Orchid Island Capital, Inc.
Form 10-Q
April 28, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

For the transition period from __________ to ___________

Commission File Number: 001-35236

Orchid Island Capital, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 ý Non-accelerated filer ¨ Smaller Reporting Company ¨

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

Number of shares outstanding at April 28, 2016: 21,783,356

ORCHID ISLAND CAPITAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) March 31, 2016	December 31, 2015
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$ 1,918,265	$ 2,095,574
Unpledged	58,780	62,436
Total mortgage-backed securities	1,977,045	2,158,010
Cash and cash equivalents	65,558	57,229
Restricted cash	17,778	12,730
Accrued interest receivable	8,333	8,490
Derivative assets, at fair value	826	669
Receivable for securities sold, pledged to counterparties	132,174	-
Other assets	1,846	4,709
Total Assets	$ 2,203,560	$ 2,241,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$ 1,939,489	$ 1,798,813
FHLB advances	-	187,500
Payable for unsettled securities purchased	21,486	-
Derivative liabilities, at fair value	1,030	-
Accrued interest payable	895	863
Due to affiliates	439	465
Other liabilities	443	941
Total Liabilities	1,963,782	1,988,582
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of March 31, 2016 and December 31, 2015	-	-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 21,772,464 shares issued and outstanding as of March 31, 2016 and 21,749,490 shares issued and outstanding as of December 31, 2015	218	217
Additional paid-in capital	244,151	253,038
Accumulated (deficit) retained earnings	(4,591)	-
Total Stockholders' Equity	239,778	253,255
Total Liabilities and Stockholders' Equity	$ 2,203,560	$ 2,241,837

See Notes to Consolidated Financial Statements

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ORCHID ISLAND CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three Months Ended March 31, 2016 and 2015
($ in thousands, except per share data)

	2016	2015
Interest income	$20,466	$14,614
Interest expense	(3,319)	(1,296)
Net interest income	17,147	13,318
Realized gains (losses) on mortgage-backed securities	4,242	(32)
Unrealized gains on mortgage-backed securities	3,787	6,320
Losses on derivative instruments	(27,590)	(12,351)
FHLB stock dividends	3	-
Net portfolio (loss) income	(2,411)	7,255
Expenses:		
Management fees	971	855
Allocated overhead	298	240
Accrued incentive compensation	171	165
Directors' fees and liability insurance	282	248
Audit, legal and other professional fees	247	160
Direct REIT operating expenses	139	42
Other administrative	72	36
Total expenses	2,180	1,746
Net (loss) income	$(4,591)	$5,509
Basic and diluted net (loss) income per share	$(0.21)	$0.33
Weighted Average Shares Outstanding	21,756,065	16,846,950
Dividends declared per common share	$0.42	$0.54

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Three Months Ended March 31, 2016
($ in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balances, January 1, 2016	$217	$253,038	$-	$253,255
Net loss	-	-	(4,591)	(4,591)
Cash dividends declared, $0.42 per share	-	(9,154)	-	(9,154)
Issuance of common stock pursuant to equity compensation plan	1	222	-	223
Amortization of equity compensation	-	45	-	45
Balances, March 31, 2016	$218	$244,151	$(4,591)	$239,778

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Three Months Ended March 31, 2016 and 2015
($ in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(4,591)	$5,509
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Stock based compensation	268	223
Realized and unrealized gains on mortgage-backed securities	(8,029)	(6,288)
Realized (gains) losses on interest rate swaptions	(36)	1,091
Unrealized losses on interest rate swaps	21	-
Realized losses (gains) on forward settling to-be-announced securities	1,125	(57)
Changes in operating assets and liabilities:		
Accrued interest receivable	184	(565)
Other assets	(350)	(444)
Accrued interest payable	32	(260)
Other liabilities	(498)	(1,690)
Due (from) to affiliates	(26)	56
NET CASH USED IN OPERATING ACTIVITIES	(11,900)	(2,425)
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(715,281)	(125,348)
Sales	741,114	40,255
Principal repayments	51,909	43,011
Redemption of FHLB stock	3,750	-
Increase in restricted cash	(5,048)	(473)
Payments on net settlement of to-be-announced securities	(942)	(35)
Purchase of interest rate swaptions, net of margin cash received	705	207
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	76,207	(42,383)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	6,234,852	3,251,722
Principal payments on repurchase agreements	(6,094,176)	(3,228,882)
Principal payments on FHLB advances	(187,500)	-
Cash dividends	(9,154)	(9,239)
Proceeds from issuance of common stock, net of issuance costs	-	16,175
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(55,978)	29,776
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,329	(15,032)
CASH AND CASH EQUIVALENTS, beginning of the period	57,229	93,137
CASH AND CASH EQUIVALENTS, end of the period	$65,558	$78,105
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$3,288	$1,556

