

Orchid Island Capital, Inc.  
Form S-11/A  
February 04, 2013  
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As filed with the Securities and Exchange Commission on February 4, 2013

Registration No. 333-184538

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

**Amendment No. 4**  
**to**  
**Form S-11**  
**FOR REGISTRATION**  
***UNDER***  
***THE SECURITIES ACT OF 1933***  
***OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES***

**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)

**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.

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

**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 sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale thereof is not permitted.**

**Subject to Completion, dated February 4, 2013**

**PROSPECTUS**

**2,360,000 Shares**

**Common Stock**

Orchid Island Capital, Inc., a Maryland corporation, invests in residential mortgage-backed securities the principal and interest payments of which are guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity. Upon completion of this offering, we will be externally managed and advised by Bimini Advisors, LLC, or our Manager, a wholly-owned subsidiary of Bimini Capital Management, Inc., or Bimini, which is our current manager. 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 our initial public offering. We are offering 2,360,000 shares of our common stock. We currently expect the initial public offering price of our common stock to be between \$14.00 and \$16.00 per share. Prior to this offering, there has been no public market for our common stock. We intend to apply to have our common stock listed on the NYSE MKT under the symbol ORC.

Upon the completion of this offering, Bimini will own approximately 29.38% of our aggregate outstanding common stock, or 26.56% if the underwriters exercise their overallotment option in full.

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

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

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

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	<b>Per Share</b>	<b>Total</b>
Price to the public	\$	\$
Underwriting discounts and commissions <sup>(1)</sup>	\$	\$
Proceeds to us (after expenses) <sup>(1)</sup>	\$	\$

<sup>(1)</sup> Our Manager will pay all of our offering expenses and the other costs of the offering, including underwriting discounts and commissions. For a full description of the underwriting compensation, see Underwriting.

We have granted the underwriters the option to purchase up to an additional 354,000 shares of common stock within 45 days after the date of this prospectus to cover overallocments, if any.

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

Ladenburg Thalmann & Co. Inc., on behalf of the underwriters, expects to deliver the shares on or about February , 2013.

**Ladenburg Thalmann & Co. Inc.**

Joint Book Running Managers

**Mitsubishi UFJ Securities**

Lead Manager

**Aegis Capital Corp.**

**Maxim Group LLC**

Co-managers

Prospectus dated , 2013

**Oppenheimer & Co.**

**National Securities Corporation**

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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 is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or another date specified herein. Our business, financial condition and prospects may have changed since such dates.**

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**PROSPECTUS SUMMARY**

*This section summarizes information contained elsewhere in this prospectus. It is not complete and may not contain all of the information that you may want to consider before making an investment in our common stock. You should read this entire prospectus carefully, including the section titled Risk Factors and our financial statements and related notes, before making an investment in our common stock. As used in this prospectus, Orchid, Company, we, our, and us refer to Orchid Island Capital, Inc., except where the context otherwise requires. 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 354,000 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 \$15.00, which is the midpoint of the price range set forth on the front cover of this prospectus. Unless otherwise indicated or the context requires, all information in this prospectus relating to the number of shares of our common stock to be outstanding after the completion of this offering reflects a stock dividend of 5.37 shares for each share of common stock that we will effect immediately prior to the completion of this offering. See Description of Capital Stock General.*

**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 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.

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We were formed by Bimini in August 2010 and commenced operations on November 24, 2010. Bimini has managed our portfolio since inception by utilizing the same investment strategy that we expect our Manager, an investment advisor registered with the Securities and Exchange Commission, or SEC, and its experienced RMBS investment team to continue to employ after completion of this offering. As of September 30, 2012, our Agency RMBS portfolio had a fair value of approximately \$66.8 million and was comprised of approximately 89.3% pass-through Agency RMBS and 10.7% structured Agency RMBS. Our net asset value as of September 30, 2012 was approximately \$15.0 million.

We intend to qualify and will elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our short taxable year ending December 31, 2013. We generally will 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 qualify as a REIT.

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. 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 Manager**

We are currently managed by Bimini. Upon completion of this offering, we will be externally managed and advised by Bimini Advisors, LLC, or our Manager, pursuant to the terms of a management agreement. Our Manager is a Maryland corporation that is a wholly-owned subsidiary of Bimini. 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. Members of Bimini's and our Manager's senior management team will also serve as our executive officers. We will not have any employees.

