, 2013	349,704	2,429	2.78%	312,591	322	326	0.41%	0.42%
March 31, 2013	237,820	1,412	2.38%	210,194	201	266	0.38%	0.51%
December 31, 2012	91,094	473	2.08%	80,256	94	156	0.47%	0.78%
September 30, 2012	64,378	697	4.33%	53,698	58	86	0.43%	0.64%
June 30, 2012	73,559	769	4.18%	62,407	74	84	0.47%	0.54%
March 31, 2012	70,585	759	4.30%	59,157	51	55	0.34%	0.37%
<b>Years Ended</b>								
December 31, 2013	\$316,124	\$ 9,198	2.91%	\$ 284,522	\$1,126	\$ 1,265	0.40%	0.44%
December 31, 2012	74,904	2,698	3.60%	63,880	277	381	0.43%	0.60%

(dollars in thousands)

	Net Interest Income		Net Interest Spread	
	GAAP Basis	Economic Basis (3)	GAAP Basis	Economic Basis (5)
<b>Three Months Ended</b>				
December 31, 2013	\$2,497	\$ 2,455	2.89%	2.84%
September 30, 2013	2,257	2,229	2.65%	2.62%
June 30, 2013	2,107	2,103	2.37%	2.36%
March 31, 2013	1,211	1,146	2.00%	1.87%
December 31, 2012	379	317	1.61%	1.30%
September 30, 2012	639	611	3.90%	3.69%
June 30, 2012	695	685	3.71%	3.64%
March 31, 2012	708	704	3.96%	3.93%
<b>Years Ended</b>				
December 31, 2013	\$8,072	\$ 7,933	2.51%	2.47%
December 31, 2012	2,421	2,317	3.17%	3.00%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 66 and 67 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.

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- (2) Interest income presented in the table above includes only interest earned on our RMBS investments and excludes interest earned on cash balances, and excludes the impact of discounts or premiums on RMBS 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 tables on page 50 includes the effect of our Eurodollar futures contract hedges for only the periods presented.
- (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 RMBS Held.
- (5) Economic Net Interest Spread is calculated by subtracting Average Economic Cost of Funds from Yield on Average RMBS Securities.

### Interest Income and Average Asset Yield

Our interest income for the years ended December 31, 2013 and 2012 was \$9.2 million and \$2.7 million, respectively. We had average RMBS holdings of \$316.1 million and \$74.9 million for the years ended December 31, 2013 and 2012, respectively. The yield on our portfolio was 2.91% and 3.60% for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013 as compared to the year ended December 31, 2012, there was a \$6.5 million increase in interest income due to a \$241.2 million increase in average RMBS, partially offset by a 69 basis point decrease in the yield on average RMBS for the year ended December 31, 2013 when compared to the year ended December 31, 2012. The increase in average RMBS during the year ended December 31, 2013 reflects the deployment of the proceeds of our initial public offering. The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured RMBS and pass-through RMBS ("PT RMBS").

(dollars in thousands)

	Average RMBS Held			Interest Income			Realized Yield on Average RMBS		
	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total
<b>Three Months Ended,</b>									
December 31, 2013	\$318,996	\$ 22,509	\$341,505	\$2,726	\$ 80	\$2,806	3.42%	1.42%	3.29%
September 30, 2013	314,096	21,371	335,467	2,412	139	2,551	3.07%	2.60%	3.04%
June 30, 2013	326,977	22,727	349,704	2,514	(85)	2,429	3.08%	(1.51)%	2.78%
March 31, 2013	223,191	14,629	237,820	1,415	(3)	1,412	2.54%	(0.06)%	2.38%
December 31, 2012	84,617	6,477	91,094	597	(124)	473	2.82%	(7.66)%	2.08%
September 30, 2012	56,519	7,859	64,378	410	287	697	2.90%	14.59%	4.33%
June 30, 2012	65,320	8,239	73,559	593	176	769	3.63%	8.56%	4.18%
March 31, 2012	61,936	8,649	70,585	530	229	759	3.43%	10.56%	4.30%
<b>Years Ended,</b>									
December 31, 2013	\$295,815	\$ 20,309	\$316,124	\$9,067	\$ 131	\$9,198	3.06%	0.65%	2.91%
December 31, 2012	67,098	7,806	74,904	2,130	568	2,698	3.17%	7.27%	3.60%

### Interest Expense and the Cost of Funds

We had average outstanding repurchase agreements of \$284.5 million and \$63.9 million and total interest expense of \$1.1 million and \$0.3 million for the years ended December 31, 2013 and 2012, respectively. Our average cost of funds was 0.40% and 0.43% for years ended December 31, 2013 and 2012, respectively. There was a 3 basis point decrease in the average cost of funds and a \$220.6 million increase in average outstanding repurchase agreements during the year ended December 31, 2013 as compared to the year ended December 31, 2012. The increase in average outstanding repurchase agreements reflects the deployment of the proceeds of our initial public offering on a leveraged basis.

Our economic interest expense was \$1.3 million and \$0.4 million for the years ended December 31, 2013 and 2012, respectively. There was a 16 basis point decrease in the average economic cost of funds to 0.44% for the year ended December 31, 2013 from 0.60% for the previous year.

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Since all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. Our average cost of funds calculated on a GAAP basis was 23 basis points above average one-month LIBOR and 4 basis points above average six-month LIBOR for the quarter ended December 31, 2013. Our average economic cost of funds was 28 basis points above average one-month LIBOR and 9 basis points above average six-month LIBOR for the quarter ended December 31, 2013. The average term to maturity of the outstanding repurchase agreements was 15 days at both December 31, 2013 and 2012.

The tables below presents the average repurchase agreements outstanding, interest expense and average cost of funds, and average one-month and six-month LIBOR rates for each quarter in 2013 and 2012 and for the years ended December 31, 2013 and 2012 on both a GAAP and economic basis.

(dollars in thousands)

	Average Balance of Repurchase Agreements	Interest Expense		Average Cost of Funds	
		GAAP Basis	Economic Basis	GAAP Basis	Economic Basis
<b>Three Months Ended</b>					
December 31, 2013	\$ 310,107	\$ 309	\$ 350	0.40%	0.45%
September 30, 2013	305,196	294	322	0.39%	0.42%
June 30, 2013	312,591	322	326	0.41%	0.42%
March 31, 2013	210,194	201	266	0.38%	0.51%
December 31, 2012	80,256	94	156	0.47%	0.78%
September 30, 2012	53,698	58	86	0.43%	0.64%
June 30, 2012	62,407	74	84	0.47%	0.54%
March 31, 2012	59,157	51	55	0.34%	0.37%
<b>Years Ended</b>					
December 31, 2013	\$ 284,522	\$1,126	\$ 1,264	0.40%	0.44%
December 31, 2012	63,880	277	381	0.43%	0.60%

	Average LIBOR		Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
	One- Month	Six- Month	One- Month LIBOR	Six-Month LIBOR	One-Month LIBOR	Six-Month LIBOR
<b>Three Months Ended,</b>						
December 31, 2013	0.17%	0.36%	0.23%	0.04%	0.28%	0.09%
September 30, 2013	0.19%	0.40%	0.20%	(0.01)%	0.23%	0.02%
June 30, 2013	0.20%	0.43%	0.21%	(0.02)%	0.22%	(0.01)%
March 31, 2013	0.21%	0.48%	0.17%	(0.10)%	0.30%	0.03%
December 31, 2012	0.22%	0.59%	0.25%	(0.12)%	0.56%	0.19%
September 30, 2012	0.23%	0.70%	0.20%	(0.27)%	0.41%	(0.06)%
June 30, 2012	0.24%	0.74%	0.23%	(0.27)%	0.30%	(0.20)%
March 31, 2012	0.26%	0.76%	0.08%	(0.42)%	0.11%	(0.39)%
<b>Years Ended</b>						
December 31, 2013	0.19%	0.42%	0.21%	(0.02)%	0.25%	0.02%
December 31, 2012	0.24%	0.70%	0.19%	(0.27)%	0.36%	(0.10)%

### **Gains or Losses**

Owing to the increased size of the RMBS portfolio and material increases in interest rates in 2013, realized and unrealized losses on our RMBS portfolio and gains in our Eurodollar futures contracts were both material

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and significantly larger than those experienced in 2012. The table below presents our gains or losses for the years ended December 31, 2013 and 2012.

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Realized losses on sales of RMBS	\$ (1,198)	\$ (308)	\$ (890)
Unrealized losses on RMBS	(10,733)	(806)	(9,927)
Total losses on RMBS	(11,931)	(1,114)	(10,817)
Gains (losses) on Eurodollar futures	4,828	(40)	4,868

During the years ended December 31, 2013 and 2012, we received proceeds of \$409.0 million and \$129.1 million, respectively, from the sales of RMBS. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns or to manage our balance sheet as part of our asset/liability management strategy.

In May and again in June of 2013, the Federal Reserve hinted to the markets that it would begin to taper its quantitative easing program, possibly as soon as Fall 2013. The quantitative easing program involves the purchase of \$40 billion Agency RMBS and \$45 billion US Treasury securities per month by the Federal Reserve. The US Treasury and Agency RMBS markets reacted strongly to this news and interest rates rose by approximately 100 basis points from early May levels in the case of the 10 year US Treasury note.

With the release of improving economic data during the remainder of the year, interest rates continued to rise, with the yield on the 10 year US Treasury reaching 3.03% at December 31, 2013. In December 2013, the Federal Reserve announced that it would start to taper its bond-buying program by \$10 billion a month beginning in January 2014. On January 29, 2014, the U.S. Federal Reserve announced additional \$5 billion reductions to its monthly purchase of both Agency RMBS and Treasury bonds to take effect in February 2014.

This market activity initially had an adverse effect on our pass-through portfolio since the prices of RMBS assets generally move in an inverse relationship to interest rates. Conversely, our interest only structured securities rose in price as the market anticipated slower prepayment rates as a result of higher mortgage rates. The table below presents historical interest rate data for each quarter end during 2013 and 2012.

	<u>10 Year Treasury Rate (1)</u>	<u>15 Year Fixed-Rate Mortgage Rate (2)</u>	<u>30 Year Fixed-Rate Mortgage Rate (2)</u>
December 31, 2013	3.03%	3.48%	4.46%
September 30, 2013	2.62%	3.52%	4.49%
June 30, 2013	2.48%	3.17%	4.07%
March 31, 2013	1.85%	2.76%	3.57%
December 31, 2012	1.76%	2.66%	3.35%
September 30, 2012	1.64%	2.78%	3.47%
June 30, 2012	1.66%	2.95%	3.68%
March 31, 2012	2.22%	3.20%	3.95%

(1) Historical 10 Year Treasury Rates are obtained from quoted end of day prices on the CBOE.

(2) Historical 30 Year and 15 Year Fixed Rate Mortgage Rates are obtained from Freddie Mac's Primary Mortgage Market Survey.

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### Expenses

Total operating expenses were \$1.7 million and \$0.7 million for the years ended December 31, 2013 and 2012, respectively. The table below provides a breakdown of operating expenses for the years ended December 31, 2013 and 2012.

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>	<u>Change</u>
Management fees	\$ 664	\$249	\$ 415
Directors fees and liability insurance	290	—	290
Legal fees	85	—	85
Other professional fees	335	178	157
Other direct REIT operating expenses	168	200	(32)
Other expenses	126	106	20
Total expenses	<u>\$1,668</u>	<u>\$733</u>	<u>\$ 935</u>

Under the terms of a management agreement that was in effect during all of 2012 and through the completion of our initial public offering, we paid Bimini a monthly management fee equal to 1/12 of 1.50% per annum of our Stockholders' Equity (as defined in the management agreement). In addition, we paid Bimini a monthly fee of \$7,200, which represented an allocation of overhead expenses for items that included, but were not limited to, occupancy costs, insurance and administrative expenses. These expenses were allocated based on the ratio of our assets and Bimini's consolidated assets. At the completion of the IPO, we entered into a management agreement with Bimini Advisors, LLC, a wholly owned subsidiary of Bimini, which provides for an initial term through February 20, 2016 with automatic one-year extensions and is subject to certain termination rights. Under the terms of the new management agreement, overhead costs will not be allocated to us until our Equity, as defined in the management agreement, equals or exceeds \$100 million for the first time.

### Financial Condition:

#### Mortgage-Backed Securities

As of December 31, 2013, our RMBS portfolio consisted of \$351.2 million of Agency RMBS at fair value and had a weighted average coupon on assets of 3.77%. During the year ended December 31, 2013, we received principal repayments of \$30.8 million compared to \$9.5 million for the year ended December 31, 2012. The average prepayment speeds for the quarters ended December 31, 2013 and 2012 were 9.9% and 28.6%, respectively.

The following table presents the constant prepayment rate ("CPR") experienced on our structured and PT RMBS sub-portfolios, on an annualized basis, for the quarterly periods presented. CPR 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 below represents the three month prepayment rate of the securities in the respective asset category. Assets that were not owned for the entire quarter have been excluded from the calculation. The exclusion of certain assets during periods of high trading activity can create a very high, and often volatile, reliance on a small sample of underlying loans.

<u>Three Months Ended,</u>	<u>PT RMBS</u> <u>Portfolio (%)</u>	<u>Structured</u> <u>RMBS</u> <u>Portfolio (%)</u>	<u>Total</u> <u>Portfolio (%)</u>
December 31, 2013	5.3	17.9	9.9
September 30, 2013	6.5	28.2	12.6
June 30, 2013	6.5	29.8	16.3
March 31, 2013	9.2	33.0	20.0
December 31, 2012	1.1	42.3	28.6
September 30, 2012	4.2	38.7	25.0
June 30, 2012	0.2	41.4	38.7
March 31, 2012	11.0	31.2	23.8



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The following tables summarize certain characteristics of our PT RMBS and structured RMBS mortgage related securities as of December 31, 2013 and 2012:

(in thousands)

Asset Category	Fair Value	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
<b>December 31, 2013</b>								
Adjustable Rate RMBS	\$ 5,334	1.5%	3.92%	247	1-Sep-35	3.77	10.13%	2.00%
Fixed Rate RMBS	245,523	69.9%	4.05%	323	1-Dec-43	NA	NA	NA
Hybrid Adjustable Rate RMBS	76,118	21.7%	2.56%	350	1-Aug-43	109.6	7.56%	2.00%
Total Mortgage-backed Pass-through	326,975	93.1%	3.70%	328	1-Dec-43	102.67	7.72%	2.00%
Interest-Only Securities	19,206	5.5%	4.39%	261	25-Nov-40	NA	NA	NA
Inverse Interest-Only Securities	5,042	1.4%	5.92%	317	15-Dec-40	NA	6.08%	NA
Total Structured RMBS	24,248	6.9%	4.71%	272	15-Dec-40	NA	NA	NA
Total Mortgage Assets	\$351,223	100.0%	3.77%	324	1-Dec-43	NA	NA	NA
<b>December 31, 2012</b>								
Adjustable Rate RMBS	\$ 6,531	5.7%	4.20%	258	1-Sep-35	3.46	10.04%	2.00%
Fixed Rate RMBS	43,589	37.8%	3.24%	181	1-Dec-40	NA	NA	NA
Hybrid Adjustable Rate RMBS	59,485	51.5%	2.69%	357	1-Nov-42	100.51	7.69%	2.00%
Total Mortgage-backed Pass-through	109,605	95.0%	3.00%	281	1-Nov-42	90.91	7.93%	2.00%
Interest-Only Securities	2,884	2.5%	3.52%	151	25-Dec-39	NA	NA	NA
Inverse Interest-Only Securities	2,891	2.5%	6.13%	309	25-Nov-40	NA	6.34%	NA
Total Structured RMBS	5,775	5.0%	4.83%	230	25-Nov-40	NA	NA	NA
Total Mortgage Assets	\$115,380	100.0%	3.09%	278	1-Nov-42	NA	NA	NA

(in thousands)

Agency	December 31, 2013		December 31, 2012	
	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio
Fannie Mae	\$211,063	60.09%	\$113,235	98.14%
Freddie Mac	121,842	34.69%	2,145	1.86%
Ginnie Mae	18,318	5.22%	—	—
Total Portfolio	\$351,223	100.00%	\$115,380	100.00%

	December 31, 2013	December 31, 2012
Weighted Average Pass Through Purchase Price	\$ 105.60	\$ 105.65
Weighted Average Structured Purchase Price	\$ 12.11	\$ 9.91
Weighted Average Pass Through Current Price	\$ 102.83	\$ 105.81
Weighted Average Structured Current Price	\$ 14.59	\$ 7.84
Effective Duration (1)	4.188	1.209

(1) Effective duration of 4.188 indicates that an interest rate increase of 1.0% would be expected to cause a 4.188% decrease in the value of the RMBS in our investment portfolio at December 31, 2013. An effective duration of 1.209 indicates that an interest rate increase of 1.0% would be expected to cause a 1.209% decrease in the value of the RMBS in our investment portfolio at December 31, 2012. These figures include the structured securities in the portfolio.

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The following table presents a summary of portfolio assets acquired during the years ended December 31, 2013 and 2012.

(in thousands)

	2013			2012		
	Total Cost	Average Price	Weighted Average Yield	Total Cost	Average Price	Weighted Average Yield
Pass-through RMBS	\$642,905	104.95	2.40%	\$193,968	105.12	1.53%
Structured RMBS	44,679	15.44	1.69%	5,110	7.62	11.95%

Our portfolio of PT RMBS is typically comprised of adjustable-rate RMBS, fixed-rate RMBS and hybrid adjustable-rate RMBS. We generally seek to acquire low duration assets that offer high levels of protection from mortgage prepayments provided they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, we strive to maintain a hedged PT RMBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying our portfolio of PT RMBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from our investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales.

The duration of our IO and IIO portfolios will vary greatly depending on the structural features of the securities. While prepayment activity will always affect the cash flows associated with the securities, the interest only nature of IO's may cause their durations to become extremely negative when prepayments are high, and less negative when prepayments are low. Prepayments affect the durations of IIOs similarly, but the floating rate nature of the coupon of IIOs (which is inversely related to the level of one month LIBOR) cause their price movements — and model duration — to be affected by changes in both prepayments and one month LIBOR — both current and anticipated levels. As a result, the duration of IIO securities will also vary greatly.

Prepayments on the loans underlying our RMBS can alter the timing of the cash flows from the underlying loans to us. As a result, we gauge the interest rate sensitivity of its assets by measuring their effective duration. While modified duration measures the price sensitivity of a bond to movements in interest rates, effective duration captures both the movement in interest rates and the fact that cash flows to a mortgage related security are altered when interest rates move. Accordingly, when the contract interest rate on a mortgage loan is substantially above prevailing interest rates in the market, the effective duration of securities collateralized by such loans can be quite low because of expected prepayments.

We face the risk that the market value of our PT RMBS assets will increase or decrease at different rates than that of our structured RMBS or liabilities, including our hedging instruments. Accordingly, we assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. We generally calculate duration using various third party models. However, empirical results and various third party models may produce different duration numbers for the same securities.

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The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of December 31, 2013, assuming rates instantaneously fall 100 basis points (“bps”), rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency RMBS’ effective duration to movements in interest rates.

(in thousands)	Fair Value	\$ Change in Fair Value			% Change in Fair Value		
		-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
<b>RMBS Portfolio</b>							
Adjustable Rate RMBS	\$ 5,334	\$ 11	\$ (42)	\$ (83)	0.20%	(0.78)%	(1.56)%
Hybrid Adjustable Rate RMBS	76,118	3,659	(4,955)	(10,074)	4.81%	(6.51)%	(13.23)%
Fixed Rate RMBS	245,523	10,407	(15,550)	(31,347)	4.24%	(6.33)%	(12.77)%
Interest-Only RMBS	19,206	(5,598)	3,217	4,078	(29.15)%	16.75%	21.23%
Inverse Interest-Only RMBS	5,042	263	(486)	(1,263)	5.22%	(9.64)%	(25.05)%
<b>Total RMBS Portfolio</b>	<b>\$351,223</b>	<b>\$ 8,742</b>	<b>\$(17,816)</b>	<b>\$(38,689)</b>	<b>2.49%</b>	<b>(5.07)%</b>	<b>(11.02)%</b>

(in thousands)	Notional Amount (1)	\$ Change in Fair Value			% Change in Fair Value		
		-100BPS	+100BPS	+200BPS	-100BPS	+100BPS	+200BPS
<b>Repurchase Agreement Hedges</b>							
Eurodollar Futures Contracts	\$4,375,000	\$(8,599)	\$10,938	\$21,875	(0.80)%	1.02%	2.04%

(1) Represents the total cumulative contract/notional amount of Eurodollar futures contracts outstanding.

In addition to changes in interest rates, other factors impact the fair value of our interest rate-sensitive investments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to our stockholders.

### Repurchase Agreements

As of December 31, 2013, we had established borrowing facilities in the repurchase agreement market with twelve counterparties which we believe provide borrowing capacity in excess of our needs. None of these lenders are affiliated with us. As of December 31, 2013, we had funding in place with nine of the twelve counterparties. These borrowings are secured by our RMBS and bear interest rates that are based on a spread to LIBOR.

As of December 31, 2013, we had obligations outstanding under the repurchase agreements of approximately \$318.6 million with a net weighted average borrowing cost of 0.39%. The remaining maturity of our outstanding repurchase agreements obligations ranged from 3 to 70 days, with a weighted average remaining maturity of 15 days. Securing the repurchase agreement obligations as of December 31, 2013 are RMBS with an estimated fair value, including accrued interest, of approximately \$337.0 million and a weighted average maturity of 328 months. Through February 21, 2014, we have been able to maintain our repurchase facilities with comparable terms to those that existed at December 31, 2013 with maturities through May 13, 2014.

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The table below presents information about our period end and average repurchase agreement obligations for each quarter in 2013 and 2012.

(dollars in thousands)

Three Months Ended	Ending Balance of Repurchase Agreements	Average Balance of Repurchase Agreements	Difference Between Ending Repurchase Agreements and Average Repurchase Agreements	
			Amount	Percent
December 31, 2013	\$ 318,557	\$ 310,107	\$ 8,450	2.72%
September 30, 2013	301,657	305,196	(3,539)	(1.16)%
June 30, 2013	308,735	312,591	(3,856)	(1.23)%
March 31, 2013	316,446	210,194	106,252	50.55%(a)
December 31, 2012	103,941	80,256	23,685	29.51%(b)
September 30, 2012	56,571	53,698	2,873	5.35%
June 30, 2012	50,825	62,407	(11,582)	(18.56%(c)
March 31, 2012	73,988	59,157	14,831	25.07%(d)

- (a) The higher ending balance relative to the average balance during the quarter ended March 31, 2013 reflects the deployment of the proceeds of our IPO. During the quarter ended March 31, 2013, our investment in PT RMBS increased \$227.2 million.
- (b) The higher ending balance relative to the average balance reflects a shift in the portfolio allocation towards PT RMBS that our funds through the repo market. During the quarter ended December 31, 2012, our investment in PT RMBS increased \$50.0 million.
- (c) The lower ending balance relative to the average balance reflects a shift in the portfolio allocation towards Structured RMBS that were not funded through the repo market. During the quarter ended June 30, 2012, our investment in PT RMBS decreased \$23.8 million.
- (d) The higher ending balance relative to the average balance reflects a shift in the portfolio allocation towards assets that our funds through the repo market. During the quarter ended March 31, 2012, our investment in PT RMBS increased \$30.6 million.

## Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. Our principal immediate sources of liquidity include cash balances, unencumbered assets and borrowings under repurchase agreements. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our RMBS portfolio. Management believes that we currently have sufficient liquidity and capital resources available for (a) the acquisition of additional investments consistent with the size and nature of our existing RMBS portfolio, (b) the repayments on borrowings and (c) the payment of dividends to the extent required for our continued qualification as a REIT.

Because our PT RMBS portfolio consists entirely of government and agency securities, we do not anticipate having difficulty converting our assets to cash should our liquidity needs ever exceed our immediately available sources of cash. Our structured RMBS portfolio also consists entirely of governmental agency securities, although they typically do not trade with comparable bid / ask spreads as PT RMBS. However, we anticipate that we would be able to liquidate such securities readily, even in distressed markets, although we would likely do so at prices below where such securities could be sold in a more stable market. To enhance our liquidity even further, we may pledge a portion of our structured RMBS as part of a repurchase agreement funding but retain the cash in lieu of acquiring additional assets. In this way we can, at a modest cost, retain higher levels of cash on hand and decrease the likelihood we will have to sell assets in a distressed market in order to raise cash.

Our master repurchase agreements have no stated expiration, but can be terminated at any time at our option or at the option of the counterparty. However, once a definitive repurchase agreement under a master repurchase agreement has been entered into, it generally may not be terminated by either party. A negotiated termination can occur, but may involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction.

Under our repurchase agreement funding arrangements, we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the

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collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we would be entitled to have excess margin returned to us by the counterparty. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis. At December 31, 2013, the weighted average haircut our repurchase agreement counterparties required us to hold was approximately 5.50% of the estimated fair value of the underlying collateral.

As discussed earlier, we invest a portion of our capital in structured Agency RMBS. We do not fund the purchase of these investments in the repurchase market but instead purchase directly, thus reducing — but not eliminating — our reliance on access to repurchase agreement funding. The leverage inherent in structured securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured RMBS strategy has been a core element of our overall investment strategy since inception. However, we have and may continue to pledge a portion of our structured RMBS in order to raise our cash levels, but will not pledge these securities in order to acquire additional assets.

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements and interest expense on repurchase agreements.

(in thousands)

	Obligations Maturing				Total
	Within One Year	One to Three Years	Three to Five Years	More than Five Years	
Repurchase agreements	\$318,557	\$ —	\$ —	\$ —	\$318,557
Interest expense on repurchase agreements (1)	139	—	—	—	139
Totals	\$318,696	\$ —	\$ —	\$ —	\$318,696

(1) Interest expense on repurchase agreements is based on current interest rates as of December 31, 2013 and the remaining term of the liabilities existing at that date.

In future periods, we expect to continue to finance our activities in a manner that is consistent with our current operations via repurchase agreements. As of December 31, 2013, we had cash and cash equivalents of \$8.2 million. We generated cash flows of \$38.9 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of \$284.5 million during the year ended December 31, 2013.

### **Stockholders' Equity**

On February 14, 2013, our Board of Directors authorized and we declared a stock dividend whereby 5.37 shares of common stock were issued for each share of common stock then outstanding. The 827,555 shares distributed pursuant to the dividend were issued to Bimini on February 20, 2013, immediately prior to our initial public offering. For the year ended December 31, 2012, the 981,665 shares, which includes the 154,110 shares of common stock outstanding at December 31, 2012 and the 827,555 shares distributed as a stock dividend, is used for our earnings per share computations, as Bimini was the sole stockholder during that entire period.

On February 20, 2013, we completed an initial public offering of our common stock, issuing 2,360,000 shares of common stock at a price of \$15.00 per share. The gross proceeds we received on this sale were \$35.4 million.

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 over-allotment option granted to the underwriters which closed on January 29, 2014) for net proceeds of approximately \$24.2 million after deducting underwriters' discounts and commissions and offering expenses.

## Outlook

### *Regulatory Developments with Respect to Fannie Mae and Freddie Mac and the Dodd-Frank Act*

In response to the credit market disruption and the deteriorating financial conditions of Fannie Mae and Freddie Mac, Congress and the U.S. Treasury undertook a series of actions that culminated with putting Fannie Mae and Freddie Mac in conservatorship in September 2008. The Federal Housing Finance Agency (“FHFA”) now operates Fannie Mae and Freddie Mac as conservator, in an effort to stabilize the entities. The FHFA also noted that during the conservatorship period, it would work to enact new regulations for minimum capital standards, prudent safety and soundness standards and portfolio limits of Fannie Mae and Freddie Mac.

Although the U.S. Government has committed significant resources to Fannie Mae and Freddie Mac, Agency RMBS guaranteed by either Fannie Mae or Freddie Mac are not backed by the full faith and credit of the United States. Moreover, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac requires examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. Such changes may involve an explicit U.S. Government backing of Fannie Mae and Freddie Mac Agency RMBS or the express elimination of any implied U.S. Government guarantee and, therefore, creation of credit risk with respect to Fannie Mae and Freddie Mac Agency RMBS. Additionally, on February 11, 2011, the U.S. Treasury issued a white paper titled *Reforming America’s Housing Finance Market* that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market.

On October 4, 2012, the FHFA released a white paper entitled *Building a New Infrastructure for the Secondary Mortgage Market* (the “FHFA White Paper”). This release follows up on the FHFA’s February 21, 2012 *Strategic Plan for Enterprise Conservatorships*, which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships. These three goals are to (i) build a new infrastructure for the secondary mortgage market, (ii) gradually contract Fannie Mae and Freddie Mac’s presence in the marketplace while simplifying and shrinking their operations, and (iii) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. The FHFA White Paper proposes a new infrastructure for Fannie Mae and Freddie Mac that has two basic goals.

The first such goal is to replace the current, outdated infrastructures of Fannie Mae and Freddie Mac with a common, more efficient infrastructure that aligns the standards and practices of the two entities, beginning with core functions performed by both entities such as issuance, master servicing, bond administration, collateral management and data integration. The second goal is to establish an operating framework for Fannie Mae and Freddie Mac that is consistent with the progress of housing finance reform and encourages and accommodates the increased participation of private capital in assuming credit risk associated with the secondary mortgage market. The FHFA recognizes that there are a number of impediments to their goals which may or may not be surmountable, such as the absence of any significant secondary mortgage market mechanisms beyond Fannie Mae, Freddie Mac and Ginnie Mae, and that their proposals are in the formative stages. As a result, it is unclear if the proposals will be enacted. If such proposals are enacted, it is unclear how closely what is enacted will resemble the proposals from the FHFA White Paper or what the effects of the enactment will be. As the economy has slowly recovered home prices have increased off the low levels seen in the aftermath of the financial crisis and a significant portion of the shadow inventory of homes that resulted from foreclosures are slowly being worked off. The combination of recovering home prices, attractive financing levels — albeit with still tight lending standards — and decreasing liquidations of home via foreclosures have resulted in an acceleration in refinancing activity.

On June 25, 2013, Senators Bob Corker (R-TN) and Mark Warner (D-VA), with Senators Mike Johanns (R-NE), Jon Tester (D-MT), Dean Heller (R-NV), Heidi Heitkamp (D-ND), Jerry Moran (R-KS) and Kay Hagan (D-NC), formally introduced the Housing Finance Reform and Taxpayer Protection Act of 2013 (the “Corker-Warner Bill”) into the U.S. Senate. While the current draft of the Corker-Warner Bill will likely undergo significant changes as it is debated, it is expected to serve as a basis of discussion for congressional efforts to reform Fannie Mae and Freddie Mac.

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As currently drafted, the Corker-Warner Bill has three key provisions:

- i. the establishment of the Federal Mortgage Insurance Corporation (the “FMIC”);
- ii. the creation of a Mortgage Insurance Fund (the “Fund”); and
- iii. the wind-down of Fannie Mae and Freddie Mac.

The FMIC would be a government guarantor modeled after the Federal Deposit Insurance Corporation (the “FDIC”) in that it would collect insurance premiums and maintain a deposit fund on all outstanding obligations. Every mortgage-backed security issued through the FMIC would have a private investor bearing the first risk of loss and holding at least \$0.10 in equity capital for every dollar of risk. This private capital buffer would serve to protect taxpayers from the risk of default on the mortgages underlying securities issued by the FMIC. Thus, the ultimate purpose of the FMIC would be to bring in credit investors to bear the risk of default while providing liquidity, transparency and access to mortgage credit for the housing finance system.

The FHFA would be abolished after the establishment of the FMIC, and all current responsibilities of the FHFA, as well as its resources, would be transferred to the FMIC. In particular, the Corker-Warner Bill specifies that the FMIC would maintain a database of uniform loan-level information on eligible mortgages, develop standard uniform securitization agreements and oversee the common securitization platform currently being developed by the FHFA.

In the event losses due to default on underlying mortgages exceed the first position losses of private credit investors in securities issued by the FMIC, the FMIC would cover such losses out of the Fund. The Corker-Warner Bill specifies that the FMIC would endeavor to attain a reserve balance of 1.25% of the aggregate outstanding principal balance of covered securities within five years of the establishment of the FMIC and 2.50% of such amount within ten years of the establishment of the FMIC. The Fund would be paid with insurance premiums, akin to user fees, paid by private investors with various reporting and transparency requirements.

As currently proposed, the Corker-Warner Bill would revoke the charters of Fannie Mae and Freddie Mac upon the establishment of the FMIC. Fannie Mae and Freddie Mac would wind down as expeditiously as possible while maximizing returns to taxpayers as their assets are sold off.

On July 11, 2013, members of the U.S. House of Representatives introduced the Protecting American Taxpayers and Homeowners Act (“PATH”), a broad financing reform bill that serves as a counterpart to the Corker-Warner Bill. PATH would also revoke the charters of Fannie Mae and Freddie Mac and remove barriers to private investment. However, PATH would maintain the FHFA and give it oversight over a new non-government, not-for-profit National Mortgage Market Utility whose mission would be to develop best practices standards for the private origination, servicing, pooling and securitizing of mortgages and operate a publicly accessible securitization outlet to match loan originators with investors. Additional provisions of PATH include the reduction in size and scope of the Federal Housing Administration (“FHA”), targeting its mission specifically to first-time borrowers and low- and moderate-income borrowers except in periods of significant credit contraction.

There is no way to know if either proposal will become law or, should one of the proposals become law, if or how the enacted law will differ from the current draft of the bill. It is unclear how this proposal would impact housing finance, and what impact, if any, it would have on mortgage REITs.

The effect of the actions taken and to be taken by the U.S. Treasury, Congress or FHFA remains uncertain. Given the public reaction to the substantial funds made available to Fannie Mae and Freddie Mac, future funding for both is likely to face increased scrutiny. New and recently enacted laws, regulations and programs related to Fannie Mae and Freddie Mac may adversely affect the pricing, supply, liquidity and value of Agency RMBS and otherwise materially harm our business and operations.

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The Dodd-Frank Act provides for new regulations on financial institutions and creates new supervisory and advisory bodies, including the new Consumer Financial Protection Bureau. The Dodd-Frank Act tasks many agencies with issuing a variety of new regulations, including rules related to mortgage origination and servicing, securitization and derivatives. Because a significant number of regulations under the Dodd-Frank Act have either not yet been proposed or not yet been adopted in final form, it is not possible for us to predict how the Dodd-Frank Act will impact our business.

### *Interest Rates*

The Federal Reserve has taken a number of steps over the last few years to lower both short and long-term interest rates. In August 2011, the Federal Reserve announced that it expected to maintain the Federal Funds Rate at a low level at least through mid-2013, and on January 25, 2012 it extended that outlook through late 2014. Additionally, on September 21, 2011, the Federal Reserve announced the extension of the maturities of its U.S. Treasury securities portfolio by selling approximately \$400 billion in short-term U.S. Treasury securities and purchasing an equivalent amount of longer-term U.S. Treasury securities. This program, known as “Operation Twist,” lasted through December 2012. The goal of Operation Twist was to lower the yields on longer-term U.S. Treasury securities, which the Federal Reserve believed would lower interest rates tied to such yields, such as mortgage rates and interest rates on commercial loans.

In September 2012, the Federal Reserve announced an open-ended program to expand its 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, showed signs of improvement. This program, known as “QE3”, when combined with other programs to extend the average maturity of the Federal Reserve’s holdings of securities and reinvest principal payments from the Federal Reserve’s holdings of agency debt and Agency RMBS into Agency RMBS, was expected to increase the Federal Reserve’s holdings of long-term securities by \$85 billion each month. The Federal Reserve also announced that it would keep the target range for the Federal Funds Rate between zero and 0.25% through at least mid-2015, which was six months longer than previously expected.

The Federal Reserve provided further guidance to the market in December 2012 by stating that it intended to keep the Federal Funds Rate close to zero while the unemployment rate is above 6.5% and as long as inflation does not rise above 2.5%. In December 2012, the Federal Reserve also announced that it would initially begin buying \$45 billion of long-term Treasury bonds each month and noted that such amount may increase in the future. This bond purchase program replaced Operation Twist.

The Federal Reserve Open Market Committee (the “FOMC”) meeting minutes released on April 10, 2013 revealed that the FOMC had begun considering when the Federal Reserve should begin tapering the pace of Agency RMBS purchases set in September 2012. The FOMC meeting minutes released on May 22, 2013 announced that the Federal Reserve was considering beginning to taper such purchase as early as June 2013. In minutes released on June 25, 2013, the FOMC stated that the Federal Reserve would begin to scale back Agency RMBS purchases later in 2013 and that such purchases would cease entirely when the unemployment rate reached 7%. On October 30, 2013, the FOMC announced that it would continue reinvesting principal payments from its holdings of agency debt and Agency RMBS into Agency RMBS and U.S. Treasury securities at the current pace indefinitely. The FOMC believes that these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help control the rate of inflation. The October 30, 2013 announcement provided no additional guidance as to when tapering might begin.

Although historically correlated with movements in the Federal Funds Rate, European inter-bank lending rates, specifically LIBOR, are independently affected by the fiscal and budgetary problems of the member countries of the European Union. In recent years, the European Central Bank, International Monetary Fund and member countries have provided emergency funding mechanisms to support members facing the inability to raise new debt at acceptable levels (such as Greece, Ireland, Portugal and Spain). To the extent this crisis persists or worsens, LIBOR may increase substantially.



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Although, long-term interest rates are currently at historically low levels, they are still high relative to short-term interest rates. We believe that the relationship between long and short-term interest rates will remain relatively unchanged so long as the U.S. economic recovery and inflation rates remain tepid. If the economic recovery were to strengthen or inflation rates increase, the Federal Reserve may decide to abandon its current low-interest rate policies and/or increase interest rates. Although an increase in the Federal Funds Rate would most likely result in an increase in LIBOR, other European-specific factors, such as a credit disruption in the European inter-bank credit market, could cause an increase in LIBOR independent of movements in the Federal Funds Rate.

At its December 18, 2013 meeting, the FOMC indicated that it saw improvement in economic activity and labor market conditions. As a result, the FOMC announced that, beginning in January 2014, it would reduce its monthly purchases of Agency RMBS from \$40 billion to \$35 billion and U.S. Treasury securities from \$45 billion to \$40 billion. The FOMC further stated that it would continue reinvesting principal payments from its holdings of these securities in Agency RMBS and rolling over maturing Treasury bonds at auction. On January 29, 2014, the FOMC announced additional \$5 billion reductions to its monthly purchases of both Agency RMBS and Treasury bonds to take effect in February 2014. The FOMC expects even the lower level of purchases to maintain downward pressure on longer-term interest rates, support mortgage markets and make broader financial conditions more accommodative, which it believes should promote economic recovery and control inflation.