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Securities acquired settled in later period	$21,486	$79,186
Securities sold settled in later period	132,174	-

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
MARCH 31, 2016

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

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

On February 20, 2013, Orchid completed the initial public offering (“IPO”) of its common stock in which it sold approximately 2.4 million shares of its common stock and raised gross proceeds of $35.4 million, which were invested in RMBS that were issued and the principal and interest of which were guaranteed by a federally chartered corporation or agency (“Agency RMBS”) on a leveraged basis. Orchid is an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”).

Orchid completed a secondary offering of 1,800,000 shares of common stock on January 23, 2014. The underwriters exercised their overallotment option in full for an additional 270,000 shares on January 29, 2014. The aggregate net proceeds to Orchid were approximately $24.2 million which were invested in Agency RMBS on a leveraged basis.

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

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

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

On March 2, 2015, Orchid entered into a third equity distribution agreement (the “March 2015 Equity Distribution Agreement”) with two sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $100,000,000 of shares of the Company’s common stock in transactions that are deemed to be “at the market" offerings and privately negotiated transactions. The March 2015 Equity Distribution Agreement replaced the September 2014 Equity Distribution Agreement. Through March 31, 2016, the Company issued a total of 6,221,102 shares under the March 2015 Equity Distribution Agreement for aggregate proceeds of approximately $83.1 million, net of commissions and fees.

On July 29, 2015 the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company's discretion without prior notice. From the inception of the share repurchase program through March 31, 2016, the Company repurchased a total of 1,216,243 shares at an aggregate cost of approximately $10.8 million, including commissions and fees.

Basis of Presentation and Use of Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements include the accounts of our wholly-owned subsidiary, Orchid Island Casualty, LLC. Significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month periods ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of RMBS and derivatives.

Statement of Comprehensive Income (Loss)

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash includes cash pledged as collateral for repurchase agreements and other borrowings, and interest rate swaps and other derivative instruments.

The Company maintains cash balances at four banks, and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. The Federal Deposit Insurance Corporation insures eligible accounts up to $250,000 per depositor at each financial institution. At March 31, 2016, the Company's cash deposits exceeded federally insured limits by approximately $66.4 million. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company limits uninsured balances to only large, well-known bank and derivative counterparties and believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through (“PT”) certificates, collateralized mortgage obligations, and interest only (“IO”) securities and inverse interest only (“IIO”) securities representing interest in or obligations backed by pools of RMBS. The Company has elected to account for its investment in RMBS under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the consolidated statement of operations, which, in management’s view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

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

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

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

FHLB Stock

The Company's wholly-owned subsidiary, Orchid Island Casualty, LLC, is a member of, and owns capital stock in, the Federal Home Loan Bank of Cincinnati (“FHLBC”). As a condition of its membership in the FHLBC, the subsidiary is required to maintain a FHLBC stock investment, both for membership and for the level of advances from the FHLBC to the subsidiary. The Company accounts for its investment in FHLBC stock as a cost method investment in "Other assets". The Company periodically evaluates FHLBC stock for impairment in accordance with ASC 320. See Note 3 for more information about the subsidiary’s membership in the FHLBC.

Derivative Financial Instruments

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

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

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

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

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

Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. RMBS, Eurodollar and T-Note futures contracts, interest rate swaps, interest rate swaptions and TBA securities are accounted for at fair value in the consolidated balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 12 of the consolidated financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, receivable for securities sold, other assets, due to affiliates, repurchase agreements, payable for unsettled securities purchased, accrued interest payable and other liabilities generally approximates their carrying values as of March 31, 2016 and December 31, 2015 due to the short-term nature of these financial instruments.

