ORCHID ISLAND
CAPITAL

2022 ANNUAL REPORT

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

FORM 10-K

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

For the fiscal year ended December 31, 2022

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

For the transition period from __ to __

Commission File Number**: 001-35236**

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Trading Symbol:**	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	ORC	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Exchange Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to Section 240.10D-1(b). ☐

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

As of June 30, 2022 the aggregate market value of the common stock held by nonaffiliates was $493,960,589

Number of shares outstanding at March 3, 2023: 39,081,942

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement, to be issued in connection with the 2023 Annual Meeting of Stockholders of the Registrant, are incorporated by reference into Part III of this Annual Report on Form 10-K (this “Report”).

ORCHID ISLAND CAPITAL, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “should,” “may,” “plans,” “projects,” “will,” or similar expressions, or the negative of these words, we intend to identify forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our expected operating results;
- our ability to acquire investments on attractive terms;
- the effect of actual or proposed actions of the U.S. government, including the U.S. Federal Reserve (the "Fed"), the Federal Housing Finance Agency (the "FHFA"), the Federal Housing Administration (the "FHA"), the Federal Open Markets Committee (the "FOMC") and the U.S. Treasury, on interest rates, monetary policy, fiscal policy and the housing and credit markets;
- the effect of rising interest rates on inflation, unemployment, and mortgage supply and demand;
- the effect of prepayment rates on the value of our assets;
- our ability to access the capital markets;
- our ability to obtain future financing arrangements;
- our ability to successfully hedge the interest rate risk and prepayment risk associated with our portfolio;
- the federal conservatorship of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac” and together with Fannie Mae, the "Enterprises") and related efforts, along with any changes in laws and regulations affecting the relationship between the Enterprises and the U.S. government;
- market trends;
- our ability to make distributions to our stockholders in the future;
- our understanding of our competition and our ability to compete effectively;
- our ability to quantify risk based on historical experience;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act;
- our ability to maintain the listing of our common stock on the New York Stock Exchange ("NYSE");
- geo-political events, such as the crisis in Ukraine, government responses to such events and the related impact on the economy both nationally and internationally;
- the ongoing effect of the coronavirus (COVID-19) pandemic and the potential future outbreak of other highly infectious or contagious diseases on the Agency RMBS market and on our results of future operations, financial position, and liquidity;
- expected capital expenditures;
- the impact of technology on our operations and business; and
- the phase-out of the London Interbank Offered Rate (“LIBOR”) index, transition from LIBOR to the alternative reference rate (the Secured Overnight Financing Rate ("SOFR")) and the impact on our LIBOR sensitive funding hedges, liabilities and assets.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described under the caption ‘‘Risk Factors’’ in this Report and any subsequent Quarterly Reports on Form 10-Q. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

Our Company

Orchid Island Capital, Inc., a Maryland corporation ("Orchid," the "Company," "we" or "us"), is a specialty finance company that invests in residential mortgage-backed securities ("RMBS"). The principal and interest payments of these RMBS are guaranteed by the Enterprises or the Government National Mortgage Association ("Ginnie Mae" and, collectively with the Enterprises, "GSEs") and are backed primarily by single-family residential mortgage loans. We refer to these types of RMBS as Agency RMBS. Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS, such as mortgage pass through certificates and collateralized mortgage obligations ("CMOs") issued by the GSEs and (ii) structured Agency RMBS, such as interest only securities ("IOs"), inverse interest only securities ("IIOs") and principal only securities ("POs"), among other types of structured Agency RMBS. Our website is located at http://ir.orchidislandcapital.com. Information on our website is not part of this Report. Our common stock is listed on the NYSE and trades under the symbol "ORC."

We are organized and conduct our operations to qualify to be taxed as a REIT for U.S. federal income tax purposes. As such, we are required to distribute 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding any net capital gain, annually. We generally will not be subject to U.S. federal income tax on our REIT taxable income to the extent we currently distribute our net taxable income to our stockholders and maintain our REIT qualification. It is our intention to distribute 100% of our taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code of 1986, as amended (the "Code"), which may extend into the subsequent taxable year.

Our Manager

Bimini Capital Management, Inc. (sometimes referred to herein as "Bimini") managed our portfolio from our inception through the completion of our initial public offering on February 20, 2013. Upon completion of the offering, we became externally managed by Bimini Advisors, LLC ("Bimini Advisors," or our "Manager") pursuant to a management agreement. Our Manager is an investment advisor registered with the Securities and Exchange Commission ("SEC"). Additionally, our Manager is a Maryland limited liability company that is a wholly-owned subsidiary of Bimini, which has a long track record of managing investments in Agency RMBS. Bimini commenced active investment management operations in 2003, and self-manages its own portfolio. We believe our relationship with our Manager enables us to leverage our Manager's established portfolio management resources for each of our targeted asset classes and its infrastructure supporting those resources. Additionally, we have benefitted and expect to continue to benefit from our Manager's finance and administration functions, which address legal, compliance, investor relations and operational matters, including portfolio management, trade allocation and execution, securities valuation, repurchase agreement trading and clearing, risk management, cybersecurity, information technologies and environmental, social and governance considerations in connection with the performance of its duties.

Our Manager is responsible for administering our business activities and day-to-day operations. Pursuant to the terms of the management agreement, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Our Manager is at all times subject to the supervision and oversight of our board of directors (the "Board of Directors") and has only such functions and authority as we delegate to it.

Our Investment and Capital Allocation Strategy

Investment Strategy

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

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

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

Pass-through Agency RMBS

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

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

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

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

We may also invest in To-Be-Announced Forward Contracts ("TBAs"). A TBA security is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting TBA position, net settling the offsetting positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date (together referred to as a "dollar roll transaction"). The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. This difference, or "price drop," is the economic equivalent of interest income on the underlying Agency RMBS, less an implied funding cost, over the forward settlement period (referred to as "dollar roll income"). Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. These TBAs are accounted for as derivatives and marked to market through the income statement and are not included in interest income.

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

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

Collateral Mortgage Obligation RMBS

CMOs are a type of RMBS, the principal and interest of which are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by pools of mortgage pass-through securities issued directly by or under the auspices of the GSEs. CMOs are structured into multiple classes, with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes receive principal only after the first class has been retired. Generally, fixed-rate RMBS are used to collateralize CMOs. However, the CMO tranches need not all have fixed-rate coupons. Some CMO tranches have floating rate coupons that adjust based on market interest rates, subject to some limitations. Such tranches, often called “CMO floaters,” can have relatively low price sensitivity to interest rates.

Structured Agency RMBS

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

- ***IOs***. IOs represent the stream of interest payments on a pool of mortgages, either fixed-rate mortgages or hybrid ARMs. Holders of IOs have no claim to any principal payments. The value of IOs depends primarily on two factors, which are prepayments and interest rates. Prepayments on the underlying pool of mortgages reduce the stream of interest payments going forward, hence IOs are highly sensitive to prepayment rates. IOs are also sensitive to changes in interest rates. An increase in interest rates reduces the present value of future interest payments on a pool of mortgages. On the other hand, an increase in interest rates has a tendency to reduce prepayments, which increases the expected absolute amount of future interest payments.

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

Our investment strategy consists of the following components:

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

We rely on our Manager’s expertise in identifying assets within our target asset class. Our Manager makes investment decisions based on various factors, including, but not limited to, relative value, expected cash yield, supply and demand, costs of hedging, costs of financing, liquidity requirements, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. We do not attribute any particular quantitative significance to any of these factors, and the weight we give to these factors depends on market conditions and economic trends.

Over time, we will modify our investment strategy as market conditions change to seek to maximize the returns from our investment portfolio. We believe that this strategy, combined with our Manager’s experience, will enable us to provide attractive long-term returns to our stockholders.

Capital Allocation Strategy

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

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

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

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

Financing Strategy

We borrow against our Agency RMBS using short term repurchase agreements. A repurchase agreement (or "repo") transaction acts as a financing arrangement under which we effectively pledge our investment securities as collateral to secure a loan. Our borrowings through repo transactions are generally short-term and have maturities ranging from one day to one year but may have maturities up to five or more years. Our financing rates are typically impacted by the U.S. Federal Funds rate and other short-term benchmark rates and liquidity in the Agency RMBS repo and other short-term funding markets. The terms of our master repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association ("SIFMA") as to repayment, margin requirements and the segregation of all securities sold under the repo transaction. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement to address such matters as additional margin maintenance requirements, cross default and other provisions. The specific provisions may differ for each lender and certain terms may not be determined until we engage in individual repo transactions.

We may use other sources of leverage, such as secured or unsecured debt or issuances of preferred stock. We do not have a policy limiting the amount of leverage we may incur. However, we generally expect that the ratio of our total liabilities compared to our equity, which we refer to as our leverage ratio, will be less than 12 to 1. Our amount of leverage may vary depending on market conditions and other factors that we deem relevant.

We allocate our capital between two sub-portfolios. The pass-through Agency RMBS portfolio will be leveraged generally through repurchase agreement funding. The structured Agency RMBS portfolio generally will not be leveraged. The leverage ratio is calculated by dividing our total liabilities by total stockholders' equity at the end of each period. Long positions in TBAs are considered a component of the pass-through Agency RMBS category. While there is no explicit leverage applied to TBAs via repurchase agreement borrowings, as is the case with pass-through securities, to accurately reflect our reported leverage ratio, we calculate our leverage both with and without the market value of the net forward agreement as a component of our total leverage exposure for purposes of reporting our leverage ratio and other risk metrics. We include our net TBA position in our measure of leverage because a forward contract to acquire Agency RMBS in the TBA market carries similar risks to Agency RMBS purchased in the cash market and funded with on-balance sheet liabilities. Similarly, a TBA contract for the forward sale of Agency RMBS has substantially the same effect as selling the underlying Agency RMBS and reducing our on-balance sheet funding commitments.

The amount of leverage typically will be a function of the capital allocated to the pass-through Agency RMBS portfolio and the amount of haircuts required by our lenders on our borrowings. When the capital allocation to the pass-through Agency RMBS portfolio is high, we expect that the leverage ratio will be high because more capital is being explicitly leveraged and less capital is un-leveraged. If the haircuts, which are a percentage of the market value of the collateral pledged, required by our lenders on our borrowings are higher, all else being equal, our leverage will be lower because our lenders will lend less against the value of the capital deployed to the pass-through Agency RMBS portfolio. The allocation of capital between the two portfolios will be a function of several factors:

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

Risk Management

We invest in Agency RMBS to mitigate credit risk. Additionally, our Agency RMBS are backed by a diversified base of mortgage loans to mitigate geographic, loan originator and other types of concentration risks.

Interest Rate Risk Management

We believe that the risk of adverse interest rate movements represents the most significant risk to our portfolio. This risk arises because (i) the interest rate indices used to calculate the interest rates on the mortgages underlying our assets may be different from the interest rate indices used to calculate the interest rates on the related borrowings and (ii) interest rate movements affecting our borrowings may not be reasonably correlated with interest rate movements affecting our assets. We attempt to mitigate our interest rate risk by using the techniques described below:

Agency RMBS Backed by ARMs. We seek to minimize the differences between interest rate indices and interest rate adjustment periods of our Agency RMBS backed by ARMs and related borrowings. At the time of funding, we typically align (i) the underlying interest rate index used to calculate interest rates for our Agency RMBS backed by ARMs and the related borrowings and (ii) the interest rate adjustment periods for our Agency RMBS backed by ARMs and the interest rate adjustment periods for our related borrowings. As our borrowings mature or are renewed, we may adjust the index used to calculate interest expense, the duration of the reset periods and the maturities of our borrowings.

Agency RMBS Backed by Fixed-Rate Mortgages. As interest rates rise, our borrowing costs increase; however, the income on our Agency RMBS backed by fixed-rate mortgages remains unchanged. Subject to qualifying and maintaining our qualification as a REIT, we may seek to limit increases to our borrowing costs through the use of interest rate swap or cap agreements, options, put or call agreements, futures contracts, forward rate agreements or similar financial instruments to economically convert our floating-rate borrowings into fixed-rate borrowings.

Agency RMBS Backed by Hybrid ARMs. During the fixed-rate period of our Agency RMBS backed by hybrid ARMs, the security is similar to Agency RMBS backed by fixed-rate mortgages. During this period, subject to qualifying and maintaining our qualification as a REIT, we may employ the same hedging strategy that we employ for our Agency RMBS backed by fixed-rate mortgages. Once our Agency RMBS backed by hybrid ARMs convert to floating rate securities, we may employ the same hedging strategy as we employ for our Agency RMBS backed by ARMs.

Derivative Instruments. We enter into derivative instruments to economically hedge against the possibility that rising rates may adversely impact the cost of our repurchase agreement liabilities. The principal instruments that the Company has used to date are Treasury Note ("T-Note"), federal funds ("Fed Funds") and Eurodollar futures contracts, interest rate swaps, options to enter in interest rate swaps ("interest rate swaptions") and TBA securities transactions, but the Company may enter into other derivatives in the future.

A futures contract is a legally binding agreement to buy or sell a financial instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. A futures contract differs from an option in that an option gives one of the counterparties a right, but not the obligation, to buy or sell, while a futures contract represents an obligation of both counterparties to buy or sell a financial instrument at a specified price.

We engage in interest rate swaps as a means of managing our interest rate risk on forecasted interest expense associated with repurchase agreement borrowings for the term of the swap contract. An interest rate swap is a contractual agreement entered into by two counterparties, under which each agrees to make periodic interest payments to the other (one pays a fixed rate of interest, while the other pays a floating rate of interest) for an agreed period of time based upon a notional amount of principal.

Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. We may enter into swaption agreements that provide us the option to enter into a pay fixed rate interest rate swap ("payer swaptions"), or swaption agreements that provide us the option to enter into a receive fixed interest rate swap ("receiver swaptions").

Additionally, our structured Agency RMBS generally exhibit sensitivities to movements in interest rates different than our pass-through Agency RMBS. To the extent they do so, our structured Agency RMBS may protect us against declines in the market value of our combined portfolio that result from adverse interest rate movements, although we cannot assure you that this will be the case.

The Company accounts for TBA securities as derivative instruments. Gains and losses associated with TBA securities transactions are reported in gain (loss) on derivative instruments in the accompanying statements of operations.

Prepayment Risk Management

The risk of mortgage prepayments is another significant risk to our portfolio. When prevailing interest rates fall below the current interest rate of a mortgage, mortgage prepayments are likely to increase. Conversely, when prevailing interest rates increase above the coupon rate of a mortgage, mortgage prepayments are likely to decrease.

When prepayment rates increase, we may not be able to reinvest the money received from prepayments at yields comparable to those of the securities prepaid. Additionally, some of our structured Agency RMBS, such as IOs and IIOs, may be negatively affected by an increase in prepayment rates because their value is wholly contingent on the underlying mortgage loans having an outstanding principal balance.

A decrease in prepayment rates may also have an adverse effect on our portfolio. For example, if we invest in POs, the purchase price of such securities will be based, in part, on an assumed level of prepayments on the underlying mortgage loan. Because the returns on POs decrease the longer it takes the principal payments on the underlying loans to be paid, a decrease in prepayment rates could decrease our returns on these securities.

Prepayment risk also affects our hedging activities. When an Agency RMBS backed by a fixed-rate mortgage or hybrid ARM is acquired with borrowings, we may cap or fix our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related Agency RMBS. If prepayment rates are different than our projections, the term of the related hedging instrument may not match the fixed-rate portion of the security, which could cause us to incur losses.

Because our business may be adversely affected if prepayment rates are different than our projections, we seek to invest in Agency RMBS backed by mortgages with well-documented and predictable prepayment histories. To protect against increases in prepayment rates, we invest in Agency RMBS backed by mortgages that we believe are less likely to be prepaid. For example, we invest in Agency RMBS backed by mortgages (i) with loan balances low enough such that a borrower would likely have little incentive to refinance, (ii) extended to borrowers with credit histories weak enough to not be eligible to refinance their mortgage loans, (iii) that are newly originated fixed-rate or hybrid ARMs or (iv) that have interest rates low enough such that a borrower would likely have little incentive to refinance. To protect against decreases in prepayment rates, we may also invest in Agency RMBS backed by mortgages with characteristics opposite to those described above, which would typically be more likely to be refinanced. We may also invest in certain types of structured Agency RMBS as a means of mitigating our portfolio-wide prepayment risks. For example, certain tranches of CMOs are less sensitive to increases in prepayment rates, and we may invest in those tranches as a means of hedging against increases in prepayment rates.