### *Prepayment Rates, Refinancings and Loan Modification Programs*

As a result of the Federal Reserve's interest rate policy and global economic conditions, prevailing interest rates, especially mortgage interest rates, are at historically low levels. Generally, lower mortgage interest rates leads to increased refinancings and, consequently, prepayments on mortgages and RMBS. In addition to the proposed reforms and/or changes of Fannie Mae and Freddie Mac suggested by the U.S. Treasury and the FHFA, Congress has to date introduced three legislative proposals that seek to provide changes to the current housing finance infrastructure. However, as a result of the continuing depressed levels of home prices (due in part to the supply of new and existing homes for sale, plus the "shadow" inventory of homes expected to be on the market as a result of future foreclosures) and the tighter underwriting standards of lenders, refinancing activity has yet to react to prevailing interest rate incentives available to borrowers as market participants expected.

To further stimulate the level of refinancing activity, the Obama administration has instituted programs to assist borrowers struggling with their mortgage payments or unable to refinance. For example, the government has expanded the HARP program, which is a program whereby eligible borrowers who owe more money on their mortgage loans than the value of their homes (commonly known as being "underwater" on a mortgage loan) can receive assistance refinancing their mortgage loans by loosening the eligibility requirements for refinancing. On April 11, 2013, the FHFA extended the HARP program by two years to December 31, 2015. In response to the expanded HARP program, Fannie Mae and Freddie Mac have announced guidelines for compliance with the expanded program.

Current programs such as the Home Affordable Modification Program and the Principal Reduction Alternative are designed to assist borrowers in modifying their mortgage loans.

## **Effect on Us**

Regulatory developments, movements in interest rates and prepayment rates as well as loan modification programs affect us in many ways, including the following:

### *Effects on our Assets*

A change in or elimination of the guarantee structure of Agency RMBS may increase our costs (if, for example, guarantee fees increase) or require us to change our investment strategy altogether. For example, the

elimination of the guarantee structure of Agency RMBS may cause us to change our investment strategy to focus on non-Agency RMBS, which in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

Lower long-term interest rates can affect the value of our Agency RMBS in a number of ways. If prepayment rates are relatively low (due, in part, to the refinancing problems described above), lower long-term interest rates can increase the value of higher-coupon Agency RMBS. This is because investors typically place a premium on assets with yields that are higher than market yields. Although lower long-term interest rates may increase asset values in our portfolio, we may not be able to invest new funds in similarly-yielding assets.

If prepayment levels increase, the value of our Agency RMBS affected by such prepayments may decline. This is because a principal prepayment accelerates the effective term of an Agency RMBS, which would shorten the period during which an investor would receive above-market returns (assuming the yield on the prepaid asset is higher than market yields). Also, prepayment proceeds may not be able to be reinvested in similar-yielding assets. Agency RMBS backed by mortgages with high interest rates are more susceptible to prepayment risk because holders of those mortgages are most likely to refinance to a lower rate. IOs and IIOs, however, may be the types of Agency RMBS most sensitive to increased prepayment rates. Because the holder of an IO or IIO receives no principal payments, the values of IOs and IIOs are entirely dependent on the existence of a principal balance on the underlying mortgages. If the principal balance is eliminated due to prepayment, IOs and IIOs essentially become worthless. Although increased prepayment rates can negatively affect the value of our IOs and IIOs, they have the opposite effect on POs. Because POs act like zero-coupon bonds, meaning they are purchased at a discount to their par value and have an effective interest rate based on the discount and the term of the underlying loan, an increase in prepayment rates would reduce the effective term of our POs and accelerate the yields earned on those assets, which would increase our net income.

Because we base our investment decisions on risk management principles rather than anticipated movements in interest rates, in a volatile interest rate environment we may allocate more capital to structured Agency RMBS with shorter durations, such as short-term fixed and floating rate CMOs. We believe these securities have a lower sensitivity to changes in long-term interest rates than other asset classes. We may always attempt to mitigate our exposure to changes in long-term interest rates by investing in IOs and IIOs, which typically have different sensitivities to changes in long-term interest rates than pass-through Agency RMBS, particularly pass-through Agency RMBS backed by fixed-rate mortgages.

We do not believe our investment portfolio will be materially affected by loan modification programs because Agency RMBS backed by loans that would qualify for such programs (*e.g.*, seriously delinquent loans) will be purchased by Fannie Mae and Freddie Mac at their par value prior to the implementation of such programs. However, if Fannie Mae and Freddie Mac were to modify or end their repurchase programs or if the U.S. Government modified its loan modification programs to modify non-delinquent mortgage loans, our investment portfolio could be negatively impacted.

#### *Effects on our borrowing costs*

We leverage our pass-through Agency RMBS portfolio and a portion of our structured Agency RMBS with principal balances through the use of short-term repurchase agreement transactions. The interest rates on our debt are determined by market levels of both the Federal Funds Rate and LIBOR. An increase in the U.S. Federal Funds Rate or LIBOR would increase our borrowing costs, which could affect our interest rate spread if there is no corresponding increase in the interest we earn on our assets. This would be most prevalent with respect to our Agency RMBS backed by fixed rate mortgage loans because the interest rate on a fixed-rate mortgage loan does not change even though market rates may change.

In order to protect our net interest margin against increases in short-term interest rates, we may enter into interest rate swaps, which effectively convert our floating-rate repurchase agreement debt to fixed-rate debt.

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### *Summary*

The relatively large spread between short and long-term interest rates has positively affected our net interest margin. However, changes in prepayment rates could negatively affect our net interest margin and the value of our assets. Furthermore, increases in the Federal Funds Rate and LIBOR could significantly increase our financing costs, which could lower our net interest margin.

### **Critical Accounting Policies**

Our financial statements are prepared in accordance with GAAP. GAAP requires our management to make some complex and subjective decisions and assessments. Our most critical accounting policies involve decisions and assessments which could significantly affect reported assets, liabilities, revenues and expenses. Management has identified its most critical accounting policies:

#### *Mortgage-Backed Securities*

Our investments in Agency RMBS are accounted for under the fair value option. We acquire our Agency RMBS for the purpose of generating long-term returns, and not for the short-term investment of idle capital. Changes in the fair value of securities accounted for under the fair value option are reflected as part of our net income or loss in our statement of operations, as opposed to a component of other comprehensive income in our statement of stockholders' equity if they were instead reclassified as available-for-sale securities. We elected to account for all of our Agency RMBS under the fair value option in order to reflect changes in the fair value of our Agency RMBS in our statement of operations, which we believe more appropriately reflects the results of our operations for a particular reporting period. GAAP requires the use of a three-level valuation hierarchy to disclose the classification of fair value measurements used for determining the fair value of our Agency RMBS. These levels include:

- 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 our 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.

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

In managing our portfolio, Bimini Advisors employs the following four-step process at each valuation date to determine the fair value of our Agency RMBS:

- First, our Manager obtains fair values from subscription-based independent pricing sources. These prices are used by both our Manager as well as many of our repurchase agreement counterparty on a daily basis to establish margin requirements for our borrowings.

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- Second, our Manager requests non-binding quotes from one to four broker-dealers for each of its Agency RMBS in order to validate the values obtained by the pricing service. Our Manager requests these quotes from broker-dealers that actively trade and make markets in the respective asset class for which the quote is requested.
- Third, our Manager reviews the values obtained by the pricing source and the broker-dealers for consistency across similar assets.
- Finally, if the data from the pricing services and broker-dealers is not homogenous or if the data obtained is inconsistent with our Manager's market observations, our Manager makes a judgment to determine which price appears the most consistent with observed prices from similar assets and selects that price. To the extent our Manager believes that none of the prices are consistent with observed prices for similar assets, which is typically the case for only an immaterial portion of our portfolio each quarter, our Manager may use a third price that is consistent with observed prices for identical or similar assets. In the case of assets that have quoted prices such as Agency RMBS backed by fixed-rate mortgages, our Manager generally uses the quoted or observed market price. For assets such as Agency RMBS backed by ARMs or structured Agency RMBS, our Manager may determine the price based on the yield or spread that is identical to an observed transaction or a similar asset for which a dealer mark or subscription-based price has been obtained.

Management believes its pricing methodology to be consistent with the definition of fair value described in FASB ASC 820, *Fair Value Measurements*.

### *Derivative Financial Instruments*

We have entered into Eurodollar futures contracts to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and we may continue to do so in the future. We have elected to not treat any of our derivative financial instruments as hedges. 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.

### *Repurchase Agreements*

We finance the acquisition of a portion of our Agency RMBS through repurchase transactions under master repurchase agreements. Repurchase transactions are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest.

In instances where we acquire Agency RMBS through repurchase agreements with the same counterparty from whom the Agency RMBS were purchased, we account for the purchase commitment and repurchase agreement on a net basis and record a forward commitment to purchase Agency RMBS as a derivative instrument if the transaction does not comply with the criteria in FASB ASC 860, *Transfers and Servicing*, for gross presentation. If the transaction complies with the criteria for gross presentation, we present the assets and the related financing on a gross basis in our statements of financial condition, and the corresponding interest income and interest expense in our statement of operations. Such forward commitments are recorded at fair value with subsequent changes in fair value recognized in income. Additionally, we record the cash portion of our investment in Agency RMBS as a mortgage related receivable from the counterparty on our balance sheet.

### *Income Recognition*

Since we commenced operations, we have elected to account for all of our Agency RMBS under the fair value option.

All of our Agency RMBS are either pass-through securities or structured Agency RMBS, including CMOs, IOs, IIOs or POs. Income on pass-through securities, POs and CMOs that contain principal balances is based on

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the stated interest rate of the security. As a result of accounting for our RMBS under the fair value option, premium or discount present at the date of purchase is not amortized. For IOs, IIOs and CMOs that do not contain principal balances, 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, current interest rates and current asset prices. The new effective yield is calculated based on the carrying value at the end of the previous reporting period, the new prepayment estimates and the contractual terms of the security. Changes in fair value of all of our Agency RMBS during the period are recorded in earnings and reported as unrealized gains (losses) on mortgage-backed securities in the accompanying statements of operations. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security.

### Capital Expenditures

At December 31, 2013, we had no material commitments for capital expenditures.

### Off-Balance Sheet Arrangements

At December 31, 2013, we did not have any off-balance sheet arrangements.

### Dividends

To qualify as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. We intend to pay regular monthly dividends to our stockholders and have declared the following dividends since the completion of our initial public offering.

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Per Share Amount</u>	<u>Total</u>
March 8, 2013	March 25, 2013	March 27, 2013	\$ 0.135	\$ 451,125
April 10, 2013	April 25, 2013	April 30, 2013	0.135	451,125
May 9, 2013	May 28, 2013	May 31, 2013	0.135	451,125
June 10, 2013	June 25, 2013	June 28, 2013	0.135	451,125
July 9, 2013	July 25, 2013	July 31, 2013	0.135	451,125
August 12, 2013	August 26, 2013	August 30, 2013	0.135	451,125
September 10, 2013	September 25, 2013	September 30, 2013	0.135	451,125
October 10, 2013	October 25, 2013	October 31, 2013	0.135	451,125
November 12, 2013	November 25, 2013	November 27, 2013	0.135	451,125
December 10, 2013	December 26, 2013	December 30, 2013	0.180	601,500
January 9, 2014	January 27, 2014	January 31, 2014	0.180	925,500
February 11, 2014	February 25, 2014	February 28, 2014	0.180	974,100

### Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions will be determined by our Board of Directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

**Jumpstart Our Business Startups Act of 2012**

We are an “emerging growth company” as defined in the JOBS Act. The JOBS Act permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to “opt out” of this provision and, as a result, we will be required to comply with new or revised accounting standards as required when they are adopted. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

## BUSINESS

### Our Company

Orchid Island Capital, Inc. is a specialty finance company that invests in 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 CMOs, IOs, IIOs and 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 were formed by Bimini in August 2010, commenced operations on November 24, 2010 and completed our initial public offering on February 20, 2013. Bimini is currently our largest stockholder. Our Manager is a subsidiary of Bimini. Our Manager is an investment advisor registered with the SEC, with access to Bimini's experienced RMBS investment team. As of January 31, 2014, our Agency RMBS portfolio had a preliminary estimated fair value of approximately \$515.4 million and was comprised of approximately 94.4% pass-through Agency RMBS and 5.6% structured Agency RMBS. Our preliminary estimated net asset value as of January 31, 2014 was approximately \$69.1 million.

We have been organized and have operated so as to qualify as a REIT under 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 be 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.

### Our Manager

We are externally managed and advised by our Manager, pursuant to the terms of a management agreement. Our Manager is a Maryland limited liability company that is a wholly-owned subsidiary of Bimini. Our Manager is responsible for administering our business activities and day-to-day operations, subject to the supervision and oversight of our Board of Directors. Members of Bimini's and our Manager's senior management team also serve as our executive officers. We do not have any employees.

## 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 intend to use leverage in these instances because the securities contain structural leverage. However, we may pledge a portion of these assets simply to increase our cash balance, but will not invest the cash derived from pledging the assets. The structural leverage is derived as follows:

- A structured security is defined as a security whose cash flows are derived from the cash flows of one or more underlying securities.
- The structured security will only receive a portion of the cash flows from the underlying security. It will either receive a fractional portion of the cash flows from the underlying securities over the life of the underlying security, or it will receive all of the cash flows from the underlying securities, but only for a fraction of the time such securities are producing cash flow.
- In the case of our structured Agency RMBS portfolio, the underlying securities in question are Agency RMBS. There are two primary factors that affect the timing and amount of cash flows of Agency RMBS:
  - movements of interest rates, and
  - actual or expected prepayments of the underlying loans.
- Because a structured security only receives a portion of the cash flows of the underlying security, changes in the cash flows of the underlying security may have a far greater impact on the total cash flows to the structured security. For instance, if we own a security that is only entitled to the interest portion of the cash flows from an underlying pool of amortizing loans, we will only receive such cash flows as long as the underlying loans remain outstanding. If the underlying loans are paid off at a faster rate than was anticipated, the total interest cash flows received will be lower than anticipated. In this instance the total principal cash flows will be unaffected, but if the loans are paid off sooner than anticipated, the total interest cash flows will be reduced. Therefore, while the aggregate principal and interest cash flows of the underlying loans will be materially reduced, the cash flows to the security only entitled to receive the interest portion of such cash flows will be reduced, in percentage terms, to a greater extent.
- Since the price of a security is a function of the expected cash flows over the life of such security, the structural leverage is the result of the fact the structured security is likely to experience price movements larger than those experienced by the securities underlying the structured security.

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;



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- investing in certain structured Agency RMBS, such as IOs and IIOs, 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 either be unencumbered or, when encumbered, retain the cash from doing so 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; 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.

We allocate our capital to assist our interest rate risk management efforts. The unleveraged portfolio does not require unencumbered cash or cash equivalents to be maintained in anticipation of possible margin calls. To the extent more capital is deployed in the unleveraged portfolio, our liquidity needs will generally be less.

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.

We intend to qualify as a REIT and operate in a manner that will not subject us to regulation under the Investment Company Act. In order to rely on the exemption provided by Section 3(c)(5)(C) under the Investment Company Act, we must maintain at least 55% of our assets in qualifying real estate assets. For purposes of this test, structured mortgage-backed securities are non-qualifying real estate assets. Accordingly, while we have no explicit limitation on the amount of our capital that we will deploy to the unleveraged structured Agency RMBS portfolio, we will deploy our capital in such a way so as to maintain our exemption from registration under the Investment Company Act.

## Competitive Strengths

We believe that our competitive strengths include:

- *Ability to Successfully Allocate Capital between Pass-Through and Structured Agency RMBS.* We seek to maximize our risk-adjusted returns by investing exclusively in Agency RMBS, which has limited credit risk due to the guarantee of principal and interest payments on such securities by Fannie Mae, Freddie Mac or Ginnie Mae. Our Manager will allocate capital between pass-through Agency RMBS and structured Agency RMBS. The percentage of our capital we allocate to our two asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments and provide us with a competitive advantage over other REITs that invest in only pass-through Agency RMBS. This is because, among other reasons, our investment and capital allocation strategies allow us to move capital out of pass-through Agency RMBS and into structured Agency RMBS in a rising interest rate environment, which will protect our portfolio from excess margin calls on our pass-through Agency RMBS portfolio and reduced net interest margins, and allow us to invest in securities, such as IOs, that have historically performed well in a rising interest rate environment.
- *Experienced RMBS Investment Team.* Robert Cauley, our Chief Executive Officer and co-founder of Bimini, and Hunter Haas, our Chief Investment Officer, have 20 and 13 years of experience, respectively, in analyzing, trading and investing in Agency RMBS. Additionally, Messrs. Cauley and Haas have over ten and nine years, respectively, of experience managing Bimini, which is a publicly-traded REIT that has invested in Agency RMBS since its inception in 2003. Messrs. Cauley and Haas managed Bimini through the recent housing market collapse and the related adverse effects on the banking and financial system, repositioning Bimini's portfolio in response to adverse market conditions. We believe this experience has enabled them to recognize portfolio risk in advance, hedge such risk accordingly and manage liquidity and borrowing risks during adverse market conditions. We believe that Messrs. Cauley's and Haas' experience provides us with a competitive advantage over other management teams that may not have experience managing a publicly-traded mortgage REIT or managing a business similar to ours during various interest rate and credit cycles, including the recent housing market collapse.
- *Clean Balance Sheet With an Implemented Investment Strategy.* We completed our initial public offering in February 2013 and completed a follow on offering in January 2014, and we intend to build on our existing investment portfolio. As of January 31, 2014, our Agency RMBS portfolio had a preliminary estimated fair value of approximately \$515.4 million and was comprised of approximately 94.4% pass-through Agency RMBS and 5.6% structured Agency RMBS. Our preliminary estimated net asset value as of January 31, 2014 was approximately \$69.1 million. Bimini managed our portfolio from our inception until the closing of our initial public offering utilizing the same investment strategy that our Manager and its experienced RMBS investment team have employed since our initial public offering.
- *Alignment of Interests.* Bimini owns 981,665 shares of our common stock, which represents approximately 18.1% of the aggregate outstanding shares of our common stock. We believe that Bimini's ownership of our common stock aligns our Manager's interests with our interests.

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**Our Portfolio**

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

Asset Category	Fair Value (1)	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap	Realized CPR (2)
<b>Pass-through Agency RMBS backed by:</b>									
Adjustable Rate Mortgages	\$ 5,316	1.0%	3.92%	245	9-1-35	3.23	10.13%	2.00%	19.95%
Fixed Rate Mortgages	404,332	78.5	4.19	308	2-1-44	n/a	n/a	n/a	2.23%
Hybrid Adjustable Rate Mortgages	76,880	14.9	2.56	348	8-1-43	108.62	7.55	2.00	6.24%
Total/Weighted Average Mortgage Pass-through Agency RMBS	\$486,528	94.4%	3.93%	313	2-1-44	101.80	7.72%	2.00%	3.88%
<b>Structured Agency RMBS:</b>									
CMOs	\$ —	— %	— %	—	—	—	—	—	— %
IOs	21,800	4.2	4.47	267	11-25-40	n/a	n/a	n/a	18.72%
IIOs	7,048	1.4	6.07	315	12-15-40	n/a	4.21	n/a	14.02%
POs	—	—	—	—	—	—	—	—	— %
Total/Weighted Average Structured Agency RMBS	28,848	5.6%	4.86%	279	12-15-40	n/a	n/a	n/a	17.65%
<b>Total/Weighted Average</b>	<b>\$515,376</b>	<b>100.0%</b>	<b>3.98%</b>	<b>312</b>	<b>2-1-44</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>9.45%</b>

(1) In thousands.

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

**Description of Agency RMBS**

*Pass-through Agency RMBS*

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

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

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

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

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

- **Fixed-Rate Mortgages.** Fixed-rate mortgages are those where the borrower pays an interest rate that is constant throughout the term of the loan. Traditionally, most fixed-rate mortgages have an original term of 30 years. However, shorter terms (also referred to as final maturity dates) have become common in recent years. Because the interest rate on the loan never changes, even when market interest rates change, over time there can be a divergence between the interest rate on the loan and current market interest rates. This in turn can make fixed-rate mortgages price sensitive to market fluctuations in interest rates. In general, the longer the remaining term on the mortgage loan, the greater the price sensitivity.
- **ARMs.** ARMs are mortgages for which the borrower pays an interest rate that varies over the term of the loan. The interest rate usually resets based on market interest rates, although the adjustment of such an interest rate may be subject to certain limitations. Traditionally, interest rate resets occur at regular set intervals (for example, once per year). We will refer to such ARMs as “traditional” ARMs. Because the interest rates on ARMs fluctuate based on market conditions, ARMs tend to have interest rates that do not deviate from current market rates by a large amount. This in turn can mean that ARMs have less price sensitivity to interest rates.
- **Hybrid Adjustable-Rate Mortgages.** Hybrid ARMs 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. Effectively, such mortgages are hybrids, combining the features of a pure fixed-rate mortgage and a traditional ARM. Hybrid ARMs have price sensitivity to interest rates similar to that of a fixed-rate mortgage during the period when the interest rate is fixed and similar to that of an ARM when the interest rate is in its periodic reset stage. However, because many hybrid ARMs are structured with a relatively short initial time span during which the interest rate is fixed, even during that segment of its existence, the price sensitivity may be high.

### *Structured Agency RMBS*

We also invest in structured Agency RMBS, which include CMOs, IOs, IIOs and POs. The payment of principal and interest, as appropriate, on structured Agency RMBS issued by Ginnie Mae, but not the market value, is guaranteed by the full faith and credit of the federal government. Payment of principal and interest, as appropriate, on structured Agency RMBS issued by Fannie Mae and Freddie Mac, but not the market value, is guaranteed by the respective agency issuing the security. The types of structured Agency RMBS in which we invest are described below.

- **CMOs.** CMOs are a type of RMBS the principal and interest of which are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities issued directly by or under the auspices

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of Ginnie Mae, Freddie Mac or Fannie Mae. CMOs are structured into multiple classes, with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes receive principal only after the first class has been retired. Generally, fixed-rate mortgages are used to collateralize CMOs. However, the CMO tranches need not all have fixed-rate coupons. Some CMO tranches have floating rate coupons that adjust based on market interest rates, subject to some limitations. Such tranches, often called “CMO floaters,” can have relatively low price sensitivity to interest rates.

- **IOs.** IOs represent the stream of interest payments on a pool of mortgages, either fixed-rate mortgages or hybrid ARMs. Holders of IOs have no claim to any principal payments. The value of IOs depends primarily on two factors, which are prepayments and interest rates. Prepayments on the underlying pool of mortgages reduce the stream of interest payments going forward, hence IOs are highly sensitive to prepayment rates. IOs are also sensitive to changes in interest rates. An increase in interest rates reduces the present value of future interest payments on a pool of mortgages. On the other hand, an increase in interest rates has a tendency to reduce prepayments, which increases the expected absolute amount of future interest payments.
- **IIOs.** IIOs represent the stream of interest payments on a pool of mortgages, either fixed-rate mortgages or hybrid ARMs. Holders of IIOs have no claim to any principal payments. The value of IIOs depends primarily on three factors, which are prepayments, LIBOR rates and term interest rates. Prepayments on the underlying pool of mortgages reduce the stream of interest payments, hence IIOs are highly sensitive prepayment rates. The coupon on IIOs is derived from both the coupon interest rate on the underlying pool of mortgages and 30-day LIBOR. IIOs are typically created in conjunction with a floating rate CMO that has a principal balance and which is entitled to receive all of the principal payments on the underlying pool of mortgages. The coupon on the floating rate CMO is also based on 30-day LIBOR. Typically, the coupon on the floating rate CMO and the IIO, when combined, equal the coupon on the pool of underlying mortgages. The coupon on the pool of underlying mortgages typically represents a cap or ceiling on the combined coupons of the floating rate CMO and the IIO. Accordingly, when the value of 30-day LIBOR increases, the coupon of the floating rate CMO will increase and the coupon on the IIO will decrease. When the value of 30-day LIBOR falls, the opposite is true. Accordingly, the value of IIOs are sensitive to the level of 30-day LIBOR and expectations by market participants of future movements in the level of 30-day LIBOR. IIOs are also sensitive to changes in interest rates. An increase in interest rates reduces the present value of future interest payments on a pool of mortgages. On the other hand, an increase in interest rates has a tendency to reduce prepayments, which increases the expected absolute amount of future interest payments.
- **POs.** POs represent the stream of principal payments on a pool of mortgages. Holders of POs have no claim to any interest payments, although the ultimate amount of principal to be received over time is known — it equals the principal balance of the underlying pool of mortgages. What is not known is the timing of the receipt of the principal payments. The value of POs depends primarily on two factors, which are prepayments and interest rates. Prepayments on the underlying pool of mortgages accelerate the stream of principal repayments, hence POs are highly sensitive to the rate at which the mortgages in the pool are prepaid. POs are also sensitive to changes in interest rates. An increase in interest rates reduces the present value of future principal payments on a pool of mortgages. Further, an increase in interest rates also has a tendency to reduce prepayments, which decelerates, or pushes further out in time, the ultimate receipt of the principal payments. The opposite is true when interest rates decline.

## **Our Financing Strategy**

We borrow against our Agency RMBS using short-term repurchase agreements. However, we do not intend to employ leverage on our structured Agency RMBS that have no principal balance, such as IOs and IIOs. If we do pledge such securities, we intend to retain the cash derived and use the cash as an added source of liquidity. We may use other sources of leverage, such as secured or unsecured debt or issuances of preferred stock. We do

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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.

We allocate our capital between two sub-portfolios. The pass-through Agency RMBS portfolio will be leveraged generally via repurchase agreement funding. The structured Agency RMBS portfolio generally will not be leveraged. The leverage ratio will be the ratio of the repurchase agreement debt outstanding to the stockholders equity, assuming no other forms of debt are outstanding. The amount of leverage will be a function of the capital allocated to the pass-through Agency RMBS portfolio and the amount of haircuts required by our lenders on our borrowings. When the capital allocation to the pass-through Agency RMBS portfolio is high, the leverage ratio will be high since more capital is being explicitly leveraged and less capital is un-leveraged. If the haircuts required by our lenders on our borrowings are higher, all else being equal, our leverage will be lower since our lenders will lend less against the value of the capital deployed to the pass-through Agency RMBS portfolio. The allocation of capital between the two portfolios will be a function of several factors:

- The relative durations of the respective portfolios — We generally seek to have a combined duration at or near zero. If our pass-through securities have a longer duration, we will allocate more capital to the structured security portfolio to achieve a combined duration close to zero.
- The relative attractiveness of pass-through securities versus structured securities — To the extent we believe the expected returns of one type of security are higher than the other, we will allocate more capital to the more attractive securities, subject to the caveat that its combined duration remains at or near zero.
- Liquidity — We seek to maintain adequate cash and unencumbered securities relative to our repurchase agreement borrowings to ensure we can meet any price or prepayment related margin calls from our lenders. To the extent we feel price or prepayment related margin calls will be higher/lower, we will allocate less/more capital to the pass-through Agency RMBS portfolio. Our pass-through Agency RMBS portfolio likely will be our only source of price or prepayment related margin calls because we generally will not apply leverage to our structured Agency RMBS portfolio. From time to time we may pledge a portion of our structured securities and retain the cash derived so it can be used to enhance our liquidity.

As of January 31, 2014, our preliminary estimated portfolio leverage ratio was approximately 6.7 to 1. As of January 31, 2014 borrowing rates under our repurchase agreements were materially consistent with borrowing rates as of December 31, 2013. As of January 31, 2014, we had entered into master repurchase agreements with nine counterparties and had funding in place with nine of these counterparties, as described below.

<u>Counterparty</u>	<u>Balance (1)</u>	<u>Percent of Total Borrowings</u>	<u>Weighted Average Maturity of Repurchase Agreements in Days</u>
Citigroup Global Markets, Inc.	\$144,149	31.3%	20
Cantor Fitzgerald & Co.	61,284	13.3	14
South Street Securities, LLC	48,721	10.6	13
Morgan Stanley & Co	48,367	10.5	12
SunTrust Robinson Humphrey, Inc.	44,894	9.7	12
CRT Capital Group, LLC	37,229	8.1	21
KGS-Alpha Capital Markets, L.P.	30,431	6.6	21
Goldman, Sachs & Co	24,017	5.2	24
Mizuho Securities USA, Inc.	21,629	4.7	46
<b>Total/Weighted Average</b>	<b>\$460,721</b>	<b>100.0%</b>	<b>18</b>

(1) In thousands.

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

## **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

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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.

### **Quantitative and Qualitative Disclosures About Market Risk**

We believe the primary risk inherent in our investments is the effect of movements in interest rates, especially with respect to our use of leverage and the uncertainty of principal payment cash flows, which we refer to as prepayment risk. We, therefore, follow a risk management program designed to offset the potential adverse effects resulting from these risks.

#### **Interest Rate Risk**

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.

##### *Interest Rate Mismatch Risk*

We fund a substantial portion of our acquisitions of Agency RMBS backed by ARMs and hybrid ARMs with borrowings that have interest rates based on indices and repricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and repricing terms of the Agency RMBS we are financing. The interest rate indices and repricing terms of our Agency RMBS and our funding sources will be mismatched. Our cost of funds will likely rise or fall more quickly than the yield on assets. During periods of changing interest rates, such



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interest rate mismatches could negatively impact our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

### *Extension Risk*

We invest in Agency RMBS backed by fixed-rate and hybrid ARMs. Hybrid ARMs have interest rates that are fixed for the first few years of the loan — typically three, five, seven or ten years — and thereafter their interest rates reset periodically on the same basis as ARMs. We compute the projected weighted average life of our Agency RMBS backed by fixed-rate mortgages and hybrid ARMs based on the market's prepayment rate assumptions. In general, when an Agency RMBS backed by fixed-rate mortgages or hybrid ARMs is acquired with borrowings, subject to qualifying and maintaining our qualification as a REIT, we may, but are not required to, enter into interest rate swap and cap contracts or forward funding agreements that effectively 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. This strategy is designed to protect us from rising interest rates because the borrowing costs are fixed for the duration of the fixed-rate portion of the related Agency RMBS. However, if prepayment rates decrease as interest rates rise, the life of the fixed-rate portion of the related Agency RMBS could extend beyond the term of the swap agreement or other hedging instrument. Our borrowing costs would no longer be fixed after the end of the hedging instrument, but the income earned on the related Agency RMBS would remain fixed. This situation may also cause the market value of our Agency RMBS to decline with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets and incur losses to maintain adequate liquidity.

### *Interest Rate Cap Risk*

We invest in Agency RMBS backed by ARMs and hybrid ARMs, which are typically subject to periodic and lifetime interest rate caps and floors. Interest rate caps and floors may limit changes to the Agency RMBS yield. However, our borrowing costs pursuant to our repurchase agreements will not be subject to similar restrictions. As interest rates rise, the interest rate costs on our borrowings could increase without limitation by caps, but the interest-rate yields on the related assets would effectively be limited by caps. The effect of ARM interest rate caps is magnified to the extent we acquire Agency RMBS backed by ARMs and hybrid ARMs whose current coupon is below the fully-indexed coupon. Further, the underlying mortgages may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding, affecting available liquidity needed to pay our financing costs. These factors could lower our net interest income or cause a net loss during periods of rising interest rates.

### *Effect on Fair Value*

The market value of our assets is sensitive to changes in interest rates and may increase or decrease at different rates than the market value of our liabilities, including our hedging instruments. We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data, and different models and methodologies can produce different duration numbers for the same securities. If our duration estimates are inaccurate, we could underestimate our interest rate risk.

### **Prepayment Risk**

Risk of mortgage prepayments is another significant risk to our portfolio. 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

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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. Also, 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, subject to qualifying and maintaining our qualification as a REIT, 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.

When prevailing interest rates fall below (rise above) the coupon rate of a mortgage, it becomes more (less) likely to prepay. Our business may be adversely affected if prepayment rates are significantly different than our projections.

### Analyzing Interest Rate and Prepayment Risks

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments as of December 31, 2013, assuming rates instantaneously fall 100 basis points, rise 100 basis points and rise 200 basis points, or BPS (dollars in thousands).

		<b>Interest Rates Fall 100 BPS</b>	<b>Interest Rates Rise 100 BPS</b>	<b>Interest Rates Rise 200 BPS</b>
<b>Agency RMBS backed by ARMs</b>				
Fair Value	\$ 5,334			
Change in Fair Value		\$ 43	\$ (43)	\$ (87)
Change as a % of Fair Value		0.81%	(0.81)%	(1.62)%
<b>Agency RMBS backed by fixed-rate mortgages</b>				
Fair Value	\$245,523			
Change in Fair Value		\$ 14,712	\$ (14,712)	\$ (29,424)
Change as a % of Fair Value		5.99%	(5.99)%	(11.98)%
<b>Agency RMBS backed by hybrid ARMs</b>				
Fair Value	\$ 76,118			
Change in Fair Value		\$ 4,777	\$ (4,777)	\$ (9,555)
Change as a % of Fair Value		6.28%	(6.28)%	(12.55)%
<b>Structured RMBS</b>				
Fair Value	\$ 24,248			
Change in Fair Value		\$ (4,823)	\$ 4,823	\$ 9,646
Change as a % of Fair Value		(19.89)%	19.89%	39.78%
<b>Portfolio Total</b>				
Fair Value	\$351,223			
Change in Fair Value		\$ 14,710	\$ (14,710)	\$ (29,420)
Change as a % of Fair Value		4.19%	(4.19)%	(8.38)%
<b>Cash</b>				
Fair Value	\$ 8,169			

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The table below reflects the same analysis presented above but with figures in the columns that indicate the estimated impact of a 100 basis point fall or rise and a 200 basis point rise adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our Agency RMBS's effective duration to movements in interest rates.

		Interest Rates Fall 100 BPS	Interest Rates Rise 100 BPS	Interest Rates Rise 200 BPS
<b>Agency RMBS backed by ARMs</b>				
Fair Value	\$ 5,334			
Change in Fair Value	\$	11	\$ (42)	\$ (83)
Change as a % of Fair Value		0.20%	(0.78)%	(1.56)%
<b>Agency RMBS backed by fixed-rate mortgages</b>				
Fair Value	\$245,523			
Change in Fair Value	\$	10,407	\$ (15,550)	\$ (31,347)
Change as a % of Fair Value		4.24%	(6.33)%	(12.77)%
<b>Agency RMBS backed by hybrid ARMs</b>				
Fair Value	\$ 76,118			
Change in Fair Value	\$	3,659	\$ (4,955)	\$ (10,074)
Change as a % of Fair Value		4.81%	(6.51)%	(13.23)%
<b>Structured RMBS</b>				
Fair Value	\$ 24,248			
Change in Fair Value	\$	(5,335)	\$ 2,731	\$ 2,815
Change as a % of Fair Value		(22.00)%	11.26%	11.61%
<b>Portfolio Total</b>				
Fair Value	\$351,223			
Change in Fair Value	\$	8,742	\$ (17,816)	\$ (38,689)
Change as a % of Fair Value		2.49%	(5.07)%	(11.02)%
<b>Cash</b>				
Fair Value	\$ 8,169			

As interest rates change, the change in the fair value of our assets would likely differ from that shown above and such difference might be material and adverse to us. The volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points. In addition to changes in interest rates, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, if any, such as the shape of the yield curve, the level of 30-day LIBOR, market expectations about future interest rate changes and disruptions in the financial markets.

Our liabilities, consisting primarily of repurchase agreements, are also affected by changes in interest rates. As rates rise, the value of the underlying asset, or the collateral, declines. In certain circumstances, we could be required to post additional collateral in order to maintain the repurchase agreement. We maintain cash and unpledged securities to cover these possible situations. Typically, our cash position is approximately equal to the haircut on our pledged assets, and the balance of our unpledged assets exceeds our cash balance. As an example, if interest rates increased 200 basis points, as shown on the prior table, our collateral as of December 31, 2013 would decline in value by approximately \$29.4 million, which would require that we post \$29.4 million of additional collateral to meet a margin call. Our cash and unpledged assets are not currently sufficient to cover such a margin call and be required to sell assets to meet such a shortfall.

### **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 pledged against our borrowings.

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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. Once monthly prepayment information is available, we typically have a collateral deficiency that generally results in margin calls by lenders; and
- 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 pre-determined interest rate; and
- reducing our overall amount of leverage.

### **Investment Committee and Investment Guidelines**

Our Manager has established an investment committee, which consists of Messrs. Cauley and Haas, each of whom are officers of our Manager. From time to time, the investment committee may propose revisions to our investment guidelines, which will be subject to the approval of our Board of Directors. Our Manager's investment committee meets at least monthly to discuss diversification of our investment portfolio, hedging and financing strategies and compliance with the investment guidelines. At the monthly meetings our Board of Directors receives an investment report and review our investment portfolio and related compliance with the investment guidelines. Our Board of Directors will not review or approve individual investments unless the investment is outside our operating policies or investment guidelines.

Our Board of Directors has approved the following investment guidelines:

- no investment shall be made in any non-Agency RMBS;
- at the end of each quarterly period, our leverage ratio may not exceed 12 to 1. In the event that our leverage inadvertently exceeds the leverage ratio of 12 to 1 at the end of a quarterly period, we may not utilize additional leverage without prior approval from our Board of Directors until our leverage ratio is below 12 to 1;
- no leverage on structured Agency RMBS that have no principal balance, such as IOs and IIOs, because such securities already contain structural leverage. Such assets may be pledged, but the cash derived must be retained for liquidity purposes;
- no investment shall be made that would cause us to fail to qualify as a REIT for U.S. federal income tax purposes; and
- no investment shall be made that would cause us to register as an investment company under the Investment Company Act.

The investment committee may change these investment guidelines at any time with the approval of our Board of Directors and without any approval from our stockholders.

### **Repurchase Agreement Trading, Clearing and Administrative Services**

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

### **Policies With Respect to Certain Other Activities**

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

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

We may, but do not intend to, make loans to third parties or underwrite securities of other issuers or invest in the securities of other issuers for the purpose of exercising control.

Subject to qualifying and maintaining our qualifications as a REIT, we may, but do not intend to, invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

Subject to applicable law, our Board of Directors may change any of these policies, as well as our investment guidelines, without prior notice to you or a vote of our stockholders.

### **Custodian Bank**

Citigroup Global Markets, Inc. serves as our custodian bank and is entitled to fees for its services.

### **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 will not be 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 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 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. Even if we 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.

## **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. In order to rely on the exemption provided by Section 3(c)(5)(C), we must maintain at least 55% of our assets in qualifying real estate assets. For the purposes of this test, structured Agency RMBS are non-qualifying real estate assets. 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 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 maintain 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.

## **Competition**

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

## **Employees**

We have no employees.

## **Properties**

We do not own any properties. Our offices are located at 3305 Flamingo Drive, Vero Beach, Florida 32963 and the telephone number of our offices is (772) 231-1400. Bimini owns these offices. This property is adequate for our business as currently conducted.

## **Legal Proceedings**

There are no legal proceedings pending or threatened involving Orchid Island Capital, Inc. As of the date of this prospectus, Bimini, which owns 981,665 shares of our common stock, or approximately 18.1% of the aggregate outstanding shares of our common stock and is the parent company of our Manager, is currently a party to certain legal proceedings. For a description of these legal proceedings, see “Part I. Item 3. Legal Proceedings” in Bimini’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and “Part II, Item 1. Legal Proceedings” in Bimini’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013. These descriptions are not a part of this prospectus. Adverse results in any of these proceedings could negatively impact our business and operations. See “Risk Factors — Risks Related to Our Business — 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.”

