ENZO BIOCHEM INC
Form DEF 14A
November 26, 2004

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant [X]
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Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
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ENZO BIOCHEM, INC.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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[X] No fee required.
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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party: Enzo Biochem, Inc.

ENZO BIOCHEM, INC.
60 EXECUTIVE BOULEVARD
FARMINGDALE, NEW YORK 11735
(631) 755-5500

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JANUARY 20, 2005

To the Shareholders of Enzo Biochem, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Enzo Biochem, Inc., a New York corporation (the "Company"), will be held at The Yale Club of New York, 50 Vanderbilt Avenue, Grand Ballroom, 20th Floor, New York, New York, on January 20, 2005, at 9:00 a.m. local time (the "Annual Meeting"), for the following purposes:

1. To elect Barry W. Weiner, John J. Delucca and Melvin F. Lazar as Class II Directors for a term of three (3) years or until their respective successors are elected and qualified;

2. To consider and vote upon a proposal to approve and adopt our 2005 Equity Compensation Incentive Plan (which we refer to in the accompanying proxy statement as the "Equity Compensation Incentive Plan Proposal");

3. To ratify the appointment of Ernst & Young LLP as the independent auditors for the Company for the Company's fiscal year ending July 31, 2005; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The close of business on November 24, 2004 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. The transfer books of the Company will not be closed.

All shareholders are cordially invited to attend the Annual Meeting. Please note that you will be asked to present valid picture identification, such as a driver's license or passport, in order to attend the Annual Meeting. The use of cameras, recording devices and other electronic devices will be prohibited at the Annual Meeting.

Whether or not you expect to attend, you are requested to sign, date and return the enclosed proxy promptly. Shareholders who execute proxies retain the right to revoke them at any time prior to the voting thereof by filing written notice of such revocation with the Secretary of the Company, by submission of a duly executed proxy bearing a later date or by voting in person at the Annual Meeting of Shareholders. Attendance at the Annual Meeting will not in and of itself constitute revocation of a proxy. Any written notice revoking a proxy should be sent to Enzo Biochem, Inc., 60 Executive Boulevard, Farmingdale, New York 11735, Attention: Shahram K. Rabbani, Secretary. A return envelope which requires no postage if mailed in the United States is enclosed for your convenience.

By Order of the Board of Directors,

Shahram K. Rabbani, SECRETARY

Farmingdale, New York
November 26, 2004

ENZO BIOCHEM, INC.
60 EXECUTIVE BOULEVARD
FARMINGDALE, NEW YORK 11735
(631) 755-5500

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JANUARY 20, 2005

This Proxy Statement is furnished in connection with the solicitation, by the Board of Directors of Enzo Biochem, Inc., a New York corporation (the "Company"), of proxies in the enclosed form for the Annual Meeting of Shareholders to be held at The Yale Club of New York, 50 Vanderbilt Avenue, Grand Ballroom, 20th Floor, New York, New York, on January 20, 2005 at 9:00 a.m. local time (the "Annual Meeting"), and for any adjournment or adjournments thereof, for the purposes set forth in the preceding Notice of Annual Meeting of Shareholders. The form of proxy solicited by the Board of Directors affords stockholders the ability to specify a choice among approval of, disapproval of, or abstention with respect to, each matter acted upon at the Annual Meeting. The persons named in the enclosed form of proxy will vote the shares for which they are appointed in accordance with the directions of the shareholders appointing them. In the absence of such directions, such shares will be voted FOR Proposals 1, 2 and 3 listed below and, in their best judgment, will be voted on any other matters as may come before the Annual Meeting. Any shareholder giving a proxy has the power to revoke the same at any time before it is voted by filing written notice of such revocation with the Secretary of the Company, by submission of a duly executed proxy bearing a later date or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not in and of itself constitute revocation of a proxy. Any written notice revoking a proxy should be sent to Enzo Biochem, Inc., 60 Executive Boulevard, Farmingdale, New York 11735, Attn.: Shahram K. Rabbani, Secretary. A return envelope which requires no postage if mailed in the United States is enclosed for your convenience.

The expense of the solicitation of proxies for the meeting, including the cost of mailing, will be borne by the Company. In addition to mailing copies of the enclosed proxy materials to stockholders, the Company may request persons, and reimburse them for their expenses with respect thereto, who hold stock in their names or custody or in the names of nominees for others, to forward copies of such materials to those persons for whom they hold stock of the Company and to request authority for the execution of the proxies. In addition to the solicitation of proxies by mail, it is expected that some of the officers, directors and regular employees of the Company, without additional compensation, may solicit proxies on behalf of the Board of Directors by telephone, telefax, and personal interview.

The principal executive offices of the Company are located at 60 Executive Boulevard, Farmingdale, New York 11735. The approximate date on which this Proxy

Statement and the accompanying form of proxy will first be sent or given to the Company's shareholders is November 26, 2004.

VOTING SECURITIES

Only holders of shares of common stock, par value $.01 per share (the "Common Stock"), of the Company of record as of the close of business on November 24, 2004 are entitled to vote at the Annual Meeting (the "Record Date"). On the Record Date there were issued and outstanding 32,395,401 shares of Common Stock. Each outstanding share of Common Stock is entitled to one (1) vote upon all matters to be acted upon at the Annual Meeting. The holders of a majority of the outstanding shares of Common Stock as of the Record Date shall constitute a quorum.

The election of a nominee for director requires a plurality (i.e., an excess of votes over those cast for an opposing candidate) in the event that more than one candidate is running for a vacancy. An affirmative vote of the majority of the votes cast is required for approval of Proposal 2, Proposal 3 and all other matters submitted to the shareholders at the Annual Meeting. Abstentions and broker non-votes are not counted as votes cast on any matter to which they relate and will have no effect on the outcome of the vote. A broker non-vote occurs when a broker or other nominee does not have discretionary authority and has not received instructions with respect to a particular proposal. Proxy ballots are received and tabulated by the Company's transfer agent and certified by the inspector of election.

STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

Set forth below is information concerning stock ownership of all persons known by the Company to own beneficially 5% or more of the shares of Common Stock of the Company, the executive officers named under "Compensation of Directors and Executive Officers," all directors, and all directors and executive officers of the Company as a group based upon the number of outstanding shares of Common Stock as of the close of business on the Record Date. Except as otherwise indicated, each of the persons named has sole voting and investment power with respect to the shares shown.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	PERCENT OF CLASS (2)
Elazar Rabbani, Ph.D.	2,064,792 (3)	6.373%
Shahram K. Rabbani	1,995,537 (4)	6.16%
Barry W. Weiner	1,249,775 (5)	3.858%
Dean Engelhardt, Ph.D.	235,724 (6)	*
Norman E. Kelker, Ph.D.	142,979 (7)	*
John J. Delucca	47,339 (8)	*
Irwin C. Gerson	30,181 (9)	*
Melvin F. Lazar, CPA	45,019 (10)	*
John B. Sias	168,281 (11)	*

Marcus Conant, M.D.	9,550 (12)	*
J. Morton Davis	3,045,656 (13)	9.5%
Smith Barney Fund Management LLC, Citigroup Global Markets Holdings, Inc.	3,878,274 (14)	12.1%
All directors and executive officers as a group (13 persons) (15)	6,276,384 (16)	18.74%

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* Less than 1%.

(1) Except as otherwise noted, all shares of Common Stock are beneficially owned and the sole investment and voting power is held by the persons named, and such persons' address is c/o Enzo Biochem, Inc., 60 Executive Boulevard, Farmingdale, New York 11735.

(2) Based upon 32,395,401 shares of Common Stock of the Company outstanding as of the close of business on the Record Date.

(3) Includes (i) 357,203 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof, (ii) 3,469 shares of Common Stock held in the name of Dr. Rabbani as custodian for certain of his children and (iii) 2,168 shares of Common Stock held in the name of Dr. Rabbani's wife as custodian for certain of their children. Does not include 183,143 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof. Includes 3,141 shares of Common Stock held in the Company's 401(k) plan.

(4) Includes (i) 357,203 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof, (ii) 644 shares of Common Stock held in the name of Mr. Rabbani's son and (iii) 1,754 shares of Common Stock that Mr. Rabbani holds as custodian for certain of his nephews. Does not include 183,143 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof. Includes 3,106 shares of Common Stock held in the Company's 401(k) plan.

(5) Includes (i) 357,203 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof and (ii) 3,642 shares of Common Stock which Mr. Weiner holds as custodian for certain of his children. Does not include 183,143 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof. Includes 3,148 shares of Common Stock held in the Company's 401(k) plan.

(6) Includes 51,683 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 37,840 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof. Includes 3,128 shares of Common Stock held in the Company's 401(k) plan.

(7) Includes 25,731 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 29,669 shares of Common Stock issuable upon the exercise of options

which are not exercisable within 60 days from the date hereof. Includes 3,057 shares of Common Stock held in the Company's 401(k) plan.

(8) Includes 47,339 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 20,485 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof.

(9) Includes 30,181 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 12,009 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof.

(10) Does not include 7,875 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof. Includes 7,875 shares of Common Stock owned by Mr. Lazar's wife and 3,150 shares of Common Stock held in the name of a defined benefit plan for which Mr. Lazar is the sole trustee and beneficiary.

(11) Includes 98,622 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 20,485 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof.

(12) Includes 9,550 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 16,908 shares of Common Stock issuable upon the exercise of options which are not exercisable within 60 days from the date hereof.

(13) Mr. Davis' address is D.H. Blair Investment Banking Corp., 44 Wall Street, New York, New York 10005. Includes (i) 38,545 owned directly by Mr. Davis, (ii) 1,427,681 shares of Common Stock owned by D.H. Blair Investment Banking Corp. of which Mr. Davis is the sole shareholder, (iii) 903,201 shares owned by Rosalind Davidowitz, Mr. Davis' wife, (iv) 663,496 shares of Common Stock owned by Engex, Inc., a close-end registered investment company of which Mr. Davis is the Chairman of the Board of Directors, and (v) 12,733 shares owned by an investment advisor whose principal is Mr. Davis . This information is based solely on Amendment No. 3 to a Schedule 13G filed on February 11, 2004.

(14) The address of Smith Barney is 333 West 34th Street, New York, NY 10036, and the address of Citigroup Inc. is 399 Park Avenue, New York, New York 10001, the address of Citigroup Global Holdings, Inc. is 388 Greenwich Street, New York, New York 10001. This information is based solely on Amendment No. 3 to Schedule 13G filed on August 31, 2004 and adjusted to reflect a 5% stock dividend paid on November 15, 2004.

(15) The total number of directors and executive officers includes three (3) executive officers who were not named under "Compensation of Directors and Executive Officers."

(16) Includes 1,460,138 shares of Common Stock issuable upon the exercise of options which are exercisable within 60 days from the date hereof. Does not include 773,666 shares of Common Stock issuable upon the exercise of options held by such individuals which are not exercisable within 60 days from the date hereof.

PROPOSAL 1

ELECTION OF DIRECTORS

The Company has three (3) staggered classes of Directors, each of which serves for a term of three (3) years. At the Annual Meeting, the Company's Class II Directors will be elected to hold office for a term of three (3) years or until their respective successors are elected and qualified. Unless otherwise instructed, the accompanying form of proxy will be voted for the election of the below-listed nominees all of whom currently serve as Class II Directors, to continue such service as Class II Directors. Management has no reason to believe that any of the nominees will not be a candidate or will be unable to serve as a director. However, in the event that the nominees should become unable or unwilling to serve as directors, the form of proxy will be voted for the election of such persons as shall be designated by the Class I and Class III Directors.

CLASS II DIRECTOR NOMINEES TO SERVE UNTIL
THE 2008 ANNUAL MEETING, IF ELECTED:

CLASS II: NEW TERM TO EXPIRE IN 2008

NAME	AGE	YEAR FIRST BECAME A DIRECTOR
Barry W. Weiner	54	1977
John J. Delucca	61	1982
Melvin F. Lazar, CPA	65	2002

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE "FOR" THE ELECTION OF THE ABOVE-NAMED NOMINEES. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY IN THEIR PROXIES A CONTRARY CHOICE.

DIRECTORS WHO ARE CONTINUING IN OFFICE:

CLASS I: TERM TO EXPIRE IN 2007

NAME	AGE	YEAR FIRST BECAME A DIRECTOR
Shahram Rabbani	52	1976
Irwin C. Gerson	74	2001

CLASS III: TERM TO EXPIRE IN 2006

NAME	AGE	YEAR FIRST BECAME A DIRECTOR
Elazar Rabbani, Ph.D.	60	1976
John B. Sias	77	1982
Marcus A. Conant, M.D.	69	2004

DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company are identified in the table below. Each executive officer of the Company serves at the pleasure of the Board of Directors.

NAME	AGE	YEAR BECAME A DIRECTOR OR EXECUTIVE OFFICER	POSITION
Elazar Rabbani, Ph.D.	60	1976	Chairman of the Board of Chief Executive Officer
Shahram K. Rabbani	52	1976	Chief Operating Officer, Secretary and Director
Barry W. Weiner Director	54	1977	President, Chief Financia
Dean Engelhardt, Ph.D.	64	1981	Executive Vice President
Norman E. Kelker, Ph.D	65	1981	Senior Vice President
Herbert B. Bass	56	1995	Vice President of Finance
Barbara E. Thalenfeld, Ph.D.	64	1995	Vice President, Corporate
David C. Goldberg	47	1995	Vice President, Business
John J. Delucca	61	1982	Director
John B. Sias	77	1982	Director
Irwin C. Gerson	74	2001	Director
Melvin F. Lazar, CPA	65	2002	Director
Marcus A. Conant, M.D.	69	2004	Director

BIOGRAPHICAL INFORMATION REGARDING DIRECTORS AND EXECUTIVE OFFICERS

DR. ELAZAR RABBANI is one of Enzo Biochem's founders and has served as the Company's Chairman of the Board of Directors and Chief Executive Officer since its inception in 1976. Dr. Rabbani has authored numerous scientific publications in the field of molecular biology, in particular, nucleic acid labeling and detection. He is also the lead inventor of many of the company's pioneering patents covering a wide range of technologies and products. Dr. Rabbani received his Bachelor of Arts degree from New York University in Chemistry and his Ph.D. in Biochemistry from Columbia University. He is a member of the American Society for Microbiology.

SHAHRAM K. RABBANI is the Chief Operating Officer, Treasurer, Secretary and Director, is a founder and has been with the Company since its inception. He is also President of Enzo Clinical Labs. Mr. Rabbani serves on the New York State Clinical Laboratory Association, a professional board. Mr. Rabbani is a trustee of Adelphi University and serves as Chairman of its Audit Committee. He received a Bachelor of Arts Degree in Chemistry from Adelphi University, located in Long Island, New York.

BARRY W. WEINER President, Chief Financial Officer and Director, is a founder of the Company. He has served as the Company's President since 1996, and previously held the position of Executive Vice President. Before his employment with Enzo, he worked in several managerial and marketing positions at the Colgate Palmolive Company. Mr. Weiner is a Director of the New York Biotechnology Association. He received his Bachelor of Arts degree in Economics from New York University and a Master of Business Administration in Finance from Boston University.

DR. DEAN ENGELHARDT has been the Company's Executive Vice President, since July 2000. Since joining the Company in 1981, Dr. Engelhardt has held several other executive and scientific positions within Enzo Biochem. In addition, Dr. Engelhardt has authored many papers in the area of nucleic acid synthesis and protein production and has been a featured presenter at numerous scientific conferences and meetings. He holds a Ph.D. degree in Molecular Genetics from Rockefeller University.

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DR. NORMAN E. KELKER is the Senior Vice President and has held this position since 1989. Before this, he was the Company's Vice President for Scientific Affairs. Dr. Kelker has authored numerous scientific papers and presentations in the biotechnology field. He is a member of American Society of Microbiology and the American Association of the Advancement of Science. Dr. Kelker received his Ph.D. in Microbiology and Public Health from Michigan State University.

HERBERT B. BASS is the Company's Vice President of Finance for the Company and is also Senior Vice President of Enzo Clinical Labs. Before his promotion in 1989 to Vice President of Finance, Mr. Bass served as the Corporate Controller of the Company. Mr. Bass has been with the Company since 1986. From 1977 to 1986, Mr. Bass held various positions at Danziger and Friedman, Certified Public Accountants, the most recent of which was audit manager. For the preceding seven years, he held various positions at Berenson & Berenson, Certified Public Accountants. Mr. Bass received a Bachelor of Business Administration degree in Accounting from Bernard M. Baruch College, in New York City.

DR. BARBARA E. THALENFELD is the Vice President of Corporate Development for Enzo Biochem and Vice President of Clinical Affairs for Enzo Therapeutics and has been employed with the Company since 1982. Dr. Thalenfeld has authored over 20 scientific papers in the areas of molecular biology and genetics, and is a member of the American Society of Gene Therapy, the Drug Development Association and the Association of Clinical Research Professionals. Dr. Thalenfeld received her Ph.D. at the Institute of Microbiology at Hebrew University in Jerusalem and a Master of Science degree in Biochemistry from Yale University, and completed a Post Doctoral Fellowship in the Department of Biological Sciences at Columbia University.

DAVID C. GOLDBERG is the Vice President of Business Development for Enzo Biochem and Senior Vice President of Enzo Clinical Labs, has been employed with the company since 1985. He has held several managerial positions within Enzo Biochem. Mr. Goldberg also held management and marketing positions with DuPont-NEN and Gallard Schlesinger Industries before joining the Company. He received a Master of Science degree in Microbiology from Rutgers University and a Master of Business Administration in Finance from New York University.

JOHN B. SIAS has been a Director of the Company since January 1982. Mr. Sias was President and Chief Executive Officer of Chronicle Publishing Company from April 1993 to September 2000. From January 1986 until April 1993, Mr. Sias was President of ABC Network Division, Capital Cities/ABC, Inc. From 1977 until January 1986, he was the Executive Vice President, President of the Publishing

Division (which includes Fairchild Publications) of Capital Cities Communications, Inc.