Liquidity Management Strategy

Because of our use of leverage, we manage liquidity to meet our lenders' margin calls by maintaining cash balances or unencumbered assets well in excess of anticipated margin calls and making margin calls on our lenders when we have an excess of collateral pledged against our borrowings.

We also attempt to minimize the number of margin calls we receive by:

- Deploying capital from our leveraged Agency RMBS portfolio to our unleveraged Agency RMBS portfolio;
- Investing in TBAs in lieu of leveraged Agency RMBS to reduce margin calls from our lenders associated with monthly prepayments;
- Investing in Agency RMBS backed by mortgages that we believe are less likely to be prepaid to decrease the risk of excessive margin calls when monthly prepayments are announced. Prepayments are declared, and the market value of the related security declines, before the receipt of the related cash flows. Prepayment declarations give rise to a temporary collateral deficiency and generally result in margin calls by lenders; and
- Reducing our overall amount of leverage.

To the extent we are unable to adequately manage our interest rate exposure and are subjected to substantial margin calls, we may be forced to sell assets at an inopportune time, which in turn could impair our liquidity and reduce our borrowing capacity and book value.

Tax Structure

We have elected to be taxed as a REIT for U.S. federal income tax purposes. Our qualification as a REIT, and the maintenance of such qualification, will depend upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and we intend to continue to operate in a manner that will enable us to continue to meet the requirements for qualification and taxation as a REIT.

As a REIT, we generally will not be subject to U.S. federal income tax on the REIT taxable income that we currently distribute to our stockholders. Taxable income generated by any taxable REIT subsidiary (as defined in Section 856(l) of the Code) ("TRS") that we may form or acquire will be subject to U.S. federal, state and local income tax. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute annually at least 90% of their REIT taxable income, determined without regard to the deductions for dividends paid and excluding any net capital gains. If we fail to qualify as a REIT in any calendar year and do not qualify for certain statutory relief provisions, our income would be subject to U.S. federal income tax, and we would likely be precluded from qualifying for treatment as a REIT until the fifth calendar year following the year in which we failed to qualify. Even if we continue to qualify as a REIT, we may still be subject to certain U.S. federal, state and local taxes on our income and assets and to U.S. federal income and excise taxes on our undistributed income.

Investment Company Act Exemption

We operate our business so that we are exempt from registration under the Investment Company Act. We rely on the exemption provided by Section 3(c)(5)(C) of the Investment Company Act, which applies to companies in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. In order to rely on the exemption provided by Section 3(c)(5)(C), we must maintain at least 55% of our assets in qualifying real estate assets. For the purposes of this test, structured Agency RMBS are non-qualifying real estate assets. We monitor our portfolio continuously and prior to each investment to confirm that we continue to qualify for the exemption. To qualify for the exemption, we make investments so that at least 55% of the assets we own consist of qualifying mortgages and other liens on and interests in real estate, which we refer to as qualifying real estate assets, and so that at least 80% of the assets we own consist of real estate-related assets, including our qualifying real estate assets.

We treat whole-pool pass-through Agency RMBS as qualifying real estate assets based on no-action letters issued by the staff of the SEC. In August 2011, the SEC, through a concept release, requested comments on interpretations of Section 3(c)(5)(C). To the extent that the SEC or its staff publishes new or different guidance with respect to these matters, we may fail to qualify for this exemption. Our Manager manages our pass-through Agency RMBS portfolio such that we have sufficient whole-pool pass-through Agency RMBS to ensure we maintain our exemption from registration under the Investment Company Act. At present, we generally do not expect that our investments in structured Agency RMBS will constitute qualifying real estate assets, but will constitute real estate-related assets for purposes of the Investment Company Act.

Employees and Human Capital Resources

We have no employees. We are externally managed and advised by our Manager pursuant to a management agreement as discussed below.

Competition

Our net income largely depends on our ability to acquire Agency RMBS at favorable spreads over our borrowing costs. When we invest in Agency RMBS and other investment assets, we compete with a variety of institutional investors, including other REITs, insurance companies, mutual funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets, the Federal Reserve Bank and other governmental entities or government-sponsored entities. Many of these investors have greater financial resources and access to lower costs of capital than we do. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of mortgage related securities, resulting in higher prices and lower yields on assets.

Distributions

To maintain our qualification as a REIT, we must distribute at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to our stockholders each year. We plan to continue to declare and pay regular monthly dividends to our stockholders.

Common Stock Reverse Split

On August 30, 2022, the Company effected a 1-for-5 reverse stock split of its common stock and proportionately decreased the number of authorized shares of common stock. All share, per share, deferred stock unit and performance unit information has been retroactively adjusted to reflect the reverse split.

Available Information

Our investor relations website is www.orchidislandcapital.com. We make available on the website under “Financials/SEC filings," free of charge, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any other reports (including any amendments to such reports) as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. Information on our website, however, is not part of this Report. In addition, all of our filed reports can be obtained at the SEC’s website at http://www.sec.gov.

ITEM 1A. RISK FACTORS

Summary of Risk Factors

Below is a summary of the principal factors that make an investment in our common stock speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading "*Risk Factors*" *and should be carefully considered, together with other information in this Report and our other filings with the SEC, before making an investment decision regarding our common stock.*

- Increases in interest rates may negatively affect the value of our investments and increase the cost of our borrowings, which could result in reduced earnings or losses and materially adversely affect our ability to pay distributions to our stockholders.
- An increase in interest rates may also cause a decrease in the volume of newly issued, or investor demand for, Agency RMBS, which could materially adversely affect our ability to acquire assets that satisfy our investment objectives and our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Interest rate mismatches between our Agency RMBS and our borrowings may reduce our net interest margin during periods of changing interest rates, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Further downgrades of the U.S. credit rating, automatic spending cuts, or another government shutdown could negatively impact our liquidity, financial condition and earnings.
- Although structured Agency RMBS are generally subject to the same risks as our pass-through Agency RMBS, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.
- Differences in the stated maturity of our fixed rate assets, or in the timing of interest rate adjustments on our adjustable-rate assets, and our borrowings may adversely affect our profitability.
- Changes in the levels of prepayments on the mortgages underlying our Agency RMBS might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Volatile market conditions for mortgages and mortgage-related assets as well as the broader financial markets can result in a significant contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which we invest.
- Failure to procure adequate repurchase agreement financing, or to renew or replace existing repurchase agreement financing as it matures, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.
- Adverse market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets were insufficient to meet these collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Hedging against interest rate exposure may not completely insulate us from interest rate risk and could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Our use of leverage could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts, which could negatively affect our financial condition and results of operations.
- Our forward settling transactions, including TBA transactions, subject us to certain risks, including price risks and counterparty risks.
- We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.

- Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. As a result, the values of some of our assets are uncertain.
- If our lenders default on their obligations to resell the Agency RMBS back to us at the end of the repo transaction term, if the value of the Agency RMBS has declined by the end of the repo transaction term or if we default on our obligations under the repo transaction, we will lose money on these transactions, which, in turn, may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Clearing facilities or exchanges upon which some of our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.
- We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent, which may result in riskier investments.
- The management agreement with our Manager was not negotiated on an arm's-length basis and the terms, including fees payable and our inability to terminate, or our election not to renew, the management agreement based on our Manager's poor performance without paying our Manager a significant termination fee, except for a termination of the Manager with cause, may not be as favorable to us as if it were negotiated with an unaffiliated third party.
- We have no employees, and our Manager is responsible for making all of our investment decisions. None of our or our Manager's officers are required to devote any specific amount of time to our business, and each of them may provide their services to Bimini, which could result in conflicts of interest.
- We are completely dependent upon our Manager and certain key personnel of Bimini who provide services to us through the management agreement, and we may not find suitable replacements for our Manager and these personnel if the management agreement is terminated or such key personnel are no longer available to us.
- If we elect to not renew the management agreement without cause, we would be required to pay our Manager a substantial termination fee. These and other provisions in our management agreement make non-renewal of our management agreement difficult and costly.
- We have not established a minimum distribution payment level, and we cannot assure you of our ability to make distributions to our stockholders in the future.
- Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to pay distributions to our stockholders.
- Failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business and financial condition.
- Our ownership limitations and certain other provisions of applicable law and our charter and bylaws may restrict business combination opportunities that would otherwise be favorable to our stockholders.
- Our failure to maintain our qualification as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.
- We cannot predict the effect that government policies, laws and plans adopted in response to the COVID-19 pandemic, any other global pandemic, or global recessionary economic conditions will have on us.

Risk Factors

You should carefully consider the risks described below and all other information contained in this Report, including our annual financial statements and related notes thereto, before making an investment decision regarding our common stock. Our business, financial condition or results of operations could be harmed by any of these risks. Similarly, these risks could cause the market price of our common stock to decline and you might lose all or part of your investment. Our forward-looking statements in this Report are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below.

Risks Related to Our Business

Increases in interest rates may negatively affect the value of our investments and increase the cost of our borrowings, which could result in reduced earnings or losses and materially adversely affect our ability to pay distributions to our stockholders.

Under normal market conditions, an investment in Agency RMBS will decline in value if interest rates increase. In addition, net interest income could decrease if the yield curve is inverted or flat. While one or more of the GSEs guarantee the principal and interest payments related to the Agency RMBS we own, this guarantee does not protect us from declines in market value caused by changes in interest rates. Declines in the market value of our investments may ultimately result in losses to us, which may reduce earnings and negatively affect our ability to pay distributions to our stockholders.

Significant increases in both long-term and short-term interest rates pose a substantial risk associated with our investment in Agency RMBS. If long-term rates were to increase significantly, the market value of our Agency RMBS would decline, and the duration and weighted average life of the investments would increase. We could realize a loss if the securities were sold. At the same time, an increase in short-term interest rates would increase the amount of interest owed on our repurchase agreements used to finance the purchase of Agency RMBS, which would decrease cash available for distribution to our stockholders. Using this business model, we are particularly susceptible to the effects of an inverted yield curve, where short-term rates are higher than long-term rates. Although rare in a historical context, the U.S. and many countries in Europe have experienced inverted yield curves. Given the volatile nature of the U.S. economy and potential future increases in short-term interest rates, there can be no guarantee that the yield curve will not become and/or remain inverted. If this occurs, it could result in a decline in the value of our Agency RMBS, our business, financial position and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

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

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

Interest rate mismatches between our Agency RMBS and our borrowings may reduce our net interest margin during periods of changing interest rates, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Our portfolio includes Agency RMBS backed by ARMs, hybrid ARMs and fixed-rate mortgages, and the mix of these securities in the portfolio may be increased or decreased over time. Additionally, the interest rates on ARMs and hybrid ARMs may vary over time based on changes in a short-term interest rate index, of which there are many.

We finance our acquisitions of pass-through Agency RMBS with short-term financing. During periods of rising short-term interest rates, the income we earn on these securities will not change (with respect to Agency RMBS backed by fixed-rate mortgage loans) or will not increase at the same rate (with respect to Agency RMBS backed by ARMs and hybrid ARMs) as our related financing costs, which may reduce our net interest margin or result in losses.

Further downgrades of the U.S. credit rating, automatic spending cuts, or another government shutdown could negatively impact our liquidity, financial condition and earnings.

U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the United States. Although U.S. lawmakers passed legislation to raise the federal debt ceiling on multiple occasions, ratings agencies have lowered or threatened to lower the long-term sovereign credit rating on the United States. The impact of this or any further downgrades to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. Absent further quantitative easing by the Fed, these developments could cause interest rates and borrowing costs to rise, which may negatively impact the value of our investments and our ability to access the debt markets on favorable terms. In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time. Continued adverse political and economic conditions could have a material adverse effect on our business, financial condition and results of operations.

We invest in structured Agency RMBS, including IOs, IIOs and POs. Although structured Agency RMBS are generally subject to the same risks as our pass-through Agency RMBS, certain types of risks may be enhanced depending on the type of structured Agency RMBS in which we invest.

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

Differences in the stated maturity of our fixed rate assets, or in the timing of interest rate adjustments on our adjustable-rate assets, and our borrowings may adversely affect our profitability.

We rely primarily on short-term and/or variable rate borrowings to acquire fixed-rate securities with long-term maturities. In addition, we may have adjustable-rate assets with interest rates that vary over time based upon changes in an objective index, such as LIBOR, the U.S. Treasury rate or the Secured Overnight Financing Rate ("SOFR"). These indices generally reflect short-term interest rates but these assets may not reset in a manner that matches our borrowings.

The relationship between short-term and longer-term interest rates is often referred to as the "yield curve." Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates (a "flattening" of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because our investments generally bear interest at longer-term rates than we pay on our borrowings, a flattening of the yield curve would tend to decrease our net interest income and the market value of our investment portfolio. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve "inversion"), in which event our borrowing costs may exceed our interest income and result in operating losses.

Purchases and sales of Agency RMBS by the Fed may adversely affect the supply, price and returns associated with Agency RMBS.

The Fed owns approximately $2.6 trillion of Agency RMBS as of December 31, 2022. After nearly doubling its Agency RMBS holdings from $1.4 trillion in March 2020 to a peak of over $2.7 trillion in April of 2022 as a result of its COVID-19 policy response, the Fed halted purchases of Agency RMBS in September 2022 and began allowing up to $35 billion per month of Agency RMBS to run off its balance sheet. This, combined with the Fed's aggressive hikes to the Fed Funds rate in an effort to curb inflation, has resulted in a net supply of Agency RMBS, an increase in interest rates and a current inversion of the yield curve that has negatively impacted the market value of Agency RMBS. With prepayments slowing in response to rising mortgage rates, Agency RMBS runoffs may not reduce the Fed's balance sheet quickly enough to meet its stated policy goals, raising the possibility of the Fed selling Agency RMBS outright. These actions by the Fed to date, along with interest rate increases, have adversely impacted the prices and returns of Agency RMBS. While it is very difficult to predict the impact of a continuing Fed portfolio runoff or potential sales of Agency RMBS on the supply, prices and liquidity of Agency RMBS, returns on Agency RMBS may be adversely affected.

Short-term interest rates are currently higher than long-term interest rates. This phenomenon, typically referred to as an inverted U.S. Treasury or yield curve, occurred during 2022 and may continue well into the future. Under such conditions our funding costs may equal or exceed yields available on our assets, adversely impacting our financial condition and results of operations and our ability to pay dividends to our stockholders.

As the Fed began to increase over-night funding rates during 2022 short-term interest rates began to rise faster than longer-term interest rates and eventually the U.S. Treasury yield curve became inverted, whereby yields on short-terms rates exceeded yields on long-term interest rates. This condition has continued into 2023 and may continue into the future. Consistent with this development, funding costs associated with our borrowings have increased relative to yields on our Agency RMBS securities. As a result, our net interest income has declined. We have employed various hedging strategies to off-set the phenomenon. However, such hedges may not be adequate to protect our interest income in the future, adversely affecting our financial condition, results of operations and our ability to pay dividends to our stockholders.

Increased levels of prepayments on the mortgages underlying our Agency RMBS might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

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

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

A decrease in prepayment rates on the mortgages underlying our Agency RMBS might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

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

We intend to maintain master repurchase agreements with several counterparties. We cannot assure you that any, or sufficient, repurchase agreement financing will be available to us in the future on terms that are acceptable to us. Any decline in the value of Agency RMBS, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with the terms of any financing arrangements already in place. We may be unable to diversify the credit risk associated with our lenders. In the event that we cannot obtain sufficient funding on acceptable terms, our business, financial condition and results of operations and our ability to pay distributions to our stockholders may be materially adversely affected.