## OUR MANAGER AND THE MANAGEMENT AGREEMENT

### Our Manager

We are currently managed by Bimini Advisors, LLC, or our Manager, pursuant to the terms of a management agreement. Our Manager is a Maryland limited liability company and wholly-owned subsidiary of Bimini. Our Manager is responsible for administering our business activities and day-to-day operations, subject to the supervision and oversight of our Board of Directors. Members of Bimini's and our Manager's senior management team also serve as our executive officers. We have no employees.

### Officers of Our Manager

Biographical information for each of the executive officers of our Manager is set forth below.

*Robert E. Cauley*, CFA has been our Chairman, President and Chief Executive Officer since August 2010 and is the Chairman and Chief Executive Officer of our Manager. Mr. Cauley co-founded Bimini Capital in 2003 and has served as its Chief Executive Officer and Chairman of the Board of Directors since April 2008. He served as Vice-Chairman, Chief Financial Officer and Chief Investment Officer prior to April 2008. Prior to co-founding Bimini Capital in 2003, Mr. Cauley was a vice-president and portfolio manager at Federated Investors in Pittsburgh from 1996 to 2003. Prior to 1996, Mr. Cauley was a member of the ABS/MBS structuring desk at Lehman Brothers from 1994 to 1996 and a credit analyst at Barclays Bank, PLC from 1992 to 1994. Mr. Cauley is a CPA (inactive status) and served in the United States Marine Corps for four years. We believe that Mr. Cauley should continue to serve as a member of our Board of Directors due to his experience managing a publicly-traded REIT and his career as a RMBS portfolio manager.

*G. Hunter Haas, IV* has been our Chief Financial Officer and Chief Investment Officer since August 2010 and has served on our Board of Directors since August 2010. Mr. Haas is the President, Chief Investment Officer and Chief Financial Officer of our Manager. Mr. Haas has been the President, Chief Investment Officer and Chief Financial Officer of Bimini since April 2008. Prior to assuming those roles with Bimini, he was a Senior Vice President and Head of Research and Trading. Mr. Haas joined Bimini in May 2004 as Vice President and Head of Mortgage Research. He has over 12 years of experience in this industry and has managed trading operations for the portfolio since his arrival in May 2004. Mr. Haas has approximately eight years of experience as a member of senior management of a public REIT. Prior to joining Bimini, Mr. Haas worked in the mortgage industry as a member of a team responsible for hedging a servicing portfolio at both National City Mortgage and Homeside Lending, Inc. We believe that Mr. Haas should continue to serve as a member of our Board of Directors due to his experience as the Chief Financial Officer of a publicly-traded REIT and his experience in the mortgage industry.

### Our Management Agreement

We are currently a party to a management agreement whereby our Manager is responsible for administering our business activities and day-to-day operations, subject to the supervision and oversight of our Board of Directors. The material terms of the management agreement are described below.

#### *Management Services*

The management agreement requires our Manager to oversee our business affairs in conformity with our operating policies and investment guidelines. Our Manager at all times is subject to the supervision and direction of our Board of Directors, the terms and conditions of the management agreement and such further limitations or parameters as may be imposed from time to time by our Board of Directors. Our Manager is responsible for (i) the selection, purchase and sale of assets in our investment portfolio, (ii) our financing and hedging activities

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and (iii) providing us with investment advisory services. Our Manager is responsible for our day-to-day operations and performs such services and activities relating to our assets and operations as may be appropriate, including, without limitation:

- forming and maintaining our investment committee, which has the following responsibilities: (i) proposing the investment guidelines to the Board of Directors, (ii) reviewing the Company's investment portfolio for compliance with the investment guidelines on a monthly basis, (iii) reviewing the investment guidelines adopted by our Board of Directors on a periodic basis, (iv) reviewing the diversification of the Company's investment portfolio and the Company's hedging and financing strategies on a monthly basis, and (v) generally being responsible for conducting or overseeing the provision of the management services;
- serving as our consultant with respect to the periodic review of our investments, borrowings and operations and other policies and recommendations with respect thereto, including, without limitation, the investment guidelines, in each case subject to the approval of our Board of Directors;
- serving as our consultant with respect to the selection, purchase, monitoring and disposition of our investments;
- serving as our consultant with respect to decisions regarding any financings, hedging activities or borrowings undertaken by us, including (i) assisting us in developing criteria for debt and equity financing that is specifically tailored to our investment objectives and (ii) advising us with respect to obtaining appropriate financing for our investments;
- purchasing and financing investments on our behalf;
- providing us with portfolio management;
- engaging and supervising, on our behalf and at our expense, independent contractors that provide real estate, investment banking, securities brokerage, insurance, legal, accounting, transfer agent, registrar and such other services as may be required relating to our operations or investments (or potential investments);
- providing executive and administrative personnel, office space and office services required in rendering services to us;
- performing and supervising the performance of administrative functions necessary to our management as may be agreed upon by our Manager and our Board of Directors, including, without limitation, the collection of revenues and the payment of our debts and obligations and maintenance of appropriate information technology services to perform such administrative functions;
- communicating on behalf of the Company with the holders of any equity or debt securities of the Company as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading exchanges or markets and to maintain effective relations with such holders, including website maintenance, logo design, analyst presentations, investor conferences and annual meeting arrangements;
- counseling us in connection with policy decisions to be made by our Board of Directors;
- evaluating and recommending to us hedging strategies and engaging in hedging activities on our behalf, consistent with our qualification and maintenance of our qualification as a REIT and with the investment guidelines;
- counseling us regarding our qualification and maintenance of qualification as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Code and U.S. Treasury regulations promulgated thereunder;
- counseling us regarding the maintenance of our exemption from status as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exemption;



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- furnishing reports and statistical and economic research to us regarding the activities and services performed for us by our Manager;
- investing and re-investing any of our cash and securities (including in short-term investments, payment of fees, costs and expenses, or payments of dividends or distributions to stockholders and partners of the Company) and advising us as to our capital structure and capital-raising activities;
- causing us to retain qualified accountants and legal counsel, as applicable, to (i) assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code applicable to REITs and, if applicable, TRSs and (ii) conduct quarterly compliance reviews with respect thereto;
- causing us to qualify to do business in all jurisdictions in which such qualification is required and to obtain and maintain all appropriate licenses;
- assisting us in complying with all applicable regulatory requirements in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act or by the NYSE MKT or other stock exchange requirements as applicable;
- taking all necessary actions to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent necessary under the Code and U.S. Treasury regulations applicable to REITs;
- handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations;
- arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote our business;
- using commercially reasonable efforts to cause expenses incurred by or on our behalf to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by our Board of Directors from time to time;
- performing such other services as may be required from time to time for the management and other activities relating to our assets and business as our Board of Directors shall reasonably request or our Manager shall deem appropriate under the particular circumstances; and
- using commercially reasonable efforts to cause us to comply with all applicable laws.

Pursuant to the terms of the management agreement, our Manager provides us with a management team, including our Chief Executive Officer, Chief Financial Officer and Chief Investment Officer or similar positions, along with appropriate support personnel to provide the management services provided by our Manager to us as described in the management agreement. None of the officers or employees of our Manager are exclusively dedicated to us.

Our Manager has not assumed any responsibility other than to render the services called for under the management agreement in good faith and is not responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations, including as set forth in the investment guidelines. Our Manager and its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, are not liable to us, our Board of Directors or our stockholders for any acts or omissions performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their respective duties under the management

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agreement. We have agreed to indemnify our Manager and its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, with respect to all expenses, losses, damages, liabilities, demands, charges and claims in respect of or arising from any acts or omissions of our Manager, its affiliates, and the directors, officers, employees, members and stockholders of our Manager and its affiliates, performed in good faith under the management agreement and not constituting bad faith, willful misconduct, gross negligence or reckless disregard of their respective duties. Our Manager has agreed to indemnify us and our directors, officers and stockholders with respect to all expenses, losses, damages, liabilities, demands, charges and claims in respect of or arising from any acts or omissions of our Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties under the management agreement. Our Manager will maintain reasonable and customary “errors and omissions” and other customary insurance coverage upon the completion of this offering.

Our Manager is required to refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance with the investment guidelines, (ii) would adversely affect our qualification as a REIT under the Code or our status as an entity exempted from investment company status under the Investment Company Act, or (iii) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over us or of any exchange on which our securities are listed or that would otherwise not be permitted by our charter or bylaws. If our Manager is ordered to take any action by our Board of Directors, our Manager will notify our Board of Directors if it is our Manager’s judgment that such action would adversely affect such status or violate any such law, rule or regulation or our charter or bylaws. Our Manager, its directors, officers or members will not be liable to us, our Board of Directors or our stockholders for any act or omission by our Manager, its directors, officers or stockholders except as provided in the management agreement.

### *Term and Termination*

The management agreement has an initial term expiring on February 20, 2016. The management agreement will be automatically renewed for one-year terms thereafter unless terminated by either us or our Manager. The management agreement does not limit the number of renewal terms. Either we or our Manager may elect not to renew the management agreement upon the expiration of the initial term of the management agreement or upon the expiration of any automatic renewal terms, both upon 180 days’ prior written notice to our Manager or us. Any decision by us to not renew the management agreement must be approved by the majority of our independent directors. If we choose not to renew the management agreement, we will pay our Manager a termination fee, upon expiration, equal to three times 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. We may only elect not to renew the management agreement without cause with the consent of the majority of our independent directors. If we elect not to renew the management agreement without cause, we may not, without the consent of our Manager, employ any employee of the Manager or any of its affiliates, or any person who has been employed by our Manager or any of its affiliates at any time within the two year period immediately preceding the date on which the person commences employment with us during the term of the management agreement and for two years after its expiration or termination. In addition, following any termination of the management agreement, we must pay our Manager all compensation accruing to the date of termination. Neither we nor our Manager may assign the management agreement in whole or in part to a third party without the written consent of the other party, except that our Manager may delegate the performance of any its responsibilities to an affiliate so long as our Manager remains liable for such affiliate’s performance.

Furthermore, if we decide not to renew the management agreement without cause as a result of the determination by the majority of our independent directors that the management fee is unfair, our Manager may agree to perform its management services at fees the majority of our Board of Directors determine to be fair, and the management agreement will not terminate. Our Manager may give us notice that it wishes to renegotiate the fees, in which case we and our Manager must negotiate in good faith, and if we cannot agree on a revised fee structure at the end of the 60-day negotiation period following our receipt of our Manager’s intent to renegotiate, the agreement will terminate, and we must pay the termination fees described above.

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We may also terminate the management agreement with 30 days' prior written notice for cause, without paying the termination fee, if any of the following events occur, which will be determined by a majority of our independent directors:

- our Manager's fraud, misappropriation of funds or embezzlement against us or gross negligence (including such action or inaction by our Manager which materially impairs our ability to conduct our business);
- our Manager fails to provide adequate or appropriate personnel that are reasonably necessary for our Manager to identify investment opportunities for us and to manage and develop our investment portfolio if such default continues uncured for a period of 60 days after written notice thereof, which notice must contain a request that the same be remedied;
- a material breach of any provision of the management agreement (including the failure of our Manager to use reasonable efforts to comply with the investment guidelines) if such default continues uncured for a period of 30 days after written notice thereof, which notice must contain a request that the same be remedied;
- our Manager or Bimini commences any proceeding relating to its bankruptcy, insolvency, reorganization or relief of debtors or there is commenced against our Manager or Bimini any such proceeding;
- our Manager is convicted (including a plea of nolo contendere) of a felony;
- a change of control (as defined in the management agreement) of our Manager or Bimini;
- the departure of both Mr. Cauley and Mr. Haas from the senior management of our Manager during the initial term of the management agreement; or
- the dissolution of our Manager.

### **Management Fee and Reimbursement of Expenses**

We do not employ personnel. As a result, we rely on our Manager to administer our business activities and day-to-day operations. The management fee is payable monthly in arrears in cash. The management fee is intended to reimburse our Manager for providing personnel to provide certain services to us as described above in "— Management Services." Our Manager may also be entitled to certain monthly expense reimbursements described below.

*Management Fee.* The management fee will be 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.

Our Manager will calculate each monthly installment of the management fee within 15 days after the end of each calendar month, and we will pay the monthly management fee with respect to each calendar month within five business days following the delivery to us of our Manager's statement setting forth the computation of the monthly management fee for such month.

Under the current management agreement, we paid our manager aggregate management fees of \$628,800 for the period beginning on February 20, 2013 through December 31, 2013.

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Under our previous management agreement with Bimini, which was terminated upon the completion of our initial public offering and replaced by the current management agreement with our Manager, we paid Bimini aggregate management fees of \$5,500 for the period beginning on November 24, 2010 (date operations commenced) to December 31, 2010, \$166,500 for the year ended December 31, 2011, \$248,900 for the year ended December 31, 2012, and \$35,300 for the period beginning January 1, 2013 to February 20, 2013.

*Reimbursement of Expenses.* We will pay, or reimburse our Manager, for all of our operating expenses. We do not have any employees and do not pay our officers any cash or non-cash equity compensation under the management agreement, although we may from time to time grant awards under our equity incentive plan to our officers. See “Our Management — Compensation of Executive Officers.” Pursuant to the terms of the management agreement, we are not responsible for the salaries, benefits or other employment related expenses of our and our Manager’s officers and any Bimini employees that provide services to us under the management agreement (other than the compensation of our Chief Financial Officer). The costs and expenses required to be paid by us include, but are not limited to:

- transaction costs incident to the acquisition, disposition and financing of our investments;
- expenses incurred in contracting with third parties;
- 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;
- external legal, auditing, accounting, consulting, investor relations and administrative fees and expenses;
- the compensation and expenses of our directors (excluding those directors who are employees of Bimini) and the cost of liability insurance to indemnify our directors and officers;
- all other insurance costs including (A) liability or other insurance to indemnify (1) our Manager and (2) underwriters of any securities of the Company, (B) “errors and omissions” insurance coverage and (C) any other insurance deemed necessary or advisable by our Board of Directors for the benefit of the Company and our directors and officers;
- the costs associated with our establishment and maintenance of any repurchase agreement facilities and other indebtedness (including commitment fees, accounting fees, legal fees, closing costs and similar expenses);
- expenses associated with other securities offerings by us;
- expenses relating to the payment of dividends;
- costs incurred by personnel of our Manager for travel on our behalf;
- expenses connected with communications to holders of our securities and in complying with the continuous reporting and other requirements of the SEC and other governmental bodies;
- transfer agent and exchange listing fees;
- the costs of printing and mailing proxies and reports to our stockholders;
- our pro rata portion (based on our percentage of the aggregate amount of our Manager’s assets under management and Bimini’s assets) of costs associated with any computer software, hardware or information technology services that are used by us;
- our pro rata portion (based on our percentage of the aggregate amount of our Manager’s assets under management and Bimini’s assets) of the costs and expenses incurred with respect to market information systems and publications, research publications and materials used by us;
- settlement, clearing, and custodial fees and expenses relating to us;

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- the costs of maintaining compliance with all federal, state and local rules and regulations or any other regulatory agency (as such costs relate to us), all taxes and license fees and all insurance costs incurred on behalf of us;
- the costs of administering any of our incentive plans; and
- our pro rata portion (based on our percentage of the aggregate amount of our Manager's assets under management and Bimini's assets) of rent (including disaster recovery facility costs and expenses), telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Manager and its affiliates required for our operations.

Under our previous management agreement with Bimini, which was terminated upon the completion of our initial public offering and replaced by the current management agreement with our Manager, we reimbursed Bimini an aggregate of \$7,200 in expenses for the period beginning on November 24, 2010 (date operations commenced) to December 31, 2010, \$86,400 in expenses for the year ended December 31, 2011, \$86,400 in expenses for the year ended December 31, 2012, and \$14,400 in expenses for the period beginning January 1, 2013 to February 20, 2013. We have not reimbursed our Manager for any expenses for the period beginning February 20, 2013 and ending 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.

### Costs and expenses related to

- the design and maintenance of the combined company's web site or sites and (B) the combined company's pro rata share, based on the combined company's percentage of the aggregate amount of our Manager's assets under management and Bimini's assets (measured as of the first day of each month), of any computer software, hardware or information technology services that is used by the combined company;
- market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses; *provided, however*, that the combined company shall only be responsible for its pro rata share of such expenses, based on the Company's percentage of the aggregate amount of our Manager's assets under management and Bimini's assets (measured as of the first day of each month), where such expenses were not incurred solely for the benefit of the combined company;
- rent (including disaster recovery facilities costs and expenses), telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of Bimini Advisor's and its affiliates required for the combined company's operations; *provided, however*, that the combined company shall only be responsible for its pro rata share of such expenses, based on the combined company's percentage of the aggregate amount of our Manager's assets under management and Bimini's assets (measured as of the first day of each month), where such expenses were not incurred solely for the benefit of the combined company; and
- the combined company's allocable share of the compensation of its Chief Financial Officer, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits, based on the percentage of time spent on the combined company's affairs,

shall not become reimbursable costs and expenses until the first calendar quarter after the calendar quarter in which our ending balance of stockholders' equity equals \$100.0 million or more for the first time. Until such date, the Manager will pay all overhead expenses; however, the combined company will continue to be responsible for all other expenses.

### **Overhead Sharing Agreement**

Our Manager entered into an overhead sharing agreement with Bimini effective upon the closing of our initial public offering. Pursuant to this agreement, our Manager provides access to, among other things, Bimini's

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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 does 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 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.

On a quarterly basis, our independent directors will review with our Manager 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 of Bimini and our Manager that will apply to the management of the Company include controls for:

- *Cross transactions.* Cross transactions are defined as transactions between us or one of our subsidiaries, if any, on the one hand, and an account (other than us or one of our subsidiaries, if any) managed by our Manager, on the other hand. It is our Manager's policy to engage in a cross transaction

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only when the transaction is in the best interests of, and is consistent with the objectives and policies of, both accounts involved in the transaction. Our Manager may enter into cross transactions where it acts both on our behalf and on behalf of the other party to the transaction. Upon written notice to our Manager, we may at any time revoke our consent to our Manager's executing cross transactions. Additionally, unless approved in advance by a majority of our independent directors or pursuant to and in accordance with a policy that has been approved by a majority of our independent directors, all cross transactions must be effected at the then-prevailing market prices. Pursuant to our Manager's current policies and procedures, assets for which there are no readily observable market prices may be purchased or sold in cross transactions (i) at prices based upon third party bids received through auction, (ii) at the average of the highest bid and lowest offer quoted by third party dealers or (iii) according to another pricing methodology approved by our Manager's chief compliance officer.

- *Principal transactions.* Principal transactions are defined as transactions between Bimini or our Manager (or any related party of Bimini or our Manager, which includes employees of Bimini and our Manager and their families), on the one hand, and us or one of our subsidiaries, if any, on the other hand. Certain cross transactions may also be considered principal transactions whenever our Manager or Bimini (or any related party of our Manager or Bimini, which includes employees of our Manager or Bimini and their families) have a substantial ownership interest in one of the transacting parties. Our Manager is only authorized to execute principal transactions with the prior approval of a majority of our independent directors and in accordance with applicable law. Such prior approval includes approval of the pricing methodology to be used, including with respect to assets for which there are no readily observable market prices.
- *Split price executions.* Pursuant to the management agreement, our Manager is authorized to combine purchase or sale orders on our behalf together with orders for Bimini or accounts managed by our Manager or their affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts.

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 directors, 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 MANAGEMENT

### Our Directors and Executive Officers

Our business, property and affairs are managed under the direction of our Board of Directors. Our Board of Directors is currently comprised of six directors, four of whom are independent. Upon the expiration of their terms at the annual meeting of stockholders in 2014, our directors will be elected to serve a term of one year and until their successors are duly elected and qualify. Our four outside directors satisfied the listing standards for independence of the NYSE MKT. Our charter and bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, the number of directors may never be less than the minimum number required by the MGCL, which is one, nor, unless our bylaws are amended, more than 15.

Mr. Cauley serves as the Chairman of the Board of Directors and Mr. Van Heuvelen serves as our lead independent director. The following table sets forth certain information regarding our executive officers and directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert E. Cauley, CFA	55	Chief Executive Officer, President and Chairman of the Board
G. Hunter Haas, IV	37	Secretary, Chief Financial Officer, Chief Investment Officer and Director
W Coleman Bitting	48	Independent Director
John B. Van Heuvelen	67	Independent Director
Frank P. Filippis	66	Independent Director
Ava L. Parker	50	Independent Director

### Biographical Information

For biographical information on Messrs. Cauley and Haas, see “Our Manager and the Management Agreement.” Biographical information for our independent director nominees is set forth below.

*W Coleman Bitting.* Since July 2007, Mr. Bitting has maintained a private consulting practice focused on REITs. Mr. Bitting was a Founding Partner and Head of Corporate Finance at Flagstone Securities, a leading investment bank that specialized in mortgage REITs and finance companies, from 2000 to February 2007. Flagstone managed more than 40 equity offerings raising more than \$5 billion of equity capital. Flagstone helped clients build investment and liability management practices. Prior to Flagstone, Mr. Bitting held senior equity research positions at Stifel, Nicholas & Co. Inc. and Kidder, Peabody & Co., Inc. Due to his significant capital markets experience and experience analyzing and advising REITs, we believe Mr. Bitting should continue to serve as a member of our Board of Directors.

*John B. Van Heuvelen.* Mr. Van Heuvelen was appointed to the board of Hallador Energy Company (Nasdaq: HNRG) in September 2009 and serves as the chair of the audit committee. Mr. Van Heuvelen has been a member of the board of directors of MasTec, Inc. (NYSE:MTZ) since June 2002 and is currently the lead director and serves on their audit committee. He was chairman of their audit committee and the financial expert from 2004 to June 2009. He also served on the board of directors of LifeVantage, Inc. (OTC: LFN) from August 2005 through August 2007. From 1999 to the present, Mr. Van Heuvelen has been a private equity investor based in Denver, Colorado. His investment activities have included private telecom and technology firms. Mr. Van Heuvelen spent 13 years with Morgan Stanley and Dean Witter Reynolds in various executive positions in the mutual fund, unit investment trust and municipal bond divisions before serving as president of Morgan Stanley Dean Witter Trust Company from 1993 until 1999. Due to his significant experience as the audit committee chairman of two publicly-traded companies as well as his experience in fixed income investments, we believe Mr. Van Heuvelen should continue to serve as a member of our Board of Directors.

*Frank P. Filippis.* From 2005 to July 2008, Mr. Filippis served as the Chairman and Chief Executive Officer of Clayton Holdings, Inc., a mortgage services company, leading it through its initial public offering and listing



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on the Nasdaq and subsequent sale. Prior to that, Mr. Filippis was employed by the Radian Group, Inc., spending two years as Senior Vice President and Chief Financial Officer, one year as Executive Vice President and Chief Operating Officer and 10 years as Chairman and Chief Executive Officer. In his time with the Radian Group, Inc., Mr. Filippis led the company through its initial public offering and listing on the NYSE. Prior to his tenure with the Radian Group, Inc., Mr. Filippis spent 17 years with American International Group, Inc. (NYSE: AIG), where he held multiple Vice President-level positions and was the President, Chief Executive Officer and founder of AIG Capital Corporation, the first non-insurance financial company within AIG, which focused on interest rate swaps, foreign exchange and equity arbitrage and leveraged buyout bridge financing. Mr. Filippis has served as a director and the chair of the audit committee of Impac Mortgage Holdings, Inc. (NYSE Amex: IMH) since 1995, as a director of Primus Guaranty, Ltd. (NYSE: PRS) since 2002 and as chair of the compensation committee from 2002 to 2006 and the nominating and corporate governance committee from 2007 to 2011 and as a director and chairman of the governance committee of Fortegra Financial Corp. (NYSE: FRF) since 2010 and as chair of the nominating and governance committee from 2010 to 2011 and the compensation committee since 2012. Due to his financial and business expertise, diversified management background, extensive experience with real estate-related and mortgage services companies and experience as a director of other public companies, we believe Mr. Filippis should continue to serve as a member of our Board of Directors.

*Ava L. Parker.* Since 2001, Ms. Parker has been a partner in the law firm of Lawrence & Parker, PA, where she serves as bond counsel and underwriter's counsel in connection with municipal finance transactions as well as assists for-profit and not-for-profit clients with corporate organization, development and interpretation of contracts and litigation issues. Ms. Parker is also the President of Linking Solutions, Inc., which provides training, technical support and program management services in the public and private sectors. She has served as the President of Linking Solutions since 2002. In 2006, Ms. Parker was appointed to the Jacksonville Transportation Authority Board of Directors, where she is currently a Board Member and has served as Chairman. Ms. Parker presently serves as the Immediate Past Chairman of the State of Florida Board of Governors of the State University System. Due to her experience as a member of a number of private, state and municipal boards, with complex financial and corporate transactions and in corporate counseling, we believe Ms. Parker should continue to serve as a member of our Board of Directors.

### **Other Officers**

Jerry Sintes, 48, has served as a Vice President and our Treasurer since August 2010. Mr. Sintes has also served as a Vice President and Controller of Bimini since October 2007. From January 2006 to October 2007, Mr. Sintes was Vice President and Assistant Controller of Riverside National Bank of Florida. Prior to that, he served as Chief Financial Officer of GS Financial Corp. and its subsidiary, Guaranty Savings and Homestead Association from May 2003 to December 2005 and in various positions at Bain, Freibaum, Sagona & Co., LLP, from September 1992 to May 2003 and Whitney National Bank from May 1988 to September 1992. A graduate of Louisiana State University, Mr. Sintes holds a Bachelor of Science degree in Accounting and is a Certified Public Accountant. He is also a member of the American Institute of Certified Public Accountants.

### **Board Committees**

Our Board of Directors has established three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The following table reflects the composition of each of the committees:

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating and Corporate Governance Committee</u>
John B. Van Heuvelen	W Coleman Bitting	Ava L. Parker
Frank P. Filippis	Frank P. Filippis	Frank P. Filippis
Ava L. Parker	John B. Van Heuvelen	W Coleman Bitting

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### *Audit Committee*

Mr. Van Heuvelen chairs our audit committee and the Board of Directors has determined that Mr. Van Heuvelen qualifies as the “audit committee financial expert,” as that term is defined by the SEC. The Board of Directors has also determined that each of John B. Van Heuvelen, Frank P. Philipps and Ava L. Parker are independent as independence is defined in Rule 10A-3 of the Securities Exchange Act of 1934, as amended, and under the NYSE MKT listing standards. The committee assists our Board of Directors in overseeing:

- our accounting and financial reporting processes;
- the integrity and audits of our financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent registered public accounting firm; and
- the performance of our independent registered public accounting firm and any internal auditors.

The committee is also responsible for engaging our independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls.

### *Compensation Committee*

Mr. Bitting chairs the compensation committee, the principal functions of which are to:

- evaluate the performance of our Manager;
- review the compensation and fees payable to our Manager under our management agreement; and
- administer the issuance of any stock to the employees of our Manager who provide services to us.

### *Nominating and Corporate Governance Committee*

Ms. Parker chairs the nominating and corporate governance committee, which is responsible for seeking, considering and recommending to our full Board of Directors qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting of stockholders. It also periodically prepares and submits to our Board of Directors for adoption the committee’s selection criteria for director nominees. It reviews and makes recommendations on matters involving the general operation of our Board of Directors and our corporate governance, and annually recommends to our Board of Directors nominees for each committee of our Board of Directors. In addition, the committee annually facilitates the assessment of our Board of Directors’ performance as a whole and of the individual directors and reports thereon to our Board of Directors.

### *Code of Business Conduct and Ethics*

Our Board of Directors has established a code of business conduct and ethics that applies to our officers and directors and the employees of our Manager. Among other matters, our code of business conduct and ethics are designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with applicable governmental laws, rules and regulations;

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- prompt internal reporting of violations of the code to appropriate persons identified in the code; and
- accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for our executive officers or directors may be made only by our audit committee and will be promptly disclosed as required by law or stock exchange regulations.

### *Compensation Committee Interlocks and Insider Participation*

No member of the compensation committee is or was at any time during 2012 an officer or employee of the Company or any of the Company's direct or indirect subsidiaries nor is any such person a former officer of the Company or any of the Company's direct or indirect subsidiaries. In addition, no executive officer of the Company currently serves as a director or member of the compensation committee of any entity that has one or more executive officers serving as a director of the Company.

### **Compensation of Directors**

Our independent directors each receive annual compensation of \$20,000. Additionally, each independent director receives reimbursement for travel and hotel expenses associated with attending such board and committee meetings. The chairperson of each of the compensation committee and the corporate governance and nominating committee are entitled to an additional annual fee of \$2,500. The chairperson of the audit committee is entitled to an additional annual fee of \$5,000. These retainer fees are paid quarterly, and directors are entitled to elect to receive shares of the Company's common stock in lieu of all or any portion of their retainer fees that would otherwise be payable in cash.

When and if our stockholders equity equals or exceeds \$100 million for the first time, the compensation our directors receive will increase. Effective in the first quarter after our stockholders equity passes such threshold, our independent directors annual compensation will increase to \$70,000 from \$20,000. The chairperson of each of the compensation committee and the corporate governance and nominating committee would be entitled to an additional annual fee of \$7,500 versus \$2,500. The chairperson of the audit committee would be entitled to an additional annual fee of \$12,500 versus \$5,000.

We did not have any independent directors in 2012 or prior to the completion of our initial public offering on February 20, 2013.

### **Compensation of Executive Officers**

#### *Compensation Discussion and Analysis*

We have not paid any cash or non-cash equity compensation to any of our officers to date. We do not intend to pay any cash compensation to any of our officers in the future, nor do we currently intend to adopt any policies with respect thereto, except that we will reimburse our Manager for our allocable share of the compensation of our Chief Financial Officer, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits based on our percentage of the aggregate amount of our assets under management and Bimini's assets. We will not reimburse our Manager for any amounts related to our Chief Financial Officer's compensation until the first calendar quarter after the calendar quarter in which our ending balance of stockholders' equity equals \$100.0 million or more for the first time. We also intend to make awards under our 2012 Equity Incentive Plan from time to time. Our management agreement provides that our Manager will provide us with a management team, including our Chief Executive Officer, Chief Financial Officer and Chief Investment Officer or similar positions. Each of our officers are employees of Bimini. The Compensation Committee of Bimini's Board of Directors will determine the levels of base salary and cash incentive compensation that may be earned by our officers, including our Chief Financial Officer, based on factors as Bimini may determine are appropriate. Bimini will also determine whether and to what extent our officers will be provided with pension, long-term or deferred compensation and other employee benefits plans and programs. We

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expect that Bimini will use proceeds from the management agreement and overhead sharing agreement in part to pay compensation to its officers and employees. For a description of these agreements, see “Our Manager and the Management Agreement.”

We have adopted the equity incentive plan described below pursuant to which we are permitted to grant equity-based awards to our directors and executive officers, and the employees of our Manager and its affiliates. Under this plan, our compensation committee will have discretion to determine the recipients and the terms and conditions of any such awards. In determining the amount of equity-based awards we will pay to certain of our Manager’s employees, including our executive officers, we expect that our compensation committee will consider a number of factors, which may include our performance, our Manager’s performance and the total amount of management fees and expense reimbursements paid to our Manager. We expect that our compensation committee will work with our Manager in determining which of our Manager’s employees, including our executive officers, will be eligible to receive equity-based awards and the amount of such equity-based awards. If our compensation committee does not agree with our Manager with respect to the proposed recipients of, or amounts of, equity-based awards, our compensation committee may decide to alter or eliminate the proposed equity-based awards.

### **2012 Equity Incentive Plan**

Our Board of Directors adopted an equity incentive plan, or the 2012 Equity Incentive Plan, to recruit and retain employees, directors and service providers, including certain officers and employees of our Manager and its affiliates. The 2012 Equity Incentive Plan provides for the grant of options to purchase shares of common stock, stock awards, stock appreciation rights, performance units, dividend equivalents, other equity-based awards and incentive awards.

#### *Administration of the 2012 Equity Incentive Plan*

The 2012 Equity Incentive Plan is administered by the compensation committee of our Board of Directors, except that the 2012 Equity Incentive Plan is administered by our full Board of Directors with respect to awards made to directors who are not employees. This summary uses the term “administrator” to refer to the compensation committee or our Board of Directors, as applicable. The administrator will approve all terms of awards under the 2012 Equity Incentive Plan. The administrator also will approve who will receive grants under the 2012 Equity Incentive Plan and the number of shares of common stock subject to each grant.

#### *Eligibility*

Our directors and individuals who perform services for us and our subsidiaries and affiliates by virtue of their employment with our Manager or an affiliate of our Manager, including but not limited to Bimini, may receive grants under the 2012 Equity Incentive Plan in the sole discretion of the administrator. If we or our subsidiaries and affiliates have any employees in the future, they will be eligible to receive grants under the 2012 Equity Incentive Plan.

#### *Share Authorization*

The 2012 Equity Incentive Plan provides for grants 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 award, subject to a maximum aggregate number of shares of common stock that may be issued under the 2012 Equity Incentive Plan of 4,000,000 shares of common stock. In connection with stock splits, stock dividends, extraordinary cash dividend, reorganizations and certain other events, our Board of Directors will make equitable adjustments that it deems appropriate in the aggregate number of shares of common stock that may be issued under the 2012 Equity Incentive Plan and the terms of outstanding awards and the individual grant limit (described below). If any options or stock appreciation rights terminate, expire or are forfeited, exchanged or surrendered without having been exercised or paid or if any stock awards, performance units or other equity-based awards are forfeited, the shares of common stock

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subject to such awards will again be available for purposes of the 2012 Equity Incentive Plan. Shares of common stock tendered or withheld to satisfy the exercise price or for tax withholding are not available for future grants under the 2012 Equity Incentive Plan. No awards under the 2012 Equity Incentive Plan were outstanding prior to completion of this offering.

### *Individual Award Limit*

The 2012 Equity Incentive Plan limits the awards that any individual may be granted in a calendar year. The limit provides that no individual may be granted awards covering more than 250,000 shares of common stock in any calendar year. The limit applies to incentive awards that are stated with reference to shares of common stock or that may be settled in common stock, and the limit covers all options, stock awards, stock appreciation rights, performance units, other equity-based awards and certain incentive awards that are granted in a calendar year. A separate limit, described below, applies to incentive awards that are not stated with reference to shares of common stock and that will be settled in cash.

### *Options*

The 2012 Equity Incentive Plan permits the grant of nonqualified stock options and incentive stock options qualifying under Section 422 of the Code to individuals who provide direct services to us or our affiliates. The number of shares subject to an option will be determined by the administrator. The exercise price of each option will be determined by the administrator, provided that the price cannot be less than 100% of the fair market value of the shares of common stock on the date on which the option is granted (or 110% of the shares' fair market value on the grant date in the case of an incentive stock option granted to an individual who is a "ten percent stockholder" under Sections 422 and 424 of the Code). The exercise price for any option is generally payable (i) in cash, (ii) by certified check, (iii) by the surrender of shares of common stock (or attestation of ownership of shares of common stock) with an aggregate fair market value on the date on which the option is exercised, equal to the exercise price, (iv) by payment through a broker in accordance with procedures established by the Federal Reserve Board, i.e., a broker-assisted cashless exercise or (v) in such other form or manner acceptable to the administrator. The term of an option cannot exceed ten years from the date of grant (or five years in the case of an incentive stock option granted to a "ten percent stockholder").

### *Stock Awards*

The 2012 Equity Incentive Plan also provides for the grant of stock awards, and the administrator will determine the number of shares subject to each stock award. A stock award is an award of shares of common stock that may be subject to restrictions on transferability and other restrictions as the administrator determines in its sole discretion on the date of grant. The stock may become nonforfeitable and the other restrictions, if any, may lapse over a specified period of time or through the satisfaction of conditions, in installments or otherwise, as the administrator may determine. Unless otherwise specified in the applicable award agreement, a participant who receives a stock award will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote the shares and the right to receive dividends or distributions on the shares. During the period, if any, when stock awards are non-transferable or forfeitable, (i) a participant is prohibited from selling, transferring, pledging, exchanging, hypothecating or otherwise disposing of his or her stock award shares, (ii) we will retain custody of the certificates and (iii) a participant must deliver a stock power to us for each stock award.

### *Stock Appreciation Rights*

The 2012 Equity Incentive Plan authorizes the grant of stock appreciation rights to individuals who provide direct services to us or our affiliates and the administrator will determine the number of shares subject to each award of stock appreciation rights. No individual may be granted stock appreciation rights in connection with incentive stock options that are first exercisable in any calendar year for shares of common stock having an aggregate fair market value that exceeds \$100,000. A stock appreciation right provides the recipient with the right to receive, upon exercise of the stock appreciation right, cash, shares of common stock or a combination of the two. The amount that the recipient will receive upon exercise of the stock appreciation right generally will

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equal the excess of the fair market value of the shares of common stock on the date of exercise over the shares' fair market value on the date of grant. Stock appreciation rights will become exercisable in accordance with terms determined by the compensation committee and unless otherwise determined by the administrator, stock appreciation rights may not be transferred. Stock appreciation rights may be granted in tandem with an option grant or as independent grants. The term of a stock appreciation right cannot exceed ten years from the date of grant or five years in the case of a stock appreciation right granted in tandem with an incentive stock option awarded to a "ten percent stockholder."

### *Performance Units*

The 2012 Equity Incentive Plan also authorizes the grant of performance units and the administrator will determine the number of performance units that will be granted. Performance units represent the participant's right to receive an amount, based on the value of a specified number of shares of common stock, if the terms and conditions prescribed by the compensation committee are satisfied. The administrator will determine on the date of grant the requirements that must be satisfied before performance units are earned, including but not limited to any applicable performance period, and performance goals. Performance goals will be prescribed by the administrator and may include criteria or objectives stated with reference to our financial performance, the participant's performance or such other criteria determined by the administrator. If performance units are earned, they will be settled in cash, shares of common stock or a combination thereof.

### *Incentive Awards*

The 2012 Equity Incentive Plan also authorizes our compensation committee to make incentive awards. An incentive award entitles the participant to receive a cash payment if certain performance goals requirements are met. Our compensation committee will establish the requirements that must be met before an incentive award is earned, and the requirements may be stated with reference to one or more performance measures or criteria prescribed by the compensation committee. An incentive award that is earned will be settled in a single payment, which may be in cash, common stock or a combination of cash and common stock. The compensation committee will determine the amount that may be earned under an incentive award, except that the 2012 Equity Incentive Plan provides that no participant may receive more than \$500,000 in any calendar year under incentive awards that are not granted with reference to a number of shares of common stock and that will be settled in cash.

### *Other Equity-Based Awards*

The administrator may grant other types of stock-based awards as other equity-based awards under the 2012 Equity Incentive Plan and the administrator will determine the number of other equity-based awards that will be granted. Other equity-based awards are payable in cash, shares of common stock or other equity, or a combination thereof, as determined by the administrator. The terms and conditions of other equity-based awards are determined by the administrator.

### *Dividend Equivalents*

The administrator may grant dividend equivalents in connection with the grant of performance units and other equity-based awards. Dividend equivalents may be paid currently or accrued as contingent cash obligations (in which case they may be deemed to have been invested in shares of common stock) and may be payable in cash, shares of common stock or other property. The administrator will determine the terms of any dividend equivalents.