JOHN J. DELUCCA has been a Director of the Company since January 1982. From 2003 to 2004, Mr. Delucca was Executive Vice President and Chief Financial Officer of REL Consulting Group. Mr. Delucca had been the Chief Financial Officer & Executive Vice President, Finance & Administration of Coty, Inc., from January 1999 to January 2002. From October 1993 until January 1999, he was Senior Vice President and Treasurer of RJR Nabisco, Inc. From January 1992 until October 1993, he was managing director and Chief Financial Officer of Hascoe Associates, Inc. From October 1, 1990 to January 1992, he was President of The Lexington Group. From September 1989 until September 1990, he was Senior Vice President-Finance of the Trump Group. From May 1986 until August 1989, he was senior Vice President-Finance at International Controls Corp. From February 1985 until May 1986, he was a Vice President and Treasurer of Textron, Inc. Before that, he was a Vice President and Treasurer of the Avco Corporation, which was acquired by Textron.

IRWIN C. GERSON has been a Director of the Company since May 8, 2001. From 1995 until December 1998, Mr. Gerson served as Chairman of Lowe McAdams Healthcare and prior thereto had been, since 1986, Chairman and Chief Executive Officer of William Douglas McAdams, Inc., one of the largest advertising agencies in the U.S. specializing in pharmaceutical marketing and communications to healthcare professionals. In February 2000, he was inducted into the Medical Advertising Hall of Fame. Mr. Gerson has a Bachelor of Science in Pharmacy from Fordham University and an MBA from the NYU Graduate School of Business Administration. He is a director of Andrx Corporation, a NASDAQ listed company which specializes in proprietary drug delivery technologies. From 1990 to 1999, he was Chairman of the Council of Overseers of the Arnold and Marie Schwartz College of Pharmacy and has served as a trustee of The Albany College of Pharmacy and Long Island University.

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MELVIN F. LAZAR, CPA (age 65) has been a Director of the Company since August 1, 2002. Mr. Lazar was a founding partner of the public accounting firm of Lazar, Levine & Felix (LLP) from 1969 until October 2002. Mr. Lazar and his firm served the business and legal communities for over 30 years. He is an expert on the topic of business valuations and merger and acquisition activities. Mr. Lazar is a board member and chairman of the audit committee of Arbor Realty Trust, Inc. (ABR:NYSE). Arbor is a real estate investment trust (REIT) formed to invest in real estate related bridge and mezzanine loans, preferred equity investments and other real estate related assets. Mr. Lazar is a board member and serves as the Chairman of the Audit Committee of privately owned Active Media Services, Inc., the largest corporate barter company in the nation. Mr. Lazar is also a board member and serves as the Chairman of the Audit Committee of Ceco Environmental Corp., which is a provider of innovative solutions to industrial ventilating and air quality problems. Mr. Lazar holds a Bachelor of Business Administration degree from The City College of New York (Baruch College).

MARCUS A. CONANT, M.D. has been a Director of the Company since July 1, 2004. Dr. Conant, received his B.S. and M.D. degrees from Duke University. He was an exchange student at Hammersmith Hospital in London, England and held an Elective Fellowship in Biochemistry at the London Hospital. Dr. Conant has been the recipient of numerous awards, and has served as a member of or consultant to a broad array of scientific societies and associations, community organizations and government committees and has authored or co-authored more than 70 published papers. Dr. Conant is a Clinical Professor at the University of California San Francisco (UCSF) and has been on the faculty of UCSF since 1967. He currently serves as Chairman of the Board of the Conant Foundation, an HIV/AIDS education

and research foundation based in San Francisco. Dr. Conant served as principal investigator for Enzo's Phase I clinical trial of its gene medicine for HIV-1 infection.

Dr. Elazar Rabbani and Shahram K. Rabbani are brothers and Barry W. Weiner is their brother-in-law.

CORPORATE GOVERNANCE

Our Board of Directors and management are committed to responsible corporate governance to ensure that the Company is managed for the long-term benefit of its stockholders. To that end, during the past year, as in prior years, the Board of Directors and management have periodically reviewed and updated, as appropriate, the Company's corporate governance policies and practices. During the past year, the Board has also continued to evaluate and, when appropriate, update the Company's corporate governance policies and practices in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and listing standards issued by the Securities and Exchange Commission and the New York Stock Exchange ("NYSE").

CORPORATE GOVERNANCE POLICIES AND PRACTICES

The Company has instituted a variety of policies and practices to foster and maintain responsible corporate governance, including the following:

CORPORATE GOVERNANCE GUIDELINES - The Board of Directors adopted Corporate Governance Guidelines, which collect in one document many of the corporate governance practices and procedures that had evolved over the years. These guidelines address the duties of the Board of Directors, director qualifications and selection process, director compensation, Board operations, Board committee matters and continuing education. The guidelines also provide for annual self-evaluations by the Board and its committees. The Board reviews these guidelines on an annual basis. The guidelines are available on the Company's website at www.enzo.com.

CORPORATE CODE OF ETHICS - The Company has a Code of Ethics that applies to all of the Company's employees, officers and members of the Board. The Code of Ethics is available on the Company's website at www.enzo.com.

BOARD COMMITTEE CHARTERS - Each of the Company's Audit, Compensation and Nominating/Governance Committees has written charters adopted by the Company's Board of Directors that establish practices and procedures for each committee in accordance with applicable corporate governance rules and regulations. The charters are available on the Company's website at www.enzo.com.

DIRECTOR INDEPENDENCE

REQUIREMENTS - The Board of Directors believes that a substantial majority of its members should be independent, non-employee directors. The Board adopted the following "Director Independence Standards," which are consistent with criteria established by the New York Stock Exchange, to assist the Board in making these independence determinations.

No Director can qualify as independent if he or she has a material relationship with the Company outside of his or her service as a Director of the Company. A Director is not independent if, within the preceding three years:

- The director was an employee of the Company.

o An immediate family member of the director was an executive officer of the Company.

o A director was affiliated with or employed by a present or former internal or external auditor of the Company.

o An immediate family member of a director was affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Company.

o A director, or an immediate family member of the director, received more than $100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service).

o The director, or an immediate family member of the director, was employed as an executive officer of another company where any of the Company's executives served on that company's compensation committee of the board of directors.

o The director was an executive officer or employee, or an immediate family member of the director was an executive officer, of another company that made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or two percent (2%) of such other company's consolidated gross revenues.

o The director, or an immediate family member of the director, was an executive officer of another company that was indebted to the company, or to which the Company was indebted, where the total amount of either company's indebtedness to the other was five percent (5%) or more of the total consolidated assets of the company he or she served as an executive officer.

o The director, or an immediate family member of the director, was an officer, director or trustee of a charitable organization where the Company's annual discretionary charitable contributions to the charitable organization exceeded the greater of $1 million or five percent (5%) of that organization's consolidated gross revenues.

The Board has reviewed all material transactions and relationships between each director, or any member of his or her immediate family, and the Company, its senior management and its independent auditors. Based on this review and in accordance with its independence standards outlined above, the Board of Directors has affirmatively determined that all of the non-employee directors are independent.

BOARD NOMINATION POLICIES AND PROCEDURE

NOMINATION PROCEDURE - The Nominating/Governance Committee is responsible for identifying, evaluating, and recommending candidates for election to the Board, with due consideration for recommendations made by other Board members, the CEO, stockholders, and other sources. In addition to the above criteria, the Nominating/Governance Committee also considers the appropriate balance of experience, skills, and characteristics desirable among the members of the board. The independent members of the Board review the Nominating/Governance Committee candidates and nominate candidates for election by the Company stockholders.

Directors must also possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of

all shareholders. Board members are expected to diligently prepare for, attend and participate in all Board and applicable Committee meetings. Each Board member is expected to ensure that other existing and future commitments do not materially interfere with the member's service as a director.

The Nominating/Governance Committee also reviews whether a potential candidate will meet the Company's independence standards and any other director or committee membership requirements imposed by law, regulation or stock exchange rules.

Director candidates recommended to the Committee are subject to full Board approval and subsequent election by the shareholders. The Board of Directors is also responsible for electing directors to fill vacancies on the Board that occur due to retirement, resignation, expansion of the Board or other reasons between the Shareholders' annual meetings. The Nominating/Governance Committee may retain a recruitment firm, from time to time, to assist in identifying and evaluating director candidates. When a firm is used, the Committee provides specified criteria for director candidates, tailored to the needs of the Board at that time, and pays the firm a fee for these services. Suggestions for director candidates are also received from board members and management and may be solicited from professional associations as well.

Upon the recommendation of the Committee, Dr. Marcus Conant was elected to the Board of Directors effective July 1, 2004. Dr. Conant was selected from a group of several candidates and he was identified as a candidate to the Committee by a non-management director. Dr. Conant was interviewed by the Chair of the Nominating/Governance Committee, the Chairman and CEO and several Committee members prior to his election.

BOARD COMMITTEES

All members of each of the Company's three standing committees - the Audit, Compensation, and Nominating/Governance - are required to be independent in accordance with NYSE criteria. See below for a description of the responsibilities of the Board's standing committees.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The Board and the Audit, Compensation and Nominating/Governance Committees periodically hold meetings of only the independent directors or Committee members without management present. The presiding director of the Executive Sessions is rotated among the independent, non-management directors.

BOARD ACCESS TO INDEPENDENT ADVISORS

The Board as a whole, and each of the Board committees separately, have authority to retain and terminate such independent consultants, counselors or advisors to the Board as each shall deem necessary or appropriate.

SHAREHOLDER COMMUNICATIONS WITH BOARD OF DIRECTORS

DIRECT COMMUNICATIONS - Any stockholder desiring to communicate with the Board of Directors or with any director regarding the Company may write to the Board or the director, c/o Shahram K. Rabbani, Office of the Secretary, Enzo Biochem, Inc., 60 Executive Boulevard, Farmingdale, NY 11735. The Office of the Secretary will forward all such communications to the director(s). Shareholders may also submit an email by filling out the email form on the Company's website at www.enzo.com.

ANNUAL MEETING - The Company encourages its directors to attend the annual meeting of stockholders each year. Dr. Elazar Rabbani and Messrs. Melvin F. Lazar, Shahram K. Rabbani and Barry W. Weiner attended the Annual Meeting of Shareholders held in January 2004.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During the fiscal year ended July 31, 2004, there were 4 formal meetings of the Board of Directors, several actions by unanimous consent and several informal meetings. Currently, the Board of Directors has a Nominating/Governance Committee, an Audit Committee and a Compensation Committee. The Nominating/Governance Committee had one formal meeting, the Audit Committee had four formal meetings and the Compensation Committee had one formal meeting in fiscal 2004. Each of the Committees also held additional informal meetings.

The Audit Committee was established by and among the Board of Directors for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, The Audit Committee is authorized to review proposals of the Company's auditors regarding annual audits, recommend the engagement

or discharge of the auditors, review recommendations of such auditors concerning accounting principles and the adequacy of internal controls and accounting procedures and practices, review the scope of the annual audit, approve or disapprove each professional service or type of service other than standard auditing services to be provided by the auditors, and review and discuss the audited financial statements with the auditors. The current members of the Audit Committee are Messrs. Delucca, Gerson, Lazar and Sias, and Mr. Delucca is the Chairman. The Board of Directors has determined that each of the Audit Committee members are independent, as defined in the NYSE's listing standards and as defined in Item 7(d)(3)(iv) of Schedule 14A under the Securities and Exchange Act of 1934. The Board of Directors has further determined that Messrs. Delucca and Lazar are each "audit committee financial experts" as such term is defined under Item 401(h)(2) of Regulation S-K.

The Compensation Committee has the power and authority to (i) establish a general compensation policy for the officers and employees of the Corporation, including to establish and at least annually review officers' salaries and levels of officers' participation in the benefit plans of the Corporation, (ii) prepare any reports that may be required by the regulations of the Securities and Exchange Commission or otherwise relating to officer compensation, (iii) approve any increases in directors' fees, (iv) grant stock options and (v) exercise all other powers of the Board of Directors with respect to matters involving the compensation of employees and the employee benefits of the Corporation as shall be delegated by the Board of Directors to the Compensation Committee. The current members of the Compensation Committee are Messrs. Gerson, Delucca and Lazar and Mr. Gerson is the Chairman.

The Nominating/Governance Committee has the power to recommend to the Board of Directors prior to each annual meeting of the shareholders of the Corporation: (i) the appropriate size and composition of the Board of Directors; and (ii) nominees: (1) for election to the Board of Directors for whom the Corporation should solicit proxies; (2) to serve as proxies in connection with the annual shareholders' meeting; and (3) for election to all committees of the Board of Directors other than the Nominating/Governance Committee. The Nominating/Governance Committee will consider nominations from the stockholders, provided that they are made in accordance with the Company's By-laws. The current members of the Nominating/Governance Committee are Messrs. Gerson,

Delucca, Lazar and Sias and Mr. Sias is the Chairman.

AUDIT COMMITTEE REPORT

In connection with the preparation and filing of the Company's Annual Report on Form 10-K for the year ended July 31, 2004:

(1) The Audit Committee reviewed and discussed the audited financial statements with management;

(2) The Audit Committee discussed with the independent auditors matters required to be discussed under Statement on Auditing Standards No. 61, as may be modified or supplemented;

(3) The Audit Committee reviewed the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, as may be modified or supplemented, and discussed with the independent auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence;

(4) The Audit Committee discussed with the Company's independent auditors the overall scope and plans for their audits. The Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held four formal meetings during the fiscal year ended July 31, 2004 and

(5) Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements of the Company be included in the 2004 Annual Report on Form 10-K.

Submitted by the members of the Audit Committee

John J. Delucca
Irwin C. Gerson
Melvin F. Lazar, CPA
John B. Sias

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who beneficially own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons") to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Such executive officers, directors and greater than 10% beneficial owners are required by Securities and Exchange Commission regulation to furnish the Company with copies of all Section 16(a) forms filed by such reporting persons.

Based solely on the Company's review of such forms furnished to the Company and written representations from certain reporting persons, the Company believes that the Reporting Persons have complied with all applicable filing requirements except the Form 4s relating to the Automatic Director Options granted to each of the non-employee directors following the Company's Annual Meeting of Shareholders held in 2004 were filed late.

CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

Enzo Clinical Labs, Inc. ("Enzolabs"), a subsidiary of the Company, leases a facility located in Farmingdale, New York from Pari Management Corporation ("Pari"). Pari is owned equally by Elazar Rabbani, Ph.D., Shahram Rabbani and Barry Weiner and his wife, the officers and directors of Pari. The lease commenced on December 20, 1989 and terminates on November 30, 2004. Subsequent to the lease termination, the Company will lease the facility on a month to month basis consistent with the lease payments required immediately prior to its termination pending the negotiation and execution of a new lease, which terms will be subject to approval by a majority of the independent directors of the Company. During fiscal 2004, Enzolabs paid approximately $1,370,800 (including $148,900 in real estate taxes) to Pari with respect to such facility and future payments are subject to cost of living adjustments. The Company, which has guaranteed Enzolabs' obligations to Pari under the lease, believes that the existing lease terms are as favorable to the Company as would be available from an unaffiliated party

CODE OF ETHICS

The Company has adopted a Code of Ethics (as such term is defined in Item 406 of Regulation S-K), which code has been filed as Exhibit 14 to the Company's annual report on Form 10-K for the fiscal year ended July 31, 2003. The Code of Ethics applies to the Company's Executive Officer, Chief Financial Officer and principal accounting officer or controller, or persons performing similar functions. The Code of Ethics has been designed to deter wrongdoing and to promote:

(1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(2) Full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company;

(3) Compliance with applicable governmental laws, rules and regulations;

(4) The prompt internal reporting or violations of the Code of Ethics to an appropriate person or persons identified in the Code of Ethics; and

(5) Accountability for adherence to the Code of Ethics.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following summary compensation table sets forth the aggregate compensation paid by the Company to its chief executive officer and to the Company's four other most highly compensated executive officers whose annual compensation exceeded $100,000 for the fiscal year ended July 31, 2004 (each, a "Named Executive Officer") for services during the fiscal years ended July 31, 2004, 2003 and 2002:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	BONUS ($)	COMP OPT
ELAZAR RABBANI, PH.D., Chairman of the Board of Directors and CEO	2004	$430,942	$275,000	
	2003	$402,963	$275,000	
	2002	$367,656	$245,000	
SHAHRAM K. RABBANI, Chief Operating Officer, Treasurer, Secretary and Director	2004	$395,046	$260,000	
	2003	$367,825	$260,000	
	2002	$332,526	$230,000	
BARRY W. WEINER, President, Chief Financial Officer and Director	2004	$395,046	$260,000	
	2003	$367,825	$260,000	
	2002	$332,526	$230,000	
DEAN ENGELHARDT, PH.D., Executive Vice President	2004	$225,737	$55,000	
	2003	$221,622	$55,000	
	2002	$204,527	$50,000	
NORMAN E. KELKER, PH.D., Senior Vice President	2004	$202,476	$45,000	
	2003	$183,268	$45,000	
	2002	$168,760	$30,000	

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS NUMBER OF SECURITIES UNDERLYING OPTION/SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OF BASE PRICE ($ / SH)	EXPIRATION DATE	P AN PR
Elazar Rabbani, Ph.D., Chairman of the Board of Directors and Chief Executive Officer	78,750	18.360%	17.45	3/07/14	
Shahram K. Rabbani, Chief Operating Officer, Treasurer, Secretary and Director	78,750	18.360%	17.45	3/07/14	
Barry W. Weiner, President and Director	78,750	18.360%	17.45	3/07/14	
Dean Engelhardt, Ph.D., Executive Vice President	15,750	3.672%	17.45	3/07/14	
Norman Kelker, Ph.D., Senior Vice President	15,750	3.672%	17.45	3/07/14	

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

The following table sets forth certain information with respect to stock option exercises by the Named Executive Officers during the fiscal year ended July 31, 2004 and the value of unexercised options held by them at fiscal year-end.