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

Adverse market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets were insufficient to meet these collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

Hedging against interest rate exposure may not completely insulate us from interest rate risk and could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

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

Moreover, the expected transition from LIBOR to alternative reference rates adds additional complications to our hedging activity. For example, we may enter into SOFR-based swaps to hedge rising borrowing costs, which may not fully offset such rising costs as well as LIBOR-based swaps may have in the past.

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

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

To the extent that our hedging instruments are not traded on regulated exchanges, guaranteed by an exchange or its clearinghouse, or regulated by any U.S. or foreign governmental authorities, there may not be requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory, exchange and other regulatory requirements and, depending on the domicile of the counterparty, applicable international requirements. Consequently, if any of these issues causes a counterparty to fail to perform under a derivative agreement we could incur a significant loss.

For example, if a swap exchange utilized in an interest rate swap agreement that we enter into as part of our hedging strategy cannot perform under the terms of the interest rate swap agreement, we may not receive payments due under that agreement, and, thus, we may lose any potential benefit associated with the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under these swap agreements if the exchange becomes insolvent or files for bankruptcy. Similarly, if an interest rate swaption counterparty fails to perform under the terms of the interest rate swaption agreement, in addition to not being able to exercise or otherwise cash settle the agreement, we could also incur a loss for the premium paid for that swaption.

Our use of leverage could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

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

It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts, which could negatively affect our financial condition and results of operations.

We may utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS. TBA contracts enable us to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of collateral, but the particular Agency RMBS to be delivered are not identified until shortly before the TBA settlement date. Prior to settlement of the TBA contract we may choose to move the settlement of the securities out to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date, collectively referred to as a "dollar roll." The Agency RMBS purchased for a forward settlement date under the TBA contract are typically priced at a discount to Agency RMBS for settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest income earned from carrying the underlying Agency RMBS over the roll period (interest income less implied financing cost). Consequently, dollar roll transactions and such forward purchases of Agency RMBS represent a form of off-balance sheet financing and increase our "at risk" leverage.

Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the Agency RMBS purchased for a forward settlement date under the TBA contract are priced at a premium to Agency RMBS for settlement in the current month. Additionally, sales of some or all of the Fed's holdings of Agency RMBS, or declines in purchases of Agency RMBS by the Fed could adversely impact the dollar roll market. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage-Backed Securities Division ("MBSD") of the Fixed Income Clearing Corporation ("FICC"), we are subject to margin calls on our TBA contracts. Further, our clearing and custody agreements may require us to post additional margin above the levels established by the MBSD. Negative carry income on TBA dollar roll transactions or failure to procure adequate financing to settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions and adversely affect our financial condition and results of operations.

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

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

Volatile market conditions for mortgages and mortgage-related assets as well as the broader financial markets can result in a significant contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which we invest.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets, including Agency RMBS, as well as the broader financial markets and the economy generally.

Significant adverse changes in financial market conditions can result in a deleveraging of the global financial system and the forced sale of large quantities of mortgage-related and other financial assets. Concerns over rising interest rates, growing inflation, economic recession, geopolitical issues including events such as the COVID-19 pandemic or other global pandemics, the war in Ukraine, policy priorities of a new U.S. presidential administration, trade wars, unemployment, the availability and cost of financing, the mortgage market and a declining real estate market or prolonged government shutdown may contribute to increased volatility and diminished expectations for the economy and markets.

Increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of our Agency RMBS. If these conditions exist, institutions from which we seek financing for our investments may tighten their lending standards, increase margin calls or become insolvent, which could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability and financial condition may be adversely affected if we are unable to obtain cost-effective financing for our investments.

Our forward settling transactions, including TBA transactions, subject us to certain risks, including price risks and counterparty risks.

We purchase some of our Agency RMBS through forward settling transactions, including TBAs. In a forward settling transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) a TBA, or to-be-issued, Agency RMBS with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the trade date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the settlement date. If any of these risks were to occur, our financial condition and results of operations may be materially adversely affected.

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

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

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

Some models, such as prepayment models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by us may differ substantially from those models used by other market participants, resulting in valuations based on these predictive models that may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation and are therefore more speculative and less reliable.

Models may also include LIBOR as an input. Thus, the transition away from LIBOR to SOFR may require changes to the models and/or impair the historical relationships patterned within these models as a result of less historical data than is currently available for LIBOR.

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

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

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

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

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

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

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

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

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

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

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

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

In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments, such as T-Note, Fed Funds and Eurodollar futures contracts and interest rate swaps, are traded may require us to post additional collateral against our hedging instruments. In the event that future adverse economic developments or market uncertainty result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations.

Our inability to access funding or the terms on which such funding is available could have a material adverse effect on our financial condition, particularly in times of significant market dislocations.

Our ability to fund our operations, meet financial obligations and finance asset acquisitions is dependent upon our ability to secure and maintain our repurchase agreements with our counterparties. Because repurchase agreements are short-term commitments of capital, lenders may respond to market conditions in ways that make it more difficult for us to renew or replace on a continuous basis our maturing short-term borrowings and have imposed and may continue to impose more onerous terms when rolling such financings. If we are not able to renew our existing repurchase agreements or arrange for new financing on terms acceptable to us, or if we are required to post more collateral or face larger haircuts, we may have to curtail our asset acquisition activities and/or dispose of assets.

Issues related to financing are exacerbated in times of significant dislocation in the financial markets, for example, such as those experienced related to the COVID-19 pandemic. It is possible our lenders will become unwilling or unable to provide us with financing, and we could be forced to sell our assets at an inopportune time when prices are depressed. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also have revised and may continue to revise the terms of such financings, including haircuts and requiring additional collateral in the form of cash, based on, among other factors, the regulatory environment and their management of actual and perceived risk. Moreover, the amount of financing we receive under our repurchase agreements will be directly related to our lenders' valuation of our assets that collateralize the outstanding borrowings. Typically, repurchase agreements grant the lender the absolute right to re-evaluate the fair market value of the assets that cover outstanding borrowings at any time. If a lender determines in its sole discretion that the value of the assets has decreased, the lender has the right to initiate a margin call. These valuations may be different than the values that we ascribe to these assets and may be influenced by recent asset sales at distressed levels by forced sellers. A margin call requires us to transfer additional assets to a lender without any advance of funds from the lender for such transfer or to repay a portion of the outstanding borrowings. Significant margin calls could have a material adverse effect on our results of operations, financial condition, business, liquidity and ability to make distributions to our stockholders, and could cause the value of our common stock to decline. In addition, we experienced an increase in haircuts on financings we have rolled. As haircuts are increased, we are required to post additional collateral. We may also be forced to sell assets at significantly depressed prices to meet such margin calls and to maintain adequate liquidity. As a result of the COVID-19 pandemic, we experienced margin calls in 2020 well beyond historical norms. As of December 31, 2022, we had met all margin call requirements, but a sufficiently deep and/or rapid increase in margin calls or haircuts could have an adverse impact on our liquidity.

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

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

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

A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could impair our investments and harm our operations.

We believe the risks associated with our business may be more severe during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values. Declining real estate values will likely reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of or investment in additional properties. Borrowers may also be unable to refinance their loans or sell their homes to facilitate relocating to a less distressed area of the country – thus lowering prepayment activity on our portfolio of Agency RMBS. To the extent securities in our portfolio of Agency RMBS are carried at prices below par, this would reduce the yield we realize on our portfolio, and adversely affect our results of operations, financial condition, liquidity and business and our ability to pay dividends to stockholders.

Market disruptions in a single country could cause a worsening of conditions on a regional and even global level, and economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could result in problems in one country adversely affecting regional and even global economic conditions and markets. For example, concerns about the fiscal stability and growth prospects of certain European countries in the last economic downturn had a negative impact on most economies of the Eurozone and global markets. Military conflict in Ukraine and the resulting sanctions and penalties have caused, and may continue to cause, increased price volatility for publicly traded securities and other national, regional and international economic disruptions and economic uncertainty. The occurrence of similar crises in the future could cause increased volatility in the economies and financial markets of countries throughout a region, or even globally.

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

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire Agency RMBS at favorable spreads over our borrowing costs. In acquiring Agency RMBS, we compete with a variety of institutional investors, including other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders, other entities that purchase Agency RMBS, the Fed, other governmental entities and government-sponsored entities, many of which have greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. government. Additionally, many of our competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments. Furthermore, competition for investments in Agency RMBS may lead the price of such investments to increase, which may further limit our ability to generate desired returns. As a result, we may not be able to acquire sufficient Agency RMBS at favorable spreads over our borrowing costs, which would materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

Computer malware, ransomware, viruses, and computer hacking and phishing attacks have become more prevalent in the financial services industry and may occur on our or certain of our third party service providers' systems in the future. We rely heavily on our Manager’s financial, accounting and other data processing systems. Although we have not detected a breach to date, financial services institutions have reported breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we, our Manager or certain of our third-party service providers have experienced an undetected breach, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, our Manager, or certain of the third parties that facilitate our and our Manager’s business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of certain third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our or certain of our third-party service providers' technical infrastructure, but such computer malware, ransomware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

The replacement of LIBOR with an alternative reference rate may adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Effective January 1, 2022, the ICE Benchmark Administration Limited, the administrator of LIBOR, ceased the publication of one-week and two-month USD LIBOR and will cease the publications of the remaining tenors of USD LIBOR (one, three, six, and 12-month) immediately after June 30, 2023. Our repurchase agreement borrowings previously carried a rate of interest based on short term rate indices that tracked LIBOR. The impact of phasing out LIBOR on these and other financial instruments is uncertain and may negatively impact their value, liquidity or effectiveness. The transition to an alternative rate, such as the SOFR, which is an index calculated by reference to short-term repurchase agreements backed by U.S. Treasury securities, will require careful and deliberate consideration and implementation so as not to disrupt the stability of financial markets. There is no guarantee that a transition from LIBOR to SOFR or any other alternative rate will not result in, among other things, financial market disruptions, significant increases in benchmark rates, or short-term interest rates, any of which could have an adverse effect on our profitability, liquidity, and financial condition.

We invest in securities guaranteed by the Enterprises which are currently under conservatorship by the FHFA. The ultimate impact on the operations of the Enterprises from the conservatorships and the support they receive from the U.S. government is not determinable and could affect the Enterprises in such a way that our business, operations and financial condition may be adversely affected.

As conservator, the FHFA has assumed all the powers of the shareholders, directors and officers of the Enterprises with the goal of preserving and conserving their assets. At various times since implementation of the conservatorship, Congress has considered structural changes to the Enterprises. The U.S. Treasury published the Treasury Housing Reform Plan in 2019 outlining proposed changes to the U.S. housing finance system, which could lead to the release of the Enterprises from conservatorship. Furthermore, the FHFA released its Strategic Plan in October 2019, which included in part an outline for the Enterprises exiting conservatorship. Events related to the COVID-19 pandemic and the associated economic slowdown raised concerns at the FHFA that the Enterprises may need additional capital in order to meet their obligations as guarantors on trillions of dollars of Agency RMBS. The market value of Agency RMBS today is highly dependent on the continued support of the Enterprises by the U.S. government. If such support is modified or withdrawn, if the U.S. Treasury fails to inject new capital as needed, or if the Enterprises are released from conservatorship, the market value of Agency RMBS could significantly decline, making it difficult for us to obtain repurchase agreement financing and could force us to sell assets at substantial losses. Furthermore, any policy changes to the relationship between the Enterprises and the U.S. government may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued by the Enterprises. It may also interrupt the cash flow received by investors on the underlying Agency RMBS.

All of the foregoing could materially adversely affect the availability, pricing, liquidity, market value and financing of our assets and materially adversely affect our business, operations and financial condition and our ability to pay distributions to our stockholders.

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

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

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

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

Our Manager is responsible for making all of our investments. We do not have any employees, and we are completely reliant on our Manager to provide us with investment advisory services. Each of our and our Manager's officers is an employee of Bimini and none of them will devote their time to us exclusively. Each of Messrs. Cauley and Haas, who are the members of our Manager's investment committee, is an officer of Bimini and has significant responsibilities to Bimini. Due to the fact that each of our officers is responsible for providing services to Bimini, they may not devote sufficient time to the management of our business operations. At times when there are turbulent conditions in the mortgage markets or distress in the credit markets or other times when we will need focused support and assistance from our executive officers and our Manager, Bimini and its affiliates will likewise require greater focus and attention from them. In such situations, we may not receive the level of support and assistance that we otherwise would likely have received if we were internally managed or if such executives were not otherwise committed to provide support to Bimini.

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

We are completely dependent upon our Manager and certain key personnel of Bimini who provide services to us through the management agreement, and we may not find suitable replacements for our Manager and these personnel if the management agreement is terminated or such key personnel are no longer available to us.

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

Our management agreement is automatically renewed in accordance with the terms of the agreement, each year, on February 20. Upon the expiration of any automatic renewal term, our Manager may elect not to renew the management agreement without cause, and without penalty, on 180-days' prior written notice to us. If we elect not to renew the management agreement without cause, we would have to pay a termination fee equal to three times the average annual management fee earned by our Manager during the prior 24-month period immediately preceding the most recently completed calendar quarter prior to the effective date of termination. During the term of the management agreement and for two years after its expiration or termination, we may not, without the consent of our Manager, employ any employee of the Manager or any of its affiliates or any person who has been employed by our Manager or any of its affiliates at any time within the two-year period immediately preceding the date on which the person commences employment with us. We do not have retention agreements with any of our officers. We believe that the successful implementation of our investment and financing strategies depends to a significant extent upon the experience of Bimini's executive officers. None of these individuals' continued service is guaranteed. If the management agreement is terminated or these individuals leave Bimini, we may be unable to execute our business plan.

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

From time to time Bimini may seek to purchase for itself the same or similar assets that our Manager seeks to purchase for us, or our Manager may seek to purchase the same or similar assets for us as it does for other accounts that may be managed by our Manager in the future. In such an instance, our Manager has no duty to allocate such opportunities in a manner that preferentially favors us. Bimini and our Manager make available to us opportunities to acquire assets that they determine, in their reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with the Investment Allocation Agreement.

Because many of our targeted assets are typically available only in specified quantities and because many of our targeted assets are also targeted assets for Bimini and may be targeted assets for other accounts our Manager may manage in the future, neither Bimini nor our Manager may be able to buy as much of any given asset as required to satisfy the needs of Bimini, us and any other account our Manager may manage in the future. In these cases, the Investment Allocation Agreement will require the allocation of such assets to multiple accounts in proportion to their needs and available capital. The Investment Allocation Agreement will permit departure from such proportional allocation when (i) allocating purchases of whole-pool Agency RMBS, because those securities cannot be divided into multiple parts to be allocated among various accounts, and (ii) such allocation would result in an inefficiently small amount of the security being purchased for an account. In that case, the Investment Allocation Agreement allows for a protocol of allocating assets so that, on an overall basis, each account is treated equitably.

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

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

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

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

Mr. Cauley, our Chief Executive Officer and Chairman of our Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. Mr. Haas, our Chief Financial Officer, Chief Investment Officer, Secretary and a member of our Board of Directors, also serves as the President, Chief Financial Officer, Chief Investment Officer and Treasurer of Bimini and owns shares of common stock of Bimini. Accordingly, Messrs. Cauley and Haas may have a conflict of interest with respect to actions by our Board of Directors that relate to Bimini or our Manager.

As of March 3, 2023, Bimini owned approximately 1.5% of our outstanding shares of common stock. In evaluating opportunities for us and other management strategies, this may lead our Manager to emphasize certain asset acquisition, disposition or management objectives over others, such as balancing risk or capital preservation objectives against return objectives. This could increase the risks or decrease the returns of your investment.