Repurchase Agreements

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

Manager Compensation

The Company is externally managed by Bimini Advisors, LLC (the “Manager” or “Bimini Advisors”), a Maryland limited liability company and wholly-owned subsidiary of Bimini. The Company’s management agreement with the Manager provides for payment to the Manager of a management fee and reimbursement of certain operating expenses, which are accrued and expensed during the period for which they are earned or incurred. Refer to Note 13 for the terms of the management agreement.

Earnings Per Share

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

Income Taxes

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

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

Recent Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 provides guidance for the recognition, measurement, presentation and disclosure of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017 and, for most provisions, is effective using the cumulative-effect transition approach. Early application is permitted for certain provisions. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

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

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of March 31, 2016 and December 31, 2015:

(in thousands)

	March 31, 2016	December 31, 2015
Pass-Through RMBS Certificates:		
Hybrid Adjustable-rate Mortgages	$52,044	$52,238
Adjustable-rate Mortgages	2,939	2,976
Fixed-rate Mortgages	1,826,562	2,000,623
Total Pass-Through Certificates	1,881,545	2,055,837
Structured RMBS Certificates:		
Interest-Only Securities	56,607	61,574
Inverse Interest-Only Securities	38,893	40,599
Total Structured RMBS Certificates	95,500	102,173
Total	$1,977,045	$2,158,010

The following table summarizes the Company's RMBS portfolio as of March 31, 2016 and December 31, 2015, according to the contractual maturities of the securities in the portfolio. Actual maturities of RMBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

	March 31, 2016	December 31, 2015
Greater than five years and less than ten years	$711	$835
Greater than or equal to ten years	1,976,334	2,157,175
Total	$1,977,045	$2,158,010

The Company generally pledges its RMBS assets as collateral under repurchase agreements. At March 31, 2016 and December 31, 2015, the Company had unpledged securities totaling $58.8 million and $62.4 million, respectively. The unpledged balance at March 31, 2016 includes unsettled security purchases with a fair value of approximately $21.5 million that will be pledged as collateral under repurchase agreements on their respective settlement dates in April 2016.

NOTE 3. REPURCHASE AGREEMENTS AND OTHER BORROWINGS

The Company pledges certain of its RMBS as collateral under repurchase agreements with financial institutions and a secured borrowing facility with the FHLBC. Interest rates on the borrowings are generally based on the London Interbank Offered Rate ("LIBOR ") plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of the pledged securities declines, lenders will typically require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of the pledged securities increases, lenders may release collateral back to the Company. As of March 31, 2016, the Company had met all margin call requirements.

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Repurchase Agreements

As of March 31, 2016, the Company had outstanding repurchase obligations of approximately $1,939.5 million with a net weighted average borrowing rate of 0.69%. These agreements were collateralized by RMBS with a fair value, including accrued interest and securities pledged related to securities sold but not yet settled, of approximately $2,056.0 million, and cash pledged to the counterparties of approximately $1.3 million. As of December 31, 2015, the Company had outstanding repurchase obligations of approximately $1,798.8 million with a net weighted average borrowing rate of 0.64%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately $1,909.3 million, and cash pledged to the counterparties of approximately $4.0 million.

As of March 31, 2016 and 2015, the Company's repurchase agreements had remaining maturities as summarized below:

($ in thousands)

	OVERNIGHT (1 DAY OR LESS)		BETWEEN 2 AND 30 DAYS		BETWEEN 31 AND 90 DAYS		GREATER THAN 90 DAYS	TOTAL	
March 31, 2016									
Fair market value of securities pledged, including accrued interest receivable	$ 243,551		$ 1,688,958		$ 123,539		$-	$ 1,939,489	
Repurchase agreement liabilities associated with these securities	$ 231,384		$ 1,591,558		$ 116,547		$-	$ 1,939,489	
Net weighted average borrowing rate	0.66	%	0.69	%	0.72	%	-	0.69	%
December 31, 2015									
Fair market value of securities pledged, including accrued interest receivable	$ -		$ 1,894,491		$ 14,801		$-	$ 1,909,292	
Repurchase agreement liabilities associated with these securities	$ -		$ 1,789,338		$9,475		$-	$ 1,798,813	
Net weighted average borrowing rate	-		0.64	%	1.19	%	-	0.64	%