Bimini is a mortgage REIT that has operated since 2003 and, as of September 30, 2012, had approximately \$125.7 million of pass-through Agency RMBS and structured Agency RMBS. Bimini has employed its investment strategy with its own portfolio since the third quarter of 2008 and with our portfolio since our inception. We expect that our Manager will continue to employ this strategy after the completion of this offering. We were formed and have been managed by Bimini as a vehicle through which Bimini could employ the same investment strategy and pursue growth and capital-raising opportunities. As a result of the adverse impact of its legacy mortgage origination business, Bimini has been unable to raise capital on attractive terms to finance the growth of its own portfolio. Bimini may seek to raise capital in the future if and when it is able to do so. For additional information regarding Bimini, see [About Bimini](#).

## **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.



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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 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. We do not intend to use leverage in these instances because the securities contain structural leverage.

Our target asset categories and the principal assets in which we intend to 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 intend to 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 or seven years, and thereafter reset periodically like a traditional ARM.

Structured Agency RMBS

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

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

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

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*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, 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 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 will make 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, will enable us to provide attractive long-term returns to our stockholders.

### ***Capital Allocation Strategy***

The percentage of capital invested in our two asset categories will vary and will be 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 will seek to maintain adequate liquidity as it allocates capital.

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

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### **Competitive Strengths**

We believe that our competitive strengths include:

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

*Experienced RMBS Investment Team.* Robert Cauley, our Chief Executive Officer and co-founder of Bimini, and Hunter Haas, our Chief Investment Officer, have 19 and 12 years of experience, respectively, in analyzing, trading and investing in Agency RMBS. Additionally, Messrs. Cauley and Haas each have over eight years 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 will provide 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.* As a recently-formed entity, we intend to build on our existing investment portfolio. As of September 30, 2012, our Agency RMBS portfolio had a fair value of approximately \$66.8 million and was comprised of approximately 89.3% pass-through Agency RMBS and 10.7% structured Agency RMBS. Our net asset value as of September 30, 2012 was approximately \$15.0 million. Bimini has managed our portfolio since our inception by utilizing the same investment strategy that we expect our Manager and its experienced RMBS investment team to continue to employ after the completion of this offering.

*Alignment of Interests.* Upon completion of this offering, Bimini will own 981,665 shares of our common stock, which will represent approximately 29.38% of the aggregate outstanding shares of our common stock (or 26.56% if the underwriters exercise their overallotment option in full). Bimini has agreed that, for a period of 180 days after the date of this prospectus, it will not, without the prior written consent of Ladenburg Thalmann & Co. Inc., dispose of or hedge any of its shares of our common stock, subject to certain exceptions and extensions. We believe that Bimini's ownership of our common stock will align our Manager's interests with our interests.

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### **Summary Risk Factors**

An investment in our common stock involves 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 the risks include:

Although the immediate effect of QE3 was an increase of Agency RMBS prices, there is no certainty what effect QE3 and other recently announced governmental actions might have in the future on the price and liquidity of the securities in which we invest. However, the confluence of such factors as QE3 and further governmental efforts to increase home loan refinancing opportunities could simultaneously raise Agency RMBS prices and increase prepayment activity, which could place downward pressure on our net interest margin.

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.

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.

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.

The downgrade of the U.S. and certain European countries' credit ratings, any future downgrades of the U.S. and certain European countries' credit ratings and the failure to resolve issues related to the "fiscal cliff" and the U.S. debt ceiling may materially adversely affect our business, liquidity, financial condition and results of operations.

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.

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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.

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

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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.