### *Change in Control*

If we experience a change in control, the administrator may, at its discretion, provide that all outstanding options and stock appreciation rights become fully exercisable, all stock awards become transferable and non-forfeitable, and performance units incentive awards or other equity-based awards become earned and non-forfeitable in their entirety. The administrator may also provide that all Awards will be assumed by the surviving

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entity, or will be replaced by a comparable substitute award of the same type as the original award and that has substantially equal value granted by the surviving entity. The administrator may also provide that participants must surrender their outstanding options and stock appreciation rights, stock awards, performance units, incentive awards and other equity-based awards in exchange for a payment, in cash or shares of our common stock or other securities or consideration received by stockholders in the change in control transaction, equal to (i) the entire amount that can be earned under an incentive award, (ii) the value received by stockholders in the change in control transaction for each share subject to a stock award, performance unit or other equity-based award, or (iii) in the case of options and stock appreciation rights, the amount by which that transaction value exceeds the exercise price, or (iv) the value of the other securities or property in which a performance unit or other equity-based award is denominated.

In summary, a change in control under the 2012 Equity Incentive Plan occurs if:

- a person, entity or affiliated group (with certain exceptions) acquires, in a transaction or series of transactions, more than 50% of the total combined voting power of our outstanding securities;
- we merge into another entity, unless the holders of our voting securities immediately prior to the merger have more than 50% of the combined voting power of the securities in the merged entity or its parent;
- we sell or dispose of all or substantially all of our assets, other than a sale or disposition to any entity more than 50% of the combined voting power and common stock of which is owned by our stockholders; or
- during any period of two consecutive years individuals who, at the beginning of such period, constitute our Board of Directors together with any new directors (other than individuals who become directors in connection with certain transactions or election contests) whose election or nomination for election is approved by at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination was previously so approved, cease for any reason to constitute a majority of our Board of Directors.

The Code has special rules that apply to “parachute payments,” i.e., compensation or benefits the payment of which is contingent upon a change in control. If certain individuals receive parachute payments in excess of a safe harbor amount prescribed by the Code, the payor is denied a U.S. federal income tax deduction for a portion of the payments and the recipient must pay a 20% excise tax, in addition to income tax, on a portion of the payments.

If we experience a change in control, benefits provided under the 2012 Equity Incentive Plan could be treated as parachute payments. In that event, the 2012 Equity Incentive Plan provides that the plan benefits, and all other parachute payments provided under other plans and agreements, will be reduced to the safe harbor amount (i.e., the maximum amount that may be paid without excise tax liability or loss of deduction) if the reduction allows the recipient to receive greater after-tax benefits. The benefits under the 2012 Equity Incentive Plan and other plans and agreements will not be reduced, however, if the recipient will receive greater after-tax benefits (taking into account the 20% excise tax payable by the recipient) by receiving the total benefits. The 2012 Equity Incentive Plan also provides that these provisions do not apply to a participant who has an agreement with us providing that the individual is entitled to indemnification from us for the 20% excise tax.

### *Amendment; Termination*

Our Board of Directors may amend or terminate the 2012 Equity Incentive Plan at any time, provided that no amendment may adversely impair the rights of participants under outstanding awards. Our stockholders must approve any amendment if such approval is required under applicable law or stock exchange requirements. Our stockholders also must approve any amendment that materially increases the benefits accruing to participants under the 2012 Equity Incentive Plan, materially modifies the eligibility requirements of the 2012 Equity Incentive Plan, materially increases the aggregate number of shares of common stock that may be issued under

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the 2012 Equity Incentive Plan, reduces the option price of an outstanding option or reduces the base or initial price of an outstanding stock appreciation right (in each case other than on account of stock dividends, stock splits or other changes in capitalization as described above). Unless terminated sooner by our Board of Directors or extended with stockholder approval, the 2012 Equity Incentive Plan will terminate on the day before the tenth anniversary of the date our Board of Directors adopted the 2012 Equity Incentive Plan.

**Indemnification of Directors and Executive Officers and Limitations on Liability**

For information concerning limitations of liability and indemnification applicable to our directors and executive officers and employees, if any, see “Certain Provisions of Maryland Law and of Our Charter and Bylaws,” and “Certain Relationships and Related Transactions — Indemnification Agreements.”



## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### **Purchases of Agency RMBS from Bimini**

On March 31, 2011, we purchased from Bimini Agency RMBS with a fair value of \$1,056,421 for a purchase price of \$1,071,040 (including \$14,620 of accrued interest). We determined the fair value of the Agency RMBS purchased from Bimini pursuant to the valuation methodology described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Mortgage-Backed Securities.” We purchased these assets from Bimini based on our Manager’s management team’s knowledge of such assets. We currently do not anticipate that we will enter into any additional cross transactions or principal transactions.

### **Management Agreement**

We are externally managed and advised by Bimini Advisors, LLC, or our Manager, pursuant to the terms of a management agreement. Our Manager will be responsible for administering our business activities and day-to-day operations, subject to the supervision and oversight of our Board of Directors. We pay our Manager a monthly management fee and will reimburse our Manager for certain expenses. Our Manager will earn a management fee regardless of the performance of our investments.

Under the current management agreement, we paid our manager aggregate management fees of \$628,800 for the period beginning on February 20, 2013 through December 31, 2013.

Under our previous management agreement with Bimini, which was terminated upon the completion of our initial public offering and replaced by the current management agreement with our Manager, we paid Bimini aggregate management fees of \$5,500 for the period beginning on November 24, 2010 (date operations commenced) to December 31, 2010, \$166,500 for the year ended December 31, 2011, \$248,900 for the year ended December 31, 2012, and \$35,300 for the period beginning January 1, 2013 to February 20, 2013.

See “Our Manager and the Management Agreement — Our Management Agreement” for more information regarding the services our Manager will provide to us and the fees we pay to our Manager.

### **Consulting Agreement**

In September 2010, we entered into a consulting agreement with W Coleman Bitting, who became one of our independent directors in February 2013. The terms of the consulting agreement provided that Mr. Bitting would advise us with respect to financing alternatives, business strategies and related matters as requested during the term of the agreement. In exchange for his services, the consulting agreement provided that we pay Mr. Bitting an hourly fee of \$150 and reimburse him for all out-of-pocket expenses reasonably incurred in the performance of his services. During the years ended December 31, 2013 and 2012, we paid Mr. Bitting approximately \$3,800 and \$30,400, respectively, under this agreement. Mr. Bitting’s consulting agreement was terminated upon completion of our initial public offering on February 20, 2013. The total compensation Mr. Bitting received under the consulting agreement was approximately \$115,000.

### **Indemnification Agreements**

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements require, among other things, that we indemnify our directors and certain officers to the fullest extent permitted by law and advance to our directors and certain officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted.

## **Related Person Transaction Policies**

Our Board of Directors adopted a policy providing that any investment transaction between Bimini, our Manager or any of their affiliates and us or any of our subsidiaries requires the prior approval of a majority of our independent directors.

Our Board of Directors also adopted a policy regarding the approval of any “related person transaction”, which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, the amount involved exceeds \$120,000 and a “related person” (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to the audit committee any related person transaction and all material facts about the transaction. The audit committee would then assess and promptly communicate that information to our Board of Directors. Based on its consideration of all of the relevant facts and circumstances, this committee will decide whether or not to approve such transaction and will generally approve only those transactions that do not create a conflict of interest. If we become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction will be referred to this committee, which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

In fulfilling its responsibility, the audit committee will review the relevant facts of each related person transaction or series of related transactions and either approve, ratify or disapprove such transaction or transactions. The audit committee will take into account such factors as it deems necessary or appropriate in deciding whether to approve, ratify or disapprove any related person transaction, including any one or more of the following:

- the terms of the transaction;
- the benefits to us of the transaction;
- the availability of other sources for comparable products or services;
- the terms available to unrelated third parties or to employees generally; and
- the impact on a director’s independence in the event that such director is a party to the transaction or such director, an immediately family member of such director or an entity in which such director is an executive officer or has a direct or indirect material interest is a party to the transaction.

No director may participate in any consideration or approval of a related person transaction with respect to which such director or any of such director’s immediate family members is the related person or has a direct or indirect material interest. Related person transactions will only be approved if they are determined to be in, or not inconsistent with, the best interests of the Company.

On an annual basis, we will solicit information from each of our directors and executive officers to identify related person transactions. If a related person transaction that has not been previously approved or previously ratified is identified, the audit committee will promptly consider all of the relevant facts. If the transaction is ongoing, the audit committee may ratify or request the rescission, amendment or termination of the related person transaction. If the transaction has been completed, the audit committee may seek to rescind the transaction where appropriate and may recommend that our Board of Directors or we take appropriate disciplinary action where warranted. In addition, the audit committee will generally review any ongoing related person transactions on an annual basis to determine whether to continue, modify or terminate such related person transactions.

In addition, our code of business conduct and ethics, which is reviewed and approved by our Board of Directors and provided to all our directors, officers and the persons who provide services to us pursuant to the management agreement, requires that all such persons avoid any situations or relationships that involve actual or potential conflicts of interest, or perceived conflicts of interest, between an individual’s personal interests and our

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interests. Pursuant to our code of business conduct and ethics, each of these persons must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to their supervisor or our secretary. If a conflict is determined to exist, the person must disengage from the conflict situation or terminate his provision of services to us. Our Chief Executive Officer, Chief Financial Officer, principal accounting officer and certain other persons who may be designated by our Board of Directors, whom we collectively refer to as our financial executives, must consult with our audit committee with respect to any proposed actions or arrangements that are not clearly consistent with our code of business conduct and ethics. In the event that a financial executive wishes to engage in a proposed action or arrangement that is not consistent with our code of business conduct and ethics, the executive must obtain a waiver of the relevant provisions of our code of business conduct and ethics in advance from our audit committee.

### **Certain Effects of this Offering**

Our Manager will benefit from this offering because a portion of the management fee we pay to our Manager is based on our stockholders' equity, as adjusted pursuant to the terms of our management agreement. See "Our Manager and the Management Agreement — Our Management Agreement." Our stockholders' equity, as used to calculate the management fee pursuant to the terms of our management agreement, is subject to adjustment to exclude the effect of any unrealized gains or losses included in either retained earnings or other comprehensive income (loss). See "Our Manager and the Management Agreement — Management Fee and Reimbursement of Expenses."

Our 2012 Equity Incentive Plan provides for grants 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 award, subject to a maximum aggregate number of shares of common stock that may be issued under the 2012 Equity Incentive Plan of 4,000,000 shares of common stock. A greater number of shares our common stock will be issued and outstanding upon the completion of this offering. As a result, we will be able to grant a larger aggregate number of shares of our common stock under the 2012 Equity Incentive Plan subsequent to the completion of this offering.

## DESCRIPTION OF CAPITAL STOCK

*The following is a summary of the rights and preferences of our capital stock and related provisions of our charter and bylaws. While we believe that the following description covers the material terms of our capital stock, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire prospectus, our charter and bylaws and the other documents we refer to for a more complete understanding of our capital stock. See the exhibit list for the registration statement of which this prospectus is a part, “Where You Can Find More Information” and “Incorporation of Certain Information by Reference” for information on how to find copies of our charter and bylaws.*

### General

Our authorized capital stock consists of 600,000,000 shares of which (i) 500,000,000 shares are designated as common stock and (ii) 100,000,000 shares are designated as preferred stock, each with a par value of \$0.01 per share. As of January 31, 2014, 5,411,665 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

### Common Stock

Subject to the preferential rights, if any, of holders of any other class or series of stock and to the provisions of our charter regarding restrictions on ownership and transfer of our stock, holders of shares of our common stock are entitled to receive distributions if, when and as authorized by our Board of Directors and declared by us out of assets legally available for distribution.

Our charter provides that to the extent we incur any tax under the Code as the result of any “excess inclusion income” of ours being allocated to a “disqualified organization” that holds our stock in record name, our Board of Directors will cause us to reduce distributions payable to such stockholder in an amount equal to such tax paid by us that is attributable to such stockholder’s ownership in accordance with applicable U.S. Treasury regulations. We do not currently intend to make investments or engage in activities that generate “excess inclusion income,” but our charter does not prevent “disqualified organizations” from owning our common stock. See “Material U.S. Federal Income Tax Considerations — Taxation of Our Company” and “— Requirements for Qualification — Taxable Mortgage Pools” for a discussion of “disqualified organizations” and “excess inclusion income.”

Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock and except as may otherwise be specified in the terms of any class or series of capital stock, each outstanding share of our common stock entitles the holder thereof to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as may be provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our directors, and directors will be elected by a plurality of the votes cast in the election of directors.

Holders of shares of our common stock generally have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of the Company. Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock, all holders of our shares of common stock will have equal liquidation and other rights.

Our charter authorizes our Board of Directors, without stockholder approval, to reclassify any unissued shares of our common stock into other classes or series of stock and to establish the number of shares in each class or series and to set the preferences, conversion or other rights, voting powers (including voting rights exclusive to such class or series), restrictions (including, without limitation, restrictions on transferability), limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series.

## **Preferred Stock**

Our charter authorizes our Board of Directors, without stockholder approval, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any class or series of preferred stock. Prior to issuance of shares of each class or series, our Board of Directors is required by the MGCL and our charter to set the preferences, conversion or other rights, voting powers (including voting rights exclusive to such class or series), restrictions (including, without limitation, restrictions on transferability), limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series. Thus, our Board of Directors could authorize the issuance of shares of preferred stock that have priority over our common stock with respect to dividends or rights upon liquidation or with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium price for holders of our common stock or otherwise be in their best interests. As of the date of this prospectus, no shares of preferred stock are outstanding, and we have no present plans to issue any preferred stock.

## **Power to Increase or Decrease Authorized Stock and Issue Additional Shares of Our Common Stock and Preferred Stock**

Our charter provides that we may issue up to 500,000,000 shares of common stock and 100,000,000 shares of preferred stock. Our charter authorizes our Board of Directors, with the approval of a majority of our entire Board of Directors, to amend our charter to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series without stockholder approval. We believe that the power of our Board of Directors to increase or decrease the number of authorized shares of stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as the additional shares of common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our Board of Directors does not intend to do so, it could authorize us to issue a class or series that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change in control of the Company that might involve a premium price for our common stockholders or otherwise be in their best interests.

## **Restrictions on Ownership and Transfer**

In order to qualify as a REIT under the Code, our shares of stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Because our Board of Directors believes it is at present essential for us to qualify as a REIT, our charter provides that, subject to certain exceptions, no person or entity may beneficially or constructively own, or be deemed to own by virtue of the attribution provisions of the Code, 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, or the ownership limit, 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 prohibits any person from (i) beneficially or constructively owning or transferring shares of our capital stock if such ownership or transfer would result in our being “closely held” under 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 (ii) transferring shares of our capital stock if such transfer, if effective, would result in our capital stock being beneficially owned by fewer than 100 persons (determined

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under the principles of Section 856(a)(5) of the Code). Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate any of the foregoing restrictions on transfer and ownership, or who is the intended transferee of shares of our stock which are transferred to the trust (as described below), will be required to give written notice immediately to us, or, in the case of a proposed or attempted transaction, to give at least 15 days' prior written notice, and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions on transfer and ownership will not apply if our Board of Directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT, or that compliance with the restrictions on transfer and ownership is no longer required for us to qualify as a REIT.

Our Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a person from certain of the limits described above and may establish or increase an excepted holder limit for such person. The person seeking an exemption must provide to our Board of Directors any such representations, covenants and undertakings as our Board of Directors may deem appropriate in order to conclude that granting the exemption and/or establishing or increasing an excepted holder limit, as the case may be, will not cause us to fail to qualify as a REIT. Our Board of Directors may also require a ruling from the IRS or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, in order to determine that granting the exemption will not cause us to lose our qualification as a REIT. In connection with granting a waiver of the ownership limit or creating an excepted holder limit or at any other time, our Board of Directors may from time to time increase or decrease the ownership limit, subject to certain restrictions.

If shares of our stock are certificated, all such certificates will bear a legend summarizing the restrictions described herein (or a declaration that we will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge).

Any attempted transfer of our capital stock that, if effective, would result in a violation of the foregoing restrictions, will cause the number of shares causing the violation (rounded up to the nearest whole share) to be automatically transferred to a charitable trust for the benefit of a charitable beneficiary and the proposed transferee will not acquire any rights in such shares, except that any transfer that, if effective, would result 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. The automatic transfer will be effective as of the close of business on the business day (as defined in our charter) prior to the date of the transfer. If, for any reason, the transfer to the trust would not be effective to prevent the violation of the foregoing restrictions, our charter provides that the purported transfer in violation of the restrictions will be void ab initio. Shares of our capital stock held in the trust will be issued and outstanding shares of stock. The proposed transferee will not benefit economically from ownership of any shares of stock held in the trust, will have no rights to dividends or other distributions and no rights to vote or other rights attributable to the shares of stock held in the trust.

The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that shares of stock have been transferred to the trust must be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or other distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Maryland law, the trustee will have the authority (at the trustee's sole discretion) (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and (ii) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the trust, the trustee must sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership and transfer limitations. Upon such sale, the interest of the charitable beneficiary in the

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shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (*e.g.*, a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust and (ii) the price received by the trustee from the sale or other disposition of the shares (net of any commissions and other expenses).

Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. The trustee may reduce the amount payable to the proposed transferee by the amount of dividends and other distributions paid to the purported transferee and owed by the proposed transferee to the trustee. If, prior to our discovery that shares of our stock have been transferred to the trust, the shares are sold by the proposed transferee, then (i) the shares will be deemed to have been sold on behalf of the trust and (ii) to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess must be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and (ii) the market price on the date we accept, or our designee accepts, the offer, which we may reduce by the amount of dividends and other distributions paid to the proposed transferee and owed by the proposed transferee to the trustee. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and any dividends or other distributions held by the trustee will be paid to the charitable beneficiary.

Every owner of 5% or more (or such lower percentage as required by the Code or the regulations promulgated thereunder) of all classes or series of our stock, including shares of common stock, within 30 days after the end of each taxable year, must give written notice to us stating the name and address of such owner, the number of shares of each class and series of shares of our stock which the owner beneficially owns and a description of the manner in which the shares are held. Each owner must also provide to us such additional information as we may request in order to determine the effect, if any, of the beneficial ownership on our status as a REIT and to ensure compliance with the ownership limit. In addition, each owner of our stock must, upon demand, provide to us such information as we may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the ownership limit. These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for our securities or might otherwise be in the best interests of our stockholders.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company. Their mailing address is 17 Battery Place — 8th Floor, New York, New York, 10004, Attn: Corporate Actions Department. Their telephone number is (917) 262-2378.

## STOCK AVAILABLE FOR FUTURE SALE

We cannot predict the effect, if any, that sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock.

Prior to this offering, we had 5,411,665 shares of our common stock outstanding. Upon completion of this offering, we will have outstanding an aggregate of approximately \_\_\_\_\_ shares of our common stock. In addition, we have up to 4,000,000 shares of common stock available for future issuance under our 2012 Equity Incentive Plan.

The 2,360,000 shares of common stock issued in connection with our initial public offering and the 2,070,000 shares of our common stock issued in connection with the January 2014 Offering are, and the \_\_\_\_\_ shares of common stock sold in this offering (exclusive of shares that may be sold pursuant to the underwriters' overallotment option) will be, freely tradable without restriction or further registration under the Securities Act unless the shares are held by any of our "affiliates," as that term is defined in Rule 144 under the Securities Act. As defined in Rule 144, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the issuer.

### Rule 144

After giving effect to this offering, the 981,665 shares of our outstanding common stock owned by Bimini will be "restricted" securities under the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption provided by Rule 144.

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

A person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months would be entitled to sell within any three-month period a number of shares of our common stock that does not exceed the greater of one percent of the then outstanding shares of our common stock or the average weekly trading volume of our common stock reported through the NYSE MKT during the four calendar weeks preceding such sale. Such sales are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us.

### Lock-Up Agreements

We have agreed with the underwriters that, for a period of 30 days after the date of this prospectus, without the prior written consent of Ladenburg Thalmann & Co. Inc., we will not sell, dispose of or hedge any shares of our common stock, subject to certain exceptions and extensions in certain circumstances. See "Underwriting."

As of January 31, 2014, our directors and executive officers held less than one percent of our currently outstanding shares of common stock, or 35,664 shares. As of January 31, 2014, Bimini held 18.1% of our currently outstanding shares of common stock, or 981,665 shares. Bimini and each of our directors and executive officers has agreed with the underwriters that, for a period of 30 days after the date of this prospectus, without the prior written consent of Ladenburg Thalmann & Co. Inc., they will not sell, dispose of or hedge any shares of our common stock, subject to certain exceptions and extensions in certain circumstances. See "Underwriting."



## CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

*The following is a summary of the material provisions of Maryland law applicable to us and of our charter and bylaws. See the exhibit list for the registration statement of which this prospectus is a part, “Where You Can Find More Information” and “Incorporation of Certain Information by Reference” for information on how to find copies of our charter and bylaws.*

### **Our Board of Directors**

Our charter and bylaws provide that the number of directors of the Company will not be less than the minimum number required under the MGCL, which is one, and, unless our bylaws are amended, not more than fifteen and may be increased or decreased pursuant to our bylaws by a vote of the majority of our entire Board of Directors. Subject to the rights of holders of one or more classes or series of preferred stock, any vacancy may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which such vacancy occurred and until a successor is duly elected and qualifies. Pursuant to our charter and bylaws, each member of our Board of Directors is elected by our stockholders to serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualifies. Holders of shares of our common stock will have no right to cumulative voting in the election of directors, and directors will be elected by a plurality of the votes cast in the election of directors.

### **Removal of Directors**

Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed from office at any time, but only for cause and only by the affirmative vote of holders of shares entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors. “Cause” is defined in our charter, with respect to any particular director, as the conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to us through bad faith or active and deliberate dishonesty. This provision, when coupled with the exclusive power of our Board of Directors to fill vacant directorships, may preclude stockholders from removing incumbent directors except for cause and by a substantial affirmative vote and filling the vacancies created by such removal with their own nominees.

### **Business Combinations**

Under the MGCL, certain “business combinations” (including a merger, consolidation, statutory share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder (*i.e.*, any person (other than the corporation or any subsidiary) who beneficially owns 10% or more of the voting power of the corporation’s outstanding voting stock after the date on which the corporation had 100 or more beneficial owners of its stock, or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock) or an affiliate of an interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any such business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (2) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation’s common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same

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form as previously paid by the interested stockholder for its shares. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. The board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it.

As permitted by the MGCL, our Board of Directors has adopted a resolution exempting any business combination between us and any other person, provided that the business combination is first approved by our Board of Directors (including a majority of directors who are not affiliates or associates of such persons). However, our Board of Directors may repeal or modify this resolution at any time in the future, in which case the applicable provisions of this statute will become applicable to business combinations between us and interested stockholders.

### **Control Share Acquisitions**

The MGCL provides that a holder of “control shares” of a Maryland corporation acquired in a “control share acquisition” has no voting rights with respect to the control shares except to the extent approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter with respect to such shares, excluding votes cast by (1) the person who makes or proposes to make a control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. “Control shares” are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority or (3) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A “control share acquisition” means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply to, among other things: (1) shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or (2) acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any acquisition by any person of shares of our stock; however, our Board of Directors may repeal such bylaw provision, in whole or in part at any time. There can be no assurance that such provision will not be amended or eliminated at any time in the future.

## **Maryland Unsolicited Takeovers Act**

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions of the MGCL which provide, respectively, that:

- the corporation's board of directors will be divided into three classes;
- the affirmative vote of two-thirds of all the votes entitled to be cast by stockholders generally in the election of directors is required to remove a director;
- the number of directors may be fixed only by vote of the directors;
- a vacancy on the board of directors may be filled only by the remaining directors and that directors elected to fill a vacancy will serve for the remainder of the full term of the class of directors in which the vacancy occurred; and
- the request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting is required for stockholders to require the calling of a special meeting of stockholders.

Without our having elected to be subject to Subtitle 8, our charter and bylaws already (1) require the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors to remove a director from our Board of Directors, (2) vest in our Board of Directors the exclusive power to fix the number of directors, by vote of a majority of our entire Board of Directors, and (3) require, unless called by the Chairman of our Board of Directors, our Chief Executive Officer, our President or our Board of Directors, the request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting to call a special meeting of stockholders. Our charter provides that, subject to our eligibility to make an election under Subtitle 8, vacancies on our Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors then in office, even if the remaining directors do not constitute a quorum, and directors elected to fill a vacancy will serve for the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies. Our Board of Directors is not currently classified. In the future, our Board of Directors may elect, without stockholder approval, to classify our Board of Directors or elect to be subject to any of the other provisions of Subtitle 8.

## **Charter Amendments and Extraordinary Transactions**

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, convert, sell all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter generally provides that charter amendments requiring stockholder approval must be declared advisable by our Board of Directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. However, our charter's provisions regarding the removal of directors and restrictions on ownership and transfer of our stock, and amendments to the vote required to amend these provisions, may be amended only if such amendment is declared advisable by our Board of Directors and approved by the affirmative vote of stockholders entitled to cast not less than two-thirds of all the votes entitled to be cast on the matter. In addition, we generally may not merge with or into another company, convert, sell all or substantially all of our assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless such transaction is declared advisable by our Board of Directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. However, because operating assets may be held by a corporation's subsidiaries, as in our situation, this may mean that one of our subsidiaries could transfer all of its assets without any vote of our stockholders.

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### **Bylaw Amendments**

Our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

### **Advance Notice of Director Nominations and New Business**

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of individuals for election to our Board of Directors and the proposal of other business to be considered by our stockholders at an annual meeting of stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our Board of Directors or (3) by a stockholder who was a stockholder of record both at the time of giving of notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of the individual so nominated or on such other business and who has complied with the advance notice procedures set forth in our bylaws, including a requirement to provide certain information about the stockholder and its affiliates and the nominee or business proposal, as applicable.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our Board of Directors may be made at a special meeting of stockholders at which directors are to be elected only (1) by or at the direction of our Board of Directors or (2) provided that the special meeting has been properly called for the purpose of electing directors, by a stockholder who was a stockholder of record both at the time of giving of notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions set forth in our bylaws, including a requirement to provide certain information about the stockholder and its affiliates and the nominee.

### **Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws**

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change in control or other transaction that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders, including business combination provisions, supermajority vote and cause requirements for removal of directors, provisions that vacancies on our Board of Directors may be filled only by the remaining directors for the full term of the directorship in which the vacancy occurred, the power of our Board of Directors to increase or decrease the aggregate number of authorized shares of stock or the number of shares of any class or series of stock, to cause us to issue additional shares of stock of any class or series and to fix the terms of one or more classes or series of stock without stockholder approval, the restrictions on ownership and transfer of our stock and advance notice requirements for director nominations and stockholder proposals. Likewise, if the provision in the bylaws opting out of the control share acquisition provisions of the MGCL or the resolution of our Board of Directors opting out of the business combination provisions of the MGCL were repealed or rescinded, or if a business combination was not first approved by our Board of Directors, these provisions of the MGCL could have similar anti-takeover effects.

### **Limitation of Directors' and Officers' Liability and Indemnification**

The MGCL permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among

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others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received by such director or officer, unless in either case a court orders indemnification, and then only for expenses. In addition, the MGCL permits a Maryland corporation to advance reasonable expenses to a director or officer upon its receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of such a proceeding to:

- any present or former director or officer of the Company who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity; and
- any individual who, while a director or officer of the Company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, REIT, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us, with the approval of our Board of Directors, to indemnify and advance expenses to any individual who served our predecessor in any of the capacities described above and to any employee or agent of the Company or our predecessor.

Upon completion of our initial public offering, we entered into indemnification agreements with each of our directors and executive officers that provide for indemnification and advance of expenses to the maximum extent permitted by Maryland law. See "Certain Relationships and Related Transactions — Indemnification Agreements."

## **REIT Qualification**

Our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

**PRINCIPAL STOCKHOLDERS**

The following table sets forth information as to the beneficial ownership of our common stock as of January 31, 2014 by (1) each person or group who is known to us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each director and named executive officer; and (3) all directors and executive officers as a group.

<b>Name and Address of Beneficial Owner (1)</b>	<b>Number of Shares Beneficially Owned (2)</b>	<b>Percent</b>
Bimini Capital Management, Inc. (2)	981,665	18.1%
Robert E. Cauley (2)	3,000	(3)
G. Hunter Haas, IV (2)	10,000	(3)
W Coleman Bitting (2)	—	—
John B. Van Heuvelen (2)	22,664	(3)
Frank P. Fillips (2)	—	—
Ava L. Parker (2)	—	—
All directors and executive officers as a group (six persons)	35,664	(3)

(1) The address of Bimini Capital Management, Inc. and each of the executive officers and directors listed above is c/o Bimini Capital Management, Inc., 3305 Flamingo Dr., Vero Beach, FL 32963.

(2) In accordance with SEC rules, beneficial ownership includes (1) all shares the investor actually owns beneficially or of record; (2) all shares over which the investor has or shares voting or dispositive control (such as in the capacity as a general partner of an investment fund); and (3) all shares the investor has the right to acquire within 60 days (such as upon exercise of options that are currently vested or which are scheduled to vest within 60 days after January 31, 2014).

(3) Represents less than 1% of the outstanding common stock.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the material U.S. federal income tax considerations that you, as a stockholder, may consider relevant in connection with the purchase, ownership and disposition of our common stock. Hunton & Williams LLP has acted as our counsel, has reviewed this summary, and is of the opinion that the discussion contained herein is accurate in all material respects. Because this section is a summary, it does not address all aspects of taxation that may be relevant to particular stockholders in light of their personal investment or tax circumstances, or to certain types of stockholders that are subject to special treatment under the U.S. federal income tax laws, such as:

- insurance companies;
- tax-exempt organizations (except to the limited extent discussed in “— Taxation of Tax-Exempt Stockholders” below);
- financial institutions or broker-dealers;
- non-U.S. individuals, and non-U.S. corporations (except to the limited extent discussed in “— Taxation of Non-U.S. Stockholders” below);
- U.S. expatriates;
- persons who mark-to-market our common stock;
- subchapter S corporations;
- U.S. stockholders (as defined below) whose functional currency is not the U.S. dollar;
- regulated investment companies and REITs;
- trusts and estates (except to the extent discussed herein);
- persons who receive our common stock through the exercise of employee stock options or otherwise as compensation;
- persons holding our common stock as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code;
- persons holding our common stock through a partnership or similar pass-through entity; and
- persons holding a 10% or more (by vote or value) beneficial interest in our stock.

This summary assumes that our common stock is held as a capital asset for U.S. federal income tax purposes, which generally means property held for investment.

The statements in this section are not intended to be, and should not be construed as, tax advice. The statements in this section are based on the Code, current, temporary and proposed U.S. Treasury regulations, the legislative history of the Code, current administrative interpretations and practices of the IRS, and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, U.S. Treasury regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. We have not received any rulings from the IRS concerning our qualification as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

**WE URGE YOU TO CONSULT YOUR TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND SALE OF OUR COMMON STOCK AND OF OUR ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.**

### **Taxation of Our Company**

We were organized on August 17, 2010 as a Maryland corporation. From the time of our formation until the closing of our initial public offering, we were a “qualified REIT subsidiary” of Bimini. As described below, a corporation that is a “qualified REIT subsidiary” is not treated as a corporation separate from its parent REIT for U.S. federal income tax purposes. We intend to elect to be taxed as a REIT commencing with our short taxable year ended on December 31, 2013 upon the filing of our federal income tax return for such year. We believe that, commencing with such short taxable year, we have been organized and have operated in conformity with the requirements for qualification as a REIT under the Code, and we intend to continue to operate in a manner that will enable us to meet, on a continuing basis, the requirements for qualification as a REIT, but no assurances can be given that we will be successful in operating in a manner so as to qualify or remain qualified as a REIT. This section discusses the laws governing the U.S. federal income tax treatment of a REIT and its stockholders. These laws are highly technical and complex.

In connection with this offering, Hunton & Williams LLP is rendering an opinion that we qualified to be taxed as a REIT under the U.S. federal income tax laws for our taxable year ended December 31, 2013, and our organization and current and proposed method of operations will enable us to continue to qualify for taxation as a REIT for our taxable year ending December 31, 2014 and thereafter. Investors should be aware that Hunton & Williams LLP’s opinion is based upon customary assumptions, will be conditioned upon certain representations made by us and Bimini as to factual matters, including representations regarding the nature of our and Bimini’s assets and the conduct of our and Bimini’s business, is not binding upon the IRS, or any court, and speaks as of the date issued. In addition, Hunton & Williams LLP’s opinion will be based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal tax laws. Those qualification tests involve, among others, the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our stock ownership, and the percentage of our earnings that we distribute. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. Hunton & Williams LLP’s opinion does not foreclose the possibility that we may have to use one or more REIT savings provisions discussed below, which could require us to pay an excise or penalty tax (which could be material) in order for us to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see “— Failure to Qualify.”

As long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on the REIT taxable income that we distribute to our stockholders. However, taxable income generated by any TRSs that we may own will be subject to regular corporate income tax. The benefit of REIT tax treatment is that it avoids the double taxation, or taxation at both the corporate and stockholder levels, that generally results from owning stock in a corporation. However, we will be subject to U.S. federal tax in the following circumstances:

- We will pay U.S. federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time period after, the calendar year in which the income is earned.
- We may be subject to the “alternative minimum tax” on any items of tax preference that we do not distribute or allocate to stockholders.



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- We will pay income tax at the highest corporate rate on:
  - net income from the sale or other disposition of property acquired through foreclosure, or foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, and
  - other non-qualifying income from foreclosure property.
- We will pay a 100% tax on our net income earned from prohibited transactions involving sales or other dispositions of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business.
- If we fail to satisfy the 75% gross income test or the 95% gross income test, as described below under “— Gross Income Tests,” and nonetheless continue to qualify as a REIT because we meet other requirements, we will pay a 100% tax on the greater of the amount by which we fail the 75% gross income test or the 95% gross income test multiplied in either case by a fraction intended to reflect our profitability.
- In the event of a failure of the asset tests (other than a de minimis failure of the 5% asset test or the 10% vote test or the 10% value test (as described below under “— Asset Tests”)), as long as the failure was due to reasonable cause and not to willful neglect, we file a description of the assets that caused such failure with the IRS, and we dispose of the assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure, we will pay a tax equal to the greater of \$50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy any of the asset tests.
- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests or the asset tests, as long as such failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of \$50,000 for each such failure.
- If we fail to distribute during a calendar year at least the sum of:
  - 85% of our REIT ordinary income for the year,
  - 95% of our REIT capital gain net income for the year, and
  - any undistributed taxable income required to be distributed from earlier periods,we will pay a 4% nondeductible excise tax on the excess of the required distribution over the sum of (i) the amount we actually distributed and (ii) any retained amounts on which income tax has been paid at the corporate level.
- We may elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the stockholder) and would receive a credit or refund for its proportionate share of the tax we paid.
- We will be subject to a 100% excise tax on transactions with a TRS that are not conducted on an arm’s-length basis.
- If we acquire any asset from a C corporation, or a corporation that generally is subject to full corporate-level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the C corporation’s basis in the asset or to another asset, we will pay tax at the highest regular corporate rate applicable if we recognize gain on the sale or disposition of the asset during the 10-year period after we acquire the asset. The amount of gain on which we will pay tax is the lesser of:
  - the amount of gain that we recognize at the time of the sale or disposition, and
  - the amount of gain that we would have recognized if we had sold the asset at the time we acquired it.

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- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's stockholders, as described below in "— Recordkeeping Requirements."
- The earnings of our lower-tier entities that are subchapter C corporations, including any TRS, will be subject to U.S. federal corporate income tax.
- In addition, notwithstanding our qualification as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes. Moreover, as further described below, TRSs will be subject to federal, state and local corporate income tax on their taxable income.
- Although we do not expect to own an equity interest in a taxable mortgage pool, if we were to own such an interest we would be subject to tax on a portion of any excess inclusion income equal to the percentage of our stock that is held in record name by "disqualified organizations." A "disqualified organization" includes (i) the United States; (ii) any state or political subdivision of the United States; (iii) any foreign government; (iv) any international organization; (v) any agency or instrumentality of any of the foregoing; (vi) any other tax-exempt organization (other than a farmer's cooperative described in Section 521 of the Code) that is exempt from income taxation and is not subject to taxation under the unrelated business taxable income provisions of the Code; and (vii) any rural electrical or telephone cooperative. We do not currently intend to engage in financing activities that may result in treatment of us or a portion of our assets as a taxable mortgage pool. For a discussion of "excess inclusion income," see "— Requirements for Qualification — Taxable Mortgage Pools."

### **Requirements for Qualification**

A REIT is a corporation, trust, or association that meets each of the following requirements:

- (1) It is managed by one or more trustees or directors.
- (2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.
- (3) It would be taxable as a domestic corporation, but for the REIT provisions of the U.S. federal income tax laws.
- (4) It is neither a financial institution nor an insurance company subject to special provisions of the U.S. federal income tax laws.
- (5) At least 100 persons are beneficial owners of its shares or ownership certificates.
- (6) Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the Code defines to include certain entities, during the last half of any taxable year.
- (7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.
- (8) It meets certain other qualification tests, described below, regarding the nature of its income and assets and the distribution of its income.
- (9) It uses a calendar year for U.S. federal income tax purposes and complies with the recordkeeping requirements of the U.S. federal income tax laws.
- (10) It has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

We must meet requirements 1 through 4, 7, 8 and 9 during our entire taxable year, meet requirement 10 at the close of each taxable year and meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Requirements 5 and 6 apply to us beginning

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with our 2014 taxable year. If we comply with all the requirements for ascertaining the ownership of our outstanding stock in a taxable year and have no reason to know that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining share ownership under requirement 6, an “individual” generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An “individual,” however, generally does not include a trust that is a qualified employee pension or profit sharing trust under the U.S. federal income tax laws, and beneficiaries of such a trust will be treated as holding our stock in proportion to their actuarial interests in the trust for purposes of requirement 6.

Our charter provides restrictions regarding the transfer and ownership of our common stock. See “Description of Capital Stock — Restrictions on Ownership and Transfer.” We believe that we will issue sufficient common stock with sufficient diversity of ownership to allow us to satisfy requirements 5 and 6 above. The restrictions in our charter are intended (among other things) to assist us in continuing to satisfy requirements 5 and 6 described above. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy such stock ownership requirements. If we fail to satisfy these stock ownership requirements, our qualification as a REIT may terminate.

As noted above, from the time of our formation until the closing of our initial public offering, we were a “qualified REIT subsidiary” of Bimini. However, under applicable Treasury Regulations, if Bimini failed to qualify as a REIT in any of its 2009 through 2013 taxable years, unless Bimini’s failure to qualify as a REIT was subject to relief under as described below under “— Failure to Qualify,” we would be prevented from electing to qualify as a REIT prior to the fifth calendar year following the year in which Bimini failed to qualify.