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At March 31, 2016, the Company had an aggregate amount at risk (the difference between the amount loaned to the Company, including interest payable and securities posted by the counterparty (if any), and the fair value of securities and cash pledged (if any), including accrued interest on such securities) with all counterparties of approximately $116.2 million. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at March 31, 2016 and December 31, 2015.

FHLB Advances

In December 2015, our wholly-owned subsidiary, Orchid Island Casualty, LLC, was accepted for membership in the FHLBC. As of December 31, 2015, our subsidiary had approximately $187.5 million of outstanding secured FHLB advances, with a weighted average borrowing rate of 0.42%. These advances were secured by RMBS with a fair value, including accrued interest, of approximately $192.2 million as of March 31, 2016. This agreement also required our subsidiary to purchase and hold stock in the FHLBC in an amount equal to a specified percentage of outstanding advances. As of December 31, 2015, our subsidiary held FHLBC stock with a cost basis of approximately $3.8 million which is included in other assets in our consolidated balance sheets.

On January 12, 2016, the regulator of the FHLB system, the Federal Housing Finance Agency ("FHFA"), released a final rule that amended regulations governing FHLB membership, including an amendment which prevents captive insurance companies from being eligible for FHLB membership. Under the terms of the final rule, our subsidiary is required to terminate its membership, redeem existing FHLBC stock, and repay its existing advances within one year following the effective date of the final rule. In addition, our subsidiary is prohibited from obtaining new advances or renewing existing advances upon their maturity during the one year transition period. The final rule became effective on February 19, 2016. During the three months ended March 31, 2016, all of our subsidiary's outstanding advances, including accrued interest, were refinanced through repurchase agreements. During the three months ended months ended March 31, 2016, the Company redeemed all of its activity-based FHLBC stock but still holds the minimum amount required to retain membership.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative Assets (Liability), at Fair Value

The table below summarizes fair value information about our derivative assets and liabilities as of March 31, 2016 and December 31, 2015.

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	March 31, 2016	December 31, 2015
Assets			
Interest rate swaps	Derivative assets, at fair value	$785	$-
Receiver swaptions	Derivative assets, at fair value	-	669
TBA securities	Derivative assets, at fair value	41	-
Total derivative assets, at fair value		$826	$669
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$806	$-
TBA securities	Derivative liabilities, at fair value	224	-
Total derivative liabilities, at fair value		$1,030	$-
Margin Balances Posted to Counterparties			
Futures contracts	Restricted cash	$3,673	$8,483

Interest rate swap contracts	Restricted cash	12,566	-
Total margin balances on derivative contracts		$16,239	$8,483

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Eurodollar and T-Note futures are cash settled futures contracts on an interest rate, with gains and losses credited or charged to the Company’s cash accounts on a daily basis. A minimum balance, or “margin”, is required to be maintained in the account on a daily basis. The tables below present information related to the Company’s Eurodollar and T-Note futures positions at March 31, 2016 and December 31, 2015.

($ in thousands)

	March 31, 2016			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
Eurodollar Futures Contracts (Short Positions)				
2016	$200,000	1.57 %	0.76 %	$(1,211)
2017	200,000	2.14 %	0.95 %	(2,389)
2018	200,000	2.53 %	1.19 %	(2,671)
2019	200,000	2.55 %	1.36 %	(595)
Total / Weighted Average	$200,000	2.16 %	1.02 %	$(6,866)
Treasury Note Futures Contracts (Short Position)(2)				
June 2016 10 year T-Note futures				
(Jun 2016 - Jun 2026 Hedge Period)	$185,000	1.52 %	1.51 %	$1,286

($ in thousands)

	December 31, 2015			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
Eurodollar Futures Contracts (Short Positions)				
2016	$900,000	1.51 %	0.98 %	$(4,718)
2017	900,000	2.31 %	1.59 %	(6,550)
2018	900,000	2.77 %	1.99 %	(7,060)
2019	900,000	2.56 %	2.17 %	(865)
Total / Weighted Average	$900,000	2.23 %	1.57 %	$(19,193)
Treasury Note Futures Contracts (Short Position)(2)				
December 2015 10 year T-Note futures				
(Dec 2015 - Dec 2025 Hedge Period)	$185,000	1.99 %	1.95 %	$1,091

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.