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 September 30, 2012, our portfolio consisted of Agency RMBS with an aggregate fair value of approximately \$66.8 million, a weighted average coupon of 3.42% and a weighted average borrowing rate of 0.44%. The following table summarizes our portfolio as of September 30, 2012:

Asset Category	Fair Value (in thousands)	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap	Weighted Average CPR <sup>(1)</sup>
<b>Pass-through Agency RMBS backed by:</b>									
Adjustable-Rate Mortgages	\$ 6,584	9.9%	4.19%	261	9-1-35	4.91	10.04	2.00%	n/a
Fixed-Rate Mortgages	16,418	24.6	3.63	186	12-1-40	n/a	n/a	n/a	3.99%
Hybrid Adjustable-Rate Mortgages	36,627	54.8	2.75	354	5-1-42	78.38	7.75	2.00%	4.28%
<b>Total/Weighted Average</b>									
Whole-pool Mortgage Pass-through Agency RMBS	\$ 59,629	89.3%	3.15%	298	5-1-42	67.19	8.10	2.00%	4.19%
<b>Structured Agency RMBS:</b>									

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CMOs	\$		%	%						
IOs		918	1.4	4.89	285	12-25-39	n/a	n/a	n/a	40.70%
IIOs		6,261	9.3	5.74	311	11-25-40	n/a	n/a	n/a	38.39%
POs										
Total/Weighted Average Structured Agency RMBS	\$	7,179	10.7%	5.63%	307	11-25-40	n/a	n/a	n/a	38.73%
<b>Total/Weighted Average</b>	\$	66,808	100.0%	3.42%	299	5-1-42	n/a	n/a	n/a	25.02%

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(1) 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 three month prepayment rate of the securities in the respective asset category.

The following table sets forth, for the periods indicated, information regarding the historical yield on our portfolio, cost of funds, net interest spread, leverage ratio and weighted average CPR.

Three Months Ended	Yield on Average Portfolio	Average Cost of Funds <sup>(1)</sup>	Net Interest Spread	Leverage Ratio <sup>(2)</sup>	Weighted Average CPR <sup>(3)</sup>
September 30, 2012	4.33%	0.54%	3.79%	3.8x	25.02%
June 30, 2012	4.18%	0.48%	3.70%	3.7x	38.65%
March 31, 2012	4.30%	0.50%	3.80%	5.2x	23.80%
December 31, 2011	3.53%	0.08%	3.45%	3.2x	29.66%
September 30, 2011	5.61%	0.62%	4.99%	2.9x	21.12%
June 30, 2011	5.79%	2.90%	2.89%	3.0x	18.74%
March 31, 2011	4.50%	0.14%	4.36%	3.0x	5.67%

(1) Represents average interest cost of our borrowings and costs of related hedging activities.

(2) Leverage ratio is calculated by dividing our total liabilities by total equity at the end of each period.

(3) The CPR in the chart above represents the three month prepayment rate of the securities in the respective asset category.

**Our Financing Strategy**

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 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. We do not intend to use leverage in these instances because the securities contain structural leverage. Our borrowings currently consist of 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 September 30, 2012, our portfolio leverage ratio was approximately 3.8 to 1. As of September 30, 2012, we had entered into master repurchase agreements with nine counterparties and had funding in place with three counterparties, as described below.

Counterparty	Balance (in thousands)	Percent of Total Borrowings	Weighted Average Borrowing Rate <sup>(1)</sup>	Weighted Average Maturity of Repurchase Agreements in Days	Amount at Risk <sup>(2)</sup> (in thousands)
Citigroup Global Markets, Inc.	\$ 29,739	52.6%	0.45%	23.0	\$ 1,699
Cantor Fitzgerald & Co.	10,828	19.1	0.43	4.7	447
South Street Securities, LLC	16,004	28.3	0.42	19.6	1,026
Total/Weighted Average	\$ 56,571	100.0%	0.44%	18.6	\$ 3,172

(1) Weighted Average Borrowing Rate refers to the product of the interest rate and the outstanding balance for each individual repurchase agreement at the end of the period, divided by the total outstanding repurchase agreements at the end of the period.



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<sup>(2)</sup> Equal to the fair value of securities sold, plus accrued interest income, minus the sum of repurchase agreement liabilities and accrued interest expense. During the nine months ended September 30, 2012, the average balance of our repurchase agreement financing was \$58.4 million.