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

Electing not to renew the management agreement without cause would be difficult and costly for us. Our management agreement is automatically renewed in accordance with the terms of the agreement, each year, on February 20. However, with the consent of the majority of our independent directors, we may elect not to renew our management agreement in subsequent years upon 180-days' prior written notice. If we elect to not renew the agreement because of a decision by our Board of Directors that the management fee is unfair, our Manager has the right to renegotiate a mutually agreeable management fee. If we elect to not renew the management agreement without cause, we are required to pay our Manager a termination fee equal to three times the average annual management fee earned by our Manager during the prior 24-month period immediately preceding the most recently completed calendar quarter prior to the effective date of termination. These provisions may increase the effective cost to us of electing to not renew the management agreement, thereby adversely affecting our inclination to end our relationship with our Manager even if we believe our Manager's performance is unsatisfactory.

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

We cannot predict the effect, if any, of future sales of shares of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of these shares of our common stock, or the perception that these sales could occur, may harm prevailing market prices for our common stock. The 2021 Equity Incentive Plan provides for grants of up to an aggregate of 10% of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the award, subject to a maximum aggregate number of shares of common stock that may be issued under the 2021 Equity Incentive Plan of 800,000 shares of common stock plus 673,324 shares of our common stock that remained available for issuance under the 2012 Equity Incentive Plan as of the date of the Board’s adoption of the 2021 Equity Incentive Plan. As of March 3, 2023, Bimini owns 569,071 shares of our common stock. If Bimini sells a large number of our securities in the public market, the sale could reduce the market price of our common stock and could impede our ability to raise future capital.

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

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

In addition, at any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation. Prospective stockholders are urged to consult with their tax advisors with respect to any legislative, regulatory or administrative developments and proposals and their potential effect on investment in our common stock.

The market value of our common stock may be volatile.

The market value of shares of our common stock may be based primarily upon current and expected future cash dividends and our book value. The market price of shares of our common stock may be influenced by the dividends on those shares relative to market interest rates. Rising interest rates may lead potential buyers of our common stock to expect a higher dividend rate, which could adversely affect the market price of shares of our common stock. In addition, our book value could decrease, which could reduce the market price of our common stock to the extent our common stock trades relative to our book value. As a result, the market price of our common stock may be highly volatile and subject to wide price fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect the share price or trading volume of our common stock include:

- actual or anticipated variations in our operating results or distributions;
- changes in our earnings estimates or publication of research reports about us or the real estate or specialty finance industry;
- the market valuations of Agency RMBS;
- increases in market interest rates that lead purchasers of our common stock to expect a higher dividend yield;
- government action or regulation;
- changes in our book value;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- a change in our Manager or additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community; and
- general market and economic conditions.

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

There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell the common stock you purchase.

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

- the likelihood that an actual market for our common stock will continue;
- the liquidity of any such market;
- the ability of any holder to sell shares of our common stock; or
- the prices that may be obtained for our common stock.

Risks Related to Our Organization and Structure

Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to pay distributions to our stockholders.

We have operated and intend to continue to operate our business so as to be exempt from registration under the Investment Company Act, because we are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Specifically, we invest and intend to continue to invest so that at least 55% of the assets that we own on an unconsolidated basis consist of qualifying mortgages and other liens and interests in real estate, which are collectively referred to as "qualifying real estate assets," and so that at least 80% of the assets we own on an unconsolidated basis consist of real estate-related assets (including our qualifying real estate assets). We treat GSE whole-pool residential mortgage pass-through securities issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets based on no-action letters issued by the SEC. To the extent that the SEC publishes new or different guidance with respect to these matters, we may fail to qualify for this exemption.

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

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

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

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

The Dodd-Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as "swaps." As a result, any investment fund that trades in swaps may be considered a "commodity pool," which would cause its operators (in some cases the fund's directors) to be regulated as "commodity pool operators" ("CPOs"). Under new rules adopted by the U.S. Commodity Futures Trading Commission (the "CFTC"), those funds that become commodity pools solely because of their use of swaps must register with the National Futures Association (the "NFA"). Registration requires compliance with the CFTC's regulations and the NFA's rules with respect to capital raising, disclosure, reporting, recordkeeping and other business conduct. However, the CFTC's Division of Swap Dealer and Intermediary Oversight issued a no-action letter saying, although it believes that mortgage REITs are properly considered commodity pools, it would not recommend that the CFTC take enforcement action against the operator of a mortgage REIT who does not register as a CPO if, among other things, the mortgage REIT limits the initial margin and premiums required to establish its swaps, futures and other commodity interest positions to not more than five percent (5%) of its total assets, the mortgage REIT limits the net income derived annually from those commodity interest positions which are not qualifying hedging transactions to less than five percent (5%) of its gross income and interests in the mortgage REIT are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options or swaps markets.

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

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

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

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

To assist us in qualifying as a REIT, among other purposes, ownership of our stock by any person will generally be limited to 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our stock. Additionally, our charter will prohibit beneficial or constructive ownership of our stock that would otherwise result in our failure to qualify as a REIT. The ownership rules in our charter are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be owned by one individual or entity. As a result, these ownership rules could cause an individual or entity to unintentionally own shares beneficially or constructively in excess of our ownership limits. Any attempt to own or transfer shares of our common stock or preferred stock in excess of our ownership limits without the consent of our Board of Directors will result in such shares being transferred to a charitable trust. These provisions may inhibit market activity and the resulting opportunity for our stockholders to receive a premium for their stock that might otherwise exist if any person were to attempt to assemble a block of shares of our stock in excess of the number of shares permitted under our charter and that may be in the best interests of our security holders.

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

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

Our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

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

We have entered into indemnification agreements with our directors and executive officers that obligate us to indemnify them to the maximum extent permitted by Maryland law. In addition, our charter authorizes the Company to obligate itself to indemnify our present and former directors and officers for actions taken by them in those and other capacities to the maximum extent permitted by Maryland law. Our bylaws require us, to the maximum extent permitted by Maryland law, to indemnify each present and former director or officer in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the provisions in our charter, bylaws and indemnification agreements or that might exist with other companies.

Certain provisions of Maryland law could inhibit changes in control.

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

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder, and thereafter require two supermajority stockholder votes to approve any such combination; and
- "control share" provisions that provide that a holder of "control shares" of the Company (defined as voting shares of stock which, when aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares," subject to certain exceptions) generally has no voting rights with respect to the control shares except to the extent approved by our stockholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

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

Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers and could discourage lawsuits against us and our directors and officers.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for (a) any Internal Corporate Claim, as such term is defined in the MGCL, (b) any derivative action or proceeding brought on our behalf, (c) any action asserting a claim of breach of any duty owed by any of our directors or officers to us or to our stockholders, (d) any action asserting a claim against us or any of our directors or officers arising pursuant to any provision of the MGCL or our charter or bylaws or (e) any other action asserting a claim against us or any of our directors or officers that is governed by the internal affairs doctrine.

This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors or officers, which may discourage such lawsuits against us and our directors and officers. Alternatively, if a court were to find the choice of forum provisions contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business, financial condition, and operating results.

U.S. Federal Income Tax Risks

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

This summary of certain tax risks is limited to the U.S. federal income tax risks addressed below. Additional risks or issues may exist that are not addressed in this Form 10-K and that could affect the U.S. federal income tax treatment of us or our stockholders. This summary is not intended to be used and cannot be used by any stockholder to avoid penalties that may be imposed on stockholders under the Code. We strongly urge you to seek advice based on your particular circumstances from your tax advisor concerning the effects of U.S. federal, state and local income tax law on an investment in our common stock and on your individual tax situation.

Our failure to maintain our qualification as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

We believe that commencing with our short taxable year ended December 31, 2013, we have been organized and have operated in conformity with the requirements for qualification as a REIT under the Code, and we intend to operate in a manner that will enable us to continue to meet the requirements for qualification and taxation as a REIT. However, we cannot assure you that we will remain qualified as a REIT. Moreover, our qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal tax laws. Accordingly, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

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

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

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

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including Agency RMBS. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities, and qualified real estate assets) can consist of the securities of any one issuer, no more than 20% of the value of our total assets can be represented by securities of one or more TRSs and no more than 25% of the value of our assets can be represented by debt of "publicly offered REITs" (i.e., REITs that are required to file annual and period reports with the SEC under the Exchange Act) that is not secured by real property or interests in real property. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of such calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and becoming subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income. As a result, we may be required to liquidate from our portfolio otherwise attractive investments or contribute such investments to a TRS. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

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

To continue to qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined without regard to the deductions for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

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

We intend to distribute our REIT taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid both U.S. federal corporate income tax and the 4% nondeductible excise tax.

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

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

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

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

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

Our ability to invest in and dispose of forward settling contracts, including TBA securities, could be limited by the requirements necessary to continue to qualify as a REIT, and we could fail to qualify as a REIT as a result of these investments.

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

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

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

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

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

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

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to ensure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis. Any domestic TRS that we may form will pay U.S. federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us (but is not required to be distributed to us unless necessary to maintain our REIT qualification).

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

We may make taxable dividends that are payable partly in cash and partly in our common stock. The IRS has issued Revenue Procedure 2017-45 authorizing elective cash/stock dividends to be made by publicly offered REITs. Pursuant to Revenue Procedure 2017-45 the IRS will treat the distribution of stock pursuant to an elective cash/stock dividend as a distribution of property under Section 301 of the Code (i.e., a dividend), as long as at least 20% of the total dividend is available in cash and certain other parameters detailed in the Revenue Procedure are satisfied. Although we have no current intention of paying dividends in our own stock, if in the future we choose to pay dividends in our own stock, our stockholders may be required to pay tax in excess of the cash that they receive. If a U.S. stockholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. If we pay dividends in our common stock and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

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

In order for us to qualify as a REIT for each taxable year after 2013, no more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. “Individuals” for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to assist us in qualifying as a REIT, among other purposes, ownership of our stock by any person is generally limited to 9.8% in value or number of shares, whichever is more restrictive, of any class or series of our stock.

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

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

The maximum tax rate applicable to “qualified dividend income” payable to U.S. stockholders that are taxed at individual rates may be lower than ordinary income tax rates. Dividends payable by REITs, however, are generally not eligible for the reduced rates on qualified dividend income. Rather, ordinary REIT dividends constitute “qualified business income” and thus a 20% deduction is available to individual taxpayers with respect to such dividends. To qualify for this deduction, the U.S. stockholder receiving such dividends must hold the dividend-paying REIT stock for at least 46 days (taking into account certain special holding periods) of the 91-day period beginning 45 days before the stock becomes ex-dividend and cannot be under an obligation to make related payments with respect to a position in substantially similar or related property. The 20% deduction results in a 29.6% maximum U.S. federal income tax rate (plus the 3.8% surtax on net investment income, if applicable) for individual U.S. stockholders. Without further legislative action, the 20% deduction applicable to ordinary REIT dividends will expire on January 1, 2026. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

Liquidation of our assets may jeopardize our REIT qualification.

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

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

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

General Risk Factors

The occurrence of cyber-incidents, or a deficiency in our cybersecurity or in those of any of our third party service providers could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations.

A cyber-incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources or the information resources of our third party service providers. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. The primary risks that could directly result from the occurrence of a cyber-incident include operational interruption and private data exposure. We have implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our focus on mitigating the risk of a cyber-incident, do not guarantee that our business and results of operations will not be negatively impacted by such an incident.

We face possible risks associated with the effects of climate change and severe weather.

We cannot predict the rate at which climate change will progress. However, the physical effects of climate change could have a material adverse effect on our operations and business. Our headquarters and our Manager are located very close to the Florida coastline. To the extent that climate change impacts changes in weather patterns, our headquarters and our Manager could experience severe weather, including hurricanes and coastal flooding due to increases in storm intensity and rising sea levels. Such weather events could disrupt our operations or damage our headquarters. There can be no assurance that climate change and severe weather will not have a material adverse effect on our operations or business.

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

If we decide to issue debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. We, and indirectly our stockholders, will bear the cost of issuing and servicing such securities. Holders of debt securities may be granted specific rights, including but not limited to, the right to hold a perfected security interest in certain of our assets, the right to accelerate payments due under the indenture, rights to restrict dividend payments, and rights to approve the sale of assets. Such additional restrictive covenants and operating restrictions could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

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

We are subject to risks related to corporate social responsibility.

Our business faces public scrutiny related to environmental, social and governance (“ESG”) activities. We risk damage to our reputation if we or our Manager fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, support for local communities, corporate governance and transparency and considering ESG factors in our investment processes. Adverse incidents with respect to ESG activities could impact the cost of our operations and relationships with investors, all of which could adversely affect our business and results of operations. Additionally, new legislative or regulatory initiatives related to ESG could adversely affect our business.

The market and economic disruptions caused by COVID-19 have negatively impacted our business.

The COVID-19 pandemic has caused significant disruptions to the U.S. and global economies and has contributed to volatility, illiquidity and dislocations in the financial markets. The COVID-19 outbreak has led governments and other authorities around the world to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, closing non-essential businesses, quarantines and shelter-in-place orders. The market and economic disruptions caused by COVID-19 have negatively impacted and could further negatively impact our business.

Beginning in mid-March 2020, Agency RMBS markets experienced significant volatility and sharp declines in liquidity, which negatively impacted our portfolio. Our portfolio was pledged as collateral under daily mark-to-market repurchase agreements. Fluctuations in the value of our Agency RMBS resulted in margin calls, requiring us to post additional collateral with our lenders under these repurchase agreements. These fluctuations and requirements to post additional collateral were material.

The Agency RMBS market largely stabilized after the Fed announced on March 23, 2020 that it would purchase Agency RMBS and U.S. Treasuries in the amounts needed to support smooth market functioning. The Fed continued to increase its holdings of U.S. Treasuries and Agency RMBS throughout 2020 and 2021 to sustain smooth functioning of markets for these securities; however, in response to growing inflation concerns in late 2021, the FOMC began tapering its net asset purchases and announced on January 26, 2022 that it would completely phase them out by early March 2022. If the COVID-19 outbreak continues or worsens, or if the current policy response changes or is ineffective, the Agency RMBS market may experience significant volatility, illiquidity and dislocations in the future, which may adversely affect our results of operations and financial condition.

We cannot predict the effect that government policies, laws and plans adopted in response to the COVID-19 pandemic, any other global pandemic, or the global recessionary economic conditions will have on us.

Governments have adopted, and may continue to adopt, policies, laws and plans intended to address the COVID-19 pandemic, or any other global pandemic, and adverse developments in the economy and continued functioning of the financial markets. We cannot assure you that these programs will be effective, sufficient or will otherwise have a positive impact on our business.

There can be no assurance as to how, in the long term, these and other actions by the U.S. government will affect the efficiency, liquidity and stability of the financial and mortgage markets or prepayments on Agency RMBS. To the extent the financial or mortgage markets do not respond favorably to any of these actions, such actions do not function as intended, or prepayments increase materially as a result of these actions, our business, results of operations and financial condition may be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own any real property. Our offices are owned by Bimini, the parent of our Manager, and are located at 3305 Flamingo Drive, Vero Beach, Florida 32963. We consider this property to be adequate for our business as currently conducted. Our telephone number is (772) 231-1400.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock trades on the NYSE under the symbol “ORC.” As of March 3, 2023, we had 39,081,942 shares of common stock issued and outstanding which were held by 14 stockholders of record and approximately 60,000 beneficial owners whose shares were held in “street name” by brokers and depository institutions.

Dividend Distribution Policy

We intend to continue to make regular monthly cash distributions to our stockholders, as more fully described below. To maintain our qualification as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding any net capital gain. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes pursuant to GAAP.