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS OPTIONS AT FISCAL YEAR-END (#)		VALUE OF IN-THE-MONEY FISCAL YE
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE
Elazar Rabbani, Ph.D.	284,137	2,509,221	357,203	183,143	1,373,818
Shahram K. Rabbani	284,137	2,509,221	357,203	183,143	1,373,818
Barry W. Weiner	201,014	1,775,158	357,203	183,143	1,373,818
Dean Engelhardt, Ph.D.	13,400	149,812	51,683	37,840	237,190
Norman E. Kelker, Ph.D.	-0-	177,158	25,731	29.669	171,348

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(1) Market value of the underlying securities at fiscal year end minus the exercise price paid in cash or stock.

EMPLOYMENT AGREEMENTS

Each of Mr. Barry Weiner, Mr. Shahram Rabbani and Dr. Elazar Rabbani (the "Executives") are parties to an employment agreement effective May 4, 1994 (the "Employment Agreement(s)") with the Company. Pursuant to the terms of their respective Employment Agreements, as amended, Messrs. Weiner and Rabbani and Dr. Rabbani are currently compensated for the calendar year 2004 at a base annual salary of $434,700, $398,500 and $398,500, respectively. Each Executive will also receive an annual bonus, the amount of which shall be determined by the Board of Directors in its discretion. Each Employment Agreement provides that, in the event of termination of the Executive for good reason or without cause (or, additionally, in the case of Dr. Rabbani, a nonrenewal), as such terms are defined therein, each Executive shall be entitled to receive: (a) a lump sum in an amount equal to three (3) years of the Executive's base annual salary; (b) a lump sum in an amount equal to the annual bonus paid by the Company to the Executive for the last fiscal year of the Company ending prior to the date of termination multiplied by three (3); (c) insurance coverage for the Executive and his dependents, at the same level and at the same charges to the Executive as immediately prior to his termination, for a period of three (3) years following his termination from the Company; (d) all accrued obligations, as defined therein; and (e) with respect to each incentive pay plan (other than stock option or other equity plans) of the Company in which the Executive participated at the time of termination, an amount equal to the amount the Executive would have earned if he had continued employment for three (3) additional years. If the Executive is terminated by reason of his disability, he shall be entitled to receive, for three (3) years after such termination, his base annual salary less any amounts received under a long term disability plan. If the Executive is terminated by reason of his death, his legal representatives

shall receive the balance of any remuneration due him. The term of each of the Executive's Employment Agreement, as amended, currently expires on May 4, 2006, which term automatically renews for successive two year periods if notice to the Company is not given by either party within 180 days of the end of such successive term.

COMPENSATION OF DIRECTORS

As of January 1, 2004, each person who serves as a director and who is not otherwise an officer or an employee (such director being classified as an "Outside Director") of the Company, receives an annual director's fee of $20,000 and a fee of $1,500 for each meeting attended in person or by telephone. In addition, as of March 10, 2004 each non-management Director who serves on a Committee of the Board of Directors will receive a fee of $1,000 for each meeting of the Committee attended by telephone and the Chairman of each such Committee shall receive an additional $500 for each meeting of such Committee attended. Furthermore, on the date persons are first elected to serve as Outside Directors of the Company's Board of Directors, such persons shall receive options ("Initial Director Options") to purchase 15,000 shares of Common Stock of the Company, and will automatically receive options ("Automatic Director Options" and together with the Initial Director Options, the "Director Options") to purchase 12,500 shares of the Company's Common Stock immediately following the date of each annual meeting of the Company's shareholders, PROVIDED, HOWEVER, that such persons did not receive Initial

Director Options since the most recent grant of Automatic Director Options and continue to serve as directors of the Company's Board of Directors. The exercise price for each share subject to a Director Option shall be equal to the fair market value of the Company's Common Stock on the date of grant. Director Options shall become exercisable at the discretion of the Board of Directors, subject to acceleration in certain circumstances, and shall expire the earlier of ten (10) years after the date of grant or ninety (90) days after the termination of the director's service on the Board of Directors. On January 7, 2004, each of Messrs Delucca, Gerson, Lazar and Sias were issued options to purchase 7,875 shares (adjusted to reflect a 5% stock dividend) of Common Stock. On March 8, 2004 each of Dr. Rabbani and Messrs. Rabbani and Weiner were issued options to purchase 78,750 shares (adjusted to reflect a 5% stock dividend) of Common Stock. On July 1, 2004 Dr. Conant was granted an Initial Director Option to acquire 15,875 shares (adjusted to reflect a 5% stock dividend) of Common Stock.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee are Messrs. Gerson, Delucca and Lazar. No member of the Compensation Committee has a relationship that would constitute an interlocking relationship with the Company's executive officers or other directors.

COMPENSATION COMMITTEE REPORT

The Company strives to apply a uniform philosophy to compensation for all of its employees, including the members of its senior management. This philosophy is based on the premise that the achievements of the Company result from the combined and coordinated efforts of all employees working toward common goals and objectives.

The goals of the Company's compensation program are to align remuneration with business objectives and performance, and to enable the Company to retain and competitively reward executive officers who contribute to the long-term

success of the Company. The Company's compensation program for executive officers is based on the following principles, which are applicable to compensation decisions for all employees of the Company. The Company attempts to pay its executive officers competitively in order that it will be able to retain the most capable people in the industry. Information with respect to levels of compensation being paid by comparable companies is obtained from various publications and surveys.

During the last fiscal year, the compensation of executive officers consisted principally of salary and bonus and the Company granted stock options to certain of its executive officers, additional grants of which may be made in the future. The cash portion of such program includes base salary and annual bonuses, which are awarded in the discretion of the Board of Directors. Salary levels have been set based upon historical levels, amounts being paid by comparable companies and performance. The Company's equity-based compensation consists of the award of discretionary stock options, which are designed to provide additional incentives to executive officers to maximize shareholder value. Through the use of extended vesting periods, the option program is designed to encourage executive officers to remain in the employ of the Company. In addition, because the exercise prices of such options are typically set at or above the fair market value of the stock on the date the option is granted, executive officers can only benefit from such options if the trading price of the Company's shares of Common Stock increases, thus aligning their financial interests directly with those of the shareholders.

In consideration for Dr. Elazar Rabbani's services as Chairman of the Board of Directors and Chief Executive Officer of the Company for the fiscal year ended July 31, 2004, the Company paid Dr. Rabbani an annual salary of $430,942 and a bonus of $275,000. Such compensation was determined pursuant to the Company's employment agreement with Dr. Rabbani and was based on the Board's view of Dr. Rabbani's successful performance as Chief Executive Officer. See "Employment Agreements."

Submitted by the members of the Compensation Committee

Irwin W. Gerson
John J. Delucca
Melvin F. Lazar

401(K) PLAN

The Company has adopted a salary reduction profit sharing plan which is generally available to employees of the Company and any subsidiary of the Company. Officers and directors who are employees of the Company participate in the Plan on the same basis as other employees.

The Plan permits voluntary contributions by employees in varying amounts up to 17% of annual earnings (not to exceed the maximum allowable in any calendar year which is $13,000 for 2004). Employee contributions are made by salary reduction under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), and are excluded from taxable income of the employee. The Company may also contribute additional discretionary amounts as it may determine.

All employees of the Company who are twenty-one (21) years or older and have been employed by the Company for a minimum of three (3) months are eligible to participate in the Plan. Employees, who have more than 500 hours of service per service year, but less than 1,000 hours per service year, are still

considered members of the Plan, but contribution allocations and vesting will not increase during such time.

A participant's account is distributed to him upon retirement or termination of employment for any reason and in certain other limited situations. The amount of the Plan allocation attributable to the Company's discretionary contributions will vest in accordance with a schedule. For the fiscal year ended July 31, 2004, the Company has made contributions of 50% of the employees' contribution up to 10% of the employees' compensation in Common Stock of the Company.

1999 STOCK OPTION PLAN

Under the Company's 1999 Stock Option Plan (the "1999 Plan"), the Company's Board of Directors may grant ISOs and NQSOs to selected key employees, directors, executive officers, consultants and advisors of the Company to purchase the Company's Common Stock. ISOs and NQSOs granted under the 1999 Plan generally vest no earlier than six (6) months after the date of grant and can be exercised no later than the tenth (10th) anniversary date of the date of grant. When the optionee, however, holds more than 10% of all combined voting stock of the Company, ISOs granted under the 1999 Plan cannot be exercised later than the fifth (5th) anniversary date of the date of grant. The exercise prices of options granted under the 1999 Plan are set by the Board of Directors of the Company, or designated committee. In any event, however, ISOs granted under the 1999 Plan may not be exercisable at a price lower than the fair market value of the Company's Common Stock on the date such options are granted, and, when the optionee holds more than 10% of all combined voting stock of the Company, the exercise prices of such options may not be less than 110% of the fair market value of the Common Stock of the Company on the date of grant. ISOs granted under the 1999 Plan to any optionee which become exercisable for the first time in any one calendar year for shares of Common Stock of the Company with an aggregate fair market value, as of the respective date or dates of grant, of more than $100,000 shall be treated as NQSOs. The awards under the 1999 Plan are subject to restrictions on transferability, are forfeitable in certain circumstances and are exercisable at such time or times and during such period as shall be set forth in the option agreement evidencing such option. During the fiscal year ended July 31, 2004, options to purchase up to 428,925 shares of the Company's Common Stock were awarded under the 1999 Plan. As of the Record Date, of the 2,312,356 shares of the Company's Common Stock reserved for issuance upon the exercise of options authorized for grant under the 1999 Plan, 238,780 shares of the Company's Common Stock remain available for issuance upon the exercise of options authorized for grant under the 1999 Plan.

2005 EQUITY COMPENSATION INCENTIVE PLAN

On October 5, 2004, our Board of Directors approved the adoption, subject to approval by our shareholders, of its 2005 Equity Compensation Incentive Plan for the purpose of recruiting and retaining our officers, employees, directors, consultants and advisors pursuant to the terms of a program to be administered by our Compensation Committee. As of the Record Date, no grants have been made under such Plan. The 2005 Equity Compensation Incentive Plan is being presented to our shareholders as Proposal 2 for adoption. The full text of such Plan is attached as Exhibit A to this proxy statement.

INSURANCE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has in effect, with American International Group Companies ("AIG") under a policy effective February 21, 2004, and expiring on February 22, 2005, insurance covering all of its directors and officers and certain other

employees of the Company against certain liabilities and reimbursing the Company for obligations which it incurs as a result of its indemnification of such directors, officers and employees. Such insurance has been obtained in accordance with the provisions of Section 726 of the Business Corporation Law of the State of New York. The annual premium is $350,000.

This report has been provided by the Board of Directors of the Company.

Elazar Rabbani, Ph.D.
Shahram K. Rabbani
Barry W. Weiner
Marcus A. Conant, M.D.
John J. Delucca
Irwin C. Gerson
Melvin F. Lazar, CPA
John B. Sias

PERFORMANCE GRAPH

The graph below compares the five-year cumulative shareholder total return based upon an initial $100 investment (assuming the reinvestment of dividends) for Enzo Biochem, Inc. shares of Common Stock with the comparable return for the New York Stock Exchange Market Value Index and two peer issuer indices selected on an industry basis. The two peer group indices include: (i) 60 biotechnology companies engaged in the research and development of diagnostic substances and (ii) 10 companies engaged in the medical laboratories business. All of the indices include only companies whose common stock has been registered under Section 12 of the Securities Exchange Act of 1934 for at least the time frame set forth in the graph.

The total shareholder returns depicted in the graph are not necessarily indicative of future performance. The Performance Graph and related disclosure shall not be deemed to be incorporated by reference in any filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the graph and such disclosure by reference.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG ENZO BIOCHEM, INC.,
NYSE MARKET INDEX AND SIC CODE INDEX

[Data below represents line chart in printed piece.]

	ENZO BIOCHEM, INC.	MEDICAL LABORATORIES	NYSE MARKET INDEX	BIOTECHNOLOGY PEERS
1999	100	100	100	100
2000	269.94	212.06	103.52	198.31
2001	133.87	229.22	101.06	164.68
2002	73.91	160.86	81.81	138.24
2003	115.81	171.01	89.75	165.54
2004	76.2	187.98	102.91	184.49

ASSUMES $100 INVESTED ON AUGUST 1, 1999
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING JULY 31, 2004

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN OF THE
COMPANY, TWO PEER GROUP INDICES AND THE NYSE MARKET INDEX

	1999	2000	2001	2002	2003	2004
ENZO BIOCHEM, INC.	100.00	269.94	133.87	73.91	115.81	76.20
MEDICAL LABORATORIES	100.00	212.06	229.22	160.86	171.01	187.98
NYSE MARKET INDEX	100.00	103.52	101.06	81.81	89.75	102.91
BIOTECHNOLOGY PEERS	100.00	198.31	164.68	138.24	165.54	184.49

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PROPOSAL 2
2005 EQUITY COMPENSATION INCENTIVE PLAN PROPOSAL

We have established a 2005 Equity Compensation Incentive Plan (the "2005 Plan") for the purpose of recruiting and retaining our officers, employees, directors and consultants. The 2005 Plan authorizes the issuance of options to purchase shares of common stock and the grant of restricted common stock awards. Section 162(m) of the Code ("Section 162(m)") limits a corporation's income tax deduction for compensation paid to each executive officer to $1 million per year unless the compensation qualifies as "performance-based compensation." In general, for a grant under the 2005 Plan to qualify as "performance-based compensation," the 2005 Plan must have been approved by the Company's public stockholders. The availability of the exemption for awards of "performance-based compensation" depends upon obtaining approval of the 2005 Plan by the Company's public stockholders. The Board of Directors determined that it was in the best interests of the Company to seek stockholder approval at the Annual Meeting.

The discussion below is a summary of material terms of the 2005 Plan. The discussion below is merely a summary of the Plan and does not provide detailed information for every aspect of the 2005 Plan. For a more complete description of the terms of the 2005 Plan, please see a copy of the 2005 Plan attached as Exhibit A to this proxy statement.

SUMMARY OF THE 2005 EQUITY COMPENSATION INCENTIVE PLAN

ADMINISTRATION

Administration of the 2005 Plan is carried out by the Compensation Committee of the Board of Directors. The Compensation Committee may delegate a portion of its authority under the 2005 Plan to one or more of our officers. As used in this summary, the term "administrator" means the Compensation Committee or its delegate.

ELIGIBILITY

Our officers and employees and those of our subsidiaries are eligible to participate in the 2004 Plan. Our directors and other persons that provide consulting or advisory services to us and our subsidiaries are also eligible to participate in the 2005 Plan. The term subsidiary is used in this summary to refer to both corporate subsidiaries and other entities for which we directly or indirectly control at least 50% of the equity and any other entity in which we have a material equity interest.

MAXIMUM SHARES AND AWARD LIMITS

Under the 2005 Plan, the maximum number of shares of common stock that may be subject to stock options and stock awards is 1,000,000. No one participant may receive awards for more than 200,000 shares of common stock in any one calendar year. These limitations, and the terms of outstanding awards, will be adjusted without the approval of our stockholders as the administrator determines is appropriate in the event of a stock dividend, stock split, reclassification of stock or similar events. If an option terminates, expires or becomes unexercisable, or shares of common stock subject to a stock award are forfeited, the shares subject to such option or stock award are available under the first sentence of this paragraph for future awards under the 2005 Plan. In addition, shares which are issued under any type of award under the 2005 Plan and which are repurchased or reacquired by us at the original purchase price for such shares are also available under the first sentence of this paragraph for future awards under the 2005 Plan.

STOCK OPTIONS

The 2005 Plan provides for the grant of both options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (the "Code") and options that are not intended to so qualify. Options intended to qualify as incentive stock options may be granted only to persons who are our employees or are employees of our subsidiaries which are treated as corporations for federal income tax purposes. No participant may be granted incentive stock options that are exercisable for the first time in any calendar year for common stock having a total fair market value (determined as of the option grant) in excess of $100,000.

The administrator will select the participants who are granted options and, consistent with the terms of the 2005 Plan, will prescribe the terms of each option, including the vesting rules for such option. The option exercise price cannot be less than the common stock's fair market value on the date the option is granted, and in the event a participant is deemed to be a 10% owner of our Company or one of our subsidiaries, the exercise price of an

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incentive stock option cannot be less than 110% of the common stock's fair market value on the date the option is granted. The 2005 Plan prohibits repricing of an outstanding option, and therefore, the administrator may not, without the consent of the stockholders, lower the exercise price of an outstanding option. This limitation does not, however, prevent adjustments resulting from stock dividends, stock splits, reclassifications of stock or similar events. The option price may be paid in cash or by surrendering shares of common stock, or a combination of cash and shares of common stock. Options may be exercised in accordance with requirements set by the administrator. The maximum period in which an option may be exercised will be fixed by the administrator but cannot exceed ten years, and in the event a participant is deemed to be a 10% owner of our Company or one of our corporate subsidiaries, the maximum period for an incentive stock option granted to such participant cannot exceed five years. Options generally will be nontransferable except in the event of the participant's death but the administrator may allow the transfer of non-qualified stock options through a gift or domestic relations order to the participant's family members.

Unless provided otherwise in a participant's stock option agreement and subject to the maximum exercise period for the option, an option generally will cease to be exercisable upon the earlier of three months following the participant's termination of service with us or the expiration date under the

terms of the participant's stock option agreement. The right to exercise an option will expire immediately upon termination if the termination is for "cause" or a voluntary termination any time after an event that would be grounds for termination for cause. Upon death or disability, the option exercise period is extended to the earlier of one year from the participant's termination of service or the expiration date under the terms of the participant's stock option agreement.