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### **Recent Developments**

Management has made a preliminary estimate of our book value per share as of December 31, 2012. This preliminary estimate is subject to revision as we prepare our financial statements, including all disclosures required by accounting principals generally accepted in the United States, or GAAP, as of and for the year ended December 31, 2012. Factors that could cause this preliminary estimate to differ include, but are not limited to: (i) additional adjustments in the calculation of our book value as of December 31, 2012, (ii) discovery of new information that alters expectations about year-end results or impacts valuation methodologies underlying these results, (iii) errors in the assessment of portfolio value, and (iv) accounting changes required by GAAP. As highlighted, the amounts as of December 31, 2012 and for the quarter then ended have not been subjected to an audit or review as defined by professional standards by our independent registered accounting firm and consequently are not considered final and remain subject to change.

We estimate that, when finally determined, our book value as of December 31, 2012 will be in the range of \$14,690,000 to \$14,750,000, or, when adjusted for the stock dividend to be completed prior to the closing of this offering, \$14.97 to \$15.03 per share. We estimate that, when finally determined, for the quarter ended December 31, 2012 we will have a net loss in the range of \$240,000 to \$300,000. Net loss for the quarter ended December 31, 2012 is estimated to include approximately \$410,000 to \$440,000 of net realized losses and an aggregate of approximately \$40,000 to \$50,000 of unrealized loss.

We estimate that, when finally determined, the total fair value of our Agency RMBS portfolio will have increased from \$66.8 million at September 30, 2012, to approximately \$115.0 million at December 31, 2012. Our corresponding repurchase agreement balances, when finally determined, are estimated to have increased from \$56.6 million at September 30, 2012, to approximately \$104.0 million at December 31, 2012. We further estimate that, when finally determined, our GAAP leverage ratio as of December 31, 2012 will be in the range of 7.0:1 to 7.2:1. The estimated increase in total fair value of our Agency RMBS portfolio and repurchase agreement balances is the result of a re-allocation of capital from structured Agency RMBS securities, which are not levered via repurchase agreement funding, to pass-through Agency RMBS, which are levered via repurchase agreement funding.

### **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.

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*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

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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 pledged 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 Agreement**

We are currently a party to a management agreement with Bimini. Upon completion of this offering, we will terminate our management agreement with Bimini and enter into a new management agreement with our Manager that will govern the relationship between us and our Manager and will describe the services to be provided by our Manager and its compensation for those services. Under the management agreement, our Manager, subject to the supervision of our Board of Directors, will be 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 will include asset selection, asset and liability management and investment portfolio risk management.

The management agreement will have an initial term expiring on February 1, 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.

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

<b>Fee</b>	<b>Summary Description</b>
Management Fee	<p>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.</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 our existing management agreement with Bimini, which will be terminated upon the completion of this offering and replaced by a new 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. We paid Bimini aggregate management fees of \$166,500 for the year ended December 31, 2011 and \$185,000 for the nine months ended September 30, 2012.</p>
Stock-Based Compensation	<p>Our Manager's officers and employees will be eligible to receive stock awards pursuant to our 2013 Equity Incentive Plan.</p>
Expense Reimbursement	<p>We will reimburse any expenses directly related to our operations incurred by our Manager, but 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 will 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 will 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>Our Manager will pay all expenses incurred in connection with this offering, including underwriting discounts and commissions.</p> <p>Under our existing management agreement with Bimini, which will be terminated upon the completion of this offering and replaced by a new 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. We reimbursed Bimini an aggregate of \$86,400 in expenses for the year ended December 31, 2011 and \$64,800 in expenses for the nine months ended September 30, 2012.</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>

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Assuming aggregate net proceeds from this offering of \$35.4 million and no additional increases or decreases in our stockholders' equity, we will pay our Manager management fees equal to approximately \$755,883 during the first 12 months after the completion of this offering.

### **Overhead Sharing Agreement**

Our Manager will enter into an overhead sharing agreement with Bimini effective upon the closing of this offering. Pursuant to this agreement, our Manager will be 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; provided, however, that we will not be required to pay any allocated overhead expenses or our pro-rata portion of our Chief Financial Officer's salary until the date on which our aggregate balance of stockholders' equity equals \$100.0 million or more. Until such time, our Manager will pay all overhead expenses; however, we will continue to be responsible for all other expenses. 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 currently receives management fees from us and, as the sole stockholder 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 dividends 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;

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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.

We intend for our independent directors to 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 will apply 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 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 cross transactions or principal transactions after the completion of this offering.