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

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

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

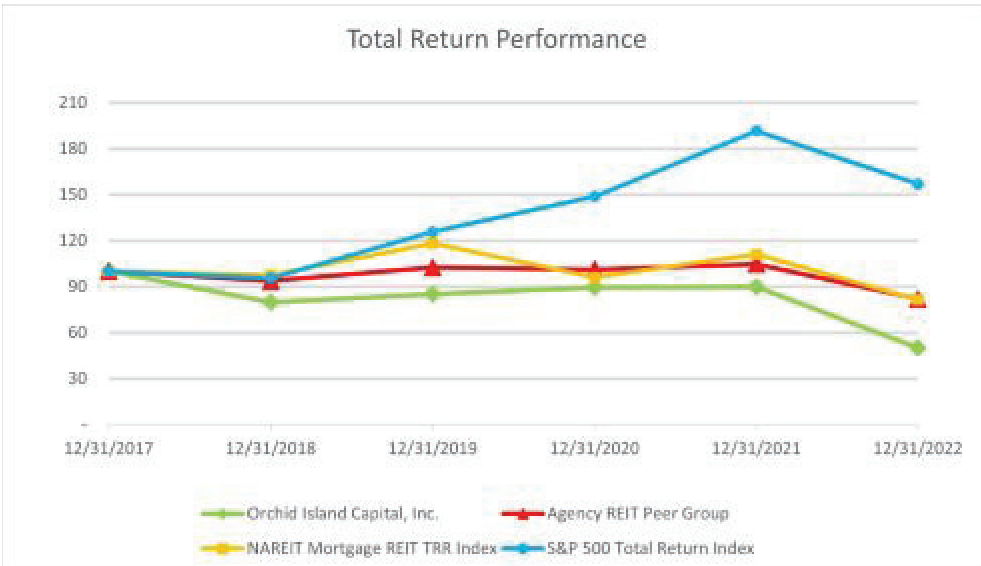
Our charter authorizes us to issue preferred stock that could have a preference over our common stock with respect to distributions. If we issue any preferred stock, the distribution preference on the preferred stock could limit our ability to make distributions to the holders of our common stock.

Our ability to make distributions to our stockholders will depend upon the performance of our investment portfolio, and, in turn, upon our Manager’s management of our business. To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider various funding sources to cover any shortfall, including selling certain of our assets, borrowing funds or using a portion of the net proceeds we receive in future securities offerings (and thus all or a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes). We also may elect to pay all or a portion of any distribution in the form of a taxable distribution of our stock or debt securities. In addition, our Board of Directors may change our distribution policy in the future.

Performance Graph

Set forth below is a graph comparing the yearly percentage change in the cumulative total return on our common stock, with the cumulative total return of the S&P 500 Total Return Index, the FTSE NAREIT Mortgage REIT Index and an index of selected issuers in our Agency REIT Peer Group (composed of AGNC Investment Corp., Annaly Capital Management, Inc., Arlington Asset Investment Corp., ARMOUR Residential REIT, Inc., Cherry Hill Mortgage Investment Corporation and Dynex Capital, Inc.) for the period beginning December 31, 2017, and ending December 31, 2022, assuming the investment of $100 on December 31, 2017 and the reinvestment of dividends.

The information in the performance chart and the table below has been obtained from sources believed to be reliable, but its accuracy nor its completeness can be guaranteed. The historical information set forth below is not necessarily indicative of future performance.



	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Orchid Island Capital, Inc.	100.00	79.67	85.13	89.61	89.73	50.14
Agency REIT Peer Group	100.00	93.60	102.42	101.15	104.73	81.92
NAREIT Mortgage REIT TRR Index	100.00	97.48	118.27	96.07	111.09	81.53
S&P 500 Total Return Index	100.00	95.62	125.72	148.85	191.58	156.88

Securities Authorized for Issuance under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plans required for this Item 5 is incorporated by reference to our definitive Proxy Statement to be filed in connection with our 2023 annual meeting of stockholders.

Unregistered Sales of Equity Securities

The Company did not issue or sell equity securities that were not registered under the Securities Act during the year ended December 31, 2022.

Issuer Purchases of Equity Securities

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 400,000 shares of the Company's common stock. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 904,564 shares of the Company's common stock. On December 9, 2021, the Board of Directors approved an increase in the number of shares of the Company's common stock available in the stock repurchase program for up to an additional 3,372,399 shares. On October 12, 2022, the Board of Directors approved an increase in the stock repurchase program for up to an additional 4,300,000 shares of the Company's common stock, bringing the remaining authorization under the stock repurchase program to up to 6,183,601 shares, representing approximately 18% of the Company's then outstanding shares of common stock. Unless modified or revoked by the Board, the authorization does not expire.

The table below presents the Company's share repurchase activity for the three months ended December 31, 2022.

	Total Number of Shares Repurchased(1)	Weighted-Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Repurchased Under the Authorization
October 1, 2022 - October 31, 2022	1,644,044	$ 8.64	1,644,044	5,845,557
November 1, 2022 - November 30, 2022	-		-	5,845,557
December 1, 2022 - December 31, 2022	544,533	$ 10.67	544,166	5,301,391
Totals / Weighted Average	2,188,577	$ 9.14	2,188,210	5,301,391

(1) Includes 367 shares of the Company's common stock acquired by the Company in connection with the satisfaction of tax withholding obligations on vested employment related awards under equity incentive plans. These repurchases do not reduce the number of shares available under the stock repurchase program authorization.

ITEM 6. RESERVED.

ITEM 7. 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 financial statements and notes to those statements included in Item 8 of this Form 10-K. 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 this Form 10-K, our actual results may differ materially from those anticipated in such forward-looking statements.

Common Stock Reverse Split

On August 30, 2022, the Company effected a 1-for-5 reverse stock split of its common stock and proportionately decreased the number of authorized shares of common stock. All share and per share information has been retroactively adjusted to reflect the reverse split.

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, such as mortgage pass-through certificates issued by the GSEs and collateralized mortgage obligations ("CMOs") issued by the GSEs ("PT RMBS") and (ii) structured Agency RMBS, such as 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, an investment adviser registered 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 REIT under 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 under the symbol "ORC".

Capital Raising Activities

On January 23, 2020, we entered into an equity distribution agreement (the "January 2020 Equity Distribution Agreement") with three sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $200,000,000 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 634,145 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of $19.8 million, and net proceeds of approximately $19.4 million, after commissions and fees, prior to its termination in August 2020.

On August 4, 2020, we entered into an equity distribution agreement (the "August 2020 Equity Distribution Agreement") with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $150,000,000 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 5,498,730 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, we entered into an underwriting agreement (the “January 2021 Underwriting Agreement”) with J.P. Morgan Securities LLC (“J.P. Morgan”), relating to the offer and sale of 1,520,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the January 2021 Underwriting Agreement at $26.00 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 228,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 1,748,000 shares of our common stock occurred on January 25, 2021, with proceeds to us of approximately $45.2 million, net of offering expenses.

On March 2, 2021, we entered into an underwriting agreement (the “March 2021 Underwriting Agreement”) with J.P. Morgan, relating to the offer and sale of 1,600,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $27.25 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 240,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 1,840,000 shares of our common stock occurred on March 5, 2021, with proceeds to us of approximately $50.0 million, net of offering expenses.

On June 22, 2021, we entered into an equity distribution agreement (the “June 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $250,000,000 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 9,881,467 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.2 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, we entered into an equity distribution agreement (the “October 2021 Equity Distribution Agreement”) with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be “at the market” offerings and privately negotiated transactions. Through December 31, 2022, we issued a total of 7,052,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $119.6 million, and net proceeds of approximately $117.6 million, after commissions and fees. Subsequent to December 31, 2022 and through March 3, 2023, we issued a total of 2,690,000 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $32.2 million, and net proceeds of approximately $31.7 million, after commissions and fees.

Stock Repurchase Program

On July 29, 2015, the Company’s Board of Directors authorized the repurchase of up to 400,000 shares of our common stock. The timing, manner, price and amount of any repurchases is determined by the Company in its discretion and is subject to economic and market conditions, stock price, applicable legal requirements and other factors. The authorization does not obligate the Company to acquire any particular amount of common stock and the program may be suspended or discontinued at the Company’s discretion without prior notice. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 904,564 shares of the Company’s common stock. Coupled with the 156,751 shares remaining from the original 400,000 share authorization, the increased authorization brought the total authorization to 1,061,316 shares, representing 10% of the then outstanding share count.

On December 9, 2021, the Board of Directors approved an increase in the number of shares of the Company’s common stock available in the stock repurchase program for up to an additional 3,372,399 shares, bringing the remaining authorization under the stock repurchase program to 3,539,861 shares, representing approximately 10% of the Company’s then outstanding shares of common stock.

On October 12, 2022, the Board of Directors approved an increase in the number of shares of the Company’s common stock available in the stock repurchase program for up to an additional 4,300,000 shares, bringing the remaining authorization under the stock repurchase program to 6,183,601 shares, representing approximately 18% of the Company’s then outstanding shares of common stock. This stock repurchase program has no termination date.

From the inception of the stock repurchase program through December 31, 2022, the Company repurchased a total of 3,675,572 shares at an aggregate cost of approximately $64.8 million, including commissions and fees, for a weighted average price of $17.63 per share. During the year ended December 31, 2022, the Company repurchased a total of 2,538,470 shares of its common stock at an aggregate cost of approximately $24.5 million, including commissions and fees, for a weighted average price of $9.63 per share. Subsequent to December 31, 2022, and through March 3, 2023, the Company repurchased a total of 373,041 shares at an aggregate cost of approximately $4.0 million, including commissions and fees, for a weighted average price of $10.62 per share.

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;
- increases in our cost of funds resulting from increases in the Federal Funds rate that are controlled by the Fed that occurred in 2022 and are likely to occur in 2023;
- the difference between Agency RMBS yields and our funding and hedging costs;
- competition for, and supply of, investments in Agency RMBS;
- actions taken by the U.S. government, including the presidential administration, the Fed, the FHFA, the FHA, the FOMC and the U.S. Treasury;
- prepayment rates on mortgages underlying our Agency RMBS and credit trends insofar as they affect prepayment rates; and
- other market developments.

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

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments;
- increases in our cost of funds resulting from increases in the Fed Funds rate that are controlled by the Fed which have occurred in 2022, and are likely to continue to occur in 2023; 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 years ended December 31, 2022, as compared to the Company's results of operations for the years ended December 31, 2021 and 2020.

Net (Loss) Income Summary

Net loss for the year ended December 31, 2022 was $258.5 million, or $6.90 per share. Net loss for the year ended December 31, 2021 was $64.8 million, or $2.67 per share. Net income for the year ended December 31, 2020 was $2.1 million, or $0.16 per share. The components of net (loss) income for the years ended December 31, 2022, 2021 and 2020 are presented in the table below:

(in thousands)

	2022	2021	2020
Interest income	$ 144,633	$ 134,700	$ 116,045
Interest expense	(61,708)	(7,090)	(25,056)
Net interest income	82,925	127,610	90,989
Losses on RMBS and derivative contracts	(320,669)	(177,119)	(78,317)
Net portfolio (loss) income	(237,744)	(49,509)	12,672
Expenses	(20,709)	(15,251)	(10,544)
Net (loss) income	$ (258,453)	$ (64,760)	$ 2,128

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 "Net Earnings Excluding Realized and Unrealized Gains and Losses", "Economic Interest Expense" and "Economic Net Interest Income."

Net Earnings Excluding Realized and Unrealized Gains and Losses

We have elected to account for our Agency RMBS under the fair value option. Securities held under the fair value option are recorded at estimated fair value, with changes in the fair value recorded as unrealized gains or losses through the statements of operations.

In addition, we have not designated our derivative financial instruments used for hedging purposes as hedges for accounting purposes, but rather hold them for economic hedging purposes. Changes in fair value of these instruments are presented in a separate line item in the Company's statements of operations and are 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.

Presenting net earnings excluding realized and unrealized gains and losses allows management to: (i) isolate the net interest income and other expenses of the Company over time, free of all fair value adjustments and (ii) assess the effectiveness of our funding and hedging strategies on our capital allocation decisions and our asset allocation performance. Our funding and hedging strategies, capital allocation and asset selection are integral to our risk management strategy, and therefore critical to the management of our portfolio. We believe that the presentation of our net earnings excluding realized and unrealized gains is useful to investors because it provides a means of comparing our results of operations to those of our peers who have not elected the same accounting treatment. Our presentation of net earnings excluding realized and unrealized gains and losses may not be comparable to similarly-titled measures of other companies, who may use different calculations. As a result, net earnings excluding realized and unrealized gains and losses should not be considered as a substitute for our GAAP net income (loss) as a measure of our financial performance or any measure of our liquidity under GAAP. The table below presents a reconciliation of our net income (loss) determined in accordance with GAAP and net earnings excluding realized and unrealized gains and losses.

Described below are the Company's results of operations for the years ended December 31, 2022, 2021 and 2020.

Net Earnings (Loss) Excluding Realized and Unrealized Gains and Losses

(in thousands, except per share data)

				Per Share		
	Net Income (Loss) (GAAP)	Realized and Unrealized Gains and Losses(1)	Net Earnings (Loss) Excluding Realized and Unrealized Gains and Losses	Net Income (Loss) (GAAP)	Realized and Unrealized Gains and Losses	Net Earnings (Loss) Excluding Realized and Unrealized Gains and Losses
Three Months Ended						
December 31, 2022	$ 34,926	$ 38,389	$ (3,463)	$ 0.95	$ 1.04	$ (0.09)
September 30, 2022	(84,513)	(93,544)	9,031	(2.40)	(2.66)	0.26
June 30, 2022	(60,139)	(82,282)	22,143	(1.70)	(2.32)	0.62
March 31, 2022	(148,727)	(183,232)	34,505	(4.20)	(5.18)	0.98
December 31, 2021	(44,564)	(82,597)	38,033	(1.33)	(2.46)	1.13
September 30, 2021	26,038	(2,887)	28,925	1.01	(0.11)	1.12
June 30, 2021	(16,865)	(40,844)	23,979	(0.85)	(2.05)	1.20
March 31, 2021	(29,369)	(50,791)	21,422	(1.72)	(2.98)	1.26
December 31, 2020	16,479	(4,605)	21,084	1.17	(0.33)	1.50
September 30, 2020	28,076	5,745	22,331	2.09	0.43	1.66
June 30, 2020	48,772	28,749	20,023	3.68	2.17	1.51
March 31, 2020	(91,199)	(108,206)	17,007	(7.06)	(8.38)	1.32
Years Ended						
December 31, 2022	$ (258,453)	$ (320,669)	$ 62,216	$ (6.90)	$ (8.56)	$ 1.66
December 31, 2021	(64,760)	(177,119)	112,359	(2.67)	(7.31)	4.64
December 31, 2020	2,128	(78,317)	80,445	0.16	(5.83)	5.99

(1) Includes realized and unrealized gains (losses) on RMBS and derivative financial instruments, including net interest income or expense on interest rate swaps.

Economic Interest Expense and Economic Net Interest Income

We use derivative and other hedging instruments, specifically Eurodollar, Fed Funds and T-Note futures contracts, short positions in U.S. Treasury securities, 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. Changes in fair value of these instruments are presented in a separate line item in our statements of operations and not included in interest expense. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the 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 and unrealized gains or losses on certain derivative instruments the Company uses, specifically Eurodollar, Fed Funds and U.S. Treasury futures, and interest rate swaps and swaptions, that pertain to each period presented. We believe that adjusting our interest expense for the periods presented by the gains or losses on these derivative instruments would not accurately reflect our economic interest expense for these periods. The reason is that these derivative instruments may cover periods that extend into the future, not just the current period. Any realized or unrealized gains or losses on the instruments reflect the change in market value of the instrument caused by changes in underlying interest rates applicable to the term covered by the instrument, not just the current period. 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.

The Company from time to time invests in TBAs, which are forward contracts for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into a dollar roll transaction. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. These TBAs are accounted for as derivatives and marked to market through the income statement. Gains or losses on TBAs are included with gains or losses on other derivative contracts and are not included in interest income for purposes of the discussions below.

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 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 the years ended December 31, 2022, 2021 and 2020 and each quarter during 2022, 2021 and 2020.