STOCK AWARDS AND PERFORMANCE BASED COMPENSATION

The administrator also will select the participants who are granted restricted common stock awards and, consistent with the terms of the 2005 Plan, will establish the terms of each stock award. A restricted common stock award may be subject to payment by the participant of a purchase price for shares of common stock subject to the award, and a stock award may be subject to vesting requirements or transfer restrictions or both, if so provided by the administrator. Those requirements may include, for example, a requirement that the participant complete a specified period of service or that certain performance objectives be achieved. The performance objectives may be based on the individual performance of the participant, our performance or the performance of our subsidiaries, divisions, departments or functions in which the participant is employed or has responsibility. In the case of a performance objective for an award intended to qualify as "performance based compensation" under Section 162(m), the objectives are limited to specified levels of and increases in our or a business unit's return on equity; total earnings; earnings per share; earnings growth; return on capital; return on assets; economic value added; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; sales growth; gross margin return on investment; increase in the fair market value of the shares; share price (including but not limited to growth measures and total stockholder return); net operating profit; cash flow (including, but not limited to, operating cash flow and free cash flow); cash flow return on investments (which equals net cash flow divided by total capital); funds from operations; internal rate of return; increase in net present value or expense targets. Transfer of the shares of common stock subject to a stock award normally will be restricted prior to vesting.

AMENDMENT AND TERMINATION

No awards may be granted under the 2005 Plan after the tenth anniversary of the adoption of the 2005 Plan. The Board of Directors may amend or terminate the 2005 Plan at any time, but an amendment will not become effective without the approval of our stockholders if it increases the aggregate number of shares of common stock that may be issued under the 2005 Plan, changes the class of employees eligible to receive incentive stock options or stockholder approval is required by any applicable law, regulation or rule, including any rule of the NYSE. No amendment or termination of the 2005 Plan will affect a participant's rights under outstanding awards without the participant's consent.

FEDERAL INCOME TAX ASPECTS OF THE 2005 PLAN

The following is a brief summary of the federal income tax aspects of awards that may be made under the 2005 Plan based on existing U.S. federal income tax laws. This summary provides only the basic tax rules. It does not describe a number of special tax rules, including the alternative minimum tax and various elections that may be applicable under certain circumstances. The tax consequences of awards under the 2005 Plan depend upon the type of award and if the award is to an executive officer, whether the award qualifies as performance-based compensation under Section 162(m) of the Code.

INCENTIVE STOCK OPTIONS

The recipient of an incentive stock option generally will not be taxed upon grant of the option. Federal income taxes are generally imposed only when the shares of stock from exercised incentive stock options are disposed of, by sale or otherwise. The amount by which the fair market value of the stock on the date of exercise exceeds the exercise price is, however, included in determining the option recipient's liability for the alternative minimum tax. If the incentive stock option recipient does not sell or dispose of the stock until more than one year after the receipt of the stock and two years after the option was granted, then, upon sale or disposition of the stock, the difference between the exercise price and the market value of the stock as of the date of exercise will be treated as a capital gain, and not ordinary income. If a recipient fails to hold the stock for the minimum required time, at the time of the disposition of the stock, the recipient will recognize ordinary income in the year of disposition in an amount equal to any excess of the market value of the common stock on the date of exercise (or, if less, the amount realized on disposition of the shares) over the exercise price paid for the shares. Any further gain (or loss) realized by the recipient generally will be taxed as short-term or long-term gain (or loss) depending on the holding period. The Company will not receive a tax deduction for incentive stock options which are taxed to a recipient as capital gains; however, the Company will receive a tax deduction if the sale of the stock does not qualify for capital gains tax treatment.

NONQUALIFIED STOCK OPTIONS

The recipient of stock options not qualifying as incentive stock options generally will not be taxed upon the grant of the option. Federal income taxes are generally due from a recipient of nonqualified stock options when the stock options are exercised. The difference between the exercise price of the option and the fair market value of the stock purchased on such date is taxed as ordinary income. Thereafter, the tax basis for the acquired stock is equal to the amount paid for the stock plus the amount of ordinary income recognized by the recipient. The Company will take a tax deduction equal to the amount of ordinary income realized by the option recipient by reason of the exercise of the option.

STOCK AWARDS

The payment of stock awards under the 2005 Plan will generally be treated as ordinary compensation income at the time of payment or, in the case of restricted common stock subject to a vesting requirement, at the time substantial vesting occurs. A recipient who receives restricted shares which are not substantially vested, may, within 30 days of the date the shares are transferred, elect in accordance with Section 83(b) of the Code to recognize ordinary compensation income at the time of transfer of the shares. The amount of ordinary compensation income is equal to the amount of any cash and the amount by which the then fair market value of any common stock received by the participant exceeds the purchase price, if any, paid by the participant. Subject to the application of Section 162(m), the Company will receive a tax deduction for the amount of the compensation income.

SECTION 162(m)

Section 162(m) would render non-deductible to the Company certain compensation in excess of $1,000,000 in any year to certain officers of the Company unless such excess is "performance-based compensation" (as defined in the Code) or is otherwise exempt from Section 162(m) granted under the 2005 Plan are designed to qualify as performance-based compensation. As described above with respect to restricted common stock, the administrator may condition such awards on attainment of one or more performance goals that are intended to qualify such awards as performance-based compensation.

All future awards under the 2005 Plan will be discretionary and therefore are not determinable at this time.

Approval of the 2005 Equity Compensation Incentive Plan Proposal requires the affirmative vote of a majority of the votes cast on the matter by holders of our outstanding common shares at the Annual Meeting, provided a quorum is present.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2 RELATING TO THE APPROVAL AND ADOPTION OF OUR 2005 EQUITY COMPENSATION INCENTIVE PLAN. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY IN THEIR PROXIES A CONTRARY CHOICE.

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PROPOSAL 3
APPROVAL OF INDEPENDENT AUDITORS

The Board of Directors has appointed Ernst & Young LLP, as independent auditors, to audit the accounts of the Company for the fiscal year ending July 31, 2005. The Board of Directors approved the reappointment of Ernst & Young LLP (which has been engaged as the Company's independent auditors since 1983). Ernst & Young LLP has advised the Company that neither the firm nor any of its members or associates has any direct financial interest in the Company or any of its affiliates other than as auditors. Although the selection and appointment of independent auditors is not required to be submitted to a vote of shareholders, the Directors deem it desirable to obtain the shareholders' ratification and approval of this appointment.

The following table sets forth the aggregate fees billed by Ernst & Young LLP for the years ended July 31, 2004 and 2003 for audit and non-audit services (as well as all "out-of-pocket" costs incurred in connection with these services) and are categorized as Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees. The nature of the services provided in each such category is described following the table.

	2004	2003
AUDIT FEES	$215,000	$178,000
AUDIT-RELATED FEES	16,000	12,000
TAX FEES	8,000	75,000
ALL OTHER FEES	0	0
TOTAL FEES	$239,000	$265,000

AUDIT FEES - Consists of professional services rendered in connection with the annual audit of the Company's consolidated financial statements on Form 10-K and quarterly reviews of the Company's interim financial statements on Form 10-Q. Audit fees also include fees for services performed by Ernst & Young LLP that are closely related to the audit and in many cases could only be provided by the Company's independent auditors. Such services include the issuance of comfort letters and consents related to the Company's registration statements and capital raising activities, assistance with and review of other documents filed with the Commission and accounting advice on completed transactions.

AUDIT RELATED FEES - Consists of services related to audits of properties acquired, due diligence services related to contemplated property acquisitions

and accounting consultations. The 2004 and 2003 fees were incurred in connection with consultations regarding the Company's implementation of The Sarbanes-Oxley Act of 2002.

TAX FEES - Consists of services related to corporate tax compliance, including review of corporate tax returns, review of the tax treatments for certain expenses and tax due diligence relating to acquisitions.

ALL OTHER FEES - There were no professional services rendered by Ernst & Young LLP that would be classified as other fees during the years ended July 31, 2004 and 2003.

PRE-APPROVAL POLICIES AND PROCEDURES - The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the Chair of the Audit Committee authority to approve permitted services provided that the Chair reports any decisions to the Committee at its next scheduled meeting.

In making its recommendations to ratify the appointment of Ernst & Young LLP as the Company's independent accountants for the fiscal year ending July 31, 2005, the Audit Committee has considered whether the non-audit services provided by Ernst & Young LLP are compatible with maintaining the independence of Ernst & Young LLP.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 3 RELATING TO THE RATIFICATION OF THE APPOINTMENT OF THE AUDITORS. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY IN THEIR PROXIES A CONTRARY CHOICE.

GENERAL

The Management of the Company does not know of any matters other than those stated in this Proxy Statement which are to be presented for action at the meeting. If any other matters should properly come before the meeting, it is intended that proxies in the accompanying form will be voted on any such matters in accordance with the judgment of the persons voting such proxies. Discretionary authority to vote on such matters is conferred by such proxies upon the persons voting them.

The Company will bear the cost of preparing, assembling and mailing the Proxy, Proxy Statement and other material which may be sent to the shareholders in connection with this solicitation. In addition to the solicitation of proxies by use of the mails, officers and regular employees may solicit the return of proxies. The Company may reimburse persons holding stock in their names or in the names of other nominees for their expense in sending proxies and proxy material to principals. In addition, American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, NY 11219, the Company's transfer agent, has been engaged to solicit proxies on behalf of the Company for a fee, excluding expenses, of approximately $5,000. Proxies may be solicited by mail, personal interview, telephone and telegraph.

ENZO WEBSITE

In addition to the information about the Company and its subsidiaries contained in this proxy statement, extensive information about the Company can be found on our website located at www.enzo.com, including information about our management team, products and services and our corporate governance practices.

The corporate governance information on our website includes the Company's Corporate Governance Guidelines, the Code of Conduct and the charters of each of the committees of the Board of Directors. These documents can be accessed at www.enzo.com. Printed versions of our Corporate Governance Guidelines, our Code of Conduct and the charters for our Board committees can be obtained, free of charge, by writing to the Company at: Enzo Biochem, Inc., 60 Executive Boulevard, Farmingdale, New York 11735, Attn: Corporate Secretary.

This information about Enzo's website and its content, together with other references to the website made in this proxy statement, is for information only and the content of the Company's website is not deemed to be incorporated by reference in this proxy statement or otherwise filed with the Securities and Exchange Commission.

THE COMPANY WILL PROVIDE WITHOUT CHARGE TO EACH PERSON BEING SOLICITED BY THIS PROXY STATEMENT, UPON THE WRITTEN REQUEST OF ANY SUCH PERSON, A COPY OF THE ANNUAL REPORT OF THE COMPANY ON FORM 10-K FOR THE YEAR ENDED JULY 31, 2004 (AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION) INCLUDING THE FINANCIAL STATEMENTS AND THE SCHEDULES THERETO. ALL SUCH REQUESTS SHOULD BE DIRECTED TO SHAHRAM K. RABBANI, SECRETARY, ENZO BIOCHEM, INC., 60 EXECUTIVE BOULEVARD, FARMINGDALE, NEW YORK 11735.

SHAREHOLDER PROPOSALS TO BE PRESENTED
AT THE NEXT ANNUAL MEETING

SHAREHOLDER PROPOSALS. Proposals of shareholders intended to be presented at the Company's 2005 Annual Shareholder Meeting (i) must be received by the Company at its offices no later than July 29, 2005 (120 days preceding the one year anniversary of the Mailing Date), (ii) may not exceed 500 words and (iii) must otherwise satisfy the conditions established by the Securities and Exchange Commission for stockholder proposals to be included in the Company's Proxy Statement and form of proxy for that meeting.

DISCRETIONARY PROPOSALS. Shareholders intending to commence their own proxy solicitations and present proposals from the floor of the 2005 Annual Shareholder Meeting in compliance with Rule 14a-4 promulgated under the Exchange Act of 1934, as amended, must notify the Company of such intentions before October 12, 2005 (45 days preceding the one year anniversary of the Mailing Date). After such date, the Company's proxy in connection with the 2005 Annual Shareholder Meeting may confer discretionary authority on the Board to vote.

By Order of the Board of Directors

Shahram K. Rabbani, Secretary

Dated: November 26, 2004

PROXY

ENZO BIOCHEM, INC.
60 EXECUTIVE BOULEVARD, FARMINGDALE, NEW YORK 11735

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Elazar Rabbani, Ph.D. and Shahram K. Rabbani as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated below, all the shares of the Common Stock of Enzo Biochem, Inc. held of record by the undersigned on November 24, 2004, at the Annual Meeting of Shareholders to be held on January 20, 2005 or any adjournment thereof.

PROPOSAL 1. Election of Barry W. Weiner, John J. Delucca and Melvin F. Lazar, CPA as Class II Directors.

[ ] FOR all nominees (except as marked to the contrary below)

[ ] WITHHOLDING AUTHORITY as to all nominees

(INSTRUCTION: To withhold authority to vote for any individual nominee, print that nominee's name on the line provided below.)

Withheld for: -----------------------------------

PROPOSAL 2. To consider and vote upon a proposal to approve and adopt our 2005 Equity Compensation Incentive Plan (which we refer to in the accompanying proxy statement a the "2005 Equity Compensation Incentive Plan Proposal").

[ ] FOR [ ] AGAINST [ ] ABSTAIN

PROPOSAL 3. Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending July 31, 2005.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Annual Meeting. This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR Proposals 1,2 and 3.

PLEASE SIGN EXACTLY AS NAME APPEARS BELOW. WHEN SHARES OF COMMON STOCK ARE HELD BY JOINT TENANTS, BOTH SHOULD SIGN.

Dated: -------------------, 2004 / 2005 (circle one)

Signature: -----------------------------------

Signature if held jointly: ----------------------------

(When signing as attorney, as executor, as administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer.

If a partnership, please sign in partnership name by
authorized person.)

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(4) Date Filed: November 26, 2004

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1,916

1,400

945

Allocated overhead

756

626

388

329

Accrued incentive compensation

230

385

218

214

Directors' fees and liability insurance

508

527

232

245

Audit, legal and other professional fees

389

461

219

215

Direct REIT operating expenses

496

239

265

99

Other administrative

200

161

140

87

Total expenses

5,281

4,315

2,862

2,134

Net (loss) income

$
(7,193
)

$
1,872

$
(9,643
)

$
6,463

Basic and diluted net (loss) income per share

$
(0.21
)

$
0.08

$
(0.26
)

$
0.29

Weighted Average Shares Outstanding

35,117,364

21,853,949

37,211,362

21,920,573

Dividends declared per common share

$
0.84

$
0.84

$
0.42

$
0.42

See Notes to Consolidated Financial Statements

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ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Six Months Ended June 30, 2017
($ in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
Balances, January 1, 2017	$ 330	$ 332,449	$ -	$ 332,779
Net loss	-	-	(7,193)	(7,193)
Cash dividends declared, $0.84 per share	-	(30,628)	-	(30,628)
Issuance of common stock pursuant to public offerings, net	123	122,734	-	122,857
Issuance of common stock pursuant to stock based compensation plan	-	196	-	196
Amortization of stock based compensation	-	163	-	163
Balances, June 30, 2017	$ 453	$ 424,914	$ (7,193)	$ 418,174

See Notes to Consolidated Financial Statements

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ORCHID ISLAND CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30, 2017 and 2016
($ in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(7,193)	$1,872
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Stock based compensation	359	386
Realized and unrealized losses (gains) on mortgage-backed securities	29,463	(12,302)
Realized and unrealized losses (gains) on interest rate swaptions	-	(36)
Realized and unrealized losses on interest rate swaps	3,689	5,561
Realized losses on forward settling to-be-announced securities	2,384	1,911
Changes in operating assets and liabilities:		
Accrued interest receivable	(2,491)	(203)
Other assets	(212)	(213)
Accrued interest payable	342	549
Other liabilities	(2,563)	(321)
Due to (from) affiliates	124	(21)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	23,902	(2,817)
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(3,692,066)	(1,485,258)
Sales	3,064,979	1,327,500
Principal repayments	155,303	109,412
Redemption of FHLB stock	3	3,750
Payments on net settlement of to-be-announced securities	(5,591)	(1,598)
Purchase of interest rate swaptions, net of margin cash received	-	704
NET CASH USED IN INVESTING ACTIVITIES	(477,372)	(45,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	25,243,560	14,290,130
Principal payments on repurchase agreements	(24,758,809)	(14,028,116)
Principal payments on FHLB advances	-	(187,500)
Cash dividends	(28,902)	(18,421)
Proceeds from issuance of common stock, net of issuance costs	122,857	6,591
NET CASH PROVIDED BY FINANCING ACTIVITIES	578,706	62,684
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	125,236	14,377
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	94,425	69,959
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$219,661	$84,336
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$15,136	$6,100

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:

Securities acquired settled in later period	$273,689	$4,276

See Notes to Consolidated Financial Statements

ORCHID ISLAND CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
JUNE 30, 2017

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

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

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

On July 29, 2016, Orchid entered into an equity distribution agreement (the "July 2016 Equity Distribution Agreement") with two sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of the Company's common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. The Company issued a total of 10,174,992 shares under the July 2016 Equity Distribution Agreement for aggregate gross proceeds of $110.0 million, and net proceeds of approximately $108.2 million, net of commissions and fees, prior to its termination in February 2017.

On February 23, 2017, Orchid entered into another equity distribution agreement, as amended and restated on May 10, 2017, (the "May 2017 Equity Distribution Agreement") with two sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. The May 2017 Equity Distribution Agreement replaced the July 2016 Equity Distribution Agreement. Through June 30, 2017, the Company issued a total of 12,299,032 shares under the May 2017 Equity Distribution Agreement for aggregate gross proceeds of $125.0 million, and net proceeds of approximately $122.9 million, net of commissions and fees.

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 six and three month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The balance sheet at December 31, 2016 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, 2016.

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

Statement of Comprehensive Income (Loss)

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

Cash and Cash Equivalents and Restricted Cash

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

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

(in thousands)

	June 30, 2017	December 31, 2016
Cash and cash equivalents	$199,796	$73,475
Restricted cash	19,865	20,950
Total cash, cash equivalents and restricted cash	$219,661	$94,425

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 June 30, 2017, the Company's cash deposits exceeded federally insured limits by approximately $195.3 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.

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

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

Derivative Financial Instruments

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

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 TBA 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.

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Holding derivatives creates exposure to credit risk related to the potential for failure on the part of counterparties and exchanges to honor their commitments. In addition, the Company may be required to post collateral based on any declines in the market value of the derivatives. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the agreement. To mitigate this risk, the Company uses only well-established commercial banks 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 June 30, 2017 and December 31, 2016 due to the short-term nature of these financial instruments.