*Qualified REIT Subsidiaries.* A corporation that is a “qualified REIT subsidiary” is not treated as a corporation separate from its parent REIT. A “qualified REIT subsidiary” is disregarded for U.S. federal income tax purposes, and all assets, liabilities, and items of income, deduction, and credit of a “qualified REIT subsidiary” are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A “qualified REIT subsidiary” is a corporation, other than a TRS, all of the capital stock of which is owned by the REIT and that has not elected to be a TRS. Thus, in applying the requirements described herein, any “qualified REIT subsidiary” that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit for all purposes of the Code, including the REIT qualification tests.

*Other Disregarded Entities and Partnerships.* An unincorporated domestic entity, such as a partnership or limited liability company that has a single owner, generally is not treated as an entity separate from its parent for U.S. federal income tax purposes. An unincorporated domestic entity with two or more owners generally is treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. For purposes of the 10% value test (see “— Asset Tests”), our proportionate share will be based on our proportionate interest in the equity interests and certain debt securities issued by the partnership. For all of the other asset and income tests, our proportionate share is based on our proportionate interest in the capital interests in the partnership. Thus, our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for U.S. federal income tax purposes in which we acquire an interest, directly or indirectly, will be treated as our assets and gross income for purposes of applying the various REIT qualification requirements.

*Taxable REIT Subsidiaries.* A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation with respect to which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities will automatically be treated as a TRS. However, an entity will not qualify as a TRS

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if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary or a REIT unless we and such corporation elect to treat such corporation as a TRS. Overall, no more than 25% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs.

Domestic TRSs are subject to U.S. federal income tax, as well as state and local income tax where applicable, on their taxable income. To the extent that a domestic TRS is required to pay taxes, it will have less cash available for distribution to us. If dividends are paid to us by any domestic TRSs that we may form, then the dividends we would pay to our stockholders who are taxed at individual rates, up to the amount of dividends we receive from our domestic TRSs, would generally be eligible to be taxed at the 20% rate applicable to qualified dividend income. See “— Taxation of Taxable U.S. Stockholders.”

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not conducted on an arm's-length basis. We intend that all of our transactions with any TRS that we form will be conducted on an arm's-length basis, but there can be no assurance that we will be successful in this regard.

*Taxable Mortgage Pools.* An entity, or a portion of an entity, may be classified as a taxable mortgage pool, or TMP, under the Code if:

- substantially all of its assets consist of debt obligations or interests in debt obligations;
- more than 50% of those debt obligations are real estate mortgage loans or interests in real estate mortgage loans as of specified testing dates;
- the entity has issued debt obligations that have two or more maturities; and
- the payments required to be made by the entity on its debt obligations “bear a relationship” to the payments to be received by the entity on the debt obligations that it holds as assets.

Under U.S. Treasury regulations, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are not considered to comprise “substantially all” of its assets, and therefore the entity would not be treated as a TMP.

A TMP is generally treated as a corporation for U.S. federal income tax purposes. It cannot be included in any consolidated U.S. federal corporate income tax return. However, if a REIT is a taxable mortgage pool, or if a REIT owns a qualified REIT subsidiary that is a taxable mortgage pool, then a portion of the REIT's income will be treated as “excess inclusion income” and a portion of the dividends the REIT pays to its stockholders will be considered to be excess inclusion income. A stockholder's share of excess inclusion income (i) would not be allowed to be offset by any losses otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income, or UBTI, in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and (iii) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction under any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders. IRS guidance indicates that a REIT's excess inclusion income will be allocated among its stockholders in proportion to its dividends paid. However, the manner in which excess inclusion income would be allocated to dividends attributable to a tax year that are not paid until a subsequent tax year or to dividends attributable to a portion of a tax year when no excess inclusion income-generating assets were held or how such income is to be reported to stockholders is not clear under current law. Although the law is unclear, the IRS has taken the position that a REIT is taxable at the highest corporate tax rate on the portion of any excess inclusion income that it derives from an equity interest in a TMP equal to the percentage of its stock that is held in record name by “disqualified organizations” (as defined above under

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“— Taxation of Our Company”). In that case, under our charter, we will reduce distributions to such stockholders by the amount of tax paid by us that is attributable to such stockholder’s ownership. U.S. Treasury regulations provide that such a reduction in distributions does not give rise to a preferential dividend that could adversely affect our compliance with the distribution requirement. See “— Distribution Requirements.”

If we own less than 100% of the ownership interests in a subsidiary that is a TMP, the foregoing rules would not apply. Rather, the subsidiary would be treated as a corporation for U.S. federal income tax purposes, and would be subject to federal corporate income tax. In addition, this characterization would alter our REIT income and asset test calculations and could adversely affect our compliance with those requirements.

Although we will leverage our investments in Agency RMBS, we believe that our financing transactions will not cause us or any portion of our assets to be treated as a TMP, and we do not expect that any portion of our dividend distributions will be treated as excess inclusion income.

### **Gross Income Tests**

We must satisfy two gross income tests annually to qualify as a REIT. First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgage loans on real property or qualified temporary investment income. Qualifying income for purposes of the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by a mortgage on real property, or on interests in real property;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets;
- income derived from a real estate mortgage investment conduit, or REMIC, in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC’s assets are real estate assets, in which case all of the income derived from the REMIC; and
- income derived from the temporary investment of new capital that is attributable to the issuance of our stock or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we received such new capital.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities, or any combination of these. Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business and cancellation of indebtedness, or COD income, is excluded from both the numerator and the denominator in both gross income tests. In addition, income and gain from “hedging transactions,” as defined in “— Hedging Transactions,” that we enter into to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets and that are clearly and timely identified as such will be excluded from both the numerator and the denominator for purposes of the 75% and 95% gross income tests. In addition, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. See “— Foreign Currency Gain.” We will monitor the amount of our non-qualifying income and will seek to manage our investment portfolio to comply at all times with the gross income tests. The following paragraphs discuss the specific application of the gross income tests to us.

*Interest.* The term “interest,” as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and

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- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property, and only to the extent that the amounts received by the debtor would be qualifying “rents from real property” if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower’s gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property’s value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, market discount, original issue discount, discount points, prepayment penalties, loan assumption fees, and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if a loan is secured by real property and other property and the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date the REIT agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property — that is, the amount by which the loan exceeds the value of the real estate that is security for the loan.

We intend to continue to invest in Agency RMBS that are pass-through certificates and CMOs (including IOs, IIOs, and POs). Other than income from derivative instruments, as described below, we expect that all of the income on our Agency RMBS will be qualifying income for purposes of the 95% gross income test. We expect that the Agency RMBS that are pass-through certificates will be treated as interests in a grantor trust and that Agency RMBS that are CMOs will be treated as regular interests in a REMIC for U.S. federal income tax purposes. In the case of Agency RMBS treated as interests in a grantor trust, we would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans would be qualifying income for purposes of the 75% gross income test to the extent that the obligation is secured by real property, as discussed above. Although the IRS has ruled generally that the interest income from non-CMO Agency RMBS is qualifying income for purposes of the 75% gross income test, it is not clear how this guidance would apply to secondary market purchases of non-CMO Agency RMBS at a time when the loan-to-value ratio of one or more of the mortgage loans backing the Agency RMBS is greater than 100%. In the case of Agency RMBS treated as interests in a REMIC, such as CMOs, income derived from REMIC interests will generally be treated as qualifying income for purposes of the 75% gross income test. If less than 95% of the assets of the REMIC are real estate assets, however, then only a proportionate part of our income from our interest in the REMIC will qualify for purposes of the 75% gross income test. In addition, some REMIC securitizations include imbedded interest rate swap or cap contracts or other derivative instruments that potentially could produce nonqualifying income for the holders of the related REMIC securities. We expect that a sufficient portion of income from our Agency RMBS will be qualifying income so that we will satisfy both the 95% and 75% gross income tests. However, there can be no assurance that we will satisfy both the 95% and 75% gross income tests.

We have purchased, and may purchase in the future, Agency RMBS through delayed delivery contracts, including TBAs. We may recognize income or gains on the disposition of delayed delivery contracts. For example, rather than take delivery of the Agency RMBS subject to a TBA, we may dispose of the TBA through a “roll” transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We will account for roll transactions as purchases and sales. The law is unclear with respect to the qualification of gains from dispositions of delayed delivery contracts as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test. Until we

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receive a favorable private letter ruling from the IRS or we receive an opinion of counsel to the effect that income and gain from the disposition of delayed delivery contracts should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of delayed delivery contracts and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to dispose of delayed delivery contracts through roll transactions or otherwise could be limited. Moreover, even if we are advised by counsel that income and gains from dispositions of delayed delivery contracts should be treated as qualifying income, it is possible that the IRS could successfully take the position that such income is not qualifying income. In the event that such income were determined not to be qualifying for the 75% gross income test, we could be subject to a penalty tax or we could fail to qualify as a REIT if such income and any non-qualifying income exceeds 25% of our gross income. See “— Failure to Qualify.”

*Dividends.* Our share of any dividends received from any corporation (including any TRS, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest will be qualifying income for purposes of both gross income tests.

*Fee Income.* Fee income will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees, such as fees received for servicing or originating loans, are not qualifying for purposes of either gross income test. We currently do not anticipate earning non-qualifying fee income.

*COD Income.* From time-to-time, we and our subsidiaries may recognize COD income in connection with repurchasing debt at a discount. COD income is excluded from gross income for purposes of both the 95% gross income test and the 75% gross income test.

*Foreign Currency Gain.* Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. “Real estate foreign exchange gain” is excluded from gross income for purposes of the 75% gross income test. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or on interest in real property and certain foreign currency gain attributable to certain “qualified business units” of a REIT. “Passive foreign exchange gain” is excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations. Because passive foreign exchange gain includes real estate foreign exchange gain, real estate foreign exchange gain is excluded from gross income for purposes of both the 75% and 95% gross income tests. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as nonqualifying income for purposes of both the 75% and 95% gross income tests.

*Rents from Real Property.* We currently do not hold, and do not intend to acquire, any real property, but we may acquire real property or an interest therein in the future. To the extent that we acquire real property or an interest therein, rents we receive will qualify as “rents from real property” in satisfying the gross income requirements for a REIT described above only if the following conditions are met:

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of receipts or sales.
- Second, rents we receive from a “related party tenant” will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, and either (i) at least 90% of the property is

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leased to unrelated tenants and the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space or (ii) the TRS leases a qualified lodging facility or qualified health care property and engages an “eligible independent contractor” to operate such facility or property on its behalf. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant.

- Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.
- Fourth, we generally must not operate or manage our real property or furnish or render noncustomary services to our tenants, other than through an “independent contractor” who is adequately compensated and from whom we do not derive revenue. However, we may provide services directly to tenants if the services are “usually or customarily rendered” in connection with the rental of space for occupancy only and are not considered to be provided for the tenants’ convenience. In addition, we may provide a minimal amount of “noncustomary” services to the tenants of a property, other than through an independent contractor, as long as our income from the services (valued at not less than 150% of our direct cost of performing such services) does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a TRS, which may provide customary and noncustomary services to tenants without tainting our rental income from the related properties.

*Hedging Transactions.* From time to time, we enter into hedging transactions with respect to one or more of our assets or liabilities. Income and gain from “hedging transactions” is excluded from gross income for purposes of the 75% and 95% gross income test. A “hedging transaction” includes any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate changes, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets. A “hedging transaction” also includes any transaction entered into primarily to manage risk of currency fluctuations with respect to any item of income or gain that is qualifying income for purposes of the 75% or 95% gross income test (or any property which generates such income or gain). We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and to satisfy other identification requirements. To the extent that we hedge for other purposes or to the extent that a portion of the assets financed with the applicable borrowing are not treated as “real estate assets” (as described below under “— Asset Tests”) or in certain other situations, the income from those transactions will likely be treated as non-qualifying income for purposes of the gross income tests. We intend to structure any hedging transactions in a manner that is consistent with satisfying the requirements for qualification as a REIT, but we cannot assure you that we will be able to do so. We may, however, find that in certain instances we must hedge risks incurred by us through transactions entered into by a TRS. Hedging our risk through a TRS would be inefficient on an after-tax basis because of the tax liability imposed on the TRS.

*Prohibited Transactions.* A REIT will incur a 100% tax on the net income (including foreign currency gain) derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. Any such income will be excluded from the application of the 75% and 95% gross income tests. Whether a REIT holds an asset “primarily for sale to customers in the ordinary course of a trade or business” depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. We believe that none of our assets will be held primarily for sale to customers and that a sale of any of our assets will not be in the ordinary course of our business. There can be no assurance, however, that the IRS will not successfully assert a contrary position, in which case we would be subject to the prohibited transaction tax on the gain from the sale of those assets. To the extent we intend to dispose of an asset that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business,” we may contribute the asset to a TRS prior to the disposition.

*Foreclosure Property.* We will be subject to tax at the maximum corporate rate on any income (including foreign currency gain) from foreclosure property, other than income that otherwise would be qualifying income



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for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property will qualify under the 75% and 95% gross income tests as long as the property qualifies as foreclosure property (see the discussion below regarding the grace period during which property qualifies as foreclosure property). Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the Secretary of the Treasury. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test disregarding income from foreclosure property, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test disregarding income from foreclosure property;
- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

*Failure to Satisfy Gross Income Tests.* If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify for relief under certain provisions of the U.S. federal income tax laws. Those relief provisions generally will be available if:

- our failure to meet such tests is due to reasonable cause and not due to willful neglect; and
- following such failure for any taxable year, a schedule of the sources of our income is filed with the IRS.

We cannot predict, however, whether in all circumstances we would qualify for the relief provisions. In addition, as discussed above in “— Taxation of Our Company,” even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by a fraction intended to reflect our profitability.

### **Asset Tests**

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year. First, at least 75% of the value of our total assets must consist of:

- cash or cash items, including certain receivables and money market funds;
- government securities;

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- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property;
- stock (or transferable certificates of beneficial interest) in other REITs;
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the U.S. federal income tax laws, determined as if we held such assets, we will be treated as holding directly our proportionate share of the assets of such REMIC.

Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer's securities (other than any TRS we may own) may not exceed 5% of the value of our total assets, or the 5% asset test.

Third, of our investments not included in the 75% asset class, we may not own (i) more than 10% of the total voting power of any one issuer's outstanding securities, which we refer to as the 10% vote test, or (ii) more than 10% of the total value of any one issuer's outstanding securities, which we refer to as the 10% value test.

Fourth, no more than 25% of the value of our total assets may consist of the securities of one or more TRSs.

Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test, or the 25% securities test.

For purposes of the 5% asset test, the 10% vote test, the 10% value test and the 25% securities test, the term "securities" does not include stock in another REIT, equity or debt securities of a qualified REIT subsidiary, mortgage loans or mortgage-backed securities that constitute real estate assets. For purposes of the 10% value test, the term "securities" does not include:

- "Straight debt" securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors. "Straight debt" securities do not include any securities issued by a partnership or a corporation in which we or any controlled TRS (i.e., a TRS in which we own directly or indirectly more than 50% of the voting power or value of the stock) hold non-"straight debt" securities that have an aggregate value of more than 1% of the issuer's outstanding securities. However, "straight debt" securities include debt subject to the following contingencies:
  - a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer's debt obligations held by us exceeds \$1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and
  - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.
- Any loan to an individual or an estate.
- Any "section 467 rental agreement," other than an agreement with a related party tenant.
- Any obligation to pay "rents from real property."

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- Certain securities issued by governmental entities.
- Any security issued by a REIT.
- Any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes to the extent of our interest as a partner in the partnership.
- Any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in "— Gross Income Tests."

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

We believe that our investments in Agency RMBS will be qualifying assets for purposes of the 75% asset test because they are real estate assets or government securities. With respect to Agency RMBS that are pass-through certificates, we believe that the Agency RMBS will be treated as interests in a grantor trust and that Agency RMBS that are CMOs (including IOs, IIOs, and POs) will be treated as regular interests in a REMIC for U.S. federal income tax purposes. In the case of Agency RMBS treated as interests in a grantor trust, we are treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. Such mortgage loans will generally qualify as real estate assets to the extent that they are secured by real property. IRS Revenue Procedure 2011-16, provides a safe harbor under which the IRS has stated that it will not challenge a REIT's treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (ii) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. Additionally, although the IRS has ruled generally that Agency RMBS that are pass-through certificates are real estate assets for purposes of the 75% asset test, it is not clear how this guidance would apply to secondary market purchases of Agency RMBS that are pass-through certificates at a time when a portion of one or more mortgage loans backing the Agency RMBS is not treated as real estate assets as a result of the loans not being treated as fully secured by real property. In the case of Agency RMBS that are CMOs, which will be treated as regular interests in a REMIC, such interests will generally qualify as real estate assets. If less than 95% of the assets of the REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC interests will qualify as real estate assets. To the extent any Agency RMBS are not treated as real estate assets, we expect such Agency RMBS will be treated as government securities because they are issued or guaranteed as to principal or interest by the United States or by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States.

We have entered and intend to continue to enter into repurchase agreements under which we would nominally sell certain of our Agency RMBS to a counterparty and simultaneously enter into an agreement to repurchase the sold assets in exchange for a purchase price that reflects a financing charge. Based on positions the IRS has taken in analogous situations, we believe that these transactions will be treated as secured debt and that we will be treated for REIT asset and gross income test purposes as the owner of the Agency RMBS that are the subject of any such agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the Agency RMBS during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

We have purchased, and may purchase in the future, Agency RMBS through delayed delivery contracts, including TBAs. The law is unclear with respect to the qualification of delayed delivery contracts as real estate assets or government securities for purposes of the 75% asset test. Until we receive a favorable private letter ruling from the IRS or we receive an opinion from counsel to the effect that delayed delivery contracts should be

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treated as qualifying assets for purposes of the 75% asset test, we will limit our aggregate investment in delayed delivery contracts, including TBAs, and any nonqualifying assets to no more than 25% of our total assets at the end of any calendar quarter and will limit our investment in the delayed delivery contracts of any one issuer to less than 5% of our total assets at the end of any calendar quarter. Accordingly, our ability to purchase Agency RMBS through delayed delivery transactions could be limited. Moreover, even if we are advised by counsel that delayed delivery transactions should be treated as qualifying assets, it is possible that the IRS could successfully take the position that such assets are not qualifying assets. In the event that such assets were determined not to be qualifying for the 75% asset test, we could be subject to a penalty tax or we could fail to qualify as a REIT. See “— Failure to Qualify.”

We monitor the status of our assets for purposes of the various asset tests and seek to manage our portfolio to comply at all times with such tests. There can be no assurance, however, that we will be successful in this effort. In this regard, we will need to value our investment in our assets to ensure compliance with the asset tests. Although we seek to be prudent in making these estimates, there can be no assurances that the IRS might not disagree with these determinations and assert that a different value is applicable in which case we might not satisfy the 75% asset test and the other asset tests and, thus could fail to qualify as a REIT. If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT status if:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

In the event that we violate the 5% asset test, the 10% vote test or the 10% value test described above at the end of any calendar quarter, we will not lose our REIT qualification if (i) the failure is de minimis (up to the lesser of 1% of the total value of our assets or \$10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure. In the event of a failure of any of the asset tests (other than a de minimis failure described in the preceding sentence), as long as the failure was due to reasonable cause and not due to willful neglect, we will not lose our REIT qualification if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure, (ii) file a schedule with the IRS describing the assets that caused such failure in accordance with regulations promulgated by the Secretary of the Treasury and (iii) pay a tax equal to the greater of \$50,000 or the highest rate of U.S. federal corporate income tax (currently, 35%) on the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.

We believe that the investments that we will hold will satisfy the foregoing asset test requirements. However, we will not obtain independent appraisals to support our conclusions as to the value of our assets and securities, or the real estate collateral for the mortgage loans that support our Agency RMBS. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, there can be no assurance that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

### **Distribution Requirements**

Each taxable year we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our stockholders in an aggregate amount at least equal to:

- the sum of
  - 90% of our “REIT taxable income,” computed without regard to the dividends paid deduction and our net capital gain, and

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- 90% of our after-tax net income, if any, from foreclosure property, minus
- the sum of certain items of non-cash income.

We must pay such distributions in the taxable year to which they relate, or in the following taxable year if either (i) we declare the distribution before we timely file our U.S. federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration, or (ii) we declare the distribution in October, November or December of the taxable year, payable to stockholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. The distributions under clause (i) are taxable to the stockholders in the year in which paid, and the distributions in clause (ii) are treated as paid on December 31 of the prior taxable year. In both instances, these distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

We will pay U.S. federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders. Furthermore, if we fail to distribute during a calendar year, or by the end of the following January after the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year,
- 95% of our REIT capital gain income for such year, and
- any undistributed taxable income from prior periods,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute. We may elect to retain and pay income tax on the net long-term capital gain we receive in a taxable year. If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. We intend to make timely distributions sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, we may experience timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Possible examples of those timing differences include the following:

- Because we may deduct capital losses only to the extent of our capital gains, we may have taxable income that exceeds our economic income.
- We will recognize taxable income in advance of the related cash flow if any of our Agency RMBS are deemed to have original issue discount. We generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments but that defers taking into account losses until they are actually incurred.
- We may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount may be treated as “market discount” for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, we dispose of the debt investment or any payment of principal of the debt instrument is made, unless we elect to include accrued market discount in income as it accrues. Principal payments on certain debt instruments are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to those non-cash income

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items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds or, if possible, pay taxable dividends of our stock or debt securities.

We may satisfy the REIT annual distribution requirements by making taxable distributions of our stock. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by taxpayers whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/stock dividends, but that revenue procedure does not apply to our 2013 and future taxable years. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and stock. We currently do not intend to pay taxable dividends payable in cash and stock.

In order for distributions to be counted towards our distribution requirement and to give rise to a tax deduction by us, they must not be “preferential dividends.” A dividend is not a preferential dividend if it is pro rata among all outstanding shares of stock within a particular class and is in accordance with the preferences among different classes of stock as set forth in the organizational documents.

To qualify as a REIT, we may not have, at the end of any taxable year, any undistributed earnings and profits accumulated in any non-REIT taxable year. We may satisfy the 90% distribution test with taxable distributions of our stock or debt securities.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

### **Recordkeeping Requirements**

We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis information from our stockholders designed to disclose the actual ownership of our outstanding stock. We intend to comply with these requirements.

### **Failure to Qualify**

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of \$50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in “— Gross Income Tests” and “— Asset Tests.”

If we fail to qualify as a REIT in any taxable year, and no relief provision applies, we would be subject to U.S. federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to stockholders. In fact, we would not be required to distribute any amounts to stockholders in that year. In such event, to the extent of our current or accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the U.S. federal income tax laws, corporate stockholders might be eligible for the dividends received deduction and stockholders taxed at individual rates might be eligible for the reduced U.S. federal income tax rate of 20% on such dividends. Unless we qualified for relief under specific statutory provisions, we also would be disqualified

from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

### **Taxation of Taxable U.S. Stockholders**

The term “U.S. stockholder” means a beneficial owner of our common stock that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any of its states or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- any trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a U.S. person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner, the activities of the partnership and certain determinations made at the partner and/or partnership level. If you are a partner in a partnership holding shares of our common stock, you are urged to consult your tax advisor regarding the consequences of the ownership and disposition of our common stock by the partnership.

As long as we qualify as a REIT, a taxable U.S. stockholder must generally take into account as ordinary income distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gain. A corporate U.S. stockholder will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to a U.S. stockholder generally will not qualify for the 20% tax rate for “qualified dividend income.” The maximum tax rate for qualified dividend income received by U.S. stockholders taxed at individual rates is currently 20%. The maximum tax rate on qualified dividend income is lower than the maximum tax rate on ordinary income, which is currently 39.6%. Qualified dividend income generally includes dividends paid by domestic C corporations and certain qualified foreign corporations to U.S. stockholders that are taxed at individual rates. Because we are not generally subject to federal income tax on the portion of our REIT taxable income distributed to our stockholders, our dividends generally will not be eligible for the 20% rate on qualified dividend income. As a result, our ordinary REIT dividends will be taxed at the higher tax rate applicable to ordinary income. However, the 20% tax rate for qualified dividend income will apply to our ordinary REIT dividends (i) attributable to dividends received by us from non-REIT corporations, such as a TRS, and (ii) to the extent attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income). In general, to qualify for the reduced tax rate on qualified dividend income, a stockholder must hold our common stock for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our common stock begins trading ex-dividend. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on dividends received from us. We may pay taxable dividends of our stock or debt securities. In the case of such a taxable distribution of our stock or debt securities, U.S. stockholders would be required to include the dividend as income and would be required to satisfy the tax liability associated with the dividend with cash from other sources, including sales of our stock or debt securities.

A U.S. stockholder generally will take into account as long-term capital gain any distributions that we properly designate as capital gain dividends without regard to the period for which the U.S. stockholder has held our common stock. A corporate U.S. stockholder, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income.

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We may elect to retain and pay income tax on the net long-term capital gain that we recognize in a taxable year. In that case, to the extent we designate such amount on a timely notice to such stockholder, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. stockholder would receive a credit or refund for its proportionate share of the tax we paid. The U.S. stockholder would increase the basis in its common stock by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A U.S. stockholder will not incur tax on a distribution in excess of our current or accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. stockholder's common stock. Instead, the distribution will reduce the adjusted basis of the U.S. stockholder's common stock. A U.S. stockholder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. stockholder's adjusted basis in his or her common stock as long-term capital gain, or short-term capital gain if the common stock has been held for one year or less. In addition, if we declare a distribution in October, November or December of any year that is payable to a U.S. stockholder of record on a specified date in any such month, such distribution shall be treated as both paid by us and received by the U.S. stockholder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year.

Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income. Taxable distributions from us and gain from the disposition of our common stock will not be treated as passive activity income and, therefore, stockholders generally will not be able to apply any "passive activity losses," such as losses from certain types of limited partnerships in which the stockholder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our common stock generally will be treated as investment income for purposes of the investment interest limitations. We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital, and capital gain.

We may recognize taxable income in excess of our economic income, known as phantom income, in the first years that we hold certain investments, and experience an offsetting excess of economic income over our taxable income in later years. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions that economically represent a return of capital rather than a dividend. These distributions would be offset in later years by distributions representing economic income that would be treated as returns of capital for U.S. federal income tax purposes. Taking into account the time value of money, this acceleration of U.S. federal income tax liabilities may reduce a stockholder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income. For example, if an investor with a 30% tax rate purchases a taxable bond with an annual interest rate of 10% on its face value, the investor's before-tax return on the investment would be 10% and the investor's after-tax return would be 7%. However, if the same investor purchased our common stock at a time when the before-tax rate of return was 10%, the investor's after-tax rate of return on such common stock might be somewhat less than 7% as a result of our phantom income. In general, as the ratio of our phantom income to our total income increases, the after-tax rate of return received by a taxable stockholder will decrease.

If excess inclusion income from a taxable mortgage pool is allocated to any stockholder, that income will be taxable in the hands of the stockholder and will not be offset by any net operating losses of the stockholder that would otherwise be available. See "— Requirements for Qualification — Taxable Mortgage Pools." As required by IRS guidance, we intend to notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income.

### **Taxation of U.S. Stockholders on the Disposition of Common Stock**

A U.S. stockholder who is not a dealer in securities must generally treat any gain or loss realized upon a taxable disposition of our common stock as long-term capital gain or loss if the U.S. stockholder has held the



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common stock for more than one year and otherwise as short-term capital gain or loss. In general, a U.S. stockholder will realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. stockholder's adjusted tax basis. A stockholder's adjusted tax basis generally will equal the U.S. stockholder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. stockholder (discussed above) less tax deemed paid on such gains and reduced by any returns of capital. However, a U.S. stockholder must treat any loss upon a sale or exchange of common stock held by such stockholder for six-months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us that such U.S. stockholder treats as long-term capital gain. All or a portion of any loss that a U.S. stockholder realizes upon a taxable disposition of our common stock may be disallowed if the U.S. stockholder purchases our common stock or substantially identical common stock within 30 days before or after the disposition.

### **Capital Gains and Losses**

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate currently is 39.6%. The maximum tax rate on long-term capital gain applicable to taxpayers taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The maximum tax rate on long-term capital gain from "section 1250 property," or depreciable real property, is 25%, which applies to the lesser of the total amount of the gain or the accumulated depreciation on the Section 1250 property. In addition, individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on gain from the sale of our common stock.

With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we generally may designate whether such a distribution is taxable to our stockholders taxed at individual rates at a 20% or 25% rate. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of \$3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

### **Taxation of Tax-Exempt Stockholders**

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. However, they are subject to taxation on their UBTI. While many investments in real estate generate UBTI, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to tax-exempt stockholders generally should not constitute UBTI. However, if a tax-exempt stockholder were to finance its investment in our common stock with debt, a portion of the income that it receives from us would constitute UBTI pursuant to the "debt-financed property" rules. Moreover, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under special provisions of the U.S. federal income tax laws are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI. Furthermore, a tax-exempt stockholder's share of any excess inclusion income that we recognize would be subject to tax as UBTI.

Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of our stock is required to treat a percentage of the dividends that it receives from us as UBTI. Such

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percentage is equal to the gross income that we derive from an unrelated trade or business, determined as if we were a pension trust, divided by our total gross income for the year in which we pay the dividends. That rule applies to a pension trust holding more than 10% of our stock only if:

- the percentage of our dividends that the tax-exempt trust would be required to treat as UBTI is at least 5%;
- we qualify as a REIT by reason of the modification of the rule requiring that no more than 50% of our stock be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our stock in proportion to their actuarial interests in the pension trust; and
- either: (i) one pension trust owns more than 25% of the value of our stock or (ii) a group of pension trusts individually holding more than 10% of the value of our stock collectively owns more than 50% of the value of our stock.

### **Taxation of Non-U.S. Stockholders**

The following discussion addresses the rules governing U.S. federal income taxation of the purchase, ownership and sale of our common stock by non-U.S. stockholders. When we use the term “non-U.S. stockholder,” we mean beneficial owners of our common stock who are not U.S. stockholders, as described above in “— Taxation of Taxable U.S. Stockholders,” or partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes). The rules governing U.S. federal income taxation of non-U.S. stockholders are complex. This section is only a summary of such rules. **We urge non-U.S. stockholders to consult their own tax advisers to determine the impact of federal, state, and local income tax laws on ownership of our common stock, including any reporting requirements.**

A non-U.S. stockholder that receives a distribution that is not attributable to gain from our sale or exchange of a “United States real property interest,” or USRPI, as defined below, and that we do not designate as a capital gain dividend or retained capital gain will recognize ordinary income to the extent that we pay the distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply unless an applicable tax treaty reduces or eliminates the tax. However, if a distribution is treated as effectively connected with the non-U.S. stockholder’s conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. stockholders are taxed on distributions and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. stockholder. It is expected that the applicable withholding agent will withhold U.S. income tax at the rate of 30% on the gross amount of any distribution paid to a non-U.S. stockholder unless either:

- a lower treaty rate applies and the non-U.S. stockholder files with the applicable withholding agent an IRS Form W-8BEN evidencing eligibility for that reduced rate, or
- the non-U.S. stockholder files with the applicable withholding agent an IRS Form W-8ECI claiming that the distribution is effectively connected income.

However, reduced treaty rates are not available to the extent income allocated to the non-U.S. stockholder is excess inclusion income.

A non-U.S. stockholder will not incur U.S. tax on a distribution in excess of our current or accumulated earnings and profits if the excess portion of the distribution does not exceed the adjusted basis of its common stock. Instead, the excess portion of the distribution will reduce the adjusted basis of that common stock. A non-U.S. stockholder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of its common stock, if the non-U.S. stockholder otherwise would be subject to tax on gain from the sale or disposition of its common stock, as described below. Because we generally cannot determine at the time we make a distribution whether or not the distribution will exceed both our current and accumulated earnings and profits, it is expected that the applicable withholding agent normally will withhold tax on the entire amount of any distribution at the same rate as it would withhold on a dividend. However, by filing a U.S. tax return,

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a non-U.S. stockholder may obtain a refund of amounts that the applicable withholding agent withheld if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

For payments made after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our common stock received by certain non-U.S. stockholders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments made after December 31, 2016, on proceeds from the sale of our common stock received by certain non-U.S. stockholders. If payment of withholding taxes is required, non-U.S. stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit or such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

For any year in which we qualify as a REIT, a non-U.S. stockholder could incur tax on distributions that are attributable to gain from our sale or exchange of USRPI, under the Foreign Investment in Real Property Act of 1980, or FIRPTA. A USRPI includes certain interests in real property and shares in corporations at least 50% of whose assets consist of interests in real property. The term "USRPI" does not generally include mortgage loans or RMBS, such as Agency RMBS. As a result, we do not anticipate that we will generate material amounts of gain that would be subject to FIRPTA. Under the FIRPTA rules, a non-U.S. stockholder is taxed on distributions attributable to gain from sales of USRPIs as if the gain were effectively connected with a U.S. business of the non-U.S. stockholder. A non-U.S. stockholder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate stockholder not entitled to treaty relief or exemption also might be subject to the 30% branch profits tax on such a distribution. The applicable withholding agent would be required to withhold 35% of any such distribution that we could designate as a capital gain dividend. A non-U.S. stockholder might receive a credit against its tax liability for the amount withheld.

However, if our common stock is regularly traded on an established securities market in the United States, capital gain distributions on our common stock that are attributable to our sale of real property will be treated as ordinary dividends rather than as gain from the sale of a USRPI, as long as the non-U.S. stockholder does not own more than 5% of our common stock during the one-year period preceding the date of the distribution. As a result, non-U.S. stockholders generally will be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends. We believe that our common stock is regularly traded on an established securities market in the United States.

A non-U.S. stockholder generally will not incur tax under FIRPTA with respect to gain realized upon a disposition of our common stock as long as we are not a United States real property holding corporation during a specified testing period. If at least 50% of a REIT's assets are USRPIs, then the REIT will be a United States real property holding corporation. We do not anticipate that we are a United States real property holding corporation based on our asset mix and investment strategy. In the unlikely event that at least 50% of the assets we hold were determined to be USRPIs, gains from the sale of our common stock by a non-U.S. stockholder could be subject to a FIRPTA tax. However, even if that event were to occur, a non-U.S. stockholder generally would not incur tax under FIRPTA on gain from the sale of our common stock if we were a "domestically controlled qualified investment entity." A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% in value of its shares are held directly or indirectly by non-U.S. persons. We cannot assure you that this test will be met. If our common stock is regularly traded on an established securities market, an additional exception to the tax under FIRPTA will be available with respect to our common stock, even if we do not qualify as a domestically controlled qualified investment entity at the time the non-U.S. stockholder sells our common stock. Under that exception, the gain from such a sale by such a non-U.S. stockholder will not be subject to tax under FIRPTA if:

- our common stock is treated as being regularly traded under applicable U.S. Treasury regulations on an established securities market; and

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- the non-U.S. stockholder owned, actually or constructively, 5% or less of our common stock at all times during a specified testing period.

As noted above, we believe that our common stock is regularly traded on an established securities market.

If we are a domestically controlled qualified investment entity and a non-U.S. stockholder disposes of our common stock during the 30-day period preceding a dividend payment, and such non-U.S. stockholder (or a person related to such non-U.S. stockholder) acquires or enters into a contract or option to acquire our common stock within 61 days of the first day of the 30-day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a USRPI capital gain to such non-U.S. stockholder, then such non-U.S. stockholder shall be treated as having USRPI capital gain in an amount that, but for the disposition, would have been treated as USRPI capital gain.

If the gain on the sale of our common stock were taxed under FIRPTA, a non-U.S. stockholder would be taxed on that gain in the same manner as U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Furthermore, a non-U.S. stockholder generally will incur tax on gain not subject to FIRPTA if:

- the gain is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain, or
- the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the non-U.S. stockholder will incur a tax of 30% on his or her net capital gains.

### **Information Reporting Requirements and Backup Withholding, Shares Held Offshore**

We will report to our stockholders and to the IRS the amount of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding at a rate of 28% with respect to distributions unless the holder:

- is a corporation or qualifies for certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A stockholder who does not provide the applicable withholding agent with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the stockholder's income tax liability. In addition, the applicable withholding agent may be required to withhold a portion of capital gain distributions to any stockholders who fail to certify their U.S. status.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. stockholder provided that the non-U.S. stockholder furnishes to the applicable withholding agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if the applicable withholding agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the net proceeds from a disposition or a redemption effected outside the United States by a non-U.S. stockholder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a

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non-U.S. stockholder and specified conditions are met or an exemption is otherwise established. Payment of the net proceeds from a disposition by a non-U.S. stockholder of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. stockholder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the stockholder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. Stockholders are urged consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

For payments made after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our common stock received by U.S. stockholders who own their shares through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments made after December 31, 2016, on proceeds from the sale of our common stock received by U.S. stockholders who own their shares through foreign accounts or foreign intermediaries. We will not pay any additional amounts in respect of any amounts withheld.

### **Legislative or Other Actions Affecting REITs**

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department which may result in statutory changes as well as revisions to regulations and interpretations. Additionally, several of the tax considerations described herein are currently under review and are subject to change. Prospective stockholders are urged to consult with their own tax advisors regarding the effect of potential changes to the federal tax laws on an investment in our common stock.

### **State, Local and Foreign Taxes**

We and our subsidiaries and stockholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which we or they transact business, own property or reside. The state, local or foreign tax treatment of us and our stockholders may not conform to the U.S. federal income tax treatment discussed above. Any foreign taxes incurred by us would not pass through to our stockholders against their U.S. federal income tax liability. Prospective stockholders should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in our common stock.

## ERISA CONSIDERATIONS

A fiduciary of a pension, profit sharing, retirement or other employee benefit plan, or the Plan, subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, should consider the fiduciary standards under ERISA in the context of the Plan's particular circumstances before authorizing an investment of a portion of such Plan's assets in shares of our common stock. Accordingly, such fiduciary should consider (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA, (ii) whether the investment is in accordance with the documents and instruments governing the Plan as required by Section 404(a)(1)(D) of ERISA, and (iii) whether the investment is prudent under ERISA. In addition to the imposition of general fiduciary standards of investment prudence and diversification, ERISA, and the corresponding provisions of the Code, prohibit a wide range of transactions involving the assets of the Plan and persons who have certain specified relationships to the Plan ("parties in interest" within the meaning of ERISA, "disqualified persons" within the meaning of the Code). Thus, a Plan fiduciary considering an investment in shares of our common stock also should consider whether the acquisition or the continued holding of shares of our common stock might constitute or give rise to a direct or indirect prohibited transaction.

Investment in shares of our common stock by a Plan that has such a relationship in certain limited circumstances could be deemed to constitute a prohibited transaction under Title I of ERISA or Section 4975 of the Internal Revenue Code. Such transactions may, however, be subject to one or more statutory or administrative exemptions, such as: Section 408(b)(17) of ERISA, which exempts certain transactions with non-fiduciary service providers; Prohibited Transaction Class Exemption, or PTCE, 90-1, which exempts certain transactions involving insurance company pooled separate accounts; PTCE 91-38, which exempts certain transactions involving bank collective investment funds; PTCE 84-14, which exempts certain transactions effected on behalf of a Plan by a "qualified professional asset manager"; PTCE 95-60, which exempts certain transactions involving insurance company general accounts; PTCE 96-23, which exempts certain transactions effected on behalf of a Plan by an "in-house asset manager"; PTCE 75-1, which exempts certain transactions involving a Plan and certain members of an underwriting syndicate; or another available exemption. Such exemptions may not, however, apply to all of the transactions that could be deemed prohibited transactions in connection with a Plan's investment in shares of our common stock. If a purchase was to result in a non-exempt prohibited transaction, such purchase may have to be rescinded, though there can be no assurance that a rescission would avoid the imposition of taxes or penalties.