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 will 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. Upon completion of this offering, Bimini will own approximately 29.38% of our outstanding common stock, or 26.56% if the underwriters exercise their overallotment option in full. The following chart illustrates our ownership structure immediately after completion of this offering.

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(1) Includes 981,665 shares of our common stock issued to Bimini prior to completion of this offering (after giving effect to the stock dividend that we will effect prior to the completion of this offering). See Description of Capital Stock General.

**About Bimini**

Bimini is a mortgage REIT that has operated since 2003 and had approximately \$125.7 million of pass-through Agency RMBS and structured Agency RMBS as of September 30, 2012. Bimini has employed its current investment strategy with its own portfolio since the third quarter of 2008 and with our portfolio since our inception. During the period beginning on July 1, 2008 and ending on September 30, 2012, Bimini had an annualized return on investment capital of 24.4%. See Business Bimini Capital Management, Inc. for a discussion of how Bimini calculates its annualized return on investment capital. Our results may differ from Bimini's results and will depend on a variety of factors, some of which are beyond our control and/or are difficult to predict, including changes in interest rates, changes in prepayment speeds and other changes in market conditions and economic trends. In addition, Bimini's portfolio results do not include other expenses necessary to operate a public company and that we will incur following the completion of this offering, including the management fee we will pay to our Manager. Therefore, you should not assume that Bimini's portfolio's performance will be indicative of the performance of our portfolio or the Company.

In 2005, Bimini acquired Opteum Financial Services, LLC, or OFS, an originator of residential mortgages. At the time OFS was acquired, Bimini managed an Agency RMBS portfolio with a fair value of approximately \$3.5 billion. OFS operated in 46 states and originated residential mortgages through three production channels. OFS did not have the capacity to retain the mortgages it originated, and relied on the ability to sell loans as they were originated as either whole loans or through off-balance sheet securitizations. When the residential housing market in the United States started to collapse in late 2006 and early 2007, the ability to successfully execute this strategy was quickly impaired as whole loan prices plummeted and the securitization markets closed. Bimini's management closed a majority of the mortgage origination operations in early 2007, with the balance sold by June 30, 2007. Additional losses were incurred after June 30, 2007 as the remaining assets were sold or became impaired, and by December 31, 2009, OFS had an accumulated deficit of approximately \$278 million. The losses generated by OFS required Bimini to slowly liquidate its Agency RMBS portfolio as capital was reduced and the operations of OFS drained Bimini's cash resources. On November 5, 2007, Bimini was delisted by the NYSE. By December 31, 2008, Bimini's Agency RMBS portfolio was reduced to approximately \$172 million and, as a result of the reduced capital remaining and the financial crisis, Bimini had limited access to repurchase agreement funding. Bimini and its subsidiaries are subject to a number of ongoing legal proceedings. Those proceedings or any future proceedings may divert the time and attention of our Manager and certain key personnel of our Manager from us and our investment strategy. The diversion of time of our Manager and certain key personnel of our Manager may have a material adverse effect on our reputation, business operations,



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financial condition and results of operations and our ability to pay distributions to our stockholders. Additionally, an adverse judgment in any such proceedings could disrupt the alignment of interests between us and Bimini should Bimini be required to dispose of our common stock to fund any such judgment. See Risk Factors 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.

Although our and Bimini's Chief Executive Officer, Mr. Cauley, and Chief Investment Officer and Chief Financial Officer, Mr. Haas, both worked at Bimini during the time it owned OFS (Mr. Cauley was the Chief Investment Officer and Chief Financial Officer and Mr. Haas was the Head of Research and Trading), their primary focus and responsibilities were the management of Bimini's securities portfolio, not the management of OFS. In addition, Mr. Cauley is the only director still serving on Bimini's board of directors that served when OFS was acquired. Bimini's current investment strategy was implemented in the third quarter of 2008, the first full quarter of operations after Mr. Cauley became the Chief Executive Officer of Bimini and Mr. Haas became the Chief Investment Officer and Chief Financial Officer of Bimini. Messrs. Cauley and Haas were appointed to these respective roles on April 14, 2008.