Repurchase Agreements

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

Manager Compensation

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

Earnings Per Share

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

Income Taxes

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

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

Recent Accounting Pronouncements

In November 2016, the FASB issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows – (Topic 230): Restricted Cash. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company adopted the ASU beginning with the first quarter of 2017. The prior period consolidated statement of cash flows has been retrospectively adjusted to conform to this presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. Early application is permitted. The Company is currently evaluating the potential effect of this ASU on its consolidated financial statements.

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

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

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company's RMBS portfolio as of June 30, 2017 and December 31, 2016:

(in thousands)

	June 30, 2017	December 31, 2016
Pass-Through RMBS Certificates:		
Hybrid Adjustable-rate Mortgages	$42,881	$45,459
Adjustable-rate Mortgages	1,929	2,062
Fixed-rate Mortgages	3,545,614	2,826,694
Total Pass-Through Certificates	3,590,424	2,874,215
Structured RMBS Certificates:		
Interest-Only Securities	102,552	69,726
Inverse Interest-Only Securities	44,851	78,233
Total Structured RMBS Certificates	147,403	147,959
Total	$3,737,827	$3,022,174

The following table summarizes the Company's RMBS portfolio as of June 30, 2017 and December 31, 2016, 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)

	June 30, 2017	December 31, 2016
Greater than one year and less than five years	$77	$157
Greater than five years and less than ten years	198	277
Greater than or equal to ten years	3,737,552	3,021,740
Total	$3,737,827	$3,022,174

The Company generally pledges its RMBS assets as collateral under repurchase agreements. At June 30, 2017 and December 31, 2016, the Company had unpledged securities totaling $286.9 million and $49.9 million, respectively. The unpledged balance at June 30, 2017 includes unsettled security purchases with a fair value of approximately $272.3 million that will be pledged as collateral under repurchase agreements on their respective settlement dates in July 2017.

NOTE 3. REPURCHASE AGREEMENTS AND OTHER BORROWINGS

The Company pledges certain of its RMBS as collateral under repurchase agreements with financial institutions. Interest rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is generally paid at the termination of a borrowing. If the fair value of the pledged securities declines, lenders will typically require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of the pledged securities increases, lenders may release collateral back to the Company. As of June 30, 2017, the Company had met all margin call requirements.

As of June 30, 2017, the Company had outstanding repurchase obligations of approximately $3,278.5 million with a net weighted average borrowing rate of 1.30%. These agreements were collateralized by RMBS with a fair value, including accrued interest and securities pledged related to securities sold but not yet settled, of approximately

$3,464.7 million, and cash pledged to the counterparties of approximately $6.5 million. As of December 31, 2016, the Company had outstanding repurchase obligations of approximately $2,793.7 million with a net weighted average borrowing rate of 1.00%. These agreements were collateralized by RMBS with a fair value, including accrued interest, of approximately $2,970.9 million, and cash pledged to the counterparties of approximately $10.8 million.

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As of June 30, 2017 and 2016, 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
June 30, 2017					
Fair market value of securities pledged, including accrued interest receivable	$ -	$2,854,432	$ 591,161	$ 19,073	$3,464,666
Repurchase agreement liabilities associated with these securities	$ -	$2,704,329	$ 555,920	$ 18,207	$3,278,456
Net weighted average borrowing rate	-	1.29 %	1.32 %	1.35 %	1.30 %
December 31, 2016					
Fair market value of securities pledged, including accrued interest receivable	$ -	$2,284,815	$ 686,065	$ -	$2,970,880
Repurchase agreement liabilities associated with these securities	$ -	$2,154,766	$ 638,939	$ -	$2,793,705
Net weighted average borrowing rate	-	1.01 %	0.96 %	-	1.00 %

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 June 30, 2017, 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 $190.6 million. The Company did not have an amount at risk with any individual counterparty greater than 10% of the Company's equity at June 30, 2017 and December 31, 2016.

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 also a hedge for tax purposes. The Company accounts for TBA securities as derivative instruments if either the TBA securities do not settle in the shortest period of time possible or if the Company cannot assert that it is probable at inception and throughout the term of the TBA securities that it will take physical delivery of the Agency RMBS for a long position, or make delivery of the Agency RMBS for a short position, upon settlement of the trade.

Derivative Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative assets and liabilities as of June 30, 2017 and December 31, 2016.

(in thousands)

Derivative Instruments and Related Accounts	Balance Sheet Location	June 30, 2017	December 31, 2016
Assets			
Interest rate swaps	Derivative assets, at fair value	$8,523	$ 10,302
TBA securities	Derivative assets, at fair value	2,090	63
Total derivative assets, at fair value		$10,613	$ 10,365
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$2,712	$ 802
TBA securities	Derivative liabilities, at fair value	-	1,180
Total derivative liabilities, at fair value		$2,712	$ 1,982
Margin Balances Posted to Counterparties			
Futures contracts	Restricted cash	$10,021	$ 9,419
TBA securities	Restricted cash	257	446
Interest rate swap contracts	Restricted cash	3,047	-
Total margin balances on derivative contracts		$13,325	$ 9,865

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 June 30, 2017 and December 31, 2016.

($ in thousands)

	June 30, 2017			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[1]
Eurodollar Futures Contracts (Short Positions)				
2017	$1,000,000	1.56 %	1.42 %	$ (723)
2018	1,000,000	1.84 %	1.68 %	(1,666)
2019	1,000,000	2.09 %	1.95 %	(1,463)
2020	925,000	2.62 %	2.16 %	(4,268)
Total / Weighted Average	$978,571	2.08 %	1.85 %	$ (8,120)
Treasury Note Futures Contracts (Short Position)[2]				
September 2017 10-year T-Note futures (Sep 2017 - Sep 2027 Hedge Period)	$465,000	2.06 %	2.12 %	$ 1,582

($ in thousands)

Expiration Year	December 31, 2016 Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity[1]
Eurodollar Futures Contracts (Short Positions)				
2017	$600,000	1.48 %	1.28 %	$(1,206)
2018	600,000	1.81 %	1.82 %	76
2019	675,000	2.00 %	2.21 %	1,429
2020	700,000	2.65 %	2.45 %	(1,394)
Total / Weighted Average	$643,750	2.01 %	1.97 %	$(1,095)
Treasury Note Futures Contracts (Short Position)[2]				
March 2017 10 year T-Note futures				
(Mar 2017 - Mar 2027 Hedge Period)	$465,000	2.27 %	2.24 %	$(3,134)

(1) Open equity represents the cumulative gains (losses) recorded on open futures positions from inception.
T-Note futures contracts were valued at a price of $125.53 at June 30, 2017 and $124.28 at December 31, 2016.

(2) The notional contract values of the short positions were $583.7 million and $577.9 million at June 30, 2017 and December 31, 2016, respectively.

Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on the London Interbank Offered Rate ("LIBOR") ("payer swaps"). The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. We are typically required to post collateral on our interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at June 30, 2017 and December 31, 2016.

($ in thousands)

	Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
June 30, 2017					
Expiration > 1 to ≤ 3 years	$650,000	1.09 %	1.18 %	$ 8,485	2.6
Expiration > 3 to ≤ 5 years	300,000	2.08 %	1.24 %	(2,674)	4.7
	$950,000	1.40 %	1.20 %	$ 5,811	3.2
December 31, 2016					
Expiration > 3 to ≤ 5 years	$700,000	1.20 %	0.91 %	$ 9,500	3.4

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The following table summarizes our contracts to purchase and sell TBA securities as of June 30, 2017 and December 31, 2016.

($ in thousands)	Notional Amount Long (Short)[1]	Cost Basis[2]	Market Value[3]	Net Carrying Value[4]
June 30, 2017				
30-Year TBA securities:				
3.0%	$(250,000)	$(251,063)	$(249,628)	$1,435
4.5%	(150,000)	(161,531)	(160,876)	655
	$(400,000)	$(412,594)	$(410,504)	$2,090
December 31, 2016				
30-Year TBA securities:				
3.0%	$(100,000)	$(99,406)	$(99,344)	$62
4.0%	(100,000)	(103,898)	(105,078)	(1,180)
	$(200,000)	$(203,304)	$(204,422)	$(1,118)

(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 six and three months ended June 30, 2017 and 2016.

(in thousands)	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Eurodollar futures contracts (short positions)	$(7,562)	$(18,701)	$(6,990)	$(1,196)
T-Note futures contracts (short position)	(9,740)	(13,976)	(5,890)	(5,001)
Interest rate swaps	(4,175)	(4,629)	(4,178)	(4,608)
Receiver swaptions	-	36	-	-
Net TBA securities	(2,384)	(1,911)	(2,384)	(786)
	$(23,861)	$(39,181)	$(19,442)	$(11,591)

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, prime brokerage clearing accounts, derivative agreements and insurance capital by type, including securities pledged related to securities sold but not yet settled, as of June 30, 2017 and December 31, 2016.

(in thousands)

	June 30, 2017		
Assets Pledged to Counterparties	Repurchase Agreements	Derivative Agreements	Total
PT RMBS - fair value	$3,312,428	$ -	$3,312,428
Structured RMBS - fair value	138,519	-	138,519
Accrued interest on pledged securities	13,719	-	13,719
Restricted cash	6,540	13,325	19,865
Total	$3,471,206	$ 13,325	$3,484,531

(in thousands)

	December 31, 2016				
Assets Pledged to Counterparties	Repurchase Agreements	Clearing Margin	Derivative Agreements	Insurance Capital[1]	Total
PT RMBS - fair value	$2,854,062	$-	$ -	$ 1,065	$2,855,127
Structured RMBS - fair value	106,195	10,968	-	-	117,163
Accrued interest on pledged securities	10,623	266	-	4	10,893
Restricted cash	10,835	-	9,865	250	20,950
Total	$2,981,715	$11,234	$ 9,865	$ 1,319	$3,004,133

(1) Orchid Island Casualty, Inc. was 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 June 30, 2017 and December 31, 2016.

(in thousands)

Assets Pledged to Orchid	June 30, 2017	December 31, 2016
Cash	$933	$ 1,029
U.S. Treasury securities - fair value	-	3,438
Total	$933	$ 4,467

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 June 30, 2017 and December 31, 2016.

(in thousands)
Offsetting of Assets

	Gross Amount of Recognized Assets	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 Received as Collateral	Cash Received as Collateral	Net Amount
June 30, 2017						
Interest rate swaps	$ 8,523	$ -	$ 8,523	$ -	$ -	$ 8,523
TBA securities	2,090	-	2,090	-	(120)	1,970
	$ 10,613	$ -	$ 10,613	$ -	$ (120)	$ 10,493
December 31, 2016						
Interest rate swaps	$ 10,302	$ -	$ 10,302	$ -	$ -	$ 10,302
TBA securities	63	-	63	-	(63)	-
	$ 10,365	$ -	$ 10,365	$ -	$ (63)	$ 10,302

(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
June 30, 2017						
Repurchase Agreements	$ 3,278,456	$ -	$ 3,278,456	$ (3,271,916)	$ (6,540)	$ -

Interest rate swaps	2,712	-	2,712	-	(2,712)	-
	$3,281,168	$ -	$3,281,168	$(3,271,916)	$(9,252)	$ -
December 31, 2016						
Repurchase Agreements	$2,793,705	$ -	$2,793,705	$(2,782,870)	$(10,835)	$ -
Interest rate swaps	802	-	802	-	(802)	-
TBA securities	1,180	-	1,180	-	(848)	332
	$2,795,687	$ -	$2,795,687	$(2,782,870)	$(12,485)	$ 332

The amounts disclosed for collateral received by or posted to the same counterparty up to and not exceeding the net amount of the asset or liability presented in the consolidated balance sheets. The fair value of the actual collateral received by or posted to the same counterparty typically exceeds the amounts presented. See Note 5 for a discussion of collateral posted or received against or for repurchase obligations and derivative instruments.

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NOTE 7. CAPITAL STOCK

Common Stock Issuances

During 2017 and 2016, the Company completed the following public offerings of shares of its common stock. There were no common stock issuances through public offerings during the three months ended March 31, 2016.

($ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share[1]	Shares	Net Proceeds[2]
2017				
At the Market Offering Program[3]	First Quarter	$ 10.13	1,286,196	$ 12,792
At the Market Offering Program[3]	Second Quarter	10.17	11,012,836	110,065
			12,299,032	$ 122,857
2016				
At the Market Offering Program[3]	Second Quarter	$ 10.48	646,753	$ 6,591
At the Market Offering Program[3]	Third Quarter	10.80	3,818,802	40,525
At the Market Offering Program[3]	Fourth Quarter	10.79	6,707,101	71,212
			11,172,656	$ 118,328

(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 five equity distribution agreements, all of which have either been terminated because all shares were sold or were replaced with a subsequent agreement.

Share 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 share 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 June 30, 2017, the Company repurchased a total of 1,216,243 shares at an aggregate cost of approximately $10.8 million, including commissions and fees, for a weighted average price of $8.92 per share. No shares were repurchased during the year ended December 31, 2016 or the six months ended June 30, 2017.

Cash Dividends

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

(in thousands, except per share amounts)

Year	Per Share Amount	Total
2013	$ 1.395	$ 4,662
2014	2.160	22,643
2015	1.920	38,748
2016	1.680	41,388
2017 - YTD[(1)]	0.980	36,977
Totals	$ 8.135	$ 144,418

(1) On July 12, 2017, the Company declared a dividend of $0.14 per share to be paid on August 10, 2017. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of June 30, 2017.

NOTE 8. STOCK INCENTIVE PLAN

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

Restricted Stock Awards

The table below presents information related to the Company's restricted common stock at June 30, 2017 and 2016.

($ in thousands, except per share data)

	Six Months Ended June 30,			
	2017		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	8,000	$ 12.23	16,000	$ 12.23
Granted	-	-	-	-
Vested and issued	(8,000)	12.23	(8,000)	12.23

Unvested, end of period	-	$ -	8,000	$ 12.23
Compensation expense during period		$ 33		$ 49
Unrecognized compensation expense, end of period		$ -		$ 82
Intrinsic value, end of period		$ -		$ 82
Weighted-average remaining vesting term (in years)		-		0.8

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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 six months ended June 30, 2017 and 2016.

($ in thousands, except per share data)

	Six Months Ended June 30,	
	2017	2016
Fully vested shares granted[1]	21,839	35,911
Weighted average grant date price per share	$9.74	$10.02
Compensation expense related to fully vested common share awards[2]	$213	$360

(1) The table above includes 17,335 fully vested shares of common stock which were granted in January and March 2017 with respect to service performed during 2016 and 33,019 fully vested shares common stock which were granted in January and March 2016 with respect to service performed during 2015.

(2) Approximately $168,000 of compensation expense related to the 2017 share awards was accrued and recognized in 2016. Approximately $330,000 of compensation expense related to the 2016 share awards was accrued and recognized in 2015.

Performance Units

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

The following table presents information related to Performance Units outstanding during the six months ended June 30, 2017.

($ in thousands, except per share data)

	Six Months Ended June, 30,			
	2017		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of period	45,305	$ 10.33	7,508	$ 13.32
Granted	15,707	9.55	41,500	10.00
Vested and issued	(9,660)	10.52	(1,502)	13.32
Unvested, end of period	51,352	$ 10.06	47,506	$ 10.42

Compensation expense during period	$ 130	$ 85
Unrecognized compensation expense, end of period	$ 276	$ 384
Intrinsic value, end of period	$ 506	$ 489
Weighted-average remaining vesting term (in years)	1.3	1.8

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 June 30, 2017.

NOTE 10. INCOME TAXES

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

NOTE 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible shares of restricted common stock and Performance Units that were outstanding during the six and three months ended June 30, 2017. The basic and diluted per share computations include these unvested shares of restricted common stock and performance units if there is income available to common stock, as they have dividend participation rights. The shares of restricted common stock and Performance Units have no contractual obligation to share in losses. Because there is no such obligation, the shares of restricted common stock and Performance Units are not included in the basic and diluted EPS computations when no income is available to common stock even though they are considered participating securities.

The table below reconciles the numerator and denominator of EPS for the six and three months ended June 30, 2017 and 2016.

(in thousands, except per-share information)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Basic and diluted EPS per common share:				
Numerator for basic and diluted EPS per common share:				
Net (loss) income - Basic and diluted	$(7,193)	$1,872	$(9,643)	$6,463
Weighted average common shares:				
Common shares outstanding at the balance sheet date	45,300	22,431	45,300	22,431
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	56	-	56
Effect of weighting	(10,183)	(633)	(8,089)	(566)
Weighted average shares-basic and diluted	35,117	21,854	37,211	21,921
Net (Loss) income per common share:				
Basic and diluted	$(0.21)	$0.08	$(0.26)	$0.29

There was an average of 61,238 and 53,550 shares of restricted common stock and Performance Units that were anti-dilutive and not included in diluted EPS for the six and three months ended June 30, 2017, respectively.

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

RMBS (based on the fair value option), interest rate swaps, interest rate swaptions, TBA securities and futures contracts were recorded at fair value on a recurring basis during the six and three months ended June 30, 2017 and 2016. 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.

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The following table presents financial assets (liabilities) measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

(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)
June 30, 2017				
Mortgage-backed securities	$ 3,737,827	$ -	$ 3,737,827	$ -
Margin posted on derivative agreements	13,325	13,325	-	-
Interest rate swaps	5,811	-	5,811	-
TBA securities	2,090	-	2,090	-
December 31, 2016				
Mortgage-backed securities	$ 3,022,174	$ -	$ 3,022,174	$ -
Margin posted on derivative agreements	9,865	9,865	-	-
Interest rate swaps	9,500	-	9,500	-
TBA securities	(1,117)	-	(1,117)	-

During the six and three months ended June 30, 2017 and 2016, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 13. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2018 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first $250 million of the Company's equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's equity that is greater than $250 million and less than or equal to $500 million, and
- One-twelfth of 1.00% of the Company's equity that is greater than $500 million.

The Company is obligated to reimburse the Manager for any direct expenses incurred on its behalf and to pay the Manager the Company's pro rata portion of certain overhead costs set forth in the management agreement. Should the Company terminate the management agreement without cause, it will pay to the Manager a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of the term of the agreement.