The Department of Labor, or the DOL, has issued final regulations, or the DOL Regulations, as to what constitutes assets of an employee benefit plan under ERISA. Under the DOL Regulations, if a Plan acquires an equity interest in an entity, which interest is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets would include, for purposes of the fiduciary responsibility provision of ERISA, both the equity interest and an undivided interest in each of the entity's underlying assets unless certain specified exceptions apply. The DOL Regulations define a publicly offered security as a security that is "widely held," "freely transferable," and either part of a class of securities registered under the Exchange Act, or sold pursuant to an effective registration statement under the Securities Act (provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the public offering occurred). The shares of common stock that will be sold in this offering will be registered under the Securities Act and will be registered under the Exchange Act.

The DOL Regulations provide that whether a security is "freely transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. The DOL Regulations further provide that when a security is part of an offering in which the minimum investment is \$10,000 or less, as is the case with the offering, certain restrictions ordinarily will not, alone or in combination, affect the finding that such securities are "freely transferable." The Company believes that the restrictions imposed under its charter on the transfer of its common stock are limited to the restrictions on transfer generally permitted under the DOL Regulations and are not likely to result in the failure of the common stock to be "freely transferable." The DOL Regulations only establish a presumption in favor of the finding of free transferability, and, therefore, no assurance can be given

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that the DOL will not reach a contrary conclusion. Because our common stock is held by 100 or more investors who are independent of us and each other, our common stock should be “widely held” for purposes of the DOL Regulations. Accordingly, the Company believes that its common stock will be publicly offered securities for purposes of the DOL Regulations and that the assets of the Company will not be deemed to be “plan assets” of any Plan that invests in its common stock.

## UNDERWRITING

We are offering the shares of our common stock described in this prospectus in an underwritten public offering in which Ladenburg Thalmann & Co. Inc. is acting as representative of the underwriters. We expect to enter into an underwriting agreement with Ladenburg Thalmann & Co. Inc., acting as representative of the underwriters named below, with respect to the common stock being offered hereby. Subject to the terms and conditions contained in the underwriting agreement, each underwriter has severally agreed to purchase the shares of our common stock set forth opposite its name below:

<u>Underwriters</u>	<u>Number of Shares</u>
Ladenburg Thalmann & Co. Inc.	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of our common stock in this offering if any are purchased, other than those shares covered by the overallotment option we describe below. We have granted to the underwriter a 30-day option to purchase up to additional shares from us at the public offering price less the underwriting discount and commissions. The option may be exercised only to cover any overallotments, if any. If any shares are purchased with this overallotment option, the underwriters will purchase shares in approximately the same proportion shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

Our common stock is being offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and the satisfaction of other conditions contained in the underwriting agreement, including:

- the representations and warranties made by us are true and our obligations have been satisfied;
- there is no material adverse change in the financial markets or in our business; and
- we deliver customary closing documents.

The underwriters propose to offer shares of our common stock directly to the public at the public offering price per share shown on the cover of this prospectus and to certain dealers at that price less a concession not in excess of \$0. per share. After this offering, the offering price and other selling terms may be changed by the underwriters.

The following table shows the per share and total underwriting discount and commissions that will be paid to the underwriters at closing and the proceeds that we will receive from the sale of our common stock in this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' overallotment option to purchase additional shares of our common stock.

	<u>No Exercise</u>	<u>Full Exercise</u>
Underwriting discount per share	\$	\$
Initial underwriting discount	\$	\$
Proceeds to us	\$	\$

We estimate that the total expenses of this offering (exclusive of the underwriting discount and commissions) will be approximately \$ million. The underwriters will pay their own costs and expenses,



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including the costs and expenses of their counsel and the expenses of advertising the offering, except that we will pay up to \$20,000 in fees related to the expense of counsel for the underwriters in connection with FINRA's review of the terms of the sale of our common stock in this offering.

A prospectus in electronic format may be made available on the websites maintained by one or more underwriters or selling group members participating in this offering. The underwriters may allocate a number of shares of our common stock to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representative to underwriters and selling group members that may make internet distributions on the same basis as other allocations.

We have agreed to indemnify the underwriters, their affiliates, and persons who control the underwriters, against certain liabilities, including liabilities under the Securities Act, and if we are unable to provide this indemnification to contribute to payments that the underwriters may be required to make in respect of these liabilities.

We and each of our Manager, 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.

The restrictions contained in the preceding paragraph shall not apply to (i) any grants made by us pursuant to the 2012 Equity Incentive Plan (or the filing of a registration statement on Form S-8 to register shares of our common stock issuable under such plan), or (ii) transfers of shares of our common stock or any security convertible into shares of our common stock by any of our directors or executive officers, Bimini, or our Manager as a bona fide gift, or by will or intestate succession to such director, executive officer or stockholder's family or to a trust, the beneficiaries of which are exclusively such director, executive officer or stockholder or members of such director, executive officer or stockholder's family; provided that in the case of any transfer or distribution pursuant to clause (ii), each donee or distributee shall sign and deliver a lock-up letter substantially in the form of this letter and no filing under Section 16(a) of the Exchange Act reporting a reduction in beneficial ownership of shares of our common stock shall be required or shall be voluntarily made during the restricted period.

Notwithstanding the foregoing, if (i) during the last 17 days of the restricted period described above we issue an earnings release or material news or a material event occurs or (ii) prior to the expiration of such restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of such restricted period, the restrictions imposed by this agreement shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The representative, in its sole discretion, may release the common stock and other securities subject to the lock-up restrictions described above in whole or in part at any time with or without notice. When determining whether or not to release common stock and other securities from the lock-up restrictions, the representative will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

The representative has agreed that, at least three (3) business days before the effective date of any release or waiver of the foregoing lock-up restrictions, the representative will notify us of the impending release or waiver and we have agreed to announce the impending release or waiver by press release through a major news service at least two (2) business days before the effective date of the release or waiver. However, the foregoing shall not apply if (a) the release or waiver is effected solely to permit a transfer of securities not for consideration and (b) the transferee has agreed in writing to be bound by the same terms of the lock-up to the extent and for the duration that such lock-up remains in effect at the time of such transfer.

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Our common stock is traded on the NYSE MKT under the symbol "ORC."

### **Discretionary Sales**

The representative has advised us that the underwriters do not intend to confirm sales in this offering to any account over which such underwriter exercises discretionary authority.

### **Stabilization, Short Positions and Penalty Bids**

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids. These transactions may be characterized as follows:

- Stabilizing transactions permit bids to purchase shares of our common stock so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.
- Over-allotment transactions involve sales by the underwriters of shares of our common stock in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of shares of our common stock over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the over-allotment option. If the underwriters sell more shares than could be covered by exercise of the over-allotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by that syndicate member is purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. The underwriters are not required to engage in these activities. If these activities are commenced, they may be discontinued by the underwriters without notice at any time. These transactions may be effected on the NYSE MKT, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

### **Relationships with Underwriters**

Ladenburg Thalmann & Co. Inc. has been granted the exclusive right, or Offering Right, during the three-year period following February 14, 2013, which was the effective date of our registration statement on Form S-11

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(File No. 333-184538) filed with the SEC in connection with our initial public offering, to act as the sole book running manager or sole lead placement agent for any public or private sale of our debt or equity securities (excluding sales to directors, officers or employees of the Company, the Manager, Bimini or their affiliates or any issuances or awards under the 2012 Equity Incentive Plan) by us or any of our subsidiaries. Pursuant to the Offering Right, we conducted a public offering of shares of our common stock with Ladenburg Thalmann & Co. Inc., as representative of the several underwriters, in January 2014, raising net proceeds of \$24.2 million (including the net proceeds of the sale of shares pursuant to the underwriters' exercise in full of the overallotment option granted in connection with such offering). Ladenburg Thalmann & Co. Inc. and the other underwriters in such offering received aggregate commissions of \$1,293,750 and were paid \$15,000 for the expense of counsel for the underwriters in connection with FINRA's review of the terms of the sale in such offering.

Notwithstanding the foregoing, (a) if the aggregate gross proceeds of such public or private sales of debt or equity securities does not equal or exceed \$200 million (inclusive of the gross proceeds from our initial public offering) as of February 14, 2015, then the Offering Right shall terminate on such second anniversary and (b) the Offering Right shall automatically terminate on the date that the aggregate gross proceeds of such public or private sales of debt or equity securities equals or exceeds \$500 million (inclusive of the gross proceeds from our initial public offering). As of the date of this prospectus, the aggregate gross proceeds of such public and private sales of debt and equity securities has been approximately \$61.2 million.

Except in connection with the Offering Right described above, we are not under any contractual obligation to engage any of the underwriters to provide investment banking, lending, asset management and financial advisory services to us in the future. If any of the underwriters provide such services to us after this offering, we may pay such underwriter fair and reasonable fees that would be determined at that time in an arms' length negotiation. However, we will not enter into any agreement with any of the underwriters, nor will we pay any fees for such services to any of the underwriters, prior to the date which is 90 days after the date of this offering, unless FINRA determines that such payment would not be deemed underwriters' compensation in connection with the offering.

### **Selling Restrictions**

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

This prospectus and any other material in relation to the shares described herein is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospective Directive ("qualified investors") that also (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, (ii) who fall within Article 49(2)(a) to (d) of the Order or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such shares will be engaged in only with, relevant persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus or any of its contents.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), from and including the date on which the European Union Prospectus Directive (the "EU Prospectus Directive") is implemented in that Relevant Member State (the

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“Relevant Implementation Date”) an offer of securities described in this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to shares of our common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares of our common stock to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive) subject to obtaining the prior consent of the book-running manager for any such offer; or
- in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an “offer of securities to the public” in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression EU Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) and includes any relevant implementing measure in each Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EU.

### **United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)), in connection with the issue or sale of the shares, has only been, and will only be, communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to us.

Anything in relation to the shares in, from or otherwise involving the United Kingdom, has been, and may only be done, in compliance with all applicable provisions of the FSMA.

### **Switzerland**

We have not and will not register with the Swiss Financial Market Supervisory Authority (“FINMA”) as a foreign collective investment scheme pursuant to Article 119 of the Federal Act on Collective Investment Scheme of June 23, 2006, as amended (“CISA”), and accordingly, the shares being offered pursuant to this prospectus supplement and the accompanying prospectus have not and will not be approved, and may not be licensable, with FINMA. Therefore, the shares have not been authorized for distribution by FINMA as a foreign collective investment scheme pursuant to Article 119 CISA and the shares offered hereby may not be offered to the public (as this term is defined in Article 3 CISA) in or from Switzerland. The shares may solely be offered to “qualified investors,” as this term is defined in Article 10 CISA, and in the circumstances set out in Article 3 of the Ordinance on Collective Investment Scheme of November 22, 2006, as amended (“CISO”), such that there is no public offer.

Investors, however, do not benefit from protection under CISA or CISO or supervision by FINMA. This prospectus supplement and the accompanying prospectus and any other materials relating to the shares are strictly

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personal and confidential to each offeree and do not constitute an offer to any other person. This prospectus supplement and the accompanying prospectus may only be used by those qualified investors to whom they have been handed out in connection with the offer described herein and may neither directly or indirectly be distributed or made available to any person or entity other than their recipients. They may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland or from Switzerland. This prospectus supplement and the accompanying prospectus do not constitute an issue prospectus as that term is understood pursuant to Article 652a and/or 1156 of the Swiss Federal Code of Obligations. We have not applied for a listing of the shares on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this prospectus supplement and the accompanying prospectus does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

### **Dubai International Financial Centre**

This prospectus supplement and the accompanying prospectus relate to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This prospectus supplement and the accompanying prospectus is intended for distribution only to persons of a type specified in those rules. They must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this prospectus supplement and the accompanying prospectus nor taken steps to verify the information set out herein and therein, and has no responsibility for them. The shares that are the subject of the offering contemplated by this prospectus supplement and the accompanying prospectus may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered hereby should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus supplement and the accompanying prospectus, you should consult an authorized financial adviser.

### **Hong Kong**

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances that do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### **Japan**

The shares offered in this prospectus supplement have not been registered under the Financial Instruments and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to a resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

### **Singapore**

Neither this prospectus supplement nor the accompanying prospectus has been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement, the accompanying prospectus and

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any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common shares may not be circulated or distributed, nor may the common shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the common shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (however described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the common shares pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

## LEGAL MATTERS

Certain legal matters in connection with this offering including the validity of the shares being offered by this prospectus and certain tax matters will be passed upon for us by Hunton & Williams LLP. Certain legal matters in connection with this offering will be passed upon for the underwriters by Graubard Miller. Venable LLP will issue an opinion to us regarding certain matters of Maryland law, including the validity of the shares of common stock offered by this prospectus.

## EXPERTS

The financial statements as of December 31, 2013 and 2012, for each of two years in the period ended December 31, 2013 included in this Prospectus and in the Registration Statement have been so included in reliance on the report of BDO USA, LLP, an independent registered public accounting firm, appearing elsewhere herein and in the Registration Statement, given on the authority of said firm as experts in auditing and accounting.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with the registration statement of which this prospectus is a part, under the Securities Act with respect to the shares of our common stock to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to us and the shares to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Room 1580, Washington, DC 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0300. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you for free on the SEC's website at [www.sec.gov](http://www.sec.gov).

We are subject to the information and reporting requirements of the Exchange Act and file periodic reports and proxy statements and make available to our stockholders annual reports containing audited financial information for each year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Orchid Island Capital, Inc.  
Vero Beach, Florida

We have audited the accompanying balance sheets of Orchid Island Capital, Inc. (the "Company") as of December 31, 2013 and 2012 and the related statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

West Palm Beach, Florida  
February 21, 2014

/s/ BDO USA, LLP  
Certified Public Accountants

**ORCHID ISLAND CAPITAL, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS:</b>		
Mortgage-backed securities, at fair value		
Pledged to counterparties	\$ 335,774,980	\$ 109,604,559
Unpledged	15,447,532	5,775,015
Total mortgage-backed securities	351,222,512	115,379,574
Cash and cash equivalents	8,169,402	2,537,257
Restricted cash	2,445,625	449,000
Accrued interest receivable	1,559,437	440,877
Due from affiliates	—	45,126
Prepaid expenses and other assets	179,071	9,122
<b>Total Assets</b>	<b><u>\$ 363,576,047</u></b>	<b><u>\$ 118,860,956</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Repurchase agreements	\$ 318,557,054	\$ 103,941,174
Accrued interest payable	91,461	54,084
Due to affiliates	81,925	—
Accounts payable, accrued expenses and other	80,260	140,723
<b>Total Liabilities</b>	<b><u>318,810,700</u></b>	<b><u>104,135,981</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of December 31, 2013 and no shares authorized as of December 31, 2012	—	—
Common Stock, \$0.01 par value; 500,000,000 shares authorized, 3,341,665 shares issued and outstanding as of December 31, 2013 and 1,000,000 shares authorized, 154,110 shares issued and outstanding as of December 31, 2012	33,417	1,541
Additional paid-in capital	46,115,961	15,409,459
Accumulated deficit	(1,384,031)	(686,025)
<b>Total Stockholders' Equity</b>	<b><u>44,765,347</u></b>	<b><u>14,724,975</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 363,576,047</u></b>	<b><u>\$ 118,860,956</u></b>

*See Notes to Financial Statements*

**ORCHID ISLAND CAPITAL, INC.**  
**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2013 and 2012**

	2013	2012
Interest income	\$ 9,198,858	\$2,697,922
Interest expense	(1,126,204)	(277,328)
<b>Net interest income</b>	<b>8,072,654</b>	<b>2,420,594</b>
Realized losses on mortgage-backed securities	(1,198,160)	(307,795)
Unrealized losses on mortgage-backed securities	(10,732,690)	(805,932)
Gains (losses) on Eurodollar futures contracts	4,828,288	(39,725)
<b>Net portfolio income</b>	<b>970,092</b>	<b>1,267,142</b>
<b>Expenses:</b>		
Management fees	664,100	248,900
Directors' fees and liability insurance	290,232	—
Audit, legal and other professional fees	419,999	177,906
Direct REIT operating expenses	167,989	199,979
Other administrative	125,778	106,014
<b>Total expenses</b>	<b>1,668,098</b>	<b>732,799</b>
<b>Net (loss) income</b>	<b>\$ (698,006)</b>	<b>\$ 534,343</b>
<b>Basic and diluted net (loss) income per share</b>	<b>\$ (0.23)</b>	<b>\$ 0.54</b>
<b>Weighted Average Shares Outstanding</b>	<b>3,011,912</b>	<b>981,665</b>

*See Notes to Financial Statements*

**ORCHID ISLAND CAPITAL, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2013 and 2012**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balances, January 1, 2012	\$ 1,500	\$14,998,500	\$(1,220,368)	\$13,779,632
Net income	—	—	534,343	534,343
Issuance of common stock to repay amount due to Bimini Capital Management, Inc.	41	410,959	—	411,000
Balances, December 31, 2012	1,541	15,409,459	(686,025)	14,724,975
Net loss	—	—	(698,006)	(698,006)
Cash dividends declared, \$1.395 per share	—	(4,661,622)	—	(4,661,622)
Issuance of common stock pursuant to public offering	23,600	35,376,400	—	35,400,000
Issuance of common stock pursuant to stock dividend	8,276	(8,276)	—	—
Balances, December 31, 2013	<u>\$33,417</u>	<u>\$46,115,961</u>	<u>\$(1,384,031)</u>	<u>\$44,765,347</u>

*See Notes to Financial Statements*

**ORCHID ISLAND CAPITAL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (698,006)	\$ 534,343
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Realized and unrealized losses on mortgage-backed securities	11,930,850	1,113,727
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,118,560)	(66,317)
Prepaid expenses and other assets	(119,776)	791
Accrued interest payable	37,377	42,588
Accounts payable, accrued expenses and other	(60,463)	126,140
Due to affiliates	127,051	127,813
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>10,098,473</u>	<u>1,879,085</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
From mortgage-backed securities investments:		
Purchases	(687,584,182)	(199,077,871)
Sales	408,981,989	129,068,510
Principal repayments	30,778,232	9,517,695
Increase in restricted cash	(1,996,625)	(358,250)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(249,820,586)</u>	<u>(60,849,916)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from repurchase agreements	3,319,670,062	581,462,510
Principal payments on repurchase agreements	(3,105,054,182)	(521,846,336)
Cash dividends	(4,661,622)	—
Proceeds from issuance of common stock	35,400,000	—
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>245,354,258</u>	<u>59,616,174</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,632,145	645,343
CASH AND CASH EQUIVALENTS, beginning of the year	2,537,257	1,891,914
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<u>\$ 8,169,402</u>	<u>\$ 2,537,257</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 1,088,827	\$ 234,740
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:</b>		
Issuance of common shares to Bimini Capital Management, Inc. pursuant to stock dividend	\$ 8,276	\$ —
Issuance of common shares to repay amount due to Bimini Capital Management, Inc.	—	411,000

*See Notes to Financial Statements*

**ORCHID ISLAND CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 and 2012**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business Description**

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

On February 20, 2013, Orchid completed the initial public offering (“IPO”) of its common stock in which it sold approximately 2.4 million shares of its common stock and raised gross proceeds of \$35.4 million.

Orchid completed a secondary offering of 1,800,000 common shares on January 23, 2014. The underwriters exercised their overallotment option in full for an additional 270,000 shares on January 29, 2014. The net proceeds to Orchid were approximately \$24.2 million which were invested in Agency RMBS securities on a leveraged basis.

**Basis of Presentation and Use of Estimates**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”). 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 Eurodollar futures contracts.

**Statement of Comprehensive Income (Loss)**

In accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (“FASB ASC”) Topic 220, *Comprehensive Income*, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income. 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. Restricted cash, of approximately \$2,446,000 at December 31, 2013, represents cash held by a broker as margin on Eurodollar futures contracts. Restricted cash, totaling approximately \$449,000 at December 31, 2012, represents cash held on deposit as collateral with repurchase agreement counterparties.

The Company maintains cash balances at three banks, and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance reverted to \$250,000 per depositor at each financial institution. At December 31, 2013, the Company’s cash deposits exceeded federally insured limits by approximately \$7.4 million. Restricted cash balances are uninsured, but are held in separate customer accounts

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that are segregated from the general funds of the counterparty. The Company 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 mortgage-backed loans (collectively, “RMBS”). These investments meet the requirements to be classified as available for sale under ASC 320-10-25, *Debt and Equity Securities* (which requires the securities to be carried at fair value on the balance sheet with changes in fair value charged to other comprehensive income, a component of stockholders’ equity). However, the Company has elected to account for its investment in RMBS under the fair value option. Electing the fair value option allows the Company to record changes in fair value in the statement of operations, which, in management’s view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

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

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

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

### **Derivative Financial Instruments**

The Company has entered into Eurodollar futures contracts to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The Company has elected to not treat any of its derivative financial instruments as hedges. 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.

### **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 and Eurodollar futures contracts are accounted for at fair value in the balance sheet.

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The methods and assumptions used to estimate fair value for these instruments are presented in Note 10 of the financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, prepaid expenses and other assets, due from/to Bimini Capital Management, Inc., repurchase agreements, accrued interest payable, accounts payable, accrued expenses and others generally approximates their carrying values as of December 31, 2013 and 2012 due to the short-term nature of these financial instruments.

### **Repurchase Agreements**

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

### **Manager Compensation**

The Company is externally managed by Bimini Advisors, LLC, a Maryland limited liability company and wholly-owned subsidiary of Bimini (“the Manager” or “Bimini Advisors”). The Company’s management agreement with the Manager provides for the 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 11 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 “if converted” method 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**

Bimini has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). Until the closing of its IPO on February 20, 2013, Orchid was a “qualified REIT subsidiary” of Bimini under the Code. Beginning with its short tax period commencing on February 20, 2013 and ended December 31, 2013, Orchid will elect and intends to qualify to be taxed as a REIT. 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 July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net*



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*Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This new standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. The ASU is effective beginning January 1, 2014 on either a prospective or retrospective basis. The guidance represents a change in financial statement presentation only and the Company does not expect that this ASU will have a material impact on its financial results.

In June 2013, the FASB issued ASU 2013-08, *Financial Services — Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The amendments in this Update modify the guidance for determining whether an entity is an investment company, update the measurement requirements for noncontrolling interests in other investment companies and require additional disclosures for investment companies under US GAAP. The amendments in the Update develop a two-tiered approach for the assessment of whether an entity is an investment company which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The amendments in this Update also revise the measurement guidance in Topic 946 such that investment companies must measure noncontrolling ownership interests in other investment companies at fair value, rather than applying the equity method of accounting to such interests. The new guidance is effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The Company does not expect that this ASU will have a material impact on its financial statements.

In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ("ASU 2013-04")*. The objective of the amendments in this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing GAAP. The amendments in ASU 2013-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be retrospectively applied to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted. The Company does not expect that this ASU will have a material impact on its financial statements.

## NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of December 31, 2013 and 2012:

(in thousands)

	2013	2012
<b>Pass-Through RMBS Certificates:</b>		
Hybrid Adjustable-rate Mortgages	\$ 76,118	\$ 59,485
Adjustable-rate Mortgages	5,334	6,531
Fixed-rate Mortgages	245,523	43,589
Total Pass-Through Certificates	<u>326,975</u>	<u>109,605</u>
<b>Structured RMBS Certificates:</b>		
Interest-Only Securities	19,206	2,884
Inverse Interest-Only Securities	5,042	2,891
Total Structured RMBS Certificates	<u>24,248</u>	<u>5,775</u>
Total	<u>\$351,223</u>	<u>\$ 115,380</u>

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The following table summarizes the Company's RMBS portfolio as of December 31, 2013 and 2012, 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.

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Greater than five years and less than ten years	\$ 1,521	\$ 12,980
Greater than or equal to ten years	349,702	102,400
<b>Total</b>	<b><u>\$351,223</u></b>	<b><u>\$ 115,380</u></b>

### NOTE 3. REPURCHASE AGREEMENTS

As of December 31, 2013, the Company had outstanding repurchase obligations of approximately \$318.6 million with a net weighted average borrowing rate of 0.39%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately \$337.0 million. As of December 31, 2012, the Company had outstanding repurchase obligations of approximately \$103.9 million with a net weighted average borrowing rate of 0.49%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately \$109.9 million, and cash pledged to the counterparties of approximately \$0.4 million.

As of December 31, 2013 and 2012, the Company's repurchase agreements had remaining maturities as summarized below:

<i>(in thousands)</i>	<u>OVERNIGHT (1 DAY OR LESS)</u>	<u>BETWEEN 2 AND 30 DAYS</u>	<u>BETWEEN 31 AND 90 DAYS</u>	<u>GREATER THAN 90 DAYS</u>	<u>TOTAL</u>
<b>December 31, 2013</b>					
Fair market value of securities pledged, including accrued interest receivable	\$ —	\$ 326,348	\$ 10,650	\$ —	\$336,998
Repurchase agreement liabilities associated with these securities	\$ —	\$ 308,402	\$ 10,155	\$ —	\$318,557
Net weighted average borrowing rate	—	0.39%	0.37%	—	0.39%
<b>December 31, 2012</b>					
Fair market value of securities pledged, including accrued interest receivable	\$ —	\$ 109,863	\$ —	\$ —	\$109,863
Repurchase agreement liabilities associated with these securities	\$ —	\$ 103,941	\$ —	\$ —	\$103,941
Net weighted average borrowing rate	—	0.49%	—	—	0.49%

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 December 31, 2013, the Company had a maximum amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities and cash pledged,

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including accrued interest on such securities) of approximately \$18.3 million. Summary information regarding the Company's amounts at risk with individual counterparties greater than 10% of the Company's equity at December 31, 2013 and December 31, 2012 is as follows:

(in thousands)

<u>Repurchase Agreement Counterparties</u>	<u>Amount at Risk</u>	<u>Weighted Average Maturity (in Days)</u>
<b>December 31, 2013</b>		
Citigroup Global Markets, Inc.	\$5,487	11
<b>December 31, 2012</b>		
Citigroup Global Markets, Inc.	\$3,714	18
South Street Securities, LLC	1,802	7

**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 derivative financial instrument contracts. 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.

As of December 31, 2013, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains or losses credited or charged to the Company's account on a daily basis and reflected in earnings as they occur. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. This margin represents the collateral the Company has posted for its open positions and is recorded on the balance sheet as part of restricted cash. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker.

The table below presents information related to the Company's Eurodollar futures positions at December 31, 2013. As of December 31, 2012, the Company had no outstanding futures positions.

(in thousands)

<u>Expiration Year</u>	<u>Weighted Average LIBOR Rate</u>	<u>Average Contract Notional Amount</u>	<u>Open Equity<sup>(1)</sup></u>
2014	0.40%	262,500	(189)
2015	0.80%	275,000	(146)
2016	1.90%	250,000	1,367
2017	3.03%	250,000	2,291
2018	3.77%	250,000	1,575
	2.02%		\$ 4,898
Cash posted as collateral, included in restricted cash			\$ 2,446

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions.

The table below presents the effect of the Company's derivative financial instruments on the statements of operations for the years ended December 31, 2013 and 2012.

(in thousands)

	<u>2013</u>	<u>2012</u>
Eurodollar futures contracts (short positions)	\$4,828	\$(40)

## NOTE 5. CAPITAL STOCK

At December 31, 2012, the Company had the authority to issue 1,000,000 shares of \$0.01 par value common stock. In connection with the Company's IPO in February 2013, the Company's charter was amended to increase the authorized capital stock to 600,000,000 shares, of which (i) 500,000,000 shares are designated as common stock and (ii) 100,000,000 shares are designated as preferred stock, each with a par value of \$0.01 per share. Holders of shares of the common stock generally have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of the Company. Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock, all holders of shares of the common stock will have equal liquidation and other rights.

Our charter authorizes our Board of Directors, without stockholder approval, to reclassify any unissued shares of our common stock into other classes or series of stock and to establish the number of shares in each class or series and to set the preferences, conversion or other rights, voting powers (including voting rights exclusive to such class or series), restrictions (including, without limitation, restrictions on transferability), limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series.

Our charter authorizes our Board of Directors, without stockholder approval, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any class or series of preferred stock. Prior to issuance of shares of each class or series, our Board of Directors is required by Maryland law and our charter to set the preferences, conversion or other rights, voting powers (including voting rights exclusive to such class or series), restrictions (including, without limitation, restrictions on transferability), limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series. Thus, our Board of Directors could authorize the issuance of shares of preferred stock that have priority over our common stock with respect to dividends or rights upon liquidation or with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium price for holders of our common stock or otherwise be in their best interests. No shares of preferred stock have been issued, therefore none are outstanding.

### Restrictions on Ownership and Transfer

In order to qualify as a REIT under the Code for each taxable year beginning after December 31, 2013, our shares of stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, for our taxable years beginning after December 31, 2013, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Because the Company's Board of Directors believes it is at present essential for us to qualify as a REIT, our charter provides that, subject to certain exceptions, no person or entity may beneficially or constructively own, or be deemed to own by virtue of the attribution provisions of the Code, 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, or the ownership limit, except that Bimini may own up to 35.0% of our common stock so long as Bimini continues to qualify as a REIT.

The Company's charter also prohibits any person from (i) beneficially or constructively owning or transferring shares of the Company's capital stock if such ownership or transfer would result in the Company being "closely held" under 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 the Company to fail to qualify as a REIT and (ii) transferring shares of the Company's capital stock if such transfer would result in the Company's capital stock being beneficially owned by fewer than 100 persons (determined under the principles of Section 856(a)(5)).

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of the Code). Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of the Company's stock that will or may violate any of the foregoing restrictions on transfer and ownership, or who is the intended transferee of shares of the Company's stock which are transferred to the trust (as described below), will be required to give written notice immediately to the Company or in the case of a proposed or attempted transaction, to give at least 15 days' prior written notice, and provide the Company with such other information as the Company may request in order to determine the effect, if any, of such transfer on the Company's status as a REIT. The foregoing restrictions on transfer and ownership will not apply if the Company's Board of Directors determines that it is no longer in the Company's best interests to attempt to qualify, or to continue to qualify, as a REIT, or that compliance with the restrictions on transfer and ownership is no longer required for the Company to qualify as a REIT.

The Company's Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a person from certain of the limits described above and may establish or increase an excepted holder limit for such person. The person seeking an exemption must provide to the Board of Directors any such representations, covenants and undertakings as the Board of Directors may deem appropriate in order to conclude that granting the exemption and/or establishing or increasing an excepted holder limit, as the case may be, will not cause the Company to fail to qualify as a REIT. The Company's Board of Directors may also require a ruling from the IRS or an opinion of counsel in order to determine that granting the exemption will not cause the Company to lose its qualification as a REIT. In connection with granting a waiver of the ownership limit or creating an excepted holder limit or at any other time, the Company's Board of Directors may from time to time increase or decrease the ownership limit, subject to certain restrictions.

### **Common Stock Issuances**

During July 2012, Bimini acquired 4,110 shares of common stock of the Company in satisfaction of an amount due to Bimini at June 30, 2012 of approximately \$411,000 for prior management fees, overhead allocations and direct expense reimbursements.

On February 20, 2013, Orchid completed the IPO of its common stock in which it sold 2,360,000 shares of its common stock and raised gross proceeds of \$35,400,000.

Orchid completed a secondary offering of 1,800,000 common shares on January 23, 2014 at a price of \$12.50 per share. The underwriters exercised their overallotment option in full for an additional 270,000 shares on January 29, 2014. The net proceeds to Orchid were approximately \$24,200,000. These shares and net proceeds are not reflected in our balance sheet at December 31, 2013.

### **Stock Dividend**

On February 14, 2013, Orchid's Board of Directors authorized and we declared a stock dividend whereby 5.37 shares of common stock were issued for each share of common stock outstanding. The 827,555 shares distributed pursuant to this dividend were issued to Bimini on February 20, 2013, immediately prior to the Company's IPO.

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### Cash Dividends

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

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Per Share Amount</u>	<u>Total</u>
March 8, 2013	March 25, 2013	March 27, 2013	\$ 0.135	\$451,125
April 10, 2013	April 25, 2013	April 30, 2013	0.135	451,125
May 9, 2013	May 28, 2013	May 31, 2013	0.135	451,125
June 10, 2013	June 25, 2013	June 28, 2013	0.135	451,125
July 9, 2013	July 25, 2013	July 31, 2013	0.135	451,125
August 12, 2013	August 26, 2013	August 30, 2013	0.135	451,125
September 10, 2013	September 25, 2013	September 30, 2013	0.135	451,125
October 10, 2013	October 25, 2013	October 31, 2013	0.135	451,125
November 12, 2013	November 25, 2013	November 27, 2013	0.135	451,125
December 10, 2013	December 26, 2013	December 30, 2013	0.180	601,500
(1)January 9, 2014	January 27, 2014	January 31, 2014	0.180	925,500
(1)February 11, 2014	February 25, 2014	February 28, 2014	0.180	974,100

(1) The effect of the dividends declared during 2014 is not reflected in the Company's financial statements as of December 31, 2013.

### NOTE 6. 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. To date, no awards have been made under the Incentive Plan.

### NOTE 7. 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 December 31, 2013.

### NOTE 8. INCOME TAXES

As discussed in Note 1, the Company will elect and intends to qualify to be taxed as a REIT. As a REIT, 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 shareholders 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 shareholders, 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. It is generally the Company's policy to distribute to its shareholders all of the Company's REIT taxable income.

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REIT taxable income (loss) is computed in accordance with the Code, which is different than the Company's financial statement net income (loss) computed in accordance with GAAP. All of the Company's estimated REIT taxable income or loss prior to the completion of the Company's IPO is included in the consolidated tax return of Bimini.

The Company has elected to treat approximately \$0.1 million of the January 2014 dividend as having been paid with respect to 2013 in order to reduce REIT taxable income for 2013 to zero. Accordingly, no income tax provision was recorded for 2013.

As of December 31, 2013, Orchid had approximately \$5.2 million of capital loss carryforwards that can be utilized to offset future capital gains.

In general, common stock dividends declared by the Company will be considered ordinary income to stockholders for income tax purposes. From time to time, a portion of the Company's dividends may be characterized as capital gains or return of capital. For the tax period ended December 31, 2013, all income distributed in the form of dividends declared is considered characterized as ordinary income.

### **NOTE 9. EARNINGS PER SHARE (EPS)**

The table below reconciles the numerator and denominator of EPS for the years ended December 31, 2013 and 2012.

*(in thousands, except per-share information)*

	<u>2013</u>	<u>2012</u>
<b>Basic and diluted EPS per common share:</b>		
Numerator for basic and diluted EPS per common share:		
Net (loss) income — Basic and diluted	\$ (698)	\$ 534
Weighted average common shares:		
Common shares outstanding at the balance sheet date	3,342	154
Common shares to be distributed as a stock dividend	—	828
Effect of weighting	<u>(330)</u>	<u>—</u>
Weighted average shares-basic and diluted	<u>3,012</u>	<u>982</u>
(Loss) income per common share:		
Basic and diluted	<u>\$ (0.23)</u>	<u>\$0.54</u>

On February 14, 2013, Orchid's Board of Directors declared a stock dividend whereby 5.37 shares of common stock were issued for each share of common stock outstanding. The 827,555 shares distributed as the dividend were issued to Bimini on February 20, 2013, immediately prior to Orchid's IPO. For the year ended December 31, 2012, the 981,665 common shares, which includes the 154,110 shares of common stock outstanding at December 31, 2012 and the 827,555 shares distributed as a stock dividend, is used for the EPS computation, as Bimini has been the sole stockholder during the entire period.

### **NOTE 10. 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

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

RMBS and Eurodollar futures contracts were recorded at fair value on a recurring basis during the years ended December 31, 2013 and 2012. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. The following table presents financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012:

(in thousands)

	<u>Fair Value Measurements</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>December 31, 2013</b>				
Mortgage-backed securities	\$ 351,223	\$ —	\$ 351,223	\$ —
Eurodollar futures contracts	<u>2,446</u>	<u>2,446</u>	<u>—</u>	<u>—</u>
<b>December 31, 2012</b>				
Mortgage-backed securities	\$ <u>115,380</u>	\$ —	\$ <u>115,380</u>	\$ —

During the years ended December 31, 2013 and 2012, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

## NOTE 11. RELATED PARTY TRANSACTIONS

### Management Agreement

The Company entered into a management agreement with Bimini, which provided for an initial term through December 31, 2011 with automatic one-year extension options. The agreement was extended under the



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option to December 31, 2013, but was terminated at the completion of the Company's IPO on February 20, 2013. At the completion of the IPO, the Company entered into a management agreement with the Manager, which provides for an initial term through February 20, 2016 with automatic one-year extensions and is subject to certain termination rights. Under the terms of the management agreement, Bimini Advisors will be responsible for administering the business activities and day-to-day operations of the Company. Bimini Advisors will receive a monthly management fee in the amount of:

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

The Company is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf. In addition, once the Company's Equity, as defined in the management agreement, exceeds \$100 million for the first time, Bimini Advisors will begin allocating to the Company, its pro rata portion of certain overhead costs as defined in the management agreement. Should the Company terminate the management agreement without cause, it shall pay to Bimini Advisors a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the initial term or automatic renewal term.

The Company was obligated to reimburse Bimini for its costs incurred under the original management agreement. In addition, the Company was required to pay Bimini a monthly fee of \$7,200, which represents an allocation of overhead expenses for items that include, but are not limited to, occupancy costs, insurance and administrative expenses. These expenses were allocated based on the ratio of the Company's assets and Bimini's consolidated assets. Total expenses recorded during the years ended December 31, 2013 and 2012 for the management fee and costs incurred was approximately \$679,000 and \$335,000, respectively.

At December 31, 2013 and December 31, 2012, the net amount due (to) from affiliates was approximately (\$82,000) and \$45,000, respectively.

### **Payment of Certain Offering Expenses**

Bimini Advisors has paid, or has reimbursed Orchid, for all offering expenses in connection with the Company's IPO. During the year ended December 31, 2012, these expenses were approximately \$0.2 million. During the year ended December 31, 2013, Bimini Advisors paid additional expenses related to this offering of approximately \$3.0 million. In addition, during the year ended December 31, 2012, Bimini Advisors paid certain expenses totaling approximately \$0.8 million on behalf of the Company associated with a failed merger attempt. The Company has no obligation or intent to reimburse Bimini Advisors, either directly or indirectly, for the offering costs or attempted merger costs, therefore they are not included in the Company's financial statements.