(2) T-Note futures contracts were valued at a price of $130.39 at March 31, 2016 and $125.91 at December 31, 2015. The nominal values of the short positions was $241.2 million and $238.2 million at March 31, 2016 and December 31, 2015, respectively.

Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on LIBOR ("payer swaps"). The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. We are typically required to post collateral on our interest rate swap agreements. The table below presents information related to the Company’s interest rate swap positions at March 31, 2016.

($ in thousands)

Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
> 3 to ≤ 5 years	$600,000	1.05%	0.62%	$(21)	3.9

The table below presents information related to the Company’s interest rate swaption positions at December 31, 2015.

($ in thousands)

	Option			Underlying Swap			
Expiration	Cost	Fair Value	Weighted Average Months to Expiration	Notional Amount	Fixed Pay Rate	Receive Rate (LIBOR)	Weighted Average Term (Years)
Receiver Swaptions							
≤ 1 year	$1,100	$669	4.2	$100,000	1.77%	3 Month	5.0

The following table summarizes our contracts to purchase and sell TBA securities as of March 31, 2016.

($ in thousands)

	Notional Amount Long (Short)(1)	Cost Basis(2)	Market Value(3)	Net Carrying Value(4)
30-Year TBA securities:				
4.0%	$ (232,000)	$ (251,938)	$ (252,116)	$ (178)
4.5%	(3,000)	(3,203)	(3,208)	(5)
	$ (235,000)	$ (255,141)	$ (255,324)	$ (183)

(1) Notional amount represents the par value (or principal balance) of the underlying Agency RMBS.
(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.
(3) Market value represents the current market value of the TBA securities (or of the underlying Agency RMBS) as of period-end.
(4) Net carrying value represents the difference between the market value and the cost basis of the TBA securities as of period-end and is reported in derivative assets (liabilities), at fair value in our consolidated balance sheets.

Gain (Loss) From Derivative Instruments, Net

The table below presents the effect of the Company’s derivative financial instruments on the consolidated statements of operations for the three months ended March 31, 2016 and 2015.

(in thousands)

	Three Months Ended March 31,	
	2016	2015
Eurodollar futures contracts (short positions)	$(17,505)	$(11,317)
T-Note futures contracts (short position)	(8,975)	-
Interest rate swaps	(21)	-
Receiver swaptions	36	-
Payer swaptions	-	(1,091)
Net TBA securities	(1,125)	57
	$(27,590)	$(12,351)

Credit Risk-Related Contingent Features

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

NOTE 5. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes our assets pledged as collateral under our repurchase agreements, FHLB advances, derivative agreements and insurance capital by type, including securities pledged related to securities sold but not yet settled, as of March 31, 2016 and December 31, 2015.

(in thousands)

	March 31, 2016				
Assets Pledged to Counterparties	Repurchase Agreements	FHLB Advances	Derivative Agreements	Insurance Capital(1)	Total
PT RMBS - fair value	$1,986,751	$-	$-	$1,756	$1,988,507
Structured RMBS - fair value	61,747	-	-	-	61,747
Accrued interest on pledged securities	7,550	-	-	6	7,556
Restricted cash	1,250	-	16,239	289	17,778
Total	$2,057,298	$-	$16,239	$2,051	$2,075,588

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(in thousands)

	December 31, 2015				
Assets Pledged to Counterparties	Repurchase Agreements	FHLB Advances	Derivative Agreements	Insurance Capital(1)	Total
PT RMBS - fair value	$1,833,020	$191,550	$-	$1,752	$2,026,322
Structured RMBS - fair value	69,252	-	-	-	69,252
Accrued interest on pledged securities	7,019	645	-	6	7,670
Restricted cash	3,997	-	8,483	250	12,730
Total	$1,913,288	$192,195	$8,483	$2,008	$2,115,974

(1) Orchid Island Casualty, Inc. is required to maintain sufficient capital in the form of cash and securities to protect it against losses.