Total expenses recorded for the management fee and costs incurred were approximately $3.5 million and $1.8 million for the six and three months ended June 30, 2017, respectively, and approximately $2.5 million and $1.3 million for the six and three months ended June 30, 2016, respectively. At June 30, 2017 and December 31, 2016, the net amount due to affiliates was approximately $0.7 million and $0.6 million, respectively.

Other Relationships with Bimini

Robert Cauley, our Chief Executive Officer and Chairman of our Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. Hunter Haas, our Chief Financial Officer, Chief Investment Officer, Secretary and a member of our Board of Directors, also serves as the Chief Financial Officer, Chief Investment Officer and Treasurer of Bimini and owns shares of common stock of Bimini. In addition, as of June 30, 2017, Bimini owned 1,520,036 shares, or 3.4%, of the Company's common stock.
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes to those statements included in Item 1 of this Form 10-Q. The discussion may contain certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are those that are not historical in nature. As a result of many factors, such as those set forth under "Risk Factors" in our most recent Annual Report on Form 10-K, our actual results may differ materially from those anticipated in such forward-looking statements.

Overview

We are a specialty finance company that invests in residential mortgage-backed securities ("RMBS") which are issued and guaranteed by a federally chartered corporation or agency ("Agency RMBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS ("PT RMBS") and (ii) structured Agency RMBS, such as collateralized mortgage obligations ("CMOs"), interest only securities ("IOs"), inverse interest only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency RMBS. We were formed by Bimini in August 2010, commenced operations on November 24, 2010 and completed our initial public offering ("IPO") on February 20, 2013. We are externally managed by Bimini Advisors, a registered investment adviser with the Securities and Exchange Commission (the "SEC").

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

We operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). We generally will not be subject to U.S. federal income tax to the extent that we currently distribute all of our REIT taxable income (as defined in the Code) to our stockholders and maintain our REIT qualification.

The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "ORC".

Capital Raising Activities

On July 29, 2016, we entered into an equity distribution agreement (the "July 2016 Equity Distribution Agreement") with two sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 10,174,992 shares under the July 2016 Equity Distribution Agreement for aggregate gross proceeds of $110.0 million, and net proceeds of approximately $108.2 million, net of commissions and fees, prior to its termination.

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On February 23, 2017, we entered into another equity distribution agreement, as amended and restated on May 10, 2017, (the "May 2017 Equity Distribution Agreement") with two sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. The May 2017 Equity Distribution Agreement replaced the July 2016 Equity Distribution Agreement. Through June 30, 2017, we issued a total of 12,299,032 shares under the May 2017 Equity Distribution Agreement for aggregate gross proceeds of $125.0 million, and net proceeds of approximately $122.9 million, net of commissions and fees.

Factors that Affect our Results of Operations and Financial Condition

A variety of industry and economic factors may impact our results of operations and financial condition. These factors include:

- interest rate trends;
- the difference between Agency RMBS yields and our funding and hedging costs;
- competition for investments in Agency RMBS;
- actions taken by the new presidential administration, the Federal Reserve (the "Fed") and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency RMBS, and credit trends insofar as they affect prepayment rates; and
- other market developments.

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

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

Results of Operations

Described below are the Company's results of operations for the six and three months ended June 30, 2017, as compared to the Company's results of operations for the six and three months ended June 30, 2016.

Net (Loss) Income Summary

Net loss for the six months ended June 30, 2017 was $7.2 million, or $0.21 per share. Net income for the six months ended June 30, 2016 was $1.9 million, or $0.08 per share. Net loss for the three months ended June 30, 2017 was $9.6 million, or $0.26 per share. Net income for the three months ended June 30, 2016 was $6.5 million, or $0.29 per share. The components of net (loss) income for the six and three months ended June 30, 2017 and 2016, along with the changes in those components are presented in the table below:

(in thousands)

	Six Months Ended June 30,			Three Months Ended, June 30,		
	2017	2016	Change	2017	2016	Change
Interest income	$66,890	$39,701	$27,189	$34,579	$19,235	$15,344
Interest expense	(15,478)	(6,649)	(8,829)	(8,763)	(3,330)	(5,433)
Net interest income	51,412	33,052	18,360	25,816	15,905	9,911
Losses on RMBS and derivative contracts	(53,324)	(26,865)	(26,459)	(32,597)	(7,308)	(25,289)
Net portfolio (loss) income	(1,912)	6,187	(8,099)	(6,781)	8,597	(15,378)
Expenses	(5,281)	(4,315)	(966)	(2,862)	(2,134)	(728)
Net (loss) income	$(7,193)	$1,872	$(9,065)	$(9,643)	$6,463	$(16,106)

GAAP and Non-GAAP Reconciliations

In addition to the results presented in accordance with GAAP, our results of operations discussed below include certain non-GAAP financial information, including "Economic Interest Expense" and "Economic Net Interest Income."

Economic Interest Expense and Economic Net Interest Income

We use derivative instruments, specifically Eurodollar and Treasury Note ("T-Note") futures contracts, interest rate swaps and swaptions, to hedge a portion of the interest rate risk on repurchase agreements in a rising rate environment.

We have not elected to designate our derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board, (the "FASB"), Accounting Standards Codification, ("ASC"), Topic 815, Derivatives and Hedging. Changes in fair value of these instruments are presented in a separate line item in our consolidated statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the derivative instruments.

For the purpose of computing economic net interest income and ratios relating to cost of funds measures, GAAP interest expense has been adjusted to reflect the realized gains or losses on specific derivative instruments that pertain to each period presented. We believe that adjusting our interest expense for the periods presented by the gains or losses on all derivative instruments would not accurately reflect our economic interest expense for these periods. For each period presented, we have combined the effects of the derivative financial instruments in place for the respective period with the actual interest expense incurred on borrowings to reflect total economic interest expense for the applicable period. Interest expense, including the effect of derivative instruments for the period, is referred to as economic interest expense. Net interest income, when calculated to include the effect of derivative instruments for the period, is referred to as economic net interest income. This presentation includes gains or losses on all contracts in effect during the reporting period, covering the current period as well as periods in the future.

We believe that economic interest expense and economic net interest income provide meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help management to evaluate its financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio or operations. The unrealized gains or losses on derivative instruments presented in our consolidated statements of operations are not necessarily representative of the total interest rate expense that we will ultimately realize. This is because as interest rates move up or down in the future, the gains or losses we ultimately realize, and which will affect our total interest rate expense in future periods, may differ from the unrealized gains or losses recognized as of the reporting date.

Our presentation of the economic value of our hedging strategy has important limitations. First, other market participants may calculate economic interest expense and economic net interest income differently than the way we calculate them. Second, while we believe that the calculation of the economic value of our hedging strategy described above helps to present our financial position and performance, it may be of limited usefulness as an analytical tool. Therefore, the economic value of our investment strategy should not be viewed in isolation and is not a substitute for interest expense and net interest income computed in accordance with GAAP.

The tables below present a reconciliation of the adjustments to interest expense shown for each period relative to our derivative instruments, and the income statement line item, gains (losses) on derivative instruments, calculated in accordance with GAAP for each quarter during 2017 and 2016.

Gains (Losses) on Derivative Instruments
(in thousands)

			Funding Hedges	
	Recognized in Income Statement (GAAP)	TBA Securities Income	Attributed to Current Period (Non-GAAP)	Attributed to Future Periods (Non-GAAP)
Three Months Ended				
June 30, 2017	$ (19,442)	$ (2,384)	$ (3,654)	$ (13,404)
March 31, 2017	(4,419)	-	(3,193)	(1,226)
December 31, 2016	23,207	(133)	(2,967)	26,307
September 30, 2016	6,587	(474)	(2,660)	9,721
June 30, 2016	(11,591)	(786)	(2,210)	(8,595)
March 31, 2016	(27,590)	(1,125)	(1,933)	(24,532)
Six Months Ended				
June 30, 2017	$ (23,861)	$ (2,384)	$ (6,847)	$ (14,630)
June 30, 2016	(39,181)	(1,911)	(4,143)	(33,127)

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Economic Interest Expense and Economic Net Interest Income
(in thousands)

		Interest Expense on Borrowings			Net Interest Income	
	Interest Income	GAAP Interest Expense	Gains (Losses) on Derivative Instruments Attributed to Current Period[(1)]	Economic Interest Expense[(2)]	GAAP Net Interest Income	Economic Net Interest Income[(3)]
Three Months Ended						
June 30, 2017	$34,579	$8,763	$ (3,654)	$ 12,417	$25,816	$ 22,162
March 31, 2017	32,311	6,715	(3,193)	9,908	25,596	22,403
December 31, 2016	25,068	4,976	(2,967)	7,943	20,092	17,125
September 30, 2016	22,358	3,979	(2,660)	6,639	18,379	15,719
June 30, 2016	19,235	3,330	(2,210)	5,540	15,905	13,695
March 31, 2016	20,466	3,319	(1,933)	5,252	17,147	15,214
Six Months Ended						
June 30, 2017	$66,890	$15,478	$ (6,847)	$ 22,325	$51,412	$ 44,565
June 30, 2016	39,701	6,649	(4,143)	10,792	33,052	28,909

(1) Reflects the effect of derivative instrument hedges for only the period presented.
(2) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP interest expense.
(3) Calculated by adding the effect of derivative instrument hedges attributed to the period presented to GAAP net interest income.

Net Interest Income

During the six months ended June 30, 2017, we generated $51.4 million of net interest income, consisting of $66.9 million of interest income from RMBS assets offset by $15.5 million of interest expense on borrowings. For the comparable period ended June 30, 2016, we generated $33.1 million of net interest income, consisting of $39.7 million of interest income from RMBS assets offset by $6.6 million of interest expense on borrowings. The $27.2 million increase in interest income and $8.8 million increase in interest expense for the six months ended June 30, 2017 primarily reflects the growth of our portfolio fueled by our net capital raising activities, combined with increased yields earned on our portfolio and increased costs and amounts of our borrowings.

On an economic basis, our interest expense on borrowings for the six months ended June 30, 2017 and 2016 was $22.3 million and $10.8 million, respectively, resulting in $44.6 million and $28.9 million of economic net interest income, respectively.

During the three months ended June 30, 2017, we generated $25.8 million of net interest income, consisting of $34.6 million of interest income from RMBS assets offset by $8.8 million of interest expense on borrowings. For the three months ended June 30, 2016, we generated $15.9 million of net interest income, consisting of $19.2 million of interest income from RMBS assets offset by $3.3 million of interest expense on borrowings. As in the six months ended June 30, 2017, the increased interest income and interest expense for the three months ended June 30, 2017, as compared to the same period in 2016, reflects a combination of the growth of our portfolio and increased yields on the portfolio and costs of borrowings.

On an economic basis, our interest expense on repurchase liabilities for the three months ended June 30, 2017 and 2016 was $12.4 million and $5.5 million, respectively, resulting in $22.2 million and $13.7 million of economic net interest income, respectively.

The tables below provide information on our portfolio average balances, interest income, yield on assets, average borrowings, interest expense, cost of funds, net interest income and net interest spread for the six months ended June 30, 2017 and 2016 and each quarter during 2017 and 2016 on both a GAAP and economic basis.

($ in thousands)

	Average RMBS Held[(1)]	Interest Income	Yield on Average RMBS	Average Borrowings[(1)]	Interest Expense GAAP Basis	Interest Expense Economic Basis[(2)]	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis[(3)]
Three Months Ended								
June 30, 2017	$3,499,922	$34,579	3.95 %	$ 3,164,532	$8,763	$ 12,417	1.11%	1.57 %
March 31, 2017	3,142,095	32,311	4.11 %	2,922,157	6,715	9,908	0.92%	1.36 %
December 31, 2016	2,761,836	25,068	3.63 %	2,545,901	4,974	7,943	0.78%	1.25 %
September 30, 2016	2,362,377	22,358	3.79 %	2,179,462	3,979	6,639	0.73%	1.22 %
June 30, 2016	2,100,151	19,235	3.66 %	2,000,158	3,330	5,540	0.67%	1.11 %
March 31, 2016	2,067,527	20,466	3.96 %	1,962,901	3,319	5,252	0.68%	1.07 %
Six Months Ended								
June 30, 2017	$3,321,009	$66,890	4.03 %	$ 3,043,344	$15,478	$ 22,325	1.02%	1.47 %
June 30, 2016	2,083,839	39,701	3.81 %	1,981,529	6,649	10,792	0.67%	1.09 %

($ in thousands)

	Net Interest Income GAAP Basis	Net Interest Income Economic Basis[(2)]	Net Interest Spread GAAP Basis	Net Interest Spread Economic Basis[(4)]
Three Months Ended				
June 30, 2017	$25,816	$ 22,162	2.84%	2.38 %
March 31, 2017	25,596	22,403	3.19%	2.75 %
December 31, 2016	20,092	17,125	2.85%	2.38 %
September 30, 2016	18,379	15,719	3.06%	2.57 %
June 30, 2016	15,905	13,695	2.99%	2.55 %
March 31, 2016	17,147	15,214	3.28%	2.89 %
Six Months Ended				
June 30, 2017	$51,412	$ 44,565	3.01%	2.56 %
June 30, 2016	33,052	28,909	3.14%	2.72 %

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 30 and 31 are calculated based on the average balances of the underlying investment portfolio/borrowings balances and are annualized for the periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances.

(2) Economic interest expense and economic net interest income presented in the table above and the tables on page 31 includes the effect of our derivative instrument hedges for only the periods presented.

(3) Represents interest cost of our borrowings and the effect of derivative instrument hedges attributed to the period divided by average RMBS.

(4) Economic net interest spread is calculated by subtracting average economic cost of funds from realized yield on average RMBS.

Interest Income and Average Asset Yield

Our interest income for the six months ended June 30, 2017 and 2016 was $66.9 million and $39.7 million, respectively. We had average RMBS holdings of $3,321.0 million and $2,083.8 million for the six months ended June 30, 2017 and 2016, respectively. The yield on our portfolio was 4.03% and 3.81% for the six months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, there was a $27.2 million increase in interest income due to a $1,237.2 million increase in average RMBS, combined with a 22 basis point ("bps") increase in the yield on average RMBS. The increase in average RMBS during the six months ended June 30, 2017 reflects the deployment of the proceeds of our net capital raising activities, on a leveraged basis.

Our interest income for the three months ended June 30, 2017 and 2016 was $34.6 million and $19.2 million, respectively. We had average RMBS holdings of $3,499.9 million and $2,100.2 million for the three months ended June 30, 2017 and 2016, respectively. The yield on our portfolio was 3.95% and 3.66% for the three months ended June 30, 2017 and 2016, respectively. For the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, there was a $15.3 million increase in interest income due to a $1,399.8 million increase in average RMBS, combined with a 29 bps increase in the yield on average RMBS. The increase in average RMBS during the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, reflects the deployment of the proceeds of our net capital raising activities.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured RMBS and PT RMBS, for the six months ended June 30, 2017 and 2016, and for each quarter during 2017 and 2016.

($ in thousands)

	Average RMBS Held			Interest Income			Realized Yield on Average RMBS		
	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total	PT RMBS	Structured RMBS	Total
Three Months Ended									
June 30, 2017	$3,349,042	$150,880	$3,499,922	$32,479	$ 2,100	$34,579	3.88%	5.57 %	3.95%
March 31, 2017	2,990,937	151,158	3,142,095	29,772	2,539	32,311	3.98%	6.72 %	4.11%
December 31, 2016	2,628,967	132,869	2,761,836	23,647	1,421	25,068	3.60%	4.28 %	3.63%
September 30, 2016	2,257,480	104,897	2,362,377	21,898	460	22,358	3.88%	1.75 %	3.79%
June 30, 2016	2,006,392	93,759	2,100,151	19,072	163	19,235	3.80%	0.70 %	3.66%
March 31, 2016	1,968,690	98,837	2,067,527	19,682	784	20,466	4.00%	3.17 %	3.96%
Six Months Ended									
June 30, 2017	$ 3,169,990	$ 151,019	$ 3,321,009	$ 62,251	$ 4,639	$ 66,890	3.93%	6.14 %	4.03%
June 30, 2016	1,987,541	96,298	2,083,839	38,754	947	39,701	3.90%	1.97 %	3.81%

Interest Expense and the Cost of Funds

We had average outstanding borrowings of $3,043.3 million and $1,981.5 million and total interest expense of $15.5 million and $6.6 million for the six months ended June 30, 2017 and 2016, respectively. Our average cost of funds was 1.02% for the six months ended June 30, 2017, compared to 0.67% for the comparable period in 2016. There was a $1,061.8 million increase in average outstanding borrowings during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The higher cost of funds for the six months ended June 30, 2017, compared to the same period in 2016, reflects the higher short-term rates as presented in the table below. The increase in average outstanding borrowings reflects the investment, on a leveraged basis, of the proceeds of our net capital raising activities.

Our economic interest expense was $22.3 million and $10.8 million for the six months ended June 30, 2017 and 2016, respectively. There was a 38 bps increase in the average economic cost of funds to 1.47% for the six months ended June 30, 2017 from 1.09% for the six months ended June 30, 2016. The increase in economic interest expense was due to the increase in average outstanding borrowings during the six months ended June 30, 2017, combined with the negative performance of our derivative agreements attributed to the current period.

We had average outstanding borrowings of $3,164.5 million and $2,000.2 million and total interest expense of $8.8 million and $3.3 million for the three months ended June 30, 2017 and 2016, respectively. Our average cost of funds was 1.11% and 0.67% for three months ended June 30, 2017 and 2016, respectively. There was a 44 bps increase in

the average cost of funds and a $1,164.4 million increase in average outstanding borrowings during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. As in the six months ended June 30, 2017,the higher cost of funds for the three months ended June 30, 2017, compared to the same period in 2016, reflects higher short-term rates, and the increase in average outstanding borrowings reflects the investment, on a leveraged basis, of the proceeds of our net capital raising activities.