### **Board Memberships**

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

### **Consulting Agreement**

In September 2010, the Company entered into a consulting agreement with W Coleman Bitting, who became one of the Company's independent directors in February 2013. The terms of the consulting agreement

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provided that Mr. Bitting would advise the Company with respect to financing alternatives, business strategies and related matters as requested during the term of the agreement. In exchange for his services, the consulting agreement provided that the Company pay Mr. Bitting an hourly fee of \$150 and reimburse him for all out-of-pocket expenses reasonably incurred in the performance of his services. During years ended December 31, 2013 and 2012, the Company paid Mr. Bitting approximately \$3,800 and \$30,400, respectively, under this agreement. Mr. Bitting's consulting agreement was terminated upon completion of the Company's IPO. The total compensation Mr. Bitting received under the consulting agreement was approximately \$115,000.

Until \_\_\_\_\_, 2014 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to its unsold allotments or subscriptions.

## Shares



## Common Stock

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Prospectus

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**Ladenburg Thalmann & Co. Inc.**

, 2014

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**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 31. Other Expenses of Issuance and Distribution.**

The following table itemizes the expenses incurred by us in connection with the issuance and registration of the securities being registered hereunder. All amounts shown are estimates except the Securities and Exchange Commission registration fee.

Securities and Exchange Commission registration fee	\$4,637
FINRA filing fee	5,900
Printing and engraving fees	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer Agent and Registrar fees	*
Miscellaneous expenses	*
Total	<u>\$ *</u>

\* To be furnished by amendment.

**Item 32. Sales to Special Parties.**

See response to Item 33.

**Item 33. Recent Sales of Unregistered Securities.**

On August 23, 2010, November 3, 2010, November 12, 2010, November 30, 2010, December 7, 2010, December 17, 2010, December 31, 2010, March 28, 2011, March 31, 2011, July 12, 2011 and July 13, 2011, Bimini Capital Management, Inc. made aggregate capital contributions of \$15,000,000. These capital contributions were made as consideration to purchase 150,000 shares of our common stock at a price of \$100 per share, which were issued on April 29, 2011 and July 8, 2011 in reliance on the exemption from registration under the Securities Act of 1933, as amended, or the Securities Act, afforded by Section 4(2) of the Securities Act. During July 2012, Bimini acquired 4,110 additional shares at a price of \$100 per share in satisfaction of amounts owed to Bimini at June 30, 2012 of approximately \$411,000 for prior management fees, overhead allocations and direct expense reimbursements in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act.

**Item 34. Indemnification of Directors and Officers.**

The Maryland General Corporation Law ("MGCL") permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among

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others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received by such director or officer, unless in either case a court orders indemnification, and then only for expenses. In addition, the MGCL permits a Maryland corporation to advance reasonable expenses to a director or officer upon its receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of such a proceeding to:

- any present or former director or officer of the Company who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity; and
- any individual who, while a director or officer of the Company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us, with the approval of our Board of Directors, to indemnify and advance expenses to any individual who served our predecessor in any of the capacities described above and to any employee or agent of the Company or our predecessor.

We have entered into indemnification agreements with each of our directors and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Item 35. *Treatment of Proceeds from Stock Being Registered.***

None of the proceeds of this offering will be credited to an account other than the appropriate capital share account.

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### **Item 36. Financial Statements and Exhibits.**

(A) Financial Statements. See page F-1 for an index to the financial statements included in this registration statement.

(B) Exhibits. The following is a complete list of exhibits filed as part of the registration statement, which are incorporated herein:

<u>Exhibit</u>	<u>Description</u>
1.1***	Form of Underwriting Agreement by and among Orchid Island Capital, Inc. and the underwriters named therein
3.1*	Articles of Amendment and Restatement of Orchid Island Capital, Inc.
3.2*	Amended and Restated Bylaws of Orchid Island Capital, Inc.
4.1*	Specimen Certificate of common stock of Orchid Island Capital, Inc.
5.1****	Opinion of Venable LLP as to the legality of the securities being registered
8.1***	Opinion of Hunton & Williams LLP as to certain U.S. federal income tax matters
10.1*	Form of Management Agreement
10.2*	Form of Investment Allocation Agreement
10.3*†	2012 Equity Incentive Plan
10.4*†	Form of Indemnification Agreement
10.5*	Form of Master Repurchase Agreement
23.1****	Consent of BDO USA, LLP
23.2****	Consent of Venable LLP (included in Exhibit 5.1)
23.3****	Consent of Hunton & Williams LLP (included in Exhibit 8.1)
24.1**	Power of Attorney
<b>101.INS****</b>	XBRL Instance Document (filed herewith).
<b>101.SCH****</b>	XBRL Taxonomy Extension Schema (filed herewith).
<b>101.CAL****</b>	XBRL Taxonomy Calculation Linkbase (filed herewith).
<b>101.DEF****</b>	XBRL Taxonomy Extension Definition Linkbase (filed herewith).
<b>101.LAB****</b>	XBRL Taxonomy Extension Label Linkbase (filed herewith).
<b>101.PRE****</b>	XBRL Taxonomy Extension Presentation Linkbase (filed herewith).

\* Incorporated by reference to our Registration Statement on Form S-11 filed with the Securities and Exchange Commission (File No. 333-184538).

\*\* Previously filed.

\*\*\* Filed herewith.

\*\*\*\* These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

† Compensatory plan or arrangement.

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**Item 37. Undertakings.**

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to directors, officers or controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance under Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that the registrant meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vero Beach, in the State of Florida, on this 7<sup>TH</sup> day of March, 2014.

ORCHID ISLAND CAPITAL, INC.

By:           /s/ ROBERT E. CAULEY            
Name: Robert E. Cauley  
Title: Chairman, Chief Executive Officer  
and Director

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on the 7<sup>TH</sup> day of March, 2014.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ROBERT E. CAULEY</u> Robert E. Cauley	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2014
<u>/s/ G. HUNTER HAAS, IV</u> G. Hunter Haas, IV	Chief Financial Officer and Director (Principal Financial Officer)	March 7, 2014
<u>/s/ JERRY SINTES</u> Jerry Sintes	Controller (Principal Accounting Officer)	March 7, 2014
<u>*</u> W Coleman Bitting	Independent Director	March 7, 2014
<u>*</u> John B. Van Heuvelen	Independent Director	March 7, 2014
<u>*</u> Frank P. Filippis	Independent Director	March 7, 2014
<u>*</u> Ava L. Parker	Independent Director	March 7, 2014

\*By:           /s/ ROBERT E. CAULEY            
Robert E. Cauley  
As Attorney-in-Fact



**EXHIBIT INDEX**

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† Compensatory plan or arrangement.

[—] Shares

Orchid Island Capital, Inc.

Common Stock

UNDERWRITING AGREEMENT

[—], 2014

Ladenburg Thalmann & Co. Inc.  
As Representative of the several  
Underwriters named in Schedule 1 attached hereto,  
570 Lexington Avenue  
12<sup>th</sup> Floor  
New York, NY 10022

Ladies and Gentlemen:

Orchid Island Capital, Inc., a Maryland corporation (the “**Company**”), proposes to issue and sell, subject to the terms hereto, [—] shares (the “**Firm Stock**”) of the Company’s common stock, par value \$0.01 per share (the “**Common Stock**”). In addition, the Company proposes to grant to the underwriters (the “**Underwriters**”) named in Schedule 1 attached to this agreement (this “**Agreement**”) an option to purchase up to [—] additional shares of the Common Stock on the terms set forth in Section 3 (the “**Option Stock**”). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the “**Stock**.” This is to confirm the agreement concerning the purchase of the Stock from the Company by the Underwriters.

The Company is managed by Bimini Advisors, LLC (the “**Manager**” and, together with the Company, the “**Transaction Entities**”), a Maryland limited liability company and wholly owned subsidiary of Bimini Capital Management, Inc. (“**Bimini**”), pursuant to a management agreement between the Company and the Manager (the “**Management Agreement**”) entered into on February 20, 2013. On February 20, 2013 (i) the Company, the Manager and Bimini entered into an investment allocation agreement (the “**Investment Allocation Agreement**”), and (ii) the Manager and Bimini entered into an overhead sharing agreement (the “**Overhead Sharing Agreement**”). In connection with the offering of the Stock, (i) each of the directors and officers of the Company will enter into lock-up agreements in the form of Exhibit A-1 hereto, with an effective date as of the Initial Delivery Date (as defined below) and (ii) Bimini will enter into a lock-up agreement in the form of Exhibit A-2 hereto, with an effective date as of the Initial Delivery Date. Complete and correct copies of each of the Management Agreement, Investment Allocation Agreement and Overhead Sharing Agreement were previously filed with the Securities and Exchange Commission (the “**Commission**”) as exhibits to the Company’s Registration Statement (No. 333-184538) for its initial public offering of Common Stock.

1. *Representations, Warranties and Agreements of the Company.* The Company represents and warrants to each Underwriter as of the date hereof, the Applicable Time and each Delivery Date (as defined below), and agrees with each Underwriter that:

(a) A registration statement on Form S-11 (No. 333-193959) relating to the Stock (as amended as of the Effective Date (as defined below), including any Preliminary Prospectus or the Prospectus and all exhibits to such registration statement, the “**Registration Statement**”) has (i) been prepared by the Company in conformity with the requirements of the Securities Act and the rules and regulations (the “**Rules and Regulations**”) of the Commission thereunder; (ii) been filed with the Commission under the Securities Act; and (iii) become effective under the Securities Act. Copies of the Registration Statement and any amendment thereto have been delivered by the Company to you as the representative (the “**Representative**”) of the Underwriters. As used in this Agreement:

(i) “**Applicable Time**” means 3:30 p.m. (New York City time) on [—], 2014;

(ii) “**Effective Date**” means the date and time as of which the Registration Statement was declared effective by the Commission;

(iii) “**Issuer Free Writing Prospectus**” means each “free writing prospectus” (as defined in Rule 405 of the Rules and Regulations) prepared by or on behalf of the Company or used or referred to by the Company in connection with the offering of the Stock;

(iv) “**Preliminary Prospectus**” means any preliminary prospectus relating to the Stock included in the Registration Statement or filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations;

(v) “**Pricing Disclosure Package**” means, as of the Applicable Time, the most recent Preliminary Prospectus, together with the information included in Schedule 3 hereto and each Issuer Free Writing Prospectus listed on Schedule 3 hereto on or before the Applicable Time; and

(vi) “**Prospectus**” means the final prospectus relating to the Stock, as filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations.

Any reference to the “**most recent Preliminary Prospectus**” shall be deemed to refer to the latest Preliminary Prospectus included in the Registration Statement or filed pursuant to Rule 424(b) prior to or on the date hereof. Any reference herein to the term “Registration Statement” shall be deemed to include the abbreviated registration statement to register additional shares of Common Stock under Rule 462(b) of the Rules and Regulations (the “**Rule 462(b) Registration Statement**”). The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending the effectiveness of the Registration Statement, and no proceeding or examination for such purpose has been instituted or threatened by the Commission.

(b) The Company was not at the time of initial filing of the Registration Statement and at the earliest time thereafter that the Company or another offering participant made a *bona fide* offer (within the meaning of Rule 164(h)(2) of the Rules and Regulations) of the Stock, is not on the date hereof and will not be on the applicable Delivery Date an “ineligible issuer” (as defined in Rule 405 of the Rules and Regulations).

(c) The Registration Statement conformed and will conform in all material respects on the Effective Date and on the applicable Delivery Date, and any amendment to the Registration Statement filed after the date hereof will conform in all material respects when filed, to the requirements of the Securities Act and the Rules and Regulations. The most recent Preliminary Prospectus conformed, and the Prospectus will conform, in all material respects when filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations and on the applicable Delivery Date to the requirements of the Securities Act and the Rules and Regulations.

(d) The Registration Statement did not, as of the Effective Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Registration Statement in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information is specified in Section 10(e).

(e) The Prospectus will not, as of its date and on the applicable Delivery Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information is specified in Section 10(e).

(f) The Pricing Disclosure Package did not, as of the Applicable Time, contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that no representation or warranty is made as to information contained in or omitted from the Pricing Disclosure Package in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information is specified in Section 10(e).

(g) Each Issuer Free Writing Prospectus (including, without limitation, any road show that is a free writing prospectus under Rule 433), when considered together with the Pricing Disclosure Package as of the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) Each Issuer Free Writing Prospectus conformed or will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations on the date of first use, and the Company has complied with all prospectus delivery and any filing requirements applicable to such Issuer Free Writing Prospectus pursuant to the Rules and Regulations. The Company has not made any offer relating to the Stock that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Representative. The Company has retained in accordance with the Rules and Regulations all Issuer Free Writing Prospectuses that were not required to be filed pursuant to the Rules and Regulations. The Company has taken all actions necessary so that any “road show” (as defined in Rule 433 of the Rules and Regulations) in connection with the offering of the Stock will not be required to be filed pursuant to the Rules and Regulations.

(i) The Company has complied to the Commission’s satisfaction with all requests of the Commission for additional or supplemental information. No stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated or threatened by the Commission.

(j) BDO USA, LLP (“**BDO**”), whose report appears in the Registration Statement, and is included in the Pricing Disclosure Package and the Prospectus, are independent public accountants with respect to the Company as required by the Securities Act, the Rules and Regulations and the Public Company Accounting Oversight Board (including the rules and regulations promulgated by such entity, the “**PCAOB**”). BDO has not during the periods covered by the financial statements included in the Registration Statement and in the Pricing Disclosure Package and Prospectus, provided to the Company any non-audit services, as such term is defined in Section 10A(g) of the Securities Exchange Act of 1934, as amended (“**Exchange Act**”).

(k) The Company has been duly organized, is validly existing and in good standing as a corporation under the laws of the State of Maryland with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement, Pricing Disclosure Package and Prospectus. The Company is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the business, earnings, condition (financial or otherwise), results of

operations, stockholders' equity, properties or prospects of the Company (a "**Material Adverse Effect**"). The Company has no subsidiaries and does not own or control, directly or indirectly, any corporation, association or other entity.

(l) The Company has an authorized and outstanding capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable, conform to the description thereof contained in the Registration Statement, Pricing Disclosure Package and Prospectus and were issued in compliance with federal and state securities laws and not in violation of any preemptive right, resale right, right of first refusal or similar right. The Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder conform in all material respects to the descriptions thereof contained in the Prospectus. Except as disclosed in the Registration Statement, the Pricing Disclosure Package or the Prospectus, no options, warrants or other rights to purchase or exchange any securities for shares of the Company's capital stock are outstanding.

(m) The Stock has been duly authorized and, upon payment and delivery in accordance with this Agreement, will be validly issued, fully paid and non-assessable, will conform to the description thereof contained in the Registration Statement, Pricing Disclosure Package and Prospectus, will be issued in compliance with federal and state securities laws and will be free of preemptive rights, rights of first refusal and similar rights pursuant to statute, contract or the Company's charter or bylaws and, except as disclosed in the Registration Statement, the Pricing Disclosure Package and the Prospectus, free of any restriction upon the voting or transfer thereof pursuant to the Maryland General Corporation Law or the Company's charter or bylaws or any agreement or instrument to which the Company is a party.

(n) The Company has full right, power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all action required to be taken for the due and proper authorization, execution and delivery by it of this Agreement and the consummation by it of the transactions contemplated hereby has been duly and validly taken.

(o) The Management Agreement and Investment Allocation Agreement are in full force and effect as of the date hereof, have not been amended or modified since originally executed by the parties thereto, the Company is not in breach of any provision of any such agreement and the Company has not waived any obligation, duty or right thereunder.

(p) This Agreement has been duly authorized, executed and delivered by the Company. This Agreement constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or by equitable principles relating to enforceability.

(q) This Agreement, the Management Agreement, and Investment Allocation Agreement and the lock-up agreements contemplated hereby conform in all material respects to the descriptions thereof contained in the Registration Statement, Pricing Disclosure Package and Prospectus. The Company's operating policies, investment guidelines and other policies described in the Registration Statement, Pricing Disclosure Package and Prospectus accurately reflect in all material respects the current intentions of the Company with respect to the operation of its business, and no material deviation from such guidelines or policies is currently contemplated.

(r) The execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated by this Agreement and in the Registration Statement, Pricing Disclosure Package and Prospectus (including the issuance and sale of the Stock) and the application of the proceeds from the sale of the Stock as described under "Use of Proceeds" in the Registration Statement, Pricing Disclosure Package and Prospectus and the compliance by the Company with its obligations under this Agreement will not, whether with or without the giving of notice or passage of time, (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject; (ii) result in any violation of the provisions of the charter or by-laws of the Company; or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its properties or assets, except in the case of clauses (i) and (iii) as would not reasonably be expected to have a Material Adverse Effect.

(s) No consent, approval, authorization or order of, or filing or registration of or with, any federal, state, local or foreign court or governmental, regulatory or administrative agency or body or any self-regulatory organization or other non-governmental regulatory authority, or approval of the stockholders of the Company, is required for the execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated by this Agreement and in the Registration Statement, Pricing Disclosure Package and Prospectus (including the issuance and sale of the Stock), or the application of the proceeds from the sale of the Stock as described under "Use of Proceeds" in the Registration Statement, Pricing Disclosure Package and Prospectus, except such as have been obtained or made and except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, the Company Guide of the NYSE MKT LLC ("NYSE MKT"), applicable state or foreign securities laws or the by-laws and rules of the Financial Industry Regulatory Authority (the "FINRA").

(t) Except as described in the Registration Statement, Pricing Disclosure Package and Prospectus, there are no contracts, agreements or understandings between

the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Securities Act.

(u) (i) No person has the right, contractual or otherwise, to cause the Company to issue or sell to it any shares of Common Stock or shares of any other class or series of stock of or other equity interests of the Company, (ii) no person has any preemptive rights, resale rights, rights of first refusal or other rights to purchase any shares of Common Stock or shares of any other class or series of stock or other equity interest in the Company and (iii) no person other than the Representative (pursuant to the terms of the underwriting agreement by and among the Representative, the Transaction Entities and Bimini entered into in connection with the Company's initial public offering in February 2013) has the right to act as an underwriter or as a financial advisor to the Company in connection with the offer and sale of the Stock.

(v) The Company has not sold or issued any securities that would be integrated with the offering of the Stock contemplated by this Agreement pursuant to the Securities Act, the Rules and Regulations or the interpretations thereof by the Commission.

(w) Since the respective dates as of which information is given in the Registration Statement, Pricing Disclosure Package and Prospectus, (i) the Company has not sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, (ii) there has not been any material adverse change, or any development involving a prospective material adverse change, in or affecting the business, earnings, condition (financial or otherwise), results of operations, stockholders' equity, properties, management or prospects of the Company, and (iii) there has not been any change in the capital stock or long-term debt of the Company.

(x) Since the respective dates as of which information is given in the Registration Statement, Pricing Disclosure Package and Prospectus, the Company has not (i) incurred any liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in the ordinary course of business, (ii) entered into any material transaction not in the ordinary course of business or (iii) declared or paid any dividend or distribution on its capital stock, or redeemed any shares of any class of its capital stock.

(y) The historical financial statements (including the related notes and supporting schedules) included in the Registration Statement, Pricing Disclosure Package and Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results



of operations, stockholders' equity and cash flows of the Company at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules, if any, present fairly in accordance with GAAP the information required to be stated therein. The selected financial data and the summary selected financial data included in the Registration Statement, Pricing Disclosure Package and Prospectus present fairly the information shown therein and have been compiled on a basis consistent with the financial statements included therein and the books and records of the Company. Except as included therein, no historical or pro forma financial statements or supporting schedules are required to be included in the Registration Statement, Pricing Disclosure Package and Prospectus under the Securities Act and the Rules and Regulations.

(z) The Company does not own any real property. The Company has good and marketable title to all of its assets and personal property owned by it, free and clear of all liens, encumbrances and defects, except such as are described in the Registration Statement, Pricing Disclosure Package and Prospectus or such as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company; and all assets and real and personal property held under lease by the Company are held by it under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Company and the Company does not have notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company under any such leases or affecting or questioning the rights of the Company to be in the continued possession of the leased premises under such leases.

(aa) The Company carries, or is covered by, insurance from insurers of recognized financial responsibility in such amounts and covering such risks as is adequate for the conduct of its business and the value of its respective properties and as is customary for companies engaged in similar businesses in similar industries. All policies of insurance of the Company are in full force and effect, except where the failure to maintain such insurance would not reasonably be expected to have a Material Adverse Effect; the Company is in compliance with the terms of such policies in all material respects; and the Company has not received notice from any insurer or agent of such insurer that any expenditures (other than regular premium payments) are required or necessary to be made in order to continue such insurance; there are no claims by the Company under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; and the Company has not been refused any insurance coverage sought or applied for, and has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business.

(bb) All statistical and market-related data included in the Registration Statement, Pricing Disclosure Package and Prospectus are based on or derived from

sources that the Company reasonably and in good faith believes to be reliable and accurate in all material respects, and such data agree with the sources from which they are derived, and, to the extent required, the Company has obtained the written consent to the use of such data from such sources.

(cc) The Company is not, and as of the applicable Delivery Date and at no time during which a prospectus is required by the Securities Act to be delivered in connection with the sale of the Stock, the Company will not be, after giving effect to the offer and sale of the Stock and the application of the net proceeds therefrom as described under "Use of Proceeds" in the Registration Statement, the Pricing Disclosure Package and the Prospectus, an "investment company" or an entity "controlled" by an "investment company" within the meaning of such terms under the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (the "**Investment Company Act**").

(dd) The Company will make a timely election to be subject to taxation as a "real estate investment trust" (a "**REIT**") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (collectively, the "**Code**"). Commencing with its short taxable year ended December 31, 2013, the Company has been, and upon the sale of the Stock will continue to be, organized in conformity with the requirements for qualification and taxation as a REIT. The Company's method of operation as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus will enable the Company to continue to meet the requirements for qualification and taxation as a REIT under the Code. The Company operates in a manner which would permit it to qualify and be taxed as a REIT under the Code and the Company has no intention of changing its proposed and current method of operation or engaging in activities which would cause it to fail to qualify or make economically undesirable, its qualification as a REIT under the Code.

(ee) The description of the Company's organization and method of operation and its qualification and taxation as a REIT set forth in the Registration Statement, Pricing Disclosure Package and Prospectus is accurate and presents fairly the matters referred to therein. The Company's operating policies and investment guidelines described in the Registration Statement, Pricing Disclosure Package and the Prospectus accurately reflect in all material respects the current intentions of the Company with respect to the operation of its business, and no material deviation from such guidelines or policies is currently contemplated.

(ff) There are no actions, suits, claims, investigations or proceedings pending or, to the Company's knowledge, threatened or contemplated to which the Company or, to the Company's knowledge, any of its directors or officers is or would be a party or of which any of its properties is or would be subject at law or in equity, before or by any federal, state, local or foreign governmental, regulatory or administrative agency or body or any self-regulatory organization or other non-governmental regulatory authority that would, in the aggregate, reasonably be expected to have a Material Adverse Effect or

would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of the transactions contemplated hereby.

(gg) There are no legal or governmental proceedings or contracts or other documents of a character required to be described in the Registration Statement, Pricing Disclosure Package and Prospectus or, in the case of documents to be filed as exhibits to the Registration Statement, which are not described and filed as required. The Company does not have knowledge that any other party to any such contract, agreement or arrangement has any intention not to render full performance as contemplated by the terms thereof. Statements made in the Registration Statement, Pricing Disclosure Package and Prospectus under the caption "Description of Capital Stock," insofar as they purport to constitute a summary of the terms of the Company's common stock, and under the captions "Prospectus Summary—Overhead Sharing Agreement," "Prospectus Summary—Tax Structure," "Prospectus Summary—Our Distribution Policy," "Prospectus Summary—Restrictions on Ownership and Transfer of our Capital Stock," "Prospectus Summary—Investment Company Act Exemption," "Distribution Policy," "Business—Tax Structure," "Business—Investment Company Act Exemption," "Our Manager and the Management Agreement—Our Management Agreement," "Our Management—2012 Equity Incentive Plan," "Certain Relationships and Related Transactions," "Stock Available for Future Sale," "Certain Provisions of Maryland Law and of Our Charter and Bylaws," "Material U.S. Federal Income Tax Considerations," and "ERISA Considerations" insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(hh) No relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company, on the other hand, that is required to be described in the Registration Statement, Pricing Disclosure Package and Prospectus which is not so described.

(ii) The Company has no employees.

(jj) The Company has not been notified that any executive officer of the Company or any executive officer or key employee of the Manager, or any member of the investment team of the Company or the Manager plan to terminate his, her or their employment with his, her or their current employer. Neither the Company, the Manager nor any executive officer of the Company or executive officer or key employee of the Manager is subject to any noncompete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Company or the Manager as described in the Registration Statement, Pricing Disclosure Package and Prospectus.

(kk) (i) Each “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended (“ERISA”)) for which the Company or any member of its “Controlled Group” (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Code) would have any liability (each a “Plan”) has been maintained, in all material respects, in compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code, except for instances which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; (ii) with respect to each Plan subject to Title IV of ERISA (a) no “reportable event” (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (b) no “accumulated funding deficiency” (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (c) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (d) neither the Company or any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a “multiemployer plan”, within the meaning of Section 4001(c)(3) of ERISA); and (iii) each Plan that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(ll) Since February 20, 2013, the Company has timely filed all required federal, state, local and foreign tax returns through the date hereof, subject to permitted extensions, and has timely paid all taxes with respect to such periods, subject to permitted extensions, except in any case in which the failure to so file such tax returns or pay such taxes would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There is no tax lien, whether imposed by any federal, state, local or foreign or other taxing authority, outstanding against the assets, properties or business of the Company, except for such a tax lien for any tax, assessment, governmental or other similar charge which is not yet due and payable.

(mm) The Company (i) is not in violation of its charter or by-laws, (ii) is not in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is not in violation of any federal, state, local or foreign statute or rule, or any order, rule or regulation of any arbitrator, court or governmental, regulatory or administrative agency or body or any self-regulatory organization or other non-governmental regulatory authority having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (ii) and (iii), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(nn) The Company (i) makes and keeps accurate books and records and (ii) maintains and has maintained effective internal control over financial reporting as defined in Rule 13a-15 under the Exchange Act and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization, (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with GAAP and to maintain accountability for its assets, (C) access to the Company's assets is permitted only in accordance with management's general or specific authorization, and (D) the recorded accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since the Company's incorporation, there has been no material weakness in the Company's internal control over financial reporting (whether or not remediated). Since the date of the latest audited financial statements included in the Registration Statement, the Pricing Disclosure Package and the Prospectus, there has been no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

(oo) (i) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act), (ii) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it will file or submit under the Exchange Act is accumulated and communicated to management of the Company, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure to be made and (iii) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(pp) Since the date of the most recent balance sheet of the Company reviewed or audited by BDO, (i) the Company has not been advised of (A) any significant deficiencies in the design or operation of internal controls that could adversely affect the ability of the Company to record, process, summarize and report financial data, or any material weaknesses in internal controls and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls of the Company, and (ii) there have been no significant changes in internal controls over financial reporting that has materially affected the Company's internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

(qq) The Company has taken all necessary actions to ensure that since the date of its initial public offering and at all times thereafter and after the date of the Registration Statement, the Company and its officers and directors, in their respective

capacities as such, have been and will be in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “**Sarbanes-Oxley Act**”).

(rr) The section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” included in the Registration Statement, Pricing Disclosure Package and Prospectus accurately and fully describes, in all material respects, (i) the accounting policies that the Company believes are the most important in the portrayal of the Company’s financial condition and results of operations and that require management’s most difficult, subjective or complex judgments (“**Critical Accounting Policies**”); (ii) the judgments and uncertainties affecting the application of Critical Accounting Policies; and (iii) the likelihood that materially different amounts would be reported under different conditions or using different assumptions and an explanation thereof.

(ss) Except as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus: (i) the Company is in compliance in all material aspects with all statutes, rules and regulations (“**Laws**”) applicable to the Company, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; (ii) the Company possesses all required permits, consents, licenses, patents, franchises, certificates, clearances, approvals, authorizations and supplements or amendment thereto (“**Authorizations**”) required by any such applicable Law and such required Authorizations are valid and in full force and effect, and the Company is not in violation of any term of any such required Authorizations, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; (iii) the Company has not received notice that the Internal Revenue Service or any other federal, state or other foreign governmental authority (“**Governmental Authority**”) has taken, is taking or intends to take action to limit, suspend, modify or revoke any such required Authorizations, or otherwise impair the rights of the holder of any such required Authorization, and neither the Company nor the Manager has any knowledge that any such Governmental Authority is considering such action or that any event has occurred that allows, or after notice or lapse of time would allow, any such limitation, suspension, modification or revocation, or other impairment of the rights of the holder of any such required Authorization, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect; and (iv) the Company has filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any such applicable Laws or any such required Authorizations and that all such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments were complete and correct in all material respects on the date filed (or were corrected or supplemented by a subsequent submission), except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(tt) The Company owns or possesses adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark

registrations, service mark registrations, copyrights, licenses, know-how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of its business as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus, and has no reason to believe that the conduct of its business will conflict with, and has not received any notice of any claim of conflict with, any such rights of others. There is no pending or, to the knowledge of the Company, threatened action, suit, proceeding, or claim by others challenging the rights of the Company in or to such rights. There is no pending or, to the Company's knowledge, threatened action, suit, proceeding, or claim by others that the Company infringes, misappropriates, or otherwise violates any such rights of others.

(uu) Except as would not, singly or in the aggregate, result in a Material Adverse Effect, (i) the Company has not violated and is not in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products, asbestos-containing materials or mold (collectively, "**Hazardous Materials**") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "**Environmental Laws**") and (ii) there are no pending or known threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company.

(vv) The Company has not, nor, to the knowledge of the Company, has any director, officer, agent, employee, affiliate or other person acting on behalf of the Company, (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; or (iii) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment. Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate or other person acting on behalf of the Company is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder; and the Company and, to the knowledge of the Company, its affiliates have instituted and maintain policies and procedures designed to ensure continued compliance therewith.

(ww) The operations of the Company have been conducted at all times in material compliance with all applicable financial recordkeeping and reporting

requirements, including the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(xx) Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“**OFAC**”); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(yy) Except as disclosed in the Registration Statement, the Pricing Disclosure Package and the Prospectus, the Company (i) does not have any material lending or other relationship with any bank or lending affiliate of any Underwriter and (ii) does not intend to use any of the proceeds from the sale of the Stock to repay any outstanding debt owed to any affiliate of any Underwriter.

(zz) The Company has not distributed and, prior to the later to occur of any Delivery Date and completion of the distribution of the Stock, will not distribute any offering material in connection with the offering and sale of the Stock other than any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus to which the Representative has consented in accordance with Sections 1(h) or 6(a)(vi) and any Issuer Free Writing Prospectus as set forth on Schedule 3 hereto.

(aaa) The Company has not taken and will not take, directly or indirectly, any action designed to or that has constituted or that could reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the shares of the Stock, and has taken no action which would directly or indirectly violate Regulation M or which would constitute a special selling effort as such term is defined under Regulation M.

(bbb) The Company has not made any direct or indirect payments (in cash, securities or any other “item of value” as defined in Rule 5110(c)(3) of FINRA’s Conduct Rules) to: (i) any person, as a finder’s fee, consulting fee or otherwise, in consideration of such person raising capital for the Company or introducing to the Company persons who raised or provided capital to the Company within the prior six months or (ii) to any person or entity that has any direct or indirect affiliation or association with any person that has been accepted by FINRA as a member of FINRA (a “**FINRA Member**”) within the six months prior to the Effective Date, other than payments to the Underwriters



pursuant to this Agreement or as otherwise described in the Prospectus. Except as described in the Prospectus, during the period beginning 180 days prior to the initial filing of the Registration Statement and ending on the Effective Date, no FINRA Member and/or any person associated or affiliated with a FINRA Member has provided any investment banking, financial advisory and/or consulting services to the Company.

(ccc) There are no outstanding loans or other extensions of credit made by the Company to any executive officer (as defined in Rule 3b-7 under the Exchange Act) or director of the Company. The Company has not taken any action prohibited by Section 402 of the Sarbanes-Oxley Act.

(ddd) Neither the Manager nor, to the knowledge of the Company, any member, officer, employee, representative or agent of the Manager or any affiliates thereof is providing services to the Company, except as described in the Registration Statement, the Pricing Disclosure Package and the Prospectus.

(eee) At the time of initial filing of the Registration Statement and any Rule 462(b) Registration Statement, the Company was, and on the date hereof the Company is, an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act (an “**Emerging Growth Company**”).

(fff) The Company (a) has not engaged in any Testing-the-Waters Communications and (b) has not authorized anyone to engage in Testing-the-Waters Communications. “**Testing-the-Waters Communications**” means any oral or written communication with potential investors undertaken in reliance on Section 5(d) of the Securities Act.

(ggg) The Company has filed in a timely manner all reports required to be filed pursuant to Sections 13(a), 13(e), 14 and 15(d) of the Exchange Act during the preceding 12 months (except to the extent that Section 15(d) requires reports to be filed pursuant to Sections 13(d) and 13(g) of the Exchange Act, which shall be governed by the next clause of this sentence); and the Company has filed in a timely manner all reports required to be filed pursuant to Sections 13(d) and 13(g) of the Exchange Act since it first became subject to the requirements of the Exchange Act, except where the failure to timely file could not reasonably be expected individually or in the aggregate to have a Material Adverse Effect.

Any certificate signed by any officer of the Company and delivered to the Representative or counsel for the Underwriters in connection with the offering of the Stock shall be deemed a representation and warranty by the Company, as to matters covered thereby, to each Underwriter.

2. *Representations and Warranties Regarding the Manager.* The Manager represents and warrants to each Underwriter as of the date hereof, the Applicable Time, and each Delivery Date, and agrees with the Underwriters that:

(a) The information regarding the Manager in the Registration Statement, Pricing Disclosure Package and Prospectus is true, correct and complete in all material respects. The Manager has no plan or intention to materially alter its investment policy with respect to the Company as described in the Registration Statement, Pricing Disclosure Package and Prospectus.

(b) The Manager has been duly organized and is validly existing and in good standing as limited liability company under the laws of the State of Maryland with full power and authority to conduct its business as described in the Registration Statement, Pricing Disclosure Package and Prospectus. The Manager is duly qualified to do business and in good standing as a foreign entity in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the business, earnings, condition (financial or otherwise), results of operations, stockholders' equity, properties or prospects of the Manager (a "**Manager Material Adverse Effect**"). The Manager has no subsidiaries and, with the exception of its relationship with the Company as the Company's investment manager pursuant to the Management Agreement, does not own or control, directly or indirectly, any corporation, association or other entity.

(c) The Management Agreement, Investment Allocation Agreement and Overhead Sharing Agreement have not been amended or modified since originally executed by the parties thereto and each is in full force and effect, the Manager is not in breach of any provision of any such agreement and the Manager has not waived any obligation, duty or right of any party thereunder.

(d) The Manager has full right, power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all action required to be taken for the due and proper authorization, execution and delivery by it of this Agreement and the consummation by it of the transactions contemplated hereby has been duly and validly taken.

(e) This Agreement has been duly authorized, executed and delivered by the Manager.

(f) This Agreement constitutes a valid and legally binding agreement of the Manager, enforceable against the Manager in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or by equitable principles relating to enforceability.

(g) Except as otherwise stated therein, since the date as of which information is given in the Registration Statement, Pricing Disclosure Package and Prospectus, there has been no Manager Material Adverse Effect.

(h) The execution, delivery and performance of this Agreement by the Manager and the consummation of the transactions contemplated hereby and the compliance by the Manager with its obligations hereunder will not, whether with or without the giving of notice or passage of time, (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Manager, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Manager is a party or by which the Manager is bound or to which any of the property or assets of the Manager is subject; (ii) result in any violation of the provisions of the charter or by-laws of the Manager; or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Manager or any of its properties or asset, except in the case of clauses (i) and (iii) as would not reasonably be expected to have a Manager Material Adverse Effect.

(i) No consent, approval, authorization or order of, or filing or registration of or with, any federal, state, local or foreign court or governmental, regulatory or administrative agency or body or any self-regulatory organization or other non-governmental regulatory authority, or approval of the members of the Manager, is required for the execution, delivery and performance by the Manager of this Agreement and the consummation of the transactions contemplated hereby and in the Registration Statement, Pricing Disclosure Package and Prospectus.

(j) There are no actions, suits, claims, investigations or proceedings pending or, to the Manager's knowledge, threatened or contemplated to which the Manager or, to the Manager's knowledge, any of its members or officers is or would be a party or of which any of its properties is or would be subject at law or in equity, before or by any federal, state, local or foreign governmental, regulatory or administrative agency or body, or any self-regulatory organization or other non-governmental regulatory authority that would, in the aggregate, reasonably be expected to have a Manager Material Adverse Effect or would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of the transactions contemplated hereby.

(k) (i) The Manager is and at all times has been in compliance in all material aspects with all Laws applicable to the Manager, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; (ii) the Manager possesses all such required Authorizations and such required Authorizations are valid and in full force and effect, and the Manager is not in violation of any term of any such required Authorizations, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; (iii) the Manager has not received notice that any such Governmental Authority has taken, is taking or intends to take action to limit, suspend, modify or revoke any such required Authorizations, or otherwise impair the rights of the holder of any such required Authorization, and the Manager has no knowledge that any such Governmental Authority is considering such

action or that any event has occurred that allows, or after notice or lapse of time would allow, any such limitation, suspension, modification or revocation, or other impairment of the rights of the holder of any such required Authorization, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect; and (iv) the Manager has filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any such applicable Laws or any such required Authorizations and that all such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments were complete and correct in all material respects on the date filed (or were corrected or supplemented by a subsequent submission), except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(l) The Manager has the financial and other resources available to it necessary for the performance of its services and obligations as contemplated in the Management Agreement, Registration Statement, Pricing Disclosure Package and Prospectus and under this Agreement.

(m) The Manager has not been notified that any executive officer of the Company or any executive officer or key employee of the Manager, or any member of the investment teams of the Company or the Manager plan to terminate his, her or their employment with his, her or their current employer. Neither the Manager nor any executive officer or key employee of the Manager is subject to any noncompete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Company or the Manager as described in the Management Agreement, the Registration Statement, the Pricing Disclosure Package or the Prospectus.

(n) The Manager (i) is not in violation of its articles of organization or limited liability company operating agreement, (ii) is not in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is not in violation of any federal, state, local or foreign statute or rule, or any order, rule or regulation of any arbitrator, court or governmental, regulatory or administrative agency or body or any self-regulatory organization or other non-governmental regulatory authority having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (ii) and (iii), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Manager Material Adverse Effect.

(o) The Manager is not prohibited by the Investment Advisers Act of 1940, as amended, or the rules and regulations thereunder, from performing under the Management Agreement as contemplated by the Management Agreement and the Registration Statement, the Preliminary Prospectus and the Prospectus.

(p) Neither the Manager nor any of its affiliates (within the meaning of Rule 144 under the Securities Act) has taken or will take, directly or indirectly, any action designed to or that has constituted or that could reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the shares of the Stock.

Any certificate signed by any officer of the Manager and delivered to the Representative or counsel for the Underwriters shall be deemed a representation and warranty by the Manager as to matters covered thereby, to each Underwriter.