Gains (Losses) on Derivative Instruments

(in thousands)

	Recognized in Income Statement (GAAP)	U.S. Treasury and TBA Securities Gain (Loss) (Short Positions)	(Long Positions)	Economic Hedges: Attributed to Current Period (Non-GAAP)	Economic Hedges: Attributed to Future Periods (Non-GAAP)
Three Months Ended					
December 31, 2022	$ (10,657)	$ (9,700)	$ -	$ 11,076	$ (12,033)
September 30, 2022	184,819	10,642	106	5,043	169,028
June 30, 2022	103,758	1,013	1,067	1,996	99,682
March 31, 2022	177,816	2,539	27	(1,287)	176,537
December 31, 2021	10,945	2,568	-	(7,949)	16,326
September 30, 2021	5,375	(2,306)	-	(1,248)	8,929
June 30, 2021	(34,915)	(5,963)	-	(5,104)	(23,848)
March 31, 2021	45,472	9,133	(8,559)	(4,044)	48,942
December 31, 2020	8,538	(436)	5,480	(5,790)	9,284
September 30, 2020	4,079	131	3,336	(6,900)	7,512
June 30, 2020	(8,851)	582	1,133	(5,751)	(4,815)
March 31, 2020	(82,858)	(7,090)	-	(4,900)	(70,868)
Years Ended					
December 31, 2022	$ 455,736	$ 4,494	$ 1,200	$ 16,828	$ 433,214
December 31, 2021	26,877	3,432	(8,559)	(18,345)	50,349
December 31, 2020	(79,092)	(6,813)	9,949	(23,341)	(58,887)

Economic Interest Expense and Economic Net Interest Income

(in thousands)

	Interest Income	Interest Expense on Borrowings: GAAP Interest Expense	Interest Expense on Borrowings: Gains (Losses) on Derivative Instruments Attributed to Current Period(1)	Interest Expense on Borrowings: Economic Interest Expense(2)	Net Interest Income: GAAP Net Interest Income	Net Interest Income: Economic Net Interest Income(3)
Three Months Ended						
December 31, 2022	$ 31,897	$ 29,512	$ 11,076	$ 18,436	$ 2,385	$ 13,461
September 30, 2022	35,611	21,361	5,043	16,318	14,250	19,293
June 30, 2022	35,268	8,180	1,996	6,184	27,088	29,084
March 31, 2022	41,857	2,655	(1,287)	3,942	39,202	37,915
December 31, 2021	44,421	2,023	(7,949)	9,972	42,398	34,449
September 30, 2021	34,169	1,570	(1,248)	2,818	32,599	31,351
June 30, 2021	29,254	1,556	(5,104)	6,660	27,698	22,594
March 31, 2021	26,856	1,941	(4,044)	5,985	24,915	20,871
December 31, 2020	25,893	2,011	(5,790)	7,801	23,882	18,092
September 30, 2020	27,223	2,043	(6,900)	8,943	25,180	18,280
June 30, 2020	27,258	4,479	(5,751)	10,230	22,779	17,028
March 31, 2020	35,671	16,523	(4,900)	21,423	19,148	14,248
Years Ended						
December 31, 2022	$ 144,633	$ 61,708	$ 16,828	$ 44,880	$ 82,925	$ 99,753
December 31, 2021	134,700	7,090	(18,345)	25,435	127,610	109,265
December 31, 2020	116,045	25,056	(23,341)	48,397	90,989	67,648

(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 year ended December 31, 2022, we generated $82.9 million of net interest income, consisting of $144.6 million of interest income from RMBS assets offset by $61.7 million of interest expense on borrowings. For the comparable period ended December 31, 2021, we generated $127.6 million of net interest income, consisting of $134.7 million of interest income from RMBS assets offset by $7.1 million of interest expense on borrowings. The $9.9 million increase in interest income was driven by a 72 basis points ("bps") increase in yield on average RMBS that was partially offset by a $745.5 million decrease in average RMBS. The $54.6 million increase in interest expense for the year ended December 31, 2022 was driven by a 138 bps increase in the average cost of funds, offset by a $665.5 million decrease in average borrowings.

For the year ended December 31, 2020, we generated $91.0 million of net interest income, consisting of $116.1 million of interest income from RMBS assets offset by $25.1 million of interest expense on borrowings. The $18.7 million increase in interest income for the year ended December 31, 2021, compared to the year ended December 31, 2020, was due to a $1,569.3 million increase in average RMBS, that was partially offset by a 72 bps decrease in yield on average RMBS. The $18.0 million decrease in interest expense for the year ended December 31, 2021 was due to a 63 bps decrease in the average cost of funds, partially offset by a $1,510.5 million increase in average borrowings.

On an economic basis, our interest expense on borrowings for the years ended December 31, 2022, 2021 and 2020 was $44.9 million, $25.4 million and $48.4 million, respectively, resulting in $99.8 million, $109.3 million and $67.7 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 each quarter in 2022, 2021 and 2020 and for the years ended December 31, 2022, 2021 and 2020 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								
December 31, 2022	$3,370,608	$ 31,897	3.79%	$ 3,256,153	$ 29,512	$ 18,436	3.63%	2.26%
September 30, 2022	3,571,037	35,611	3.99%	3,446,420	21,361	16,318	2.48%	1.89%
June 30, 2022	4,260,727	35,268	3.31%	4,111,544	8,180	6,184	0.80%	0.60%
March 31, 2022	5,545,844	41,857	3.02%	5,354,107	2,655	3,942	0.20%	0.29%
December 31, 2021	6,056,259	44,421	2.93%	5,728,988	2,023	9,972	0.14%	0.70%
September 30, 2021	5,136,331	34,169	2.66%	4,864,287	1,570	2,818	0.13%	0.23%
June 30, 2021	4,504,887	29,254	2.60%	4,348,192	1,556	6,660	0.14%	0.61%
March 31, 2021	4,032,716	26,856	2.66%	3,888,633	1,941	5,985	0.20%	0.62%
December 31, 2020	3,633,631	25,893	2.85%	3,438,444	2,011	7,801	0.23%	0.91%
September 30, 2020	3,422,564	27,223	3.18%	3,228,021	2,043	8,943	0.25%	1.11%
June 30, 2020	3,126,779	27,258	3.49%	2,992,494	4,479	10,230	0.60%	1.37%
March 31, 2020	3,269,859	35,671	4.36%	3,129,178	16,523	21,423	2.11%	2.74%
Years Ended								
December 31, 2022	$4,187,054	$ 144,633	3.45%	$ 4,042,056	$ 61,708	$ 44,880	1.53%	1.11%
December 31, 2021	4,932,548	134,700	2.73%	4,707,525	7,090	25,435	0.15%	0.54%
December 31, 2020	3,363,208	116,045	3.45%	3,197,034	25,056	48,397	0.78%	1.51%

($ in thousands)

	Net Interest Income		Net Interest Spread	
	GAAP Basis	Economic Basis(2)	GAAP Basis	Economic Basis(4)
Three Months Ended				
December 31, 2022	$ 2,385	$ 13,461	0.16%	1.53%
September 30, 2022	14,250	19,293	1.51%	2.10%
June 30, 2022	27,088	29,084	2.51%	2.71%
March 31, 2022	39,202	37,915	2.82%	2.73%
December 31, 2021	42,398	34,449	2.79%	2.23%
September 30, 2021	32,599	31,351	2.53%	2.43%
June 30, 2021	27,698	22,594	2.46%	1.99%
March 31, 2021	24,915	20,871	2.46%	2.04%
December 31, 2020	23,882	18,092	2.62%	1.94%
September 30, 2020	25,180	18,280	2.93%	2.07%
June 30, 2020	22,779	17,028	2.89%	2.12%
March 31, 2020	19,148	14,248	2.25%	1.62%
Years Ended				
December 31, 2022	$ 82,925	$ 99,753	1.92%	2.34%
December 31, 2021	127,610	109,265	2.58%	2.19%
December 31, 2020	90,989	67,648	2.67%	1.94%

(1) Portfolio yields and costs of borrowings presented in the tables above and the tables on pages 50 and 51 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 51 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 years ended December 31, 2022 and 2021 was $144.6 million and $134.7 million, respectively. We had average RMBS holdings of $4,187.1 million and $4,932.6 million for the years ended December 31, 2022 and 2021, respectively. The yield on our portfolio was 3.45% and 2.73% for the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2022 as compared to the year ended December 31, 2021, there was a $9.9 million increase in interest income due to a 72 bps increase in the yield on average RMBS, offset by a $745.5 million decrease in average RMBS.

For the year ended December 31, 2020, we had interest income of $116.0 million and average RMBS holdings of $3,363.2 million, resulting in a yield on our portfolio of 3.45%. For the year ended December 31, 2021, as compared to the year ended December 31, 2020, there was a $18.6 million increase in interest income due to a $1,569.3 million increase in average RMBS, partially offset by a 72 bps decrease in the yield on average RMBS.

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 years ended December 31, 2022, 2021 and 2020 and for each quarter during 2022, 2021 and 2020.

($ 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									
December 31, 2022	$3,335,154	$ 35,454	$3,370,608	$ 31,204	$ 693	$ 31,897	3.74%	7.83%	3.79%
September 30, 2022	3,458,277	112,760	3,571,037	32,298	3,313	35,611	3.74%	11.75%	3.99%
June 30, 2022	4,069,334	191,393	4,260,727	31,894	3,374	35,268	3.14%	7.05%	3.31%
March 31, 2022	5,335,353	210,491	5,545,844	40,066	1,791	41,857	3.00%	3.40%	3.02%
December 31, 2021	5,878,376	177,883	6,056,259	42,673	1,748	44,421	2.90%	3.93%	2.93%
September 30, 2021	5,016,550	119,781	5,136,331	33,111	1,058	34,169	2.64%	3.53%	2.66%
June 30, 2021	4,436,135	68,752	4,504,887	29,286	(32)	29,254	2.64%	(0.18)%	2.60%
March 31, 2021	3,997,965	34,751	4,032,716	26,869	(13)	26,856	2.69%	(0.15)%	2.66%
December 31, 2020	3,603,885	29,746	3,633,631	25,933	(40)	25,893	2.88%	(0.53)%	2.85%
September 30, 2020	3,389,037	33,527	3,422,564	27,021	202	27,223	3.19%	2.41%	3.18%
June 30, 2020	3,088,603	38,176	3,126,779	27,004	254	27,258	3.50%	2.67%	3.49%
March 31, 2020	3,207,467	62,392	3,269,859	35,286	385	35,671	4.40%	2.47%	4.36%
Years Ended									
December 31, 2022	$4,049,530	$ 137,524	$4,187,054	$135,462	$ 9,171	$144,633	3.35%	6.67%	3.45%
December 31, 2021	4,832,257	100,291	4,932,548	131,939	2,761	134,700	2.73%	2.75%	2.73%
December 31, 2020	3,322,248	40,960	3,363,208	115,244	801	116,045	3.47%	1.96%	3.45%

Interest Expense and the Cost of Funds

We had average outstanding borrowings of $4,042.1 million and $4,707.5 million and total interest expense of $61.7 million and $7.1 million for the years ended December 31, 2022 and 2021, respectively. Our average cost of funds was 1.53% for the year ended December 31, 2022, compared to 0.15% for the comparable period in 2021. There was a $665.5 million decrease in average outstanding borrowings during the year ended December 31, 2022 as compared to the year ended December 31, 2021.

For the year ended December 31, 2020, we had average borrowings of $3,197.0 million and total interest expense of $25.1 million, resulting in an average cost of funds of 0.78%. There was a 63 bps decrease in the average cost of funds and an $1,510.5 million increase in average outstanding borrowings during the year ended December 31, 2021 as compared to the year ended December 31, 2020.

Our economic interest expense was $44.9 million, $25.4 million and $48.4 million for the years ended December 31, 2022, 2021 and 2020, respectively. There was a 57 bps increase in the average economic cost of funds to 1.11% for the year ended December 31, 2022 from 0.54% for the year ended December 31, 2021. The reason for the increase in economic cost of funds is primarily due to the higher cost of our borrowings noted above, offset by the positive performance of our hedging activities during the period. There was a 97 bps decrease in the average economic cost of funds to 0.54% for the year ended December 31, 2021 from 1.51% for the year ended December 31, 2020.

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 41 bps below one-month average SOFR and 33 bps above six-month average SOFR for the year ended December 31, 2022. Our average economic cost of funds was 83 bps below one-month average SOFR and 9 bps below six-month average SOFR for the year ended December 31, 2022. The average term to maturity of the outstanding repurchase agreements was 27 days and 27 days at December 31, 2022 and 2021, respectively.

The tables below present the average balance of borrowings outstanding, interest expense and average cost of funds, and one-month average and six-month average SOFR rates for each quarter in 2022, 2021 and 2020 and for the years ended December 31, 2022, 2021 and 2020 on both a GAAP and economic basis.

($ in thousands)

	Average Balance of Borrowings	Interest Expense		Average Cost of Funds	
		GAAP Basis	Economic Basis	GAAP Basis	Economic Basis
Three Months Ended					
December 31, 2022	$ 3,256,153	$ 29,512	$ 18,436	3.63%	2.26%
September 30, 2022	3,446,420	21,361	16,318	2.48%	1.89%
June 30, 2022	4,111,544	8,180	6,184	0.80%	0.60%
March 31, 2022	5,354,107	2,655	3,942	0.20%	0.29%
December 31, 2021	5,728,988	2,023	9,972	0.14%	0.70%
September 30, 2021	4,864,287	1,570	2,818	0.13%	0.23%
June 30, 2021	4,348,192	1,556	6,660	0.14%	0.61%
March 31, 2021	3,888,633	1,941	5,985	0.20%	0.62%
December 31, 2020	3,438,444	2,011	7,801	0.23%	0.91%
September 30, 2020	3,228,021	2,043	8,943	0.25%	1.11%
June 30, 2020	2,992,494	4,479	10,230	0.60%	1.37%
March 31, 2020	3,129,178	16,523	21,423	2.11%	2.74%
Years Ended					
December 31, 2022	$ 4,042,056	$ 61,708	$ 44,880	1.53%	1.11%
December 31, 2021	4,707,525	7,090	25,435	0.15%	0.54%
December 31, 2020	3,197,034	25,056	48,397	0.78%	1.51%

	Average SOFR		Average GAAP Cost of Funds Relative to Average		Average Economic Cost of Funds Relative to Average	
	One-Month	Six-Month	One-Month SOFR	Six-Month SOFR	One-Month SOFR	Six-Month SOFR
Three Months Ended						
December 31, 2022	4.06%	2.89%	(0.43)%	0.74%	(1.80)%	(0.63)%
September 30, 2022	2.47%	1.43%	0.01%	1.05%	(0.58)%	0.46%
June 30, 2022	1.09%	0.39%	(0.29)%	0.41%	(0.49)%	0.21%
March 31, 2022	0.16%	0.07%	0.04%	0.13%	0.13%	0.22%
December 31, 2021	0.05%	0.05%	0.09%	0.09%	0.65%	0.65%
September 30, 2021	0.05%	0.03%	0.08%	0.10%	0.18%	0.20%
June 30, 2021	0.03%	0.03%	0.11%	0.11%	0.58%	0.58%
March 31, 2021	0.01%	0.06%	0.19%	0.14%	0.61%	0.56%
December 31, 2020	0.08%	0.09%	0.15%	0.14%	0.83%	0.82%
September 30, 2020	0.09%	0.07%	0.16%	0.18%	1.02%	1.04%
June 30, 2020	0.08%	0.65%	0.52%	(0.05)%	1.29%	0.72%
March 31, 2020	0.65%	1.46%	1.46%	0.65%	2.09%	1.28%
Years Ended						
December 31, 2022	1.94%	1.20%	(0.41)%	0.33%	(0.83)%	(0.09)%
December 31, 2021	0.04%	0.04%	0.11%	0.11%	0.50%	0.50%
December 31, 2020	0.22%	0.57%	0.56%	0.21%	1.29%	0.94%

Gains or Losses

The table below presents our gains or losses for the years ended December 31, 2022, 2021 and 2020.