Our economic interest expense was $12.4 million and $5.5 million for the three months ended June 30, 2017 and 2016, respectively. There was a 46 bps increase in the average economic cost of funds to 1.57% for the three months ended June 30, 2017 from 1.11% for the three months ended June 30, 2016. The increase in economic interest expense during the three months ended June 30, 2017 was due to a combination of the increase in average outstanding borrowings, higher average interest rates charged for those borrowings, and the negative performance of our derivative agreements attributed to the current period.

Since all of our repurchase agreements are short-term, changes in market rates directly affect our interest expense. Our average cost of funds calculated on a GAAP basis was 6 bps above the average one-month LIBOR and 32 bps below the average six-month LIBOR for the quarter ended June 30, 2017. Our average economic cost of funds was 52 bps above the average one-month LIBOR and 14 bps above the average six-month LIBOR for the quarter ended June 30, 2017. The average term to maturity of the outstanding repurchase agreements increased to 18 days at June 30, 2017 from 15 days at December 31, 2016.

The tables below present the average balance of repurchase agreements outstanding, interest expense and average cost of funds, and average one-month and six-month LIBOR rates for the six months ended June 30, 2017 and 2016, and for each quarter in 2017 and 2016 on both a GAAP and economic basis.

($ in thousands)

	Average Balance of Borrowings	Interest Expense GAAP Basis	Interest Expense Economic Basis	Average Cost of Funds GAAP Basis	Average Cost of Funds Economic Basis
Three Months Ended					
June 30, 2017	$3,164,532	$8,763	$ 12,417	1.11%	1.57%
March 31, 2017	2,922,157	6,715	9,908	0.92%	1.36%
December 31, 2016	2,545,901	4,974	7,943	0.78%	1.25%
September 30, 2016	2,179,462	3,979	6,639	0.73%	1.22%
June 30, 2016	2,000,158	3,330	5,540	0.67%	1.11%
March 31, 2016	1,962,901	3,319	5,252	0.68%	1.07%
Six Months Ended					
June 30, 2017	$3,043,344	$15,478	$ 22,325	1.02%	1.47%
June 30, 2016	1,981,529	6,649	10,792	0.67%	1.09%

	Average LIBOR One-Month	Average LIBOR Six-Month	Average GAAP Cost of Funds Relative to Average One-Month LIBOR	Average GAAP Cost of Funds Relative to Average Six-Month LIBOR	Average Economic Cost of Funds Relative to Average One-Month LIBOR	Average Economic Cost of Funds Relative to Average Six-Month LIBOR
Three Months Ended						
June 30, 2017	1.05%	1.43%	0.06%	(0.32)%	0.52%	0.14%
March 31, 2017	0.82%	1.37%	0.10%	(0.45)%	0.54%	(0.01)%
December 31, 2016	0.62%	1.28%	0.16%	(0.50)%	0.63%	(0.03)%
September 30, 2016	0.49%	1.09%	0.24%	(0.36)%	0.73%	0.13%
June 30, 2016	0.44%	0.92%	0.23%	(0.25)%	0.67%	0.19%
March 31, 2016	0.40%	0.84%	0.28%	(0.16)%	0.67%	0.23%
Six Months Ended						
June 30, 2017	0.94%	1.40%	0.08%	(0.38)%	0.53%	0.07%
June 30, 2016	0.42%	0.88%	0.25%	(0.21)%	0.67%	0.21%

Gains or Losses

The table below presents our gains or losses for the six and three months ended June 30, 2017 and 2016.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Realized gains on sales of RMBS	$2,585	$4,253	$(1,668)	$3,935	$10	$3,925
Unrealized (losses) gains on RMBS	(32,048)	8,049	(40,097)	(17,090)	4,262	(21,352)
Total (losses) gains on RMBS	(29,463)	12,302	(41,765)	(13,155)	4,272	(17,427)
Losses on interest rate futures	(17,302)	(32,677)	15,375	(12,880)	(6,197)	(6,683)
Losses on interest rate swaps	(4,175)	(4,629)	454	(4,178)	(4,608)	430
Gains on receiver swaptions	-	36	(36)	-	-	-
Losses on TBA securities	(2,384)	(1,911)	(473)	(2,384)	(786)	(1,598)

We invest in RMBS with the intent to earn net income from the realized yield on those assets over their related funding and hedging costs, and not for purposes of making short term gains from sales. However, we have sold, and may continue to sell, existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns in light of current or anticipated interest rates, federal government programs or general economic conditions or to manage our balance sheet as part of our asset/liability management strategy. During the six months ended June 30, 2017 and 2016, we received proceeds of $3,065.0 million and $1,327.5 million, respectively, from the sales of RMBS. During the three months ended June 30, 2017 and 2016, we received proceeds of $1,657.3 million and $586.3 million, respectively, from the sales of RMBS, including sales settling in subsequent periods.

Realized and unrealized gains and losses on RMBS are driven in part by changes in yields and interest rates, which affect the pricing of the securities in our portfolio. Gains and losses on interest rate futures contracts are affected by changes in implied forward rates during the reporting period. The table below presents historical interest rate data for each quarter end during 2017 and 2016.

	5 Year Treasury Rate[(1)]	10 Year Treasury Rate[(1)]	15 Year Fixed-Rate Mortgage Rate[(2)]	30 Year Fixed-Rate Mortgage Rate[(2)]	Three Month LIBOR[(3)]
June 30, 2017	1.88 %	2.30 %	3.17 %	3.90 %	1.26 %
March 31, 2017	1.93 %	2.40 %	3.41 %	4.20 %	1.13 %
December 31, 2016	1.93 %	2.45 %	3.43 %	4.20 %	0.98 %
September 30, 2016	1.16 %	1.61 %	2.76 %	3.46 %	0.85 %
June 30, 2016	1.01 %	1.49 %	2.84 %	3.57 %	0.65 %
March 31, 2016	1.22 %	1.79 %	2.97 %	3.69 %	0.63 %

(1) Historical 5 and 10 Year Treasury Rates are obtained from quoted end of day prices on the Chicago Board Options Exchange.

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

(3) Historical LIBOR are obtained from the Intercontinental Exchange Benchmark Administration Ltd.

Expenses

For the six and three months ended June 30, 2017, the Company's total operating expenses were approximately $5.3 million and $2.9 million, respectively, compared to approximately $4.3 million and $2.1 million, respectively, for the six and three months ended June 30, 2016. The table below presents a breakdown of operating expenses for the six and three months ended June 30, 2017 and 2016.

(in thousands)

	Six Months Ended June 30,			Three Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Management fees	$2,702	$1,916	$ 786	$1,400	$945	$ 455
Overhead allocation	756	626	130	388	329	59
Accrued incentive compensation	230	385	(155)	218	214	4
Directors fees and liability insurance	508	527	(19)	232	245	(13)
Audit, legal and other professional fees	389	461	(72)	219	215	4
Other direct REIT operating expenses	496	239	257	265	99	166
Other expenses	200	161	39	140	87	53
Total expenses	$5,281	$4,315	$ 966	$2,862	$2,134	$ 728

We are externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2018 and provides for automatic one-year extension options thereafter and is subject to certain termination rights. Under the terms of the management agreement, the Manager is responsible for administering the business activities and day-to-day operations of the Company. The Manager receives a monthly management fee in the amount of:

- One-twelfth of 1.5% of the first $250 million of the Company's equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's equity that is greater than $250 million and less than or equal to $500 million, and
- One-twelfth of 1.00% of the Company's equity that is greater than $500 million.

We are obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf. In addition, beginning July 1, 2014, Bimini Advisors began allocating to us its pro rata portion of certain overhead costs in accordance with the management agreement. Should we terminate the management agreement without cause, we will pay to the Manager a termination fee equal to three times the average annual management fee, as defined in the management agreement, before or on the last day of term of the agreement.

Financial Condition:

Mortgage-Backed Securities

As of June 30, 2017, our RMBS portfolio consisted of $3,737.8 million of Agency RMBS at fair value and had a weighted average coupon on assets of 4.38%. During the six months ended June 30, 2017, we received principal repayments of $155.3 million compared to $109.4 million for the six months ended June 30, 2016. The average prepayment speeds for the quarters ended June 30, 2017 and 2016 were 9.5% and 11.0%, respectively.

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

Three Months Ended	PT RMBS Portfolio (%)	Structured RMBS Portfolio (%)	Total Portfolio (%)
June 30, 2017	7.0	12.7	9.5
March 31, 2017	7.5	14.3	9.9
December 31, 2016	9.7	18.4	12.2
September 30, 2016	8.9	17.9	11.7
June 30, 2016	8.4	15.9	11.0
March 31, 2016	5.5	12.4	8.2

The following tables summarize certain characteristics of the Company's PT RMBS and structured RMBS as of June 30, 2017 and December 31, 2016:

($ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity	Weighted Average Coupon Reset in Months	Weighted Average Lifetime Cap	Weighted Average Periodic Cap
June 30, 2017								
Adjustable Rate RMBS	$1,929	0.1%	3.52%	212	1-Sep-35	0.83	10.04%	2.00%
Fixed Rate RMBS	3,545,614	94.9%	4.42%	345	1-Jul-47	NA	NA	NA
Hybrid Adjustable Rate RMBS	42,881	1.1%	2.55%	307	1-Aug-43	67.03	7.55%	2.00%
Total Mortgage-backed Pass-through	3,590,424	96.1%	4.39%	344	1-Jul-47	NA	NA	NA
Interest-Only Securities	102,552	2.7%	3.74%	267	15-Apr-47	NA	NA	NA
Inverse Interest-Only Securities	44,851	1.2%	5.02%	324	25-Feb-47	NA	6.22%	NA
Total Structured RMBS	147,403	3.9%	4.13%	284	15-Apr-47	NA	NA	NA
Total Mortgage Assets	$3,737,827	100.0%	4.38%	342	1-Jul-47	NA	NA	NA
December 31, 2016								
Adjustable Rate RMBS	$2,062	0.1%	3.50%	219	1-Sep-35	5.67	10.05%	2.00%
Fixed Rate RMBS	2,826,694	93.5%	4.21%	325	1-Dec-46	NA	NA	NA
Hybrid Adjustable Rate RMBS	45,459	1.5%	2.55%	313	1-Aug-43	73.08	7.55%	2.00%
Total Mortgage-backed Pass-through	2,874,215	95.1%	4.19%	324	1-Dec-46	NA	NA	NA
Interest-Only Securities	69,726	2.3%	3.59%	235	25-Apr-45	NA	NA	NA
Inverse Interest-Only Securities	78,233	2.6%	5.40%	338	25-Dec-46	NA	6.14%	NA
Total Structured RMBS	147,959	4.9%	4.55%	290	25-Dec-46	NA	NA	NA
Total Mortgage Assets	$3,022,174	100.0%	4.20%	323	25-Dec-46	NA	NA	NA

($ in thousands)

	June 30, 2017		December 31, 2016	
Agency	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio
Fannie Mae	$2,621,464	70.1 %	$2,226,893	73.7 %
Freddie Mac	1,107,792	29.6 %	785,496	26.0 %
Ginnie Mae	8,571	0.3 %	9,785	0.3 %
Total Portfolio	$3,737,827	100.0 %	$3,022,174	100.0 %

	June 30, 2017	December 31, 2016
Weighted Average Pass-through Purchase Price	$108.36	$ 108.64
Weighted Average Structured Purchase Price	$14.60	$ 15.39
Weighted Average Pass-through Current Price	$107.71	$ 107.14
Weighted Average Structured Current Price	$14.29	$ 15.49
Effective Duration [(1)]	2.244	4.579

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 2.244 indicates that an interest rate increase of 1.0% would be expected to cause a 2.244% decrease in the value of the RMBS in the Company's investment portfolio at June 30, 2017. An effective duration of 4.579 indicates that an interest rate increase of 1.0% would be expected to cause a 4.579% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2016. These figures include the structured securities in the portfolio, but do not include the effect of the Company's funding cost hedges. Effective duration quotes for individual investments are obtained from The Yield Book, Inc.

The following table presents a summary of portfolio assets acquired during the six months ended June 30, 2017 and 2016.

($ in thousands)

	2017				2016			
	Total Cost	Average Price	Weighted Average Yield		Total Cost	Average Price	Weighted Average Yield	
Pass-through RMBS	$3,906,120	$108.29	2.74	%	$1,470,881	$109.24	2.28	%
Structured RMBS	59,272	16.34	5.03	%	18,554	11.67	2.18	%

Borrowings

As of June 30, 2017, we had established borrowing facilities in the repurchase agreement market with a number of commercial banks and other financial institutions and had borrowings in place with 19 of these counterparties. None of these lenders are affiliated with the Company. These borrowings are secured by the Company's RMBS and cash, and bear interest at the prevailing market rates. We believe our established repurchase agreement borrowing facilities provide borrowing capacity in excess of our needs.

As of June 30, 2017, we had obligations outstanding under the repurchase agreements of approximately $3,278.5 million with a net weighted average borrowing cost of 1.30%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 3 to 91 days, with a weighted average remaining maturity of 18 days. Securing the repurchase agreement obligations as of June 30, 2017 are RMBS with an estimated fair value, including accrued interest, of approximately $3,464.7 million and a weighted average maturity of 313 months, and cash pledged to counterparties of approximately $6.5 million. Through August 1, 2017, we have been able to maintain our repurchase facilities with comparable terms to those that existed at June 30, 2017 with maturities through October 30, 2017.

The table below presents information about our period end and average repurchase agreement obligations for each quarter in 2017 and 2016.

($ in thousands)

Three Months Ended	Ending Balance of Borrowings	Average Balance of Borrowings	Difference Between Ending Borrowings and Average Borrowings Amount	Percent
June 30, 2017	$3,278,456	$3,164,532	$113,924	3.60 %
March 31, 2017	3,050,608	2,922,157	128,451	4.40 %
December 31, 2016	2,793,705	2,545,901	247,804	9.73 %
September 30, 2016	2,298,097	2,179,462	118,635	5.44 %
June 30, 2016	2,060,827	2,000,158	60,669	3.03 %
March 31, 2016	1,939,489	1,962,901	(23,412)	(1.19)%

Liquidity and Capital Resources

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

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

Our strategy for hedging our funding costs typically involves taking short positions in interest rate futures, treasury futures, interest rate swaps, interest rate swaptions or other instruments. Since inception we have primarily used short positions in Eurodollar futures. When the market causes these short positions to decline in value we are required to meet margin calls with cash. This can reduce our liquidity position to the extent other securities in our portfolio move in price in such a way that we do not receive enough cash via margin calls to offset the derivative related margin calls. If this were to occur in sufficient magnitude, the loss of liquidity might force us to reduce the size of the levered portfolio, pledge additional structured securities to raise funds or risk operating the portfolio with less liquidity.

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

involve a fee to be paid by the party seeking to terminate the repurchase agreement transaction.

Under our repurchase agreement funding arrangements, we are required to post margin at the initiation of the borrowing. The margin posted represents the haircut, which is a percentage of the market value of the collateral pledged. To the extent the market value of the asset collateralizing the financing transaction declines, the market value of our posted margin will be insufficient and we will be required to post additional collateral. Conversely, if the market value of the asset pledged increases in value, we would be over collateralized and we would be entitled to have excess margin returned to us by the counterparty. Our lenders typically value our pledged securities daily to ensure the adequacy of our margin and make margin calls as needed, as do we. Typically, but not always, the parties agree to a minimum threshold amount for margin calls so as to avoid the need for nuisance margin calls on a daily basis. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout the six months ended June 30, 2017, haircuts on our pledged collateral remained stable and as of June 30, 2017, our weighted average haircut was approximately 5.4% of the value of our collateral.

As discussed earlier, we invest a portion of our capital in structured Agency RMBS. We do not apply leverage to this portion of our portfolio. The leverage inherent in structured securities replaces the leverage obtained by acquiring PT securities and funding them in the repurchase market. This structured RMBS strategy has been a core element of the Company's overall investment strategy since inception. However, we have and may continue to pledge a portion of our structured RMBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

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

(in thousands)

	Obligations Maturing				
	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Repurchase agreements	$3,278,456	$ -	$ -	$ -	$3,278,456
Interest expense on repurchase agreements(1)	4,246	-	-	-	4,246
Totals	$3,282,702	$ -	$ -	$ -	$3,282,702

(1) Interest expense on repurchase agreements is based on current interest rates as of June 30, 2017 and the remaining term of the liabilities existing at that date.

In future periods, we expect to continue to finance our activities in a manner that is consistent with our current operations through repurchase agreements. As of June 30, 2017, we had cash and cash equivalents of $199.8 million. We generated cash flows of $219.3 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of $3,043.3 million during the six months ended June 30, 2017.

Stockholders' Equity

On July 29, 2016, we entered into an equity distribution agreement (the "July 2016 Equity Distribution Agreement") with two sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of our common stock in transactions that were deemed to be "at the market" offerings and privately negotiated transactions. We issued a total of 10,174,992 shares under the July 2016 Equity Distribution Agreement for aggregate gross proceeds of $110.0 million, and net proceeds of approximately $108.2 million, net of commissions and fees, prior to its termination.

On February 23, 2017, we entered into another equity distribution agreement, as amended and restated on May 2017, (the "May 2017 Equity Distribution Agreement") with two sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $125,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. The May 2017 Equity Distribution Agreement replaced the July 2016 Equity Distribution Agreement. Through June 30, 2017, we issued a total of 12,299,032 shares under the May 2017 Equity Distribution Agreement for aggregate gross proceeds of $125.0 million, and net proceeds of approximately $122.9 million, net of commissions and fees.

Outlook

Interest Rates and the MBS Market

The developments that began to unfold during the first quarter and early second quarter of 2017 continued during the balance of the second quarter and early third quarter. Economic data – particularly inflation data – softened significantly. The Trump administration (the "Administration") appears to have lost most, if not all, of its momentum with respect to its legislative agenda. The Administration's attempts to repeal and replace the Affordable Care Act thus far have failed and the Administration will now likely face a political battle over the budget and debt ceiling early this fall. The Administration continues to deal with the ongoing investigation into potential collusion with Russian officials in the 2016 presidential election. The Federal Reserve (the "Fed"), in spite of the fact that it raised rates by another 25 basis points in June and may announce a tapering of its asset purchases in September, has turned more dovish of late, particularly the Chairwoman of the Fed.