### *3. Purchase of the Stock by the Underwriters.*

(a) Subject to the terms and conditions and upon the basis of the representations, warranties and agreements herein set forth, the Company agrees to issue and sell to the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase at a price of \$[—] per share (a [—]% discount to the public offering price) the shares of Firm Stock set forth opposite such Underwriter's name in Schedule I attached hereto, subject to adjustment in accordance with Section 11 hereof. Each Underwriter agrees, severally and not jointly, to offer the shares of Firm Stock to the public as set forth in the Prospectus.

(b) The Company hereby grants to the Representative and its designees an option to purchase from the Company, solely for the purpose of covering over-allotments in connection with the distribution and sale of the Firm Stock, all or any portion of the Option Stock for a period of thirty (30) days from the date hereof at the purchase price per share set forth in Section 3(a) hereof less an amount per share equal to any dividends or distributions declared by the Company and payable on each share of the Firm Stock but not payable on any of the Option Stock. Option Stock shall be purchased from the Company for the accounts of the several Underwriters in proportion to the number of Firm Stock set forth opposite such Underwriter's name in Schedule I hereto, except that the respective purchase obligations of each Underwriter shall be adjusted by the Representative so that no Underwriter shall be obligated to purchase fractional Option Stock. No Option Stock shall be sold and delivered unless the Firm Stock previously have been, or simultaneously are, sold and delivered.

*4. Offering of Stock by the Underwriters.* Upon authorization by the Representative of the release of the Firm Stock, the several Underwriters propose to offer the Firm Stock for sale upon the terms and conditions to be set forth in the Prospectus.

5. *Delivery of and Payment for the Stock.* Delivery of and payment for the Firm Stock shall be made at 10:00 A.M., New York City time, on the third full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representative and the Company. This date and time are sometimes referred to as the “**Initial Delivery Date.**” Delivery of the Firm Stock shall be made to the Representative for the account of each Underwriter against payment by the several Underwriters through the Representative and of the respective aggregate purchase prices of the Firm Stock being sold by the Company to or upon the order of the Company of the purchase price by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Firm Stock through the facilities of DTC unless the Representative shall otherwise instruct.

The option granted in Section 3 will expire 30 days after the date of this Agreement and may be exercised in whole or from time to time in part by written notice being given to the Company by the Representative; *provided* that if such date falls on a day that is not a business day, the option granted in Section 3 will expire on the next succeeding business day. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Representative, when the shares of Option Stock are to be delivered; *provided, however*, that this date and time shall not be earlier than the Initial Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. Each date and time the shares of Option Stock are delivered is sometimes referred to as an “**Option Stock Delivery Date,**” and the Initial Delivery Date and any Option Stock Delivery Date are sometimes each referred to as a “**Delivery Date.**”

Delivery of the Option Stock by the Company and payment for the Option Stock by the several Underwriters through the Representative shall be made at 10:00 A.M., New York City time, on the date specified in the corresponding notice described in the preceding paragraph or at such other date or place as shall be determined by agreement between the Representative and the Company. On the Option Stock Delivery Date, the Company shall deliver or cause to be delivered the Option Stock to the Representative for the account of each Underwriter against payment by the several Underwriters through the Representative and of the respective aggregate purchase prices of the Option Stock being sold by the Company to or upon the order of the Company of the purchase price by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Option Stock through the facilities of DTC unless the Representative shall otherwise instruct.

6. *Further Agreements of the Company and the Underwriters.* (a) The Company agrees:

(i) To prepare the Prospectus in a form approved by the Representative and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statement or the Prospectus prior to the last Delivery Date except as provided herein; to advise the Representative, promptly after it receives notice thereof, of the time when any amendment or supplement to the Registration Statement or the Prospectus has been filed and to furnish the Representative with copies thereof; to advise the Representative, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of the Prospectus or any Issuer Free Writing Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding or examination for any such purpose or of any request by the Commission for the amending or supplementing of the Registration Statement, the Prospectus or any Issuer Free Writing Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of the Prospectus or any Issuer Free Writing Prospectus or suspending any such qualification, to use promptly its reasonable best efforts to obtain its withdrawal;

(ii) To furnish promptly to the Representative and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(iii) To deliver promptly to the Representative such number of the following documents as the Representative shall reasonably request:

(A) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement), (B) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus and (C) each Issuer Free Writing Prospectus; and, if the delivery of a prospectus is required at any time after the date hereof in connection with the offering or sale of the Stock or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representative and, upon its request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representative may from time to time reasonably request of an amended or supplemented Prospectus that will correct such statement or omission or effect such compliance;

(iv) To file promptly with the Commission any amendment or supplement to the Registration Statement or the Prospectus that may, in the judgment of the Company or the Representative, be required by the Securities Act or requested by the Commission;

(v) Prior to filing with the Commission any amendment or supplement to the Registration Statement or the Prospectus, to furnish a copy thereof to the Representative and counsel for the Underwriters and obtain the consent of the Representative to the filing;

(vi) Not to make any offer relating to the Stock that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Representative.

(vii) To comply with all applicable requirements of Rule 433 with respect to any Issuer Free Writing Prospectus; and if at any time after the date hereof any events shall have occurred as a result of which any Issuer Free Writing Prospectus, as then amended or supplemented, would conflict with the information in the Registration Statement, the Registration Statement, Pricing Disclosure Package and Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or, if for any other reason it shall be necessary to amend or supplement any Issuer Free Writing Prospectus, to notify the Representative and, upon its request, to file such document and to prepare and furnish without charge to each Underwriter as many copies as the Representative may from time to time reasonably request of an amended or supplemented Issuer Free Writing Prospectus that will correct such conflict, statement or omission or effect such compliance;

(viii) The Company will timely file such reports pursuant to the Exchange Act as are necessary in order to make generally available to its security holders as soon as reasonably practicable after the Effective Date an earnings statement of the Company (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);

(ix) To use its best efforts to meet the requirements for qualification and taxation as a REIT under the Code for its taxable year ending December 31, 2014 and, unless the Board of Directors determines that it is no longer in the best interests of the Company or its stockholders to maintain the Company's qualification as a REIT, thereafter;

(x) To not be or become, at any time prior to the expiration of three years after the date of this Agreement, an "investment company," as such term is defined in the Investment Company Act; provided, however, that this provision shall not be applicable and shall have no legal force or effect in the event that the Company becomes deemed an "investment company" solely as a result of the Commission amending, revising, rescinding or otherwise modifying the Investment Company Act, the rules and regulations promulgated thereunder or the Commission's interpretations and guidance relating thereto after the Initial Delivery Date;



(xi) For a period commencing on the date hereof and ending on the 30th day after the date of the Prospectus (the “**Lock-Up Period**”), not to, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock or securities convertible into or exchangeable for Common Stock (other than the Stock and shares issued pursuant to equity benefit plans, qualified stock option plans or other equity compensation plans existing on the date hereof including but not limited to the Orchid Island Capital, Inc. 2012 Equity Incentive Plan), or sell or grant options, rights or warrants with respect to any shares of Common Stock or securities convertible into or exchangeable for Common Stock, (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such shares of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, (3) file or cause to be filed a registration statement, including any amendments, with respect to the registration of any shares of Common Stock or securities convertible, exercisable or exchangeable into Common Stock or any other securities of the Company (other than any registration statement on Form S-8) or (4) publicly disclose the intention to do any of the foregoing, in each case without the prior written consent of the Representative, on behalf of the Underwriters, and to cause the Manager and each officer and director of the Company set forth on Schedule 2 hereto to furnish to the Representative, prior to the Initial Delivery Date, a letter or letters, substantially in the form of Exhibit A-1 hereto, and to cause Bimini to furnish to the Representative, prior to the Initial Delivery Date, a letter or letters, substantially in the form of Exhibit A-2 hereto (the “**Lock-Up Agreements**”); notwithstanding the foregoing, if (1) during the last 17 days of the Lock-Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period, then the restrictions imposed in this paragraph shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless the Representative, on behalf of the Underwriters, waives such extension in writing;

(xii) To apply the net proceeds from the sale of the Stock being sold by the Company as set forth in the Registration Statement, Pricing Disclosure Package and Prospectus under the caption, “Use of Proceeds;”

(xiii) The Company will use its best efforts to maintain the listing of the Common Stock on the NYSE MKT;

(xiv) To file all documents required to be filed with the Commission pursuant to the Exchange Act within the time periods required by the Exchange Act and the rules and regulations promulgated thereunder during the period when a Prospectus relating to the Stock is (or, but for the exception afforded by Rule 172, would be) required to be delivered under the Securities Act. Additionally, the Company shall report the use of proceeds from the issuance of the Stock as may be required under Rule 463 under the Securities Act.

(xv) Prior to the Initial Delivery Date or any subsequent Delivery Date, as the case may be, except as may be required by law, to issue no press release (other than a quarterly earnings release issued in compliance with Regulation FD under the Exchange Act) or other communication directly or indirectly and hold no press conferences with respect to the Company, the financial condition, results of operations, business, properties, assets or liabilities of the Company, or the offering of the Stock, without your prior consent.

(xvi) Not, at any time at or after the date of this Agreement, to, directly or indirectly, offer or sell any Stock by means of any "prospectus" (within the meaning of the Securities Act), or use any "prospectus" (within the meaning of the Securities Act) in connection with the offer or sale of the Shares, in each case other than the Prospectus.

(xvii) In violation of the Securities Act and the Exchange Act, not to take, directly or indirectly, any action designed, or which will constitute, or has constituted, or might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Stock.

(xviii) To maintain a transfer agent and, if necessary under the jurisdiction of formation of the Company, a Registrar for its Common Stock.

(xix) To comply with all effective applicable provisions of the Sarbanes-Oxley Act.

(xx) To notify the Representative if the Company ceases to be an Emerging Growth Company at any time prior to the completion of the Lock-Up Period.

(b) Each Underwriter severally and not jointly, covenants and agrees with the Company that such Underwriter shall not include any "issuer information" (as defined in Rule 433) in any "free writing prospectus" (as defined in Rule 405) used or referred to by such Underwriter without the prior consent of the Company (any such issuer information with respect to whose use the Company has given its consent, "**Permitted Issuer Information**"); *provided* that (i) no such consent shall be required with respect to any such issuer information contained in any document filed by the Company with the Commission prior to the use of such free writing prospectus and (ii) "issuer information," as used in this Section 6(b), shall not be deemed to include information prepared by or on behalf of such Underwriter on the basis of or derived from issuer information.

7. *Certain Agreements of the Manager.* The Manager agrees that, during the period when the Prospectus is required to be delivered under the Securities Act or the Exchange Act, it shall notify the Representative and the Company of the occurrence of any material events respecting its activities or condition, financial or otherwise, and of the Manager will forthwith supply such information to the Company as shall be necessary in the opinion of counsel to the Company and the Underwriters for the Company to prepare any necessary amendment or supplement to the Prospectus so that, as so amended or supplemented, the Prospectus will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time it is delivered to a purchaser, not misleading. The Manager agrees not to take, directly or indirectly, any action designed, or which will constitute, or has constituted, or might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Stock.

8. *Expenses.* The Company agrees, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, to pay, at the earlier of the Initial Closing Date and the date this Agreement is terminated, all costs, expenses, fees (including the Company's legal and accounting fees), stamp duties, and taxes incident to and in connection with (a) the authorization, issuance, sale and delivery of the Stock, and the preparation and printing of certificates for the Stock; (b) the preparation, printing and filing under the Securities Act of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus and any amendment or supplement thereto; (c) the distribution of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus and any amendment or supplement thereto, all as provided in this Agreement; (d) the production and distribution of this Agreement, any supplemental agreement among Underwriters, and any other related documents in connection with the offering, purchase, sale and delivery of the Stock; (e) any required review by FINRA of the terms of sale of the Stock (including related fees and expenses of counsel to the Underwriters in an amount not to exceed \$20,000); (f) the listing of the Stock on the NYSE MKT and/or any other exchange; (g) the preparation, printing and distribution of one or more versions of the Preliminary Prospectus and the Prospectus for distribution in any non-U.S. country in which the offering of Stock is made (including related fees and expenses of counsel to the Underwriters in such country); (h) the investor presentations on any "road show" undertaken in connection with the marketing of the Stock, including, without limitation, expenses associated with any electronic roadshow and travel and lodging expenses of the Company; *provided, however*, that the Representative will pay its own travel and lodging expenses; and (i) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; *provided that*, except as provided in this Section 8 and in Section 13, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel and the expenses of advertising any offering of the Stock made by the Underwriters.

9. *Conditions of Underwriters' Obligations.* The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 6(a)(i); the Company shall have complied with all filing requirements applicable to any Issuer Free Writing Prospectus used or referred to after the date hereof; the Registration Statement shall have become effective under the Securities Act; no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto, and no stop order suspending or preventing the use of any Preliminary Prospectus, any Issuer Free Writing Prospectus or the Prospectus shall have been issued by the Commission and no proceedings therefor shall have been initiated or threatened by the Commission; all requests for additional information on the part of the Commission shall have been complied with to the Representative's reasonable satisfaction; and all necessary regulatory or stock exchange approvals shall have been received.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, contains an untrue statement of a fact which, in the opinion of Graubard Miller, counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) No prospectus or amendment or supplement to the Registration Statement or Prospectus shall have been filed to which the Representative shall have objected in writing.

(d) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Stock, the Registration Statement, the Prospectus and any Issuer Free Writing Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(e) Hunton & Williams LLP shall have furnished to the Representative its written opinion, as counsel to the Company, addressed to the Underwriters and dated such Delivery Date, substantially in the form attached hereto as Exhibit B-1.

(f) Hunton & Williams LLP shall have furnished to the Representative its written opinion, as tax counsel to the Company, addressed to the Underwriters and dated such Delivery Date, substantially in the form attached hereto as Exhibit B-2.

(g) Venable LLP shall have furnished to the Representative its written opinion, as special Maryland law counsel to the Company, addressed to the Underwriters and dated such Delivery Date, substantially in the form attached hereto as Exhibit B-3.

(h) The Representative shall have received from Graubard Miller, counsel for the Underwriters, such opinion or opinions, dated such Delivery Date, with respect to the issuance and sale of the Stock, the Registration Statement, the Prospectus and the Pricing Disclosure Package and other related matters as the Representative may reasonably require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(i) At the time of execution of this Agreement, the Representative shall have received from BDO a letter, in form and substance satisfactory to the Representative, addressed to the Underwriters and dated the date hereof (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, and (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Registration Statement, Pricing Disclosure Package and Prospectus, as of a date not more than three days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings.

(j) With respect to the letter of BDO referred to in the preceding paragraph and delivered to the Representative concurrently with the execution of this Agreement (the "**initial letter**"), the Company shall have furnished to the Representative a letter (the "**bring-down letter**") of such accountants, addressed to the Underwriters and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(k) The Company shall have furnished to the Representative a certificate, dated such Delivery Date, of its Chief Executive Officer and its Chief Financial Officer in the form set forth in Exhibit C-1 hereto.

(l) The Manager shall have furnished to the Representative a certificate, dated such Delivery Date, of its Chief Executive Officer and its Chief Financial Officer in the form set forth in Exhibit C-2 hereto.

(m) The Company shall have furnished to the Representative a certificate, dated such Delivery Date, of its Chief Financial Officer substantially in the form set forth in Exhibit C-3 hereto.

(n) (i) The Company shall not have sustained, since the date of the Pricing Disclosure Package, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company, or any development involving a prospective change, in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management, business or prospects of the Company and its subsidiaries taken as a whole, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(o) Subsequent to the execution and delivery of this Agreement (i) no downgrading shall have occurred in the rating accorded to the debt securities or preferred stock of the Company, if any, by any "nationally recognized statistical rating organization" (as that term is defined by the Commission for purposes of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act), and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities or preferred stock.

(p) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, the NYSE MKT or the NASDAQ Stock Market, or trading in any securities of the Company on the NYSE MKT, shall have been suspended or materially limited or the settlement of such trading generally shall have been materially disrupted or minimum prices shall have been established on the NYSE MKT by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, including, without limitation, as a result of terrorist activities after the date hereof (or the effect of international conditions on the financial markets in the United States shall be such), as to make it, in the judgment of the Representative, impracticable or inadvisable to proceed with the public offering or delivery of the Stock being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(q) The Company will use its best efforts to effect the listing of the Stock on the NYSE MKT prior to the Initial Delivery Date, and, upon such listing, will use its best efforts to maintain such listing and satisfy the requirements for such continued listing.

(r) FINRA shall have confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements relating to the offering of the Stock.

(s) The Lock-Up Agreements between the Representative and (i) the officers and directors of the Company set forth on Schedule 2 and (ii) Bimini, delivered to the Representative on or before the date of this Agreement, shall be in full force and effect on such Delivery Date.

(t) On such Delivery Date, each of the Investment Allocation Agreement and the Overhead Sharing Agreement shall be in full force and effect.

(u) On such Delivery Date, the Management Agreement shall be in full force and effect.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

#### 10. *Indemnification and Contribution.*

(a) The Company indemnify and hold harmless each Underwriter, its directors, officers and employees and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Stock), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in (A) any Preliminary Prospectus, the Registration Statement, the Prospectus or in any amendment or supplement thereto, (B) the Pricing Disclosure Package or any Issuer Free Writing Prospectus or in any amendment or supplement thereto, (C) in any Testing-the-Waters Communication, (D) any Permitted Issuer Information used or referred to in any “free writing prospectus” (as defined in Rule 405) used or referred to by any Underwriter, (E) any “road show” (as defined in Rule 433) not constituting an Issuer Free Writing Prospectus (a “**Non-Prospectus Road Show**”) or (F) any Blue Sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company for use therein) specifically for the purpose of qualifying any or all of the Stock

under the securities laws of any state or other jurisdiction (any such application, document or information being hereinafter called a “**Blue Sky Application**”) or (ii) (A) the omission or alleged omission to state in the Registration Statement any material fact required to be stated therein or necessary to make the statements therein not misleading or (B) the Pricing Disclosure Package, the omission or alleged omission to state in any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Permitted Issuer Information, any Non-Prospectus Road Show or any Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; *provided, however*, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or in any such amendment or supplement thereto or in any Permitted Issuer Information, any Non-Prospectus Road Show or any Blue Sky Application, in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information consists solely of the information specified in Section 10(e). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company and the Manager and their respective directors (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company), officers and employees, and each person, if any, who controls the Company or the Manager within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or the Manager or any such director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Pricing Disclosure Package, the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Non-Prospectus Road Show or Blue Sky Application, or (ii) (A) the omission or alleged omission to state in the Registration Statement any material fact required to be stated therein or necessary to make the statements therein not misleading or (B) the omission or alleged omission to state in any Preliminary Prospectus, the Prospectus, the Pricing Disclosure Package, any Issuer Free Writing Prospectus or in any



amendment or supplement thereto or in any Non-Prospectus Road Show or Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company through the Representative by or on behalf of that Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 10(e). The foregoing indemnity agreement is in addition to any liability that any Underwriter may otherwise have to the Company or the Manager or any such director, member, officer, employee or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 10 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 10, notify the indemnifying party in writing of the claim or the commencement of that action; *provided, however*, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 10 except to the extent it has been materially prejudiced by such failure and, *provided, further*, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 10. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 10 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; *provided, however*, that the indemnified party shall have the right to employ counsel to represent jointly the indemnified party and those other indemnified parties and their respective directors, officers, employees and controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought under this Section 10 if (i) the indemnified party and the indemnifying party shall have so mutually agreed; (ii) the indemnifying party has failed within a reasonable time to retain counsel reasonably satisfactory to the indemnified party; (iii) the indemnified party and its directors, officers, employees and controlling persons shall have reasonably concluded that there may be legal defenses available to them that are different from or in addition to those available to the indemnifying party; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the indemnified parties or their respective directors, officers, employees or controlling persons, on the one hand, and the indemnifying party, on the other hand, and representation of both sets of parties by the same counsel would be inappropriate due to actual or potential differing interests between them, and in any such event the reasonable fees and expenses of one separate counsel (and any additional local counsels) shall be

paid by the indemnifying party. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and does not include any findings of fact or admissions of fault or culpability as to the indemnified party, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with the consent of the indemnifying party or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 10 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 10(a), 10(b) or 10(c) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other, with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company, as set forth in the table on the cover page of the Prospectus, on the one hand, and the total underwriting discounts, commissions and payments received by the Underwriters with respect to the shares of the Stock purchased under this Agreement, as set forth in the table, and the footnotes thereto, on the cover page of the Prospectus, on the other hand. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 10(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or

payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 10(d) shall be deemed to include, for purposes of this Section 10(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 10(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the net proceeds from the sale of the Stock underwritten by it exceeds the amount of any damages that such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 10(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The Underwriters severally confirm and the Company acknowledges and agrees that the statements regarding delivery of shares by the Underwriters set forth on the cover page of, and the concession and reallowance figures, the eighth paragraph and the subsections entitled "Stabilization, Short Positions and Penalty Bids," and "Discretionary Sales" appearing under the caption "Underwriting" in, the most recent Preliminary Prospectus and the Prospectus are correct and constitute the only information concerning such Underwriters furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in any Preliminary Prospectus, the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or in any amendment or supplement thereto or in any Non-Prospectus Road Show.

11. *Defaulting Underwriters.* If, on any Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting Underwriters shall be obligated to purchase the Stock that the defaulting Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set forth opposite the name of each remaining non-defaulting Underwriter in Schedule 1 hereto bears to the total number of shares of the Firm Stock set forth opposite the names of all the remaining non-defaulting Underwriters in Schedule 1 hereto; *provided, however*, that the remaining non-defaulting Underwriters shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock that the defaulting Underwriter or Underwriters agreed but failed to purchase on such date exceeds 10% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting Underwriter shall not be obligated to purchase more than 110% of the number of shares of the Stock that it agreed to purchase on such Delivery Date pursuant to the terms of Section 3. If the foregoing maximums are exceeded, the remaining non-defaulting Underwriters, or those other underwriters satisfactory to the Representative who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining Underwriters or other underwriters satisfactory to the Representative do not elect to purchase the shares that the defaulting Underwriter or Underwriters agreed but failed to purchase on such Delivery Date,

this Agreement (or, with respect to any Option Stock Delivery Date, the obligation of the Underwriters to purchase, and of the Company to sell, the Option Stock) shall terminate without liability on the part of any non-defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 8 and 13. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto that, pursuant to this Section 11, purchases Stock that a defaulting Underwriter agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other Underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing Underwriter, either the Representative or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

12. *Termination.* Until the Initial Delivery Date, this Agreement may be terminated by the Representative by giving notice (in the manner prescribed by Section 16 hereof) to the Company, if (i) the Company shall have failed, refused or been unable, at or prior to the Initial Delivery Date, to perform any agreement on its part to be performed hereunder unless the failure to perform any agreement is due to the default or omission by any Underwriter; (ii) any other condition of the obligations of the Underwriters hereunder is not fulfilled; (iii) trading in securities generally on the NYSE or Nasdaq shall have been suspended or minimum or maximum prices shall have been established on either of such exchanges or such market by the Commission or by such exchange or other regulatory body or governmental authority having jurisdiction; (iv) trading or quotation in any of the Company's securities shall have been suspended or materially limited by the Commission or by the NYSE or Nasdaq or other regulatory body of governmental authority having jurisdiction; (v) a general banking moratorium has been declared by Federal or New York authorities; (vi) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred; (vii) there shall have been any material adverse change in general economic, political or financial conditions or if the effect of international conditions on the financial markets in the United States which, in the Representative's reasonable judgment, makes it inadvisable to proceed with the delivery of the Securities; or (viii) any attack on, outbreak or escalation of hostilities, declaration of war or act of terrorism involving the United States or any other national or international calamity or emergency has occurred if, in the Representative's reasonable judgment, the effect of any such attack, outbreak, escalation, declaration, act, calamity or emergency makes it impractical or inadvisable to proceed with the completion of the public offering or the delivery of the Securities. Any termination of this Agreement pursuant to this Section 12 shall be without liability on the part of the Company or any Underwriter, except as otherwise provided in Sections 8 and 10 hereof.

13. *Reimbursement of Underwriters' Expenses.* If (a) the Company shall fail to tender the Stock for delivery to the Underwriters for any reason or (b) the Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement, the Company will

reimburse the Underwriters for all reasonable out-of-pocket expenses (including reasonable fees and disbursements of counsel) incurred by the Underwriters in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company and the Manager shall be jointly liable to, and shall, pay the full amount thereof to the Representative. If this Agreement is terminated pursuant to Section 11 by reason of the default of one or more Underwriters, neither the Company nor the Manager shall be obligated to reimburse any defaulting Underwriter on account of those expenses.

14. *Research Analyst Independence.* The Company acknowledges that the Underwriters' research analysts and research departments are required to be independent from their respective investment banking divisions and are subject to certain regulations and internal policies, and that such Underwriters' research analysts may hold views and make statements or investment recommendations and/or publish research reports with respect to the Company and/or the offering that differ from the views of their respective investment banking divisions. The Company hereby waives and releases, to the fullest extent permitted by law, any claims that the Company may have against the Underwriters with respect to any conflict of interest that may arise from the fact that the views expressed by their independent research analysts and research departments may be different from or inconsistent with the views or advice communicated to the Company by such Underwriters' investment banking divisions. The Company acknowledges that each of the Underwriters is a full service securities firm and as such from time to time, subject to applicable securities laws, may effect transactions for its own account or the account of its customers and hold long or short positions in debt or equity securities of the companies that may be the subject of the transactions contemplated by this Agreement.

15. *No Fiduciary Duty.* Each of the Transaction Entities acknowledges and agrees that in connection with this offering, sale of the Stock or any other services the Underwriters may be deemed to be providing hereunder, notwithstanding any preexisting relationship, advisory or otherwise, between the parties or any oral representations or assurances previously or subsequently made by the Underwriters: (i) no fiduciary or agency relationship between any Transaction Entity and any other person, on the one hand, and the Underwriters, on the other, exists in connection with any activity that the Underwriters may undertake or have undertaken in furtherance of the purchase and sale of the Company's securities, either before or after the date hereof; (ii) the Underwriters are not acting as advisors, expert or otherwise, to any of the Transaction Entities, including, without limitation, with respect to the determination of the public offering price of the Stock, and the purchase and sale of the Stock pursuant to this Agreement, including the determination of the initial public offering price of the Stock and any related discounts and commissions, is an arm's-length commercial transaction between the Company, on the one hand, and the several Underwriters, on the other hand; (iii) any duties and obligations that the Underwriters may have to the Transaction Entities shall be limited to those duties and obligations specifically stated herein; and (iv) the Underwriters and their respective affiliates may have interests that differ from those of the Transaction Entities. Each of the Transaction Entities hereby waives any claims that the Transaction Entities may have against the Underwriters with respect to any breach of fiduciary duty in connection with this offering.

16. *Notices, Etc.* All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail or facsimile transmission to Ladenburg Thalmann & Co. Inc., 570 Lexington Avenue, New York, New York 10022, Attention: Steven Kaplan (Fax: (212) 409-2169), with a copy, in the case of any notice pursuant to Section 10(d), to Graubard Miller, 405 Lexington Avenue, 19<sup>th</sup> Floor, New York, New York 10174, Attention: David Alan Miller, Esq. (Fax: 212-818-8881); and

(b) if to the Company or the Transaction Entities, shall be delivered or sent by mail or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Robert E. Cauley (Fax: (772-231-8896)); and with a copy to Hunton & Williams LLP, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219, Attention: S. Gregory Cope, Esq. (Fax: 804-343-4833).

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by Ladenburg Thalmann & Co. Inc. as the Representative.

17. *Persons Entitled to Benefit of Agreement.* This Agreement shall inure to the benefit of and be binding upon the Underwriters and the Transaction Entities and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the directors, officers and employees of the Underwriters and each person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (B) the indemnity agreement of the Underwriters contained in Section 10(b) of this Agreement shall be deemed to be for the benefit of the directors of the Transaction Entities, the officers of the Company who have signed the Registration Statement and any person controlling the Company or the Manager within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 17, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

18. *Survival.* The respective indemnities, representations, warranties and agreements of the Company, the Manager and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Stock and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

19. *Definition of the Terms "Business Day" and "Subsidiary".* For purposes of this Agreement, (a) "**business day**" means each Monday, Tuesday, Wednesday, Thursday or

Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) “**subsidiary**” has the meaning set forth in Rule 405.

20. *Trial by Jury.* Each of the Company and the Manager (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

21. *Governing Law.* **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ITS CHOICE OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW).**

22. *Submission to Jurisdiction, Etc.* The Transaction Entities hereby submit to the non-exclusive jurisdiction of the U.S. federal and New York state courts in the Borough of Manhattan, The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. The parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any lawsuit, action or other proceeding in such courts, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such lawsuit, action or other proceeding brought in any such court has been brought in an inconvenient forum.

23. *Counterparts.* This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

24. *Headings.* The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement between the Company, the Manager and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

ORCHID ISLAND CAPITAL, INC.

By: \_\_\_\_\_

Name: Robert E. Cauley

Title: President and Chief Executive Officer

BIMINI ADVISORS, LLC

By: \_\_\_\_\_

Name: Robert E. Cauley

Title: President



Accepted:

LADENBURG THALMANN & CO. INC.

For themselves and as Representative  
of the several Underwriters named  
in Schedule 1 hereto

By: \_\_\_\_\_

Name: Peter H. Blum

Title: Co-Chief Executive Officer

**SCHEDULE 1**

**Underwriters**  
Ladenburg Thalmann & Co. Inc.

**Number of Shares  
of Firm Stock**

Total

\_\_\_\_\_  
=====

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March 7, 2014

Orchid Island Capital, Inc.  
3305 Flamingo Drive  
Vero Beach, Florida 32963

Re: Registration Statement on Form S-11 (File No. 333-193959)

Ladies and Gentlemen:

We have served as Maryland counsel to Orchid Island Capital, Inc., a Maryland corporation (the "Company"), in connection with certain matters of Maryland law relating to the registration and issuance by the Company of shares (the "Shares") of common stock, \$0.01 par value per share, of the Company having an aggregate gross public offering price of up to \$36,000,000. The Shares are covered by the above-referenced Registration Statement, and all amendments thereto (the "Registration Statement"), filed by the Company with the United States Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "1933 Act").

In connection with our representation of the Company, and as a basis for the opinion hereinafter set forth, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following documents (hereinafter collectively referred to as the "Documents"):

1. The Registration Statement and the related form of prospectus included therein in the form in which it was transmitted to the Commission under the 1933 Act;
2. The charter of the Company (the "Charter"), certified by the State Department of Assessments and Taxation of Maryland (the "SDAT");
3. The Amended and Restated Bylaws of the Company, certified as of the date hereof by an officer of the Company;
4. A certificate of the SDAT as to the good standing of the Company, dated as of a recent date;
5. Resolutions adopted by the Board of Directors of the Company (the "Board") relating to, among other matters, the authorization of the sale, issuance and registration of the Shares (the "Resolutions"), certified as of the date hereof by an officer of the Company;
6. A certificate executed by an officer of the Company, dated as of the date hereof; and

7. Such other documents and matters as we have deemed necessary or appropriate to express the opinion set forth below, subject to the assumptions, limitations and qualifications stated herein.

In expressing the opinion set forth below, we have assumed the following:

1. Each individual executing any of the Documents, whether on behalf of such individual or another person, is legally competent to do so.
2. Each individual executing any of the Documents on behalf of a party (other than the Company) is duly authorized to do so.
3. Each of the parties (other than the Company) executing any of the Documents has duly and validly executed and delivered each of the Documents to which such party is a signatory, and such party's obligations set forth therein are legal, valid and binding and are enforceable in accordance with all stated terms.
4. All Documents submitted to us as originals are authentic. The form and content of all Documents submitted to us as unexecuted drafts do not differ in any respect relevant to this opinion from the form and content of such Documents as executed and delivered. All Documents submitted to us as certified or photostatic copies conform to the original documents. All signatures on all Documents are genuine. All public records reviewed or relied upon by us or on our behalf are true and complete. All representations, warranties, statements and information contained in the Documents are true and complete. There has been no oral or written modification of or amendment to any of the Documents, and there has been no waiver of any provision of any of the Documents, by action or omission of the parties or otherwise.
5. Prior to the issuance of the Shares, the Board or a duly authorized committee thereof will determine the number, and certain terms of issuance, of the Shares in accordance with the Resolutions (the "Corporate Proceedings").
6. The Shares will not be issued or transferred in violation of the restrictions on transfer and ownership contained in Article VII of the Charter.

Based upon the foregoing, and subject to the assumptions, limitations and qualifications stated herein, it is our opinion that:

1. The Company is a corporation duly incorporated and existing under and by virtue of the laws of the State of Maryland and is in good standing with the SDAT.

2. The issuance of the Shares has been duly authorized and, when issued and delivered by the Company in accordance with the Resolutions, the Corporate Proceedings and the Registration Statement against payment of the consideration set forth therein, the Shares will be validly issued, fully paid and nonassessable.

The foregoing opinion is limited to the laws of the State of Maryland and we do not express any opinion herein concerning any other law. We express no opinion as to the applicability or effect of federal or state securities laws, including the securities laws of the State of Maryland, or as to federal or state laws regarding fraudulent transfers. To the extent that any matter as to which our opinion is expressed herein would be governed by the laws of any jurisdiction other than the State of Maryland, we do not express any opinion on such matter. The opinion expressed herein is subject to the effect of any judicial decision which may permit the introduction of parol evidence to modify the terms or the interpretation of agreements.

The opinion expressed herein is limited to the matters specifically set forth herein and no other opinion shall be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable law changes after the date hereof or if we become aware of any fact that might change the opinion expressed herein after the date hereof.

This opinion is being furnished to you for submission to the Commission as an exhibit to the Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of the name of our firm therein. In giving this consent, we do not admit that we are within the category of persons whose consent is required by Section 7 of the 1933 Act.

Very truly yours,

/s/ Venable LLP

HUNTON & WILLIAMS LLP  
RIVERFRONT PLAZA, EAST TOWER  
951 EAST BYRD STREET  
RICHMOND, VIRGINIA 23219-4074

TEL 804 • 788 • 8200  
FAX 804 • 788 • 8218

March 7, 2014

Orchid Island Capital, Inc.  
3305 Flamingo Drive, Suite 100  
Vero Beach, Florida 32963

Orchid Island Capital, Inc.  
Qualification as Real Estate Investment Trust

Ladies and Gentlemen:

We have acted as counsel to Orchid Island Capital, Inc., a Maryland corporation (the “Company”), in connection with the preparation of a Registration Statement on Form S-11 (File No. 333-193959) (the “Registration Statement”), including a prospectus and all documents incorporated by reference therein (the “Prospectus”), filed with the Securities and Exchange Commission on February 14, 2014, as amended through the date hereof, with respect to the offer and sale of shares of common stock, par value \$0.01, of the Company (the “Offering”). You have requested our opinion regarding certain U.S. federal income tax matters in connection with the Offering.

In giving this opinion letter, we have examined the following:

1. the Registration Statement, including the Prospectus;
2. the Company’s Articles of Incorporation filed on August 17, 2010 with the Department of Assessments and Taxation of the State of Maryland (the “SDAT”), and the Articles of Amendment and Restatement filed on February 20, 2013 with SDAT;
3. the Company’s Amended and Restated Bylaws;
4. the Officer’s Certificates (as defined below);
5. the Management Agreement, by and among the Company and Bimini Advisors LLC, a Maryland limited liability company; and

ATLANTA AUSTIN BANGKOK BEIJING BRUSSELS CHARLOTTE DALLAS HOUSTON LONDON LOS ANGELES  
MCLEAN MIAMI NEW YORK NORFOLK RALEIGH RICHMOND SAN FRANCISCO TOKYO WASHINGTON  
www.hunton.com

6. such other documents as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinions rendered below, we have assumed, with your consent, that:

1. each of the documents referred to above has been duly authorized, executed, and delivered; is authentic, if an original, or is accurate, if a copy; and has not been amended;
2. during its taxable year ending December 31, 2014, and future taxable years, the Company will operate in a manner that will make the factual representations contained in a certificate, dated the date hereof and executed by a duly appointed officer of the Company (the "Company Officer's Certificate"), true for such years;
3. the Company will not make any amendments to its organizational documents after the date of this opinion that would affect its qualification as a REIT (as defined below) for any taxable year; and
4. no action will be taken by the Company or Bimini Capital Management, Inc., a Maryland corporation ("Bimini"), after the date hereof that would have the effect of altering the facts upon which the opinions set forth below are based.

In connection with the opinions rendered below, we also have relied upon the correctness of the factual representations contained in the Company's Officer's Certificate and a certificate, dated the date hereof and executed by a duly appointed officer of Bimini (together with the Company's Officer's Certificate, the "Officer's Certificates"). No facts have come to our attention that would cause us to question the accuracy and completeness of such factual representations. Furthermore, where such factual representations involve terms defined in the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations thereunder (the "Regulations"), published rulings of the Internal Revenue Service (the "Service"), or other relevant authority, we have explained to the individuals making such representations the relevant provisions of the Code, the applicable Regulations and published administrative interpretations thereof.

Based solely on the documents and assumptions set forth above, the representations set forth in the Officer's Certificates, and the factual matters discussed in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" (which are incorporated herein by reference), we are of the opinion that:

(a) the Company qualified to be taxed as a real estate investment trust pursuant to sections 856 through 860 of the Code (a "REIT") for its taxable year ended December 31, 2013, and the Company's organization and current and proposed method of operation will enable it to continue to qualify for taxation as a REIT for its taxable year ending December 31, 2014 and thereafter; and

(b) the descriptions of the law and the legal conclusions contained in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" are correct in all material respects.

We will not review on a continuing basis the Company's or Bimini's compliance with the documents or assumptions set forth above, or the representations set forth in the Officer's Certificates. Accordingly, no assurance can be given that the actual results of the Company's operations for any given taxable year will satisfy the requirements for qualification and taxation as a REIT. Although we have made such inquiries and performed such investigations as we have deemed necessary to fulfill our professional responsibilities as counsel, we have not undertaken an independent investigation of all of the facts referred to in this letter or the Officer's Certificates.

The foregoing opinions are based on current provisions of the Code, the Regulations, published administrative interpretations thereof, and published court decisions. The Service has not issued Regulations or administrative interpretations with respect to various provisions of the Code relating to REIT qualification. No assurance can be given that the law will not change in a way that will prevent the Company from qualifying as a REIT.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other U.S. federal tax matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter. This opinion letter speaks only as of the date hereof. Except as provided in the next paragraph, this opinion letter may not be distributed, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. We also consent to the references to Hunton & Williams LLP under the captions "Prospectus Summary—Tax Structure," "Business—Tax Structure," "Material U.S. Federal Income Tax Considerations" and "Legal Matters" in the Prospectus. In giving this consent, we do not admit that we are in the category of persons whose consent is required by Section 7



of the Securities Act of 1933, as amended, or the rules and regulations promulgated thereunder by the Securities and Exchange Commission.

Very truly yours,

/s/ Hunton & Williams LLP

Consent of Independent Registered Public Accounting Firm

Orchid Island Capital, Inc.  
Vero Beach, Florida

We hereby consent to the use in the Prospectus constituting a part of Amendment No.1 to this Registration Statement of our report dated February 21, 2014, relating to the financial statements of Orchid Island Capital, Inc., which is contained in that Prospectus.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ BDO USA, LLP  
West Palm Beach, Florida

March 7, 2014