Assets Pledged from Counterparties

The table below summarizes our assets pledged to us from counterparties under our repurchase agreements as of March 31, 2016 and December 31, 2015.

(in thousands)

Assets Pledged to Orchid	March 31, 2016	December 31, 2015
PT RMBS - fair value	$541	$167
U.S. Treasury securities - fair value	186	723
Cash	1,595	1,421
Total	$2,322	$2,311

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

NOTE 6. OFFSETTING ASSETS AND LIABILITIES

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

The following table presents information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of March 31, 2016 and December 31, 2015.

(in thousands)

	Offsetting of Assets		
	Net Amount of Assets Presented	Gross Amount Not Offset in the Consolidated Balance Sheet	
		Financial	

	Gross Amount of Recognized Assets	Gross Amount Offset in the Consolidated Balance Sheet	in the Consolidated Balance Sheet	Instruments Received as Collateral	Cash Received as Collateral	Net Amount
March 31, 2016						
Interest rate swaps	$785	$-	$785	$-	$(785)	$-
December 31, 2015						
Receiver swaptions	$669	$-	$669	$(669)	$-	$-

(in thousands)

Offsetting of Liabilities

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount of Assets Presented in the Consolidated Balance Sheet	Gross Amount Not Offset in the Consolidated Balance Sheet: Financial Instruments Posted as Collateral	Cash Posted Collateral	Net Amount
March 31, 2016						
Repurchase Agreements	$1,939,489	$-	$1,939,489	$(1,938,239)	$(1,250)	$-
Interest rate swaps	806	-	806	-	(806)	-
	$1,940,295	$-	$1,940,295	$(1,938,239)	$(2,056)	$-
December 31, 2015						
Repurchase Agreements	$1,798,813	$-	$1,798,813	$(1,794,816)	$(3,997)	$-

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

NOTE 7. CAPITAL STOCK

Common Stock Issuances

During 2015, the Company completed the following public offerings of shares of its common stock. There were no common stock issuances through public offerings during the three months ended September 30, 2015, December 31, 2015 and March 31, 2016.

($ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share(1)	Shares	Net Proceeds(2)
2015				
At the Market Offering Program(3)	First Quarter	$13.66	1,210,487	$16,175
At the Market Offering Program(3)	Second Quarter	13.65	5,024,530	67,100
			6,235,017	$83,275

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

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

(3) The Company has entered into three equity distribution agreements, two of which have been cancelled and replaced with the current agreement, to publicly offer and sell shares of the Company's common stock in at the market and privately negotiated transactions from time to time. As of March 31, 2016, shares with a value of $15.0 million remain available for issuance under the March 2015 Equity Distribution Agreement.

Stock Repurchase Program

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's common stock. As part of the stock repurchase program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company's discretion without prior notice.

From the inception of the share repurchase program through March 31, 2016, the Company repurchased a total of 1,216,243 shares under the stock repurchase program at an aggregate cost of approximately $10.8 million, including commissions and fees, for a weighted average price of $8.92 per share.

Cash Dividends

The table below presents the cash dividends declared on the Company's common stock since its February 2013 IPO.

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016 - YTD(1)	0.560	12,212
Totals	$ 6.035	$ 78,265

(1) On April 13, 2016, the Company declared a dividend of $0.14 per share to be paid on April 29, 2016. The effect of this dividend is not reflected in the Company's financial statements as of March 31, 2016.

NOTE 8. STOCK INCENTIVE PLAN

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

Restricted Stock Awards

On April 25, 2014, the Compensation Committee granted each of our non-employee directors 6,000 shares of restricted common stock subject to a three year vesting schedule whereby 2,000 shares of the award vest on the first, second and third anniversaries of the award date. Directors will have all the rights of a stockholder with respect to the awards, including the right to receive dividends and vote the shares. The awards are subject to forfeiture should the director no longer be a member of the Board of Directors of the Company prior to the respective vesting dates. There were no vested and unissued restricted stock awards at March 31, 2016 and December 31, 2015.