The equity markets were flush with optimism as we entered 2017, and with a pro-business administration taking the reins in Washington, risk assets generally rallied. The stock market has continued to rally into the second and early third quarter, although not for the reasons anticipated. The economic data has been generally soft. Inflation data in particular has made a significant reversal, and now all measures of consumer inflation are well below levels seen at the end of 2016. Initially the Fed, in particular the Chairwoman, discounted the softness due to short-term, transitory causes such as cellular phone and prescription drug cost declines that were viewed as unsustainable. This rhetoric has reversed. The market – especially the Euro Dollar and U.S. treasury futures markets, including Fed Funds futures – have priced out most future Fed rate hikes. Current pricing implies at most one more rate hike by the end of 2018. This is in sharp contrast to projections by the Fed, which call for one more rate hike this year and three next year and a terminal rate near 3 percent. While the market still expects the Fed to announce a tapering of their re-investment of maturing U.S. treasury and MBS holdings – likely after the conclusion of its September meeting – the market views any such actions as likely to suppress already low inflation, and the interest rate curve flattened. During the second quarter, the spread between the 5-year and 30-year U.S. treasuries declined from approximately 110 basis points at the beginning of the second quarter to less than 95 basis points at quarter end. The absence of meaningful inflationary pressures is pervasive – as both Europe and Asia are experiencing subdued inflation as well. The equity markets have rallied with the prospects of less Fed rate hiking and low inflation, and, therefore, lower long-term rates are expected to persist for the short to medium term. Yields on benchmark U.S treasury securities were slightly higher on the curve out to 4 years – reflecting the 25 basis point hike in June. Yields beyond the 4 year point of the curve declined modestly.

The mortgage market had mixed results for the second quarter. Current coupon, 30-year mortgages traded at slightly tighter spreads to comparable duration U.S. treasuries at the end of the quarter, tightening approximately 1 to 2 basis points, and tightening another 3 or 4 basis points since the end of the quarter. Higher coupon mortgages underperformed comparable duration U.S. treasuries and lower coupon mortgages. Prepayment speeds remained subdued in spite of the rally in longer maturities of the U.S. treasury curve.

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Recent Regulatory Developments

On January 12, 2016, the FHFA issued RIN 2590-AA39, Members of Federal Home Loan Banks (the "Final Rule"). The Final Rule, among other things, expressly excludes captive insurance companies, such as our wholly-owned captive insurance subsidiary, Orchid Island Casualty, LLC ("Orchid Island Casualty"), from being eligible for membership in the Federal Home Loan Bank ("FHLB") system. Under the Final Rule, there was a one-year transition period from the effective date of February 19, 2016 within which the FHLBs were required to wind down their relationships with any captive insurance companies that had been admitted to membership on or after September 12, 2014, including Orchid Island Casualty ("Post-NPR Captives"). The Final Rule also precludes the FHLBs from making any new advances or extending existing advances to Post-NPR Captives. In addition, upon the termination of membership, the FHLBs were required to liquidate all outstanding advances to Post-NPR Captives, settle all other business transactions, and repurchase or redeem all FHLB stock held by the terminated Post-NPR Captive in accordance with the Final Rule. Therefore, Orchid Island Casualty, along with all other Post-NPR Captives, was required to completely wind down all business relationships with the FHLBC, including the repayment of all outstanding advances, prior to or simultaneously with the termination of Orchid Island Casualty's membership with the FHLBC.

The adopting release for the Final Rule expressly invited Congress to address the treatment of Post-NPR Captives with respect to membership in the FHLB. In October 2015, Reps. Blaine Luetkemeyer (R-Mo.), Denny Heck (D-Wash.), Patrick McHenry (R-N.C.) and John Carney (D-Del.) introduced H.R. 3808, a bill that would have preemptively prevented the FHFA from adopting the Final Rule in such a way that would foreclose membership in the FHLB to captive insurance companies. There can be no way of predicting if any subsequent legislation addressing the status of Post-NPR Captives with respect to the FHLB will be proposed in either house of Congress, the likelihood of passage of any such legislation, and the ultimate effects, if any, on the availability of short-term, low-cost funding provided by the FHLBs to Post-NPR Captives subsequent to the enactment of any such legislation.

The scope and nature of the actions the U.S. government or the Fed will ultimately undertake are unknown and will continue to evolve. Although the Trump administration has made statements of its intentions to reform housing finance and tax policy, many of these potential policy changes will require congressional action. In addition, the Fed has made statements regarding additional increases to the Federal Funds Rate over the balance of 2017 and beyond. The Fed has also strongly hinted that it will begin to reduce its holdings of Agency MBS and U.S. treasuries, probably shortly after its September meeting.

Effect on Us

Regulatory developments, movements in interest rates and prepayment rates affect us in many ways, including the following:

Effects on our Assets

A change in or elimination of the guarantee structure of Agency RMBS may increase our costs (if, for example, guarantee fees increase) or require us to change our investment strategy altogether. For example, the elimination of the guarantee structure of Agency RMBS may cause us to change our investment strategy to focus on non-Agency RMBS, which in turn would require us to significantly increase our monitoring of the credit risks of our investments in addition to interest rate and prepayment risks.

Lower long-term interest rates can affect the value of our Agency RMBS in a number of ways. If prepayment rates are relatively low (due, in part, to the refinancing problems described above), lower long-term interest rates can increase the value of higher-coupon Agency RMBS. This is because investors typically place a premium on assets with yields that are higher than market yields. Although lower long-term interest rates may increase asset values in our portfolio,

we may not be able to invest new funds in similarly-yielding assets.

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

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

If Fannie Mae and Freddie Mac were to modify or end their repurchase programs, our investment portfolio could be negatively impacted.

Effects on our borrowing costs

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

We believe that we have ample borrowing capacity. However, since January 12, 2016, in response to the Final Rule on FHLB membership (described above), we replaced $187.5 million of FHLB advances held as of December 31, 2015 with borrowings from other counterparties under repurchase agreements. The Final Rule on FHLB membership required the termination of Orchid Island Casualty's FHLBC membership prior to February 19, 2017. As of June 30, 2017, we have fully withdrawn from FHLB membership and redeemed all of our shares. We do not expect these regulatory changes to materially adversely affect our core business and operations.

In order to protect our net interest margin against increases in short-term interest rates, we may enter into interest rate swaps, which effectively convert our floating-rate repurchase agreement debt to fixed-rate debt, or utilize other hedging instruments such as Eurodollar and T-Note futures contracts or interest rate swaptions.

Summary

As we entered the first quarter of 2017, risk assets were performing very well as the Trump administration took office and appeared to be very pro-business. The markets looked forward to a roll back of recently expanding regulations across many industries, a new and hopefully improved health care act, tax reform and possibly much needed infrastructure spending to refurbish the nation's aging roads, highways, bridges and airports. While the Administration made bold promises, it has yet to deliver on many of these promises, and the markets have essentially assumed little, if any, of these initiatives will occur this year. Geopolitical events surfaced in early April, specifically in the Middle East and the Korean peninsula. Incoming economic data throughout the second quarter was generally below expectations and inflation data meaningfully reversed. In the case of the core Consumer Price Index, ("CPI") measure, the year over year figure moved from 2.3% in January 2017 to 1.7% by May. The market has materially reduced its expectations of future rate hikes and now – based on Fed funds and U.S. treasury futures pricing – expects at most one more rate hike by the end of 2018. The market does expect the Fed to announce its tapering program – of reinvesting maturing U.S. treasury and MBS holdings – soon, probably in September. We believe that these steps would keep already low inflationary pressures from becoming a problem. Equity markets have rallied and the U.S. treasury curve has flattened. The RMBS market had mixed results in the second quarter, with lower/current coupon, 30-year mortgages trading to slightly tighter spreads to comparable duration U.S. treasuries, and even tighter since quarter end. Higher coupon, 30-year mortgages widened and were essentially unchanged in price for the quarter in spite of longer maturity U.S. treasury yields decreasing approximately 8 basis points. Assuming the Fed does indeed reduce the reinvestment of its MBS pay-downs as the market expects, we do not believe that the market will be likely to suffer a material widening of spreads to comparable duration U.S. treasuries, as this action has been communicated to the markets very effectively by the Fed and the market has had ample opportunity to price this into security prices.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with GAAP. GAAP requires our management to make some complex and subjective decisions and assessments. Our most critical accounting policies involve decisions and assessments which could significantly affect reported assets, liabilities, revenues and expenses. There have been no changes to our critical accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2016.

Capital Expenditures

At June 30, 2017, we had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

At June 30, 2017, we did not have any off-balance sheet arrangements.

Dividends

In addition to other requirements that must be satisfied to qualify as a REIT, we must pay annual dividends to our stockholders of at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. REIT taxable income (loss) is computed in accordance with the Code, and can be greater than or less than our financial statement net income (loss) computed in accordance with GAAP. These book to tax differences primarily relate to the recognition of interest income on RMBS, unrealized gains and losses on RMBS, and the amortization of losses on derivative instruments that are treated as funding hedges for tax purposes.

We intend to pay regular monthly dividends to our stockholders and have declared the following dividends since the completion of our 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	1.680	41,388
2017 - YTD[(1)]	0.980	36,977
Totals	$ 8.135	$144,418

(1) On July 12, 2017, the Company declared a dividend of $0.14 per share to be paid on August 10, 2017. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of June 30, 2017.

Inflation

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

Jumpstart Our Business Startups Act of 2012

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). The JOBS Act permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to "opt out" of this provision and, as a result, we will be required to comply with new or revised accounting standards as required when they are adopted. The decision to opt out of the extended transition period under the JOBS Act is irrevocable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate risk, prepayment risk, spread risk, liquidity risk, extension risk and counterparty credit risk.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our

interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates can also affect the rate of prepayments of our securities and the value of the RMBS that constitute our investment portfolio, which affects our net income and ability to realize gains from the sale of these assets and impacts our ability to borrow and the amount that we can borrow against these securities.

We may utilize a variety of financial instruments in order to limit the effects of changes in interest rates on our operations. The principal instruments that we use are futures contracts and options to enter into interest rate swaps. These instruments are intended to serve as a hedge against future interest rate increases on our repurchase agreement borrowings. Hedging techniques are partly based on assumed levels of prepayments of our Agency RMBS. If prepayments are slower or faster than assumed, the life of the Agency RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns. Hedging techniques are also limited by the rules relating to REIT qualification. In order to preserve our REIT status, we may be forced to terminate a hedging transaction at a time when the transaction is most needed.

Our profitability and the value of our investment portfolio (including derivatives used for hedging purposes) may be adversely affected during any period as a result of changing interest rates including changes in the forward yield curve.

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

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

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

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

The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of June 30, 2017 and December 31, 2016, assuming rates instantaneously fall 100 bps, fall 50 bps, rise 50 bps and rise 100 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency RMBS' effective duration to movements in interest rates.

All changes in value in the table below are measured as percentage changes from the investment portfolio value and net asset value at the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of June 30, 2017 and December 31, 2016. We apply a floor of 0% for the down rate scenarios on our interest bearing liabilities and hedge positions, such that any hypothetical interest rate decrease would have a limited positive impact on our funding costs beyond a certain level.

Actual results could differ materially from estimates, especially in the current market environment. To the extent that these estimates or other assumptions do not hold true, which is likely in a period of high price volatility, actual results will likely differ materially from projections and could be larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. Lastly, while the table below reflects the estimated impact of interest rate increases and decreases on a static portfolio, we may from time to time sell any of our agency securities as a part of our overall management of our investment portfolio.

Interest Rate Sensitivity[1]

Change in Interest Rate	Portfolio Market Value[2][3]	Book Value[2][4]
As of June 30, 2017		
-100 Basis Points	(1.36)%	(12.20)%
-50 Basis Points	(0.66)%	(5.86)%
+50 Basis Points	(0.01)%	(0.10)%
+100 Basis Points	(0.64)%	(5.74)%
As of December 31, 2016		
-100 Basis Points	0.55 %	4.96 %
-50 Basis Points	0.55 %	4.97 %
+50 Basis Points	(0.95)%	(8.61)%
+100 Basis Points	(2.20)%	(19.98)%

(1) Interest rate sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties as well as by our Manager, and assumes there are no changes in mortgage spreads and assumes a static portfolio. Actual results could differ materially from these estimates.
(2) Includes the effect of derivatives and other securities used for hedging purposes.
(3) Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.
(4) Estimated dollar change in portfolio value expressed as a percent of stockholders' equity as of such date.

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

Prepayment Risk

Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Various factors affect the rate at which mortgage prepayments occur, including changes in the level of and directional trends in housing prices, interest rates, general economic conditions, loan age and size, loan-to-value ratio, the location of the property and social and demographic conditions. Additionally, changes to GSE underwriting practices or other governmental programs could also significantly impact prepayment rates or expectations. Generally, prepayments on Agency RMBS increase during

periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case. We may reinvest principal repayments at a yield that is lower or higher than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets.

Spread Risk

When the market spread widens between the yield on our Agency RMBS and benchmark interest rates, our net book value could decline if the value of our Agency RMBS fall by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates. We refer to this as "spread risk" or "basis risk." The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independent of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the Fed, market liquidity, or changes in required rates of return on different assets. Consequently, while we use futures contracts and interest rate swaps and swaptions to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk.

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements. Our assets that are pledged to secure repurchase agreements are Agency RMBS and cash. As of June 30, 2017, we had unrestricted cash and cash equivalents of $199.8 million and unpledged securities of approximately $286.9 million (not including securities pledged to us) available to meet margin calls on our repurchase agreements and derivative contracts and for other corporate purposes. However, should the value of our Agency RMBS pledged as collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our repurchase and derivative agreements could increase, causing an adverse change in our liquidity position. Further, there is no assurance that we will always be able to renew (or roll) our repurchase agreements. In addition, our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge, against repurchase agreements thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll the repurchase agreement. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

Extension Risk

The projected weighted average life and the duration (or interest rate sensitivity) of our investments is based on our Manager's assumptions regarding the rate at which the borrowers will prepay the underlying mortgage loans. In general, we use futures contracts and interest rate swaptions to help manage our funding cost on our investments in the event that interest rates rise. These hedging instruments allow us to reduce our funding exposure on the notional amount of the instrument for a specified period of time.

However, if prepayment rates decrease in a rising interest rate environment, the average life or duration of our fixed-rate assets or the fixed-rate portion of the ARMs or other assets generally extends. This could have a negative impact on our results from operations, as our hedging instrument expirations are fixed and will, therefore, cover a smaller percentage of our funding exposure on our mortgage assets to the extent that their average lives increase due to slower prepayments. This situation may also cause the market value of our agency securities collateralized by fixed rate mortgages or hybrid ARMs to decline by more than otherwise would be the case while most of our hedging instruments would not receive any incremental offsetting gains. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses.

Counterparty Credit Risk

We are exposed to counterparty credit risk relating to potential losses that could be recognized in the event that the counterparties to our repurchase agreements and derivative contracts fail to perform their obligations under such agreements. The amount of assets we pledge as collateral in accordance with our agreements varies over time based on the market value and notional amount of such assets as well as the value of our derivative contracts. In the event of a default by a counterparty, we may not receive payments provided for under the terms of our agreements and may have difficulty obtaining our assets pledged as collateral under such agreements. Our credit risk related to certain derivative transactions is largely mitigated through daily adjustments to collateral pledged based on changes in market value and we limit our counterparties to major financial institutions with acceptable credit ratings. However, there is no guarantee our efforts to manage counterparty credit risk will be successful and we could suffer significant losses if unsuccessful.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "evaluation date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on this evaluation, the CEO and CFO concluded our disclosure controls and procedures, as designed and implemented, were effective as of the evaluation date (1) in ensuring that information regarding the Company and its subsidiary is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) in providing reasonable assurance that information we must disclose in its periodic reports under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms.

Changes in Internal Controls over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings as described in Item 103 of Regulation S-K.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on February 17, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below presents share repurchase activity for the three months ended June 30, 2017.

	Total Number of Shares Repurchased[(1)]	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs[(2)]	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization[(2)]
April	-	$ -	-	783,757
May	-	-	-	783,757
June	484	9.93	-	783,757
Totals / Weighted Average	484	$ 9.93	-	

(1) The only shares of the Company's common stock acquired by the Company were in connection with the satisfaction of tax withholding obligations on vested employment-related awards under equity incentive plans.

(2) On June 29, 2015, the Board of Directors authorized the purchase of up to 2,000,000 shares of common stock repurchase beginning July 1, 2016. Unless modified or revoked by the Board, the authorization does not expire.

The Company did not have any unregistered sales of its equity securities during the three months ended June 30, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	
3.1	Articles of Amendment and Restatement of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No.333-184538) filed on November 28, 2012 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of Orchid Island Capital, Inc. (filed as Exhibit 3.2 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No.333-184538) filed on November 28, 2012 and incorporated herein by reference).
10.1	Amended and Restated Equity Distribution Agreement dated May 10, 2017, by and between the Company, Bimini Advisors, LLC, Ladenberg Thalman & Co. Inc and MUFG Securities Americas Inc. (filed as Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 10, 2017 and incorporated herein by reference).
31.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of G. Hunter Haas, IV, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Robert E. Cauley, Chief Executive Officer and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
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Exhibit 101.INS XBRL	Instance Document ***
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document ***
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document***
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created***
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document ***
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ***

* Filed herewith.
** Furnished herewith.
*** Submitted electronically herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Orchid Island Capital, Inc. Registrant
Date: August 1, 2017	By:	/s/ Robert E. Cauley Robert E. Cauley Chief Executive Officer, President and Chairman of the Board
Date: August 1, 2017	By:	/s/ G. Hunter Haas, IV G. Hunter Haas, IV Secretary, Chief Financial Officer, Chief Investment Officer and Director (Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

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Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document ***
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ***

* Filed herewith.
** Furnished herewith.
*** Submitted electronically herewith.