## **Tax Structure**

We will elect and intend to qualify to be taxed as a REIT commencing with our short taxable year ending December 31, 2013. Our qualification as a REIT, and the maintenance of such qualification, will depend 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 will be organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and we intend to operate in a manner that will enable us to meet the requirements for qualification and taxation as a REIT commencing with our short taxable year ending December 31, 2013. In connection with this offering, we will receive an opinion from Hunton & Williams LLP to the effect that we will be organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our intended method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

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 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. 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.

## **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 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

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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, effective upon the completion of this offering and subject to certain exceptions, our charter will provide 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 will also prohibit 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 will also provide 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.

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### **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.

### **Lock-Up Agreements**

We and each of our Manager, our directors and executive officers and Bimini will agree that, for a period of 180 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.

### **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.

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**The Offering**

Common stock offered by us in this offering 2,360,000 shares<sup>(1)</sup>

Common stock to be outstanding after this offering 3,341,665 shares<sup>(1)(2)</sup>

Use of proceeds We estimate that the proceeds from this offering will be approximately \$35.4 million (or approximately \$40.7 million if the underwriters fully exercise their overallotment option). Our Manager will pay all of our offering expenses and other costs of the offering, including the underwriting discount and commissions, which we estimate will be approximately \$2.5 million (or approximately \$2.8 million if the underwriters fully exercise their overallotment option).

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 50% to 70% in pass-through Agency RMBS. Of the 50% to 70% of the net proceeds allocated to pass-through Agency RMBS, the net proceeds will be further allocated as follows:

approximately 0% to 50% in pass-through Agency RMBS backed by fixed-rate mortgage loans;

approximately 0% to 50% in pass-through Agency RMBS backed by ARMs; and

approximately 0% to 50% in pass-through Agency RMBS backed by hybrid ARMs.

The remaining 30% to 50% of the proceeds will be allocated to structured Agency RMBS.

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



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Distribution Policy

To qualify as a REIT, U.S. federal income tax law generally requires that we distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and that we pay tax at regular corporate rates on any undistributed REIT taxable income. We have not established a minimum distribution payment level, and we cannot assure you of our ability to make distributions to our stockholders in the future. In connection with these requirements, we intend to make regular monthly distributions of all or substantially all of our net taxable income to our stockholders. Any distributions we make will be authorized by and at the discretion of our Board of Directors and will depend upon a variety of factors deemed relevant by our directors, including, among other things, our actual results of operations, restrictions under applicable law, our capital requirements and the REIT requirements of the Code. For more information, please see [Distribution Policy](#) and [Material U.S. Federal Income Tax Considerations](#).

Proposed NYSE MKT symbol

ORC

Ownership and transfer restrictions

To assist us in qualifying as a REIT, among other purposes, our charter will generally limit 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 will contain 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 25.

- (1) Assumes the underwriters' overallotment option to purchase up to an additional 354,000 shares of our common stock is not exercised.
- (2) Includes (i) 981,665 shares of common stock issued to Bimini prior to the completion of this offering (which includes 827,555 shares of common stock distributed as a stock dividend that we will effect prior to the completion of this offering as described in [Description of Capital Stock](#) [General](#) ) and (ii) 2,360,000 shares of common stock to be sold in this offering. 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 2013 Equity Incentive Plan.

**Table of Contents****Summary Selected Financial Data**

The following table presents summary selected financial data as of September 30, 2012 and December 31, 2011, for the nine months ended September 30, 2012, for the year ended December 31, 2011 and for the period beginning on November 24, 2010 (date operations commenced) to December 31, 2010. The statement of operations data for the year ended December 31, 2011 and for the period beginning on November 24, 2010 (date operations commenced) to December 31, 2010 has been derived from our audited financial statements. The statement of operations and balance sheet data as of September 30, 2012 and for the nine months ended September 30, 2012 has been derived from our interim unaudited financial statements. These interim unaudited financial statements have been prepared on substantially the same basis as our audited financial statements and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of our financial position as of September 30, 2012 and the results of operations for the nine months ended September 30, 2012. All such adjustments are of a normal recurring nature. These results are not necessarily indicative of our results for the full year.

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.

	Nine Months Ended September 30, 2012 (Unaudited)	Year Ended December 31, 2011	Period from November 24, 2010 (Date Operations Commenced) to December 31, 2010
<b>Statement of Operations Data:</b>			
Revenues:			
Interest income	\$ 2,224,749		