The table below presents information related to the Company's restricted common stock at March 31, 2016 and 2015.

($ in thousands, except per share data)

	Three Months Ended March 31,			
	2016		2015	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	16,000	$12.23	24,000	$12.23
Granted	-	-	-	-
Vested and issued	-	-	-	-
Unvested, end of period	16,000	$12.23	24,000	$12.23
Compensation expense during period		$24		$24
Unrecognized compensation expense, end of period		$106		$204
Intrinsic value, end of period		$166		$318
Weighted-average remaining vesting term (in years)		1.1		2.1

Stock Awards

The Company issues immediately vested common stock under the Incentive Plan to certain executive officers, employees and directors. The following table presents information related to fully vested common stock issued during the three months ended March 31, 2016 and 2015.

($ in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Fully vested shares granted(1)	33,019	21,715
Weighted average grant date price	$9.99	$13.28
Compensation expense related to fully vested common share awards(2)	$330	$288

(1) The table above includes 33,019 shares of fully vested shares which were granted in January and March 2016 with respect to service performed during 2015 and 21,715 shares of fully vested shares which were granted in January 2015 with respect to service performed during 2014.

(2) Approximately $330,000 of compensation expense related to the 2016 share awards were accrued and recognized in 2015. Approximately $288,000 of compensation expense related to the 2015 share awards were accrued and

recognized in 2014.

Performance Units

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

The following table presents information related to Performance Units outstanding during the three months ended March 31, 2016.

($ in thousands, except per share data)

	Three Months Ended March 31,			
	2016		2015	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	7,508	$13.32	-	$-
Granted	41,500	10.00	7,508	13.32
Vested and issued	(751)	13.32	-	-
Unvested, end of period	48,257	$10.46	7,508	$13.32
Compensation expense during period		$21		$34
Unrecognized compensation expense, end of period		$448		$66
Intrinsic value, end of period		$500		$69
Weighted-average remaining vesting term (in years)		2.0		2.1

NOTE 9. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any reported or unreported contingencies at March 31, 2016.

NOTE 10. INCOME TAXES

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

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NOTE 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible shares of restricted common stock and Performance Units that were outstanding during the three months ended March 31, 2016. The basic and diluted per share computations include these unvested shares of restricted common stock and performance units if there is income available to common stock, as they have dividend participation rights. The shares of restricted common stock and Performance Units have no contractual obligation to share in losses. Because there is no such obligation, the shares of restricted common stock and Performance Units are not included in the basic and diluted EPS computations when no income is available to common stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the three months ended March 31, 2016 and 2015.

(in thousands, except per-share information)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Basic and diluted EPS per common share:		
Numerator for basic and diluted EPS per common share:		
Net (loss) income - Basic and diluted	$(4,591)	$5,509
Weighted average common shares:		
Common shares outstanding at the balance sheet date	21,772	17,924
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	32
Effect of weighting	(16)	(1,109)
Weighted average shares-basic and diluted	21,756	16,847
(Loss) income per common share:		
Basic and diluted	$(0.21)	$0.33

There was an average of 31,260 shares of restricted common stock and Performance Units that were anti-dilutive and not included in diluted earnings per share for the three months ended March 31, 2016.

NOTE 12. FAIR VALUE

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of non-performance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These stratifications are:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation

techniques for which all significant assumptions are observable in the market, and

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company’s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

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

RMBS (based on the fair value option), interest rate swaps, interest rate swaptions, TBA securities and futures contracts were recorded at fair value on a recurring basis during the three months ended March 31, 2016 and 2015. 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 March 31, 2016 and December 31, 2015:

(in thousands)

	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016				
Mortgage-backed securities	$ 1,977,045	$ -	$ 1,977,045	$ -
Margin posted on derivative agreements	16,239	16,239	-	-
Interest rate swaps	21	-	21	-
TBA securities	183	-	183	