(in thousands)

	2022	2021	2020
Realized losses on sales of RMBS	$ (133,695)	$ (5,542)	$ (24,986)
Unrealized (losses) gains on RMBS and U.S. Treasury Notes	(642,710)	(198,454)	25,761
Total (losses) gains on RMBS and U.S. Treasury Notes	(776,405)	(203,996)	775
Gains (losses) on interest rate futures	207,511	(856)	(13,044)
Gains (losses) on interest rate swaps	170,297	23,613	(66,212)
(Losses) gains on payer swaptions (short positions)	(81,050)	9,062	(3,070)
Gains (losses) on payer swaptions (long positions)	152,365	(2,580)	98
Gains on interest rate caps	919	-	-
Gains on interest rate floors	-	2,765	-
Gains (losses) on TBA securities (short positions)	4,494	3,432	(6,719)
Gains (losses) on TBA securities (long positions)	1,200	(8,559)	9,950
Losses on U.S. Treasury securities (short positions)	-	-	(95)
Total	$ (320,669)	$ (177,119)	$ (78,317)

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 the purpose 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 years ended December 31, 2022, 2021 and 2020, the Company received proceeds of $2,759.9 million $2,851.7 million, and $4,200.5 million, respectively, from the sales of RMBS. Approximately $1.1 billion of the sales during the year ended December 31, 2020 occurred during the second half of March 2020 as we sold assets in order to maintain sufficient cash and liquidity and reduce risk associated with the market turmoil brought about by COVID-19.

Realized and unrealized gains and losses on RMBS are driven in part by changes in yields and interest rates, the spreads that Agency RMBS trade relative to comparable duration U.S. Treasuries or swaps, as well as varying levels of demand for RMBS, which affect the pricing of the securities in our portfolio. The unrealized gains and losses on RMBS may also include the premium lost as a result of prepayments on the underlying mortgages, decreasing unrealized gains or increasing unrealized losses as prepayment speeds or premiums increase. To the extent RMBS are carried at a discount to par, unrealized gains or losses on RMBS would also include discount accreted as a result of prepayments on the underlying mortgages, increasing unrealized gains or decreasing unrealized losses as speeds on discounts increase. 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 2022, 2021 and 2020.

	5 Year U.S. Treasury Rate(1)	10 Year U.S. Treasury Rate(1)	15 Year Fixed-Rate Mortgage Rate(2)	30 Year Fixed-Rate Mortgage Rate(2)	90 Day Average SOFR(3)
December 31, 2022	4.00 %	3.88 %	5.68 %	6.42 %	3.62 %
September 30, 2022	4.04 %	3.80 %	5.96 %	6.70 %	2.13 %
June 30, 2022	3.00 %	2.97 %	4.83 %	5.70 %	0.70 %
March 31, 2022	2.42 %	2.33 %	3.83 %	4.67 %	0.09 %
December 31, 2021	1.26 %	1.51 %	2.33 %	3.11 %	0.05 %
September 30, 2021	1.00 %	1.53 %	2.28 %	3.01 %	0.05 %
June 30, 2021	0.87 %	1.44 %	2.34 %	3.02 %	0.02 %
March 31, 2021	0.94 %	1.75 %	2.45 %	3.17 %	0.04 %
December 31, 2020	0.36 %	0.92 %	2.17 %	2.67 %	0.09 %
September 30, 2020	0.27 %	0.68 %	2.40 %	2.90 %	0.09 %
June 30, 2020	0.29 %	0.65 %	2.59 %	3.13 %	0.05 %
March 31, 2020	0.38 %	0.70 %	2.92 %	3.50 %	1.26 %

(1) Historical 5 and 10 Year U.S. 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 SOFR is obtained from the Federal Reserve Bank of New York.

Expenses

Total operating expenses were $20.7 million, $15.3 million and $10.5 million for the years ended December 31, 2022, 2021 and 2020, respectively. The table below provides a breakdown of operating expenses for the years ended December 31, 2022, 2021 and 2020.

(in thousands)

	2022	2021	2020
Management fees	$ 10,447	$ 8,156	$ 5,281
Overhead allocation	2,042	1,632	1,514
Incentive compensation	957	1,132	38
Directors fees and liability insurance	1,251	1,169	998
Audit, legal and other professional fees	1,143	1,112	1,045
Direct REIT operating expenses	4,091	1,475	1,057
Other administrative	778	575	611
Total expenses	$ 20,709	$ 15,251	$ 10,544

Direct REIT operating expenses were higher in the year ended December 31, 2022, as compared to the year ended December 31, 2021 primarily due to increased commissions and fees related to the Company's interest rate derivative positions.

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, 2024 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 month end equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's month end 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 month end 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.

On April 1, 2022, pursuant to the third amendment to the management agreement entered into on November 16, 2021, the Manager began providing certain repurchase agreement trading, clearing and administrative services to the Company that had been previously provided by AVM, L.P. under an agreement terminated on March 31, 2022. In consideration for such services, the Company will pay the following fees to the Manager:

- A daily fee equal to the outstanding principal balance of repurchase agreement funding in place as of the end of such day multiplied by 1.5 basis points for the amount of aggregate outstanding principal balance less than or equal to $5 billion, and multiplied by 1.0 basis point for any amount of aggregate outstanding principal balance in excess of $5 billion, and
- A fee for the clearing and operational services provided by personnel of the Manager equal to $10,000 per month.

Should the Company terminate the management agreement without cause, it will pay 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.

The following table summarizes the management fee and overhead allocation expenses for each quarter in 2022, 2021 and 2020 and for the years ended December 31, 2022, 2021 and 2020.

($ in thousands)

	Average	Average	Advisory Services		
	Orchid	Orchid	Management	Overhead	
Three Months Ended	**MBS**	**Equity**	**Fee**	**Allocation**	**Total**
December 31, 2022	$ 3,370,608	$ 823,516	$ 2,566	$ 560	$ 3,126
September 30, 2022	3,571,037	839,935	2,616	522	3,138
June 30, 2022	4,260,727	866,539	2,631	519	3,150
March 31, 2022	5,545,844	853,577	2,634	441	3,075
December 31, 2021	6,056,259	806,382	2,587	443	3,030
September 30, 2021	5,136,331	672,384	2,156	390	2,546
June 30, 2021	4,504,887	542,679	1,792	395	2,187
March 31, 2021	4,032,716	456,687	1,621	404	2,025
December 31, 2020	3,633,631	387,503	1,384	442	1,826
September 30, 2020	3,422,564	368,588	1,252	377	1,629
June 30, 2020	3,126,779	361,093	1,268	348	1,616
March 31, 2020	3,269,859	376,673	1,377	347	1,724
Years Ended					
December 31, 2022	$ 4,187,054	$ 845,892	$ 10,447	$ 2,042	$ 12,489
December 31, 2021	4,932,548	619,533	8,156	1,632	9,788
December 31, 2020	3,363,208	373,464	5,281	1,514	6,795

Financial Condition:

Mortgage-Backed Securities

As of December 31, 2022, our RMBS portfolio consisted of $3,540.0 million of Agency RMBS at fair value and had a weighted average coupon on assets of 3.46%. During the year ended December 31, 2022, we received principal repayments of $440.1 million compared to $591.1 million for the year ended December 31, 2021. The average three month prepayment speeds for the quarters ended December 31, 2022 and 2021 were 5.0% and 11.4%, respectively.

The following table presents the 3-month 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.

Three Months Ended	PT RMBS Portfolio (%)	Structured RMBS Portfolio (%)	Total Portfolio (%)
December 31, 2022	4.9	6.0	5.0
September 30, 2022	6.1	10.4	6.5
June 30, 2022	8.3	13.7	9.4
March 31, 2022	8.1	19.5	10.7
December 31, 2021	9.0	24.6	11.4
September 30, 2021	9.8	25.1	12.4
June 30, 2021	10.9	29.9	12.9
March 31, 2021	9.9	40.3	12.0

The following tables summarize certain characteristics of the Company's PT RMBS and structured RMBS as of December 31, 2022 and 2021:

($ in thousands)

Asset Category	Fair Value	Percentage of Entire Portfolio	Weighted Average Coupon	Weighted Average Maturity in Months	Longest Maturity
December 31, 2022					
Fixed Rate RMBS	$ 3,519,906	99.4%	3.47%	339	1-Nov-52
Interest-Only Securities	19,669	0.6%	4.01%	234	25-Jul-48
Inverse Interest-Only Securities	427	0.0%	0.00%	286	15-Jun-42
Total Mortgage Assets	$ 3,540,002	100.0%	3.46%	336	1-Nov-52
December 31, 2021					
Fixed Rate RMBS	$ 6,298,189	96.7%	2.93%	342	1-Dec-51
Interest-Only Securities	210,382	3.2%	3.40%	263	25-Jan-52
Inverse Interest-Only Securities	2,524	0.1%	3.75%	300	15-Jun-42
Total Mortgage Assets	$ 6,511,095	100.0%	3.03%	325	25-Jan-52

($ in thousands)

	December 31, 2022		December 31, 2021	
Agency	Fair Value	Percentage of Entire Portfolio	Fair Value	Percentage of Entire Portfolio
Fannie Mae	$ 2,320,960	65.6%	$ 4,719,349	72.5%
Freddie Mac	1,219,042	34.4%	1,791,746	27.5%
Total Portfolio	$ 3,540,002	100.0%	$ 6,511,095	100.0%

	December 31, 2022	December 31, 2021
Weighted Average Pass-through Purchase Price	$ 106.41	$ 107.19
Weighted Average Structured Purchase Price	$ 18.74	$ 15.21
Weighted Average Pass-through Current Price	$ 91.46	$ 105.31
Weighted Average Structured Current Price	$ 14.05	$ 14.08
Effective Duration (1)	5.58	3.39

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 5.58 indicates that an interest rate increase of 1.0% would be expected to cause a 5.58% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2022. An effective duration of 3.39 indicates that an interest rate increase of 1.0% would be expected to cause a 3.39% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2021. 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 years ended December 31, 2022 and 2021.

($ in thousands)

	2022			2021		
	Total Cost	Average Price	Weighted Average Yield	Total Cost	Average Price	Weighted Average Yield
Pass-through RMBS	$ 1,004,526	$ 100.03	4.59%	$ 6,224,819	$ 106.68	1.63%
Structured RMBS	-	-	0.00%	205,906	13.61	3.88%

Borrowings

As of December 31, 2022, 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 20 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 prevailing market rates. We believe our established repurchase agreement borrowing facilities provide borrowing capacity in excess of our needs.

As of December 31, 2022, we had obligations outstanding under the repurchase agreements of approximately $3,378.4 million with a net weighted average borrowing cost of 4.44%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 3 to 173 days, with a weighted average remaining maturity of 27 days. Securing the repurchase agreement obligations as of December 31, 2022 are RMBS with an estimated fair value, including accrued interest, of approximately $3,524.1 million and a weighted average maturity of 344 months, and cash pledged to counterparties of approximately $13.3 million. Through March 3, 2023, we have been able to maintain our repurchase facilities with comparable terms to those that existed at December 31, 2022 with maturities extending to various dates through June 22, 2023.

The table below presents information about our period end, maximum and average balances of borrowings for each quarter in 2022 and 2021.

($ in thousands)

Three Months Ended	Ending Balance of Borrowings	Maximum Balance of Borrowings	Average Balance of Borrowings	Difference Between Ending Borrowings and Average Borrowings: Amount	Difference Between Ending Borrowings and Average Borrowings: Percent
December 31, 2022	$ 3,378,445	$ 3,414,950	$ 3,256,153	$ 122,292	3.76%
September 30, 2022	3,133,861	4,047,606	3,446,420	(312,559)	(9.07)%
June 30, 2022	3,758,980	4,464,544	4,111,544	(352,564)	(8.57)%
March 31, 2022	4,464,109	6,244,106	5,354,107	(889,998)	(16.62)%(1)
December 31, 2021	6,244,106	6,419,689	5,728,988	515,118	8.99%
September 30, 2021	5,213,869	5,214,254	4,864,287	349,582	7.19%
June 30, 2021	4,514,704	4,517,953	4,348,192	166,512	3.83%
March 31, 2021	4,181,680	4,204,935	3,888,633	293,047	7.54%

(1) The lower ending balance relative to the average balance during the quarter ended March 31, 2022 reflects the disposal of RMBS pledged as collateral. During the quarter ended March 31, 2022, the Company's investment in RMBS decreased $510.4 million.

Liquidity and Capital Resources

Liquidity is our ability to turn non-cash assets into cash, purchase additional investments, repay principal and interest on borrowings, fund overhead, fulfill margin calls and pay dividends. We have both internal and external sources of liquidity. However, our material unused sources of liquidity include cash balances, unencumbered assets and our ability to sell encumbered assets to raise cash. 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.

Internal Sources of Liquidity

Our internal sources of liquidity include our cash balances, unencumbered assets and our ability to liquidate our encumbered security holdings. Our balance sheet also generates liquidity on an on-going basis through payments of principal and interest we receive on our RMBS portfolio. 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. 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.

External Sources of Liquidity

Our primary external sources of liquidity are our ability to (i) borrow under master repurchase agreements, (ii) use the TBA security market and (iii) sell our equity or debt securities in public offerings or private placements. Our borrowing capacity will vary over time as the market value of our interest earning assets varies. 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 repo transaction basis. Throughout the year ended December 31, 2022, haircuts on our pledged collateral remained stable and as of December 31, 2022, our weighted average haircut was approximately 4.5% of the value of our collateral.

TBAs represent a form of off-balance sheet financing and are accounted for as derivative instruments. (See Note 4 to our Financial Statements in this Form 10-K for additional details on of our TBAs). Under certain market conditions, it may be uneconomical for us to roll our TBAs into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted.

Our TBAs are also subject to margin requirements governed by the Mortgage-Backed Securities Division ("MBSD") of the FICC and by our Master Securities Forward Transaction Agreements ("MSFTAs"), which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA, which is subject to increase if the estimated fair value of our TBAs or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBAs and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral on the same business day.

Settlement of our TBA obligations by taking delivery of the underlying securities as well as satisfying margin requirements could negatively impact our liquidity position. However, since we do not use TBA dollar roll transactions as our primary source of financing, we believe that we will have adequate sources of liquidity to meet such obligations.

We invest a portion of our capital in structured Agency RMBS. We generally 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 repo 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.

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 December 31, 2022, we had cash and cash equivalents of $205.7 million. We generated cash flows of $589.9 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of $4,042.1 million during the year ended December 31, 2022.

As described more fully below, we may also access liquidity by selling our equity or debt securities in public offerings or private placements.

Stockholders' Equity

On January 23, 2020, we entered into the January 2020 Equity Distribution Agreement with three sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $200,000,000 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 634,145 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of $19.8 million, and net proceeds of approximately $19.4 million, after commissions and fees, prior to its termination in August 2020.

On August 4, 2020, we entered into the August 2020 Equity Distribution Agreement with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $150,000,000 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 5,498,730 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, we entered into the January 2021 Underwriting Agreement with J.P. Morgan Securities LLC ("J.P. Morgan"), relating to the offer and sale of 1,520,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the January 2021 Underwriting Agreement at $26.00 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 228,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 1,748,000 shares of our common stock occurred on January 25, 2021, with proceeds to us of approximately $45.2 million, net of offering expenses.

On March 2, 2021, we entered into the March 2021 Underwriting Agreement with J.P. Morgan, relating to the offer and sale of 1,600,000 shares of our common stock. J.P. Morgan purchased the shares of our common stock from the Company pursuant to the March 2021 Underwriting Agreement at $27.25 per share. In addition, we granted J.P. Morgan a 30-day option to purchase up to an additional 240,000 shares of our common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 1,840.000 shares of our common stock occurred on March 5, 2021, with proceeds to us of approximately $50.0 million, net of offering expenses.

On June 22, 2021, we entered into the June 2021 Equity Distribution Agreement with four sales agents pursuant to which we could offer and sell, from time to time, up to an aggregate amount of $250,000,000 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 9,881,467 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.2 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, we entered into the October 2021 Equity Distribution Agreement with four sales agents pursuant to which we may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of our common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through December 31, 2022, we issued a total of 7,052,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $119.6 million, and net proceeds of approximately $117.6 million, after commissions and fees. Subsequent to December 31, 2022 and through March 3, 2023, we issued a total of 2,690,000 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $32.2 million, and net proceeds of approximately $31.7 million, after commissions and fees.

Outlook

Economic Summary

As 2022 ended, the markets' and the Fed's outlook for the economy, inflation and the path of monetary policy began to diverge. The seeds for the divergence were planted as the third quarter of 2022 came to an end and the Fed had finally succeeded in convincing the market that they had much work to do in removing accommodation and that the process would take longer than the market had expected. Public comments by Fed officials became uniformly hawkish – pointing to substantially more rate increases – and the incoming inflation data for July, August and September of 2022 was quite strong. The combined effect of the data and the clear intentions of the Fed to aggressively fight to prevent inflation from spiraling out of control and becoming entrenched in consumer behavior dispelled any notion that the Fed would not succeed in their pursuit of their dual mandate – price stability and full employment. In fact, the Fed was so successful at convincing the market it would aggressively remove accommodation and slow inflation that the market began to look beyond this step in the process and instead focus on the ramifications of such policy removal – namely a slowing of the economy.

The change of focus – or “pivot” – on the part of the market occurred in late October and early November of 2022, largely in response to inflation data. The consumer price index ("CPI") for October and November of 2022, released in November and December of 2022, were much lower than previous months. While such figures were revised higher in early February of 2023, at the time the market interpreted this development as evidence that inflation had peaked and was coming down quickly. The market reaction reflected an assumption that the Fed would succeed in taming inflation quicker than the Fed was expecting and that the rate hikes envisioned by the Fed and reflected in their summary of economic projections would instead cause the economy to slow too much and that the Fed would have to lower rates beginning in late 2023.

The divergence in expectations emanated from service sector inflation expectation. As the first quarter of 2023 began, it became clear goods inflation was dropping quickly. This was a result of Covid-19 induced supply constraints abating and consumer demand shifting from goods to services. The market expected that the real estate sector, always very sensitive to interest rates, was in decline and would no longer be a source of inflation outside of the lagged effects of rents, which was anticipated to ebb soon. What remained was non-shelter related services inflation. The Fed recognizes wage pressures are the primary source of inflation in this case. Accordingly, measures of labor market tightness and wage inflation have become the Fed’s focus. To the extent such measures remain elevated, Fed actions will likely continue to reflect their tightening bias.

Interest Rates

The Fed raised the Fed Funds target range twice during the fourth quarter of 2022 and the high end of the range was 4.50% at the end of the year – an increase of 125 basis points during the quarter. The Fed raised the target by another 25 basis points in February 2023. Moreover, the market expects the Fed will continue to raise the target further in 2023, perhaps as much as 100 basis points including the February 2023 increase. Importantly, the Fed, as evidenced by their own “dot plot”, a summary of committee members' expectations of the Fed Funds rate over their forecast period, anticipates the Fed Funds rate will peak at approximately 5.125% by mid-2023 and remain above 5% throughout the balance of 2023. As the fourth quarter of 2022 ended, the market generally expected the target range would peak just under 5.00% and be under 4.5% by the end of 2023. This is consistent with the discussion above. Yields on U.S. Treasury securities with maturities of one year or less increased substantially during the fourth quarter of 2022, with the shortest maturities increasing the most – reflective of the actual and anticipated increases in overnight funding levels driven by the Fed. Such increases were as much as 134 basis points in the case of the one-month U.S. Treasury bill.

As the fourth quarter unfolded, with the market expecting the Fed to succeed in containing inflation and ultimately slowing the economy in the process, longer maturity interest rates were essentially unchanged during the fourth quarter. During the month of October 2022, the hawkish rhetoric from the Fed and strong inflation data initially caused long-term rates to increase substantially from August 2022 levels near 2.6% to approximately 4.25% in late October 2022 in the case of the 10-year U.S. Treasury. However, longer-term rates slowly declined for much of the balance of the fourth quarter before a 40-basis point increase over the last two weeks of the year. The late December 2022 increase was triggered by additional hawkish comments by the Fed at their December meeting reinforced by similar language by the European Central Bank and illiquid holiday trading conditions. For the fourth quarter of 2022, U.S. Treasury maturities beyond the 2-year point were largely unchanged.

The combination of the extreme upward movement in short maturity yields described above and the essentially unchanged yields for longer maturity U.S. Treasuries resulted in an extreme flattening of the yield curve to the point the curve became inverted. This continued the trend that began in early July of 2022. Over the course of the fourth quarter of 2022, the extent of the inversion increased substantially. In the case of the spread between the 2-year and 10-year U.S. Treasuries the inversion reached 84 basis points in early December and 88 basis points in the case of the spread between the 10-year U.S. Treasury and the Fed Funds rate. Historically such inversions signaled market expectations of a recession on the horizon, as was the case in late 2022.

The Agency RMBS Market

The Agency RMBS market returns for 2022 were negative – down 11.9%. However, the sector posted positive returns for the fourth quarter of 2.1%, which was 110 bps higher than comparable duration swaps. As described above, expectations for the economy and rates diverged between those of the Fed and the markets during the last two months of the fourth quarter of 2022. During the fourth quarter, the markets' appetite for riskier assets improved in anticipation that the Fed was nearing the end of its tightening cycle and would be easing monetary conditions by the end of 2023. This led the higher risk sectors of the fixed income markets to outperform, as investment and non-investment grade corporates outperformed U.S. Treasuries, Agency RMBS and Agency debt by a considerable margin.

The performance of the Agency RMBS sector was not uniformly positive for the fourth quarter. As described above, early in the quarter U.S. Treasury yields achieved their highest levels in many years in late October of 2022. Agency RMBS spreads to comparable duration spreads also reached their widest levels since the great financial crisis, easily surpassing the levels observed in March of 2020. As market sentiment turned mid-quarter and risk appetite improved the attractive levels of Agency RMBS, like most other asset classes, were viewed as very attractive. The sector's performance was driven to a large extent by the extremes reached in late October and has continued into early 2023. However, the spreads available in the sector remain wider than those observed prior to the onset of the pandemic in early 2020. The absence of the largest of the traditional buyers of the asset class – banks, and since March of 2020, the Fed, may result in the sector recovering slowly towards pre-pandemic levels, if it can do so at all.

Within the Agency RMBS sector, 30-year fixed rate coupons slightly outperformed 15-year and Ginnie Mae fixed rate securities, both in absolute and relative terms. Within the 30-year fixed rate sector lower/discount coupon securities generated the best relative/excess returns to comparable duration U.S. Treasuries and swaps.

Recent Legislative and Regulatory Developments

In response to the deterioration in the markets for U.S. Treasuries, Agency RMBS and other mortgage and fixed income markets resulting from the impacts of the COVID-19 pandemic, the Fed implemented a program of quantitative easing. Through November of 2021, the Fed was committed to purchasing $80 billion of U.S. Treasuries and $40 billion of Agency RMBS each month. In November of 2021, it began tapering its net asset purchases each month, ended net asset purchases by early March of 2022, and ended asset purchases entirely in September of 2022. On May 4, 2022, the FOMC announced a plan for reducing the Fed's balance sheet. In June of 2022, in accordance with this plan, the Fed began reducing its balance sheet by a maximum of $30 billion of U.S. Treasuries and $17.5 billion of Agency RMBS each month. On September 21, 2022, the FOMC announced the Fed's decision to continue reducing the balance sheet by a maximum of $60 billion of U.S Treasuries and $35 billion of Agency RMBS per month.

On January 29, 2021, the Center for Disease Control and Prevention issued guidance extending eviction moratoriums for covered persons put in place by the CARES Act through March 31, 2021. The FHFA subsequently extended the foreclosure moratorium for loans backed by the Enterprises and the eviction moratorium for real estate owned by the Enterprises until July 31, 2021 and September 30, 2021, respectively. The U.S. Housing and Urban Development Department subsequently extended the FHA foreclosure and eviction moratoria to July 31, 2021, and September 30, 2021, respectively. Despite the expirations of these foreclosure moratoria, a final rule adopted by the CFPB on June 28, 2021, effectively prohibited servicers from initiating a foreclosure before January 1, 2022, in most instances. Foreclosure activity has risen since the end of the moratorium, with foreclosure starts in 2022 up 169% from 2021, but remaining 26% lower than pre-pandemic levels in 2019 and 88% lower than the peak in 2009.

On September 30, 2019, the FHFA announced that the Enterprises were allowed to increase their capital buffers to $25 billion and $20 billion, respectively, from the prior limit of $3 billion each. This step could ultimately lead to the Enterprises being privatized and represents the first concrete step on the road to Enterprise reform. In December 2020, the FHFA released a final rule on a new regulatory framework for the Enterprises which seeks to implement both a risk-based capital framework and minimum leverage capital requirements. On January 14, 2021, the U.S. Treasury and the FHFA executed letter agreements allowing the Enterprises to continue to retain capital up to their regulatory minimums, including buffers, as prescribed in the December rule. These letter agreements provide, in part, (i) there will be no exit from conservatorship until all material litigation is settled and the Enterprise has common equity Tier 1 capital of at least 3% of its assets, (ii) the Enterprises will comply with the FHFA's regulatory capital framework, (iii) higher-risk single-family mortgage acquisitions will be restricted to current levels, and (iv) the U.S. Treasury and the FHFA will establish a timeline and process for future Enterprise reform. However, no definitive proposals or legislation have been released or enacted with respect to ending the conservatorship, unwinding the Enterprises, or materially reducing the roles of the Enterprises in the U.S. mortgage market. On September 14, 2021, the U.S. Treasury and the FHFA suspended certain policy provisions in the January agreement, including limits on loans acquired for cash consideration, multifamily loans, loans with higher risk characteristics and second homes and investment properties. On February 25, 2022, the FHFA published a final rule, effective as of April 26, 2022, amending the Enterprise capital framework established in December 2020 by, among other things, replacing the fixed leverage buffer equal to 1.5% of an Enterprise's adjusted total assets with a dynamic leverage buffer equal to 50% of an Enterprise's stability capital buffer, reducing the risk weight floor from 10% to 5%, and removing the requirement that the Enterprises must apply an overall effectiveness adjustment to their credit risk transfer exposures. On June 14, 2022, the Enterprises announced that they would each charge a 50 bps fee for commingled securities issued on or after July 1, 2022 to cover the additional capital required for such securities under the Enterprise capital framework, which was subsequently reduced on January 19, 2023 to 9.375 bps for commingled securities issued on or after April 1, 2023 to address industry concern that the fee posed a risk to the fungibility of the Uniform Mortgage-Backed Security ("UMBS") and negatively impacted liquidity and pricing in the market for TBA securities.

In 2017, policymakers announced that LIBOR will be replaced by December 31, 2021. The directive was spurred by the fact that banks are uncomfortable contributing to the LIBOR panel given the shortage of underlying transactions on which to base levels and the liability associated with submitting an unfounded level. However, the ICE Benchmark Administration, in its capacity as administrator of USD LIBOR, has announced that it intends to extend publication of USD LIBOR (other than one-week and two-month tenors) by 18 months to June 2023. Notwithstanding this extension, a joint statement by key regulatory authorities calls on banks to cease entering into new contracts that use USD LIBOR as a reference rate by no later than December 31, 2021.

On December 7, 2021, the CFPB released a final rule that amends Regulation Z, which implemented the Truth in Lending Act, aimed at addressing cessation of LIBOR for both closed-end (e.g., home mortgage) and open-end (e.g., home equity line of credit) products. The rule, which mostly became effective in April of 2022, establishes requirements for the selection of replacement indices for existing LIBOR-linked consumer loans. Although the rule does not mandate the use of SOFR as the alternative rate, it identifies SOFR as a comparable rate for closed-end products and states that for open-end products, the CFPB has determined that ARRC's recommended spread-adjusted indices based on SOFR for consumer products to replace the one-month, three-month, or six-month USD LIBOR index "have historical fluctuations that are substantially similar to those of the LIBOR indices that they are intended to replace." The CFPB reserved judgment, however, on a SOFR-based spread-adjusted replacement index to replace the one-year USD LIBOR until it obtained additional information.

On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") was signed into law as part of the Consolidated Appropriations Act, 2022 (H.R. 2471). The LIBOR Act provides for a statutory replacement benchmark rate for contracts that use LIBOR as a benchmark and do not contain any fallback mechanism independent of LIBOR. Pursuant to the LIBOR Act, SOFR becomes the new benchmark rate by operation of law for any such contract. The LIBOR Act establishes a safe harbor from litigation for claims arising out of or related to the use of SOFR as the recommended benchmark replacement. The LIBOR Act makes clear that it should not be construed to disfavor the use of any benchmark on a prospective basis.

On July 28, 2022, the Fed published a proposed rule to implement the LIBOR Act, which was adopted on December 16, 2022. The final rule, which went into effect on February 27, 2023, sets benchmark SOFR rates to replace overnight, one-month, three-month, six-month and 12-month LIBOR contracts and provides mechanisms for converting most existing LIBOR contracts, including Agency RMBS, to SOFR no later than June 30, 2023.

The LIBOR Act also attempts to forestall challenges that it is impairing contracts. It provides that the discontinuance of LIBOR and the automatic statutory transition to a replacement rate neither impairs or affects the rights of a party to receive payment under such contracts, nor allows a party to discharge their performance obligations or to declare a breach of contract. It amends the Trust Indenture Act of 1939 to state that the "the right of any holder of any indenture security to receive payment of the principal of and interest on such indenture security shall not be deemed to be impaired or affected" by application of the LIBOR Act to any indenture security.

The scope and nature of the actions the U.S. government or the Fed will ultimately undertake are unknown and will continue to evolve.

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.

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 our Agency RMBS. This is because investors typically place a premium on assets with coupon/yields that are higher than coupon/yields available in the market. To the extent such securities pre-pay slower than would otherwise be the case, we benefit from an above market coupon/yield for longer, enhancing the return from the security. 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.

Higher long-term rates can also affect the value of our Agency RMBS. As long-term rates rise, rates available to borrowers also rise. This tends to cause prepayment activity to slow and extend the expected average life of mortgage cash flows. As the expected average life of the mortgage cash flows increases, coupled with higher discount rates, the value of Agency RMBS declines. Some of the instruments we use to hedge our Agency RMBS assets, such as interest rate futures, swaps and swaptions, are stable average life instruments. This means that to the extent we use such instruments to hedge our Agency RMBS assets, our hedges may not adequately protect us from price declines, and therefore may negatively impact our book value. It is for this reason we use interest only securities in our portfolio. As interest rates rise, the expected average life of these securities increases, causing generally positive price movements as the number and size of the cash flows increase the longer the underlying mortgages remain outstanding. This makes interest only securities desirable hedge instruments for pass-through Agency RMBS.

As described above, the Agency RMBS market began to experience severe dislocations in mid-March 2020 as a result of the economic, health and market turmoil brought about by COVID-19. On March 23, 2020, the Fed announced that it would purchase Agency RMBS and U.S. Treasuries in the amounts needed to support smooth market functioning, which largely stabilized the Agency RMBS market, but ended these purchases in March 2022 and announced plans to reduce its balance sheet. The Fed’s planned reduction of its balance sheet could negatively impact our investment portfolio. Further, the moratoriums on foreclosures and evictions described above will likely delay potential defaults on loans that would otherwise be bought out of Agency RMBS pools as described above. Depending on the ultimate resolution of the foreclosure or evictions, when and if it occurs, these loans may be removed from the pool into which they were securitized. If this were to occur, it would have the effect of delaying a prepayment on our securities until such time. To the extent our Agency RMBS assets were acquired at a premium to par, this will tend to increase the realized yield on the asset in question. To the extent they were acquired at a discount, this will tend to decrease the realized yield on the asset in question.

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. 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.

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 the short term interest rate markets. Increases in the Fed Funds rate, SOFR or LIBOR typically increase our borrowing costs, which could affect our interest rate spread if there is no corresponding increase in the interest we earn on our assets. This would be most prevalent with respect to our Agency RMBS backed by fixed rate mortgage loans because the interest rate on a fixed-rate mortgage loan does not change even though market rates may change.

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

Summary

During the fourth quarter of 2022 the trends in incoming economic data began to change, indicating the actions of the Fed to remove accommodation and slow demand were starting to take hold. The most interest rate sensitive sectors of the economy, mainly housing and housing related, were slowing precipitously. Demand and consumption for goods – reflected in sales and production data – were clearly slowing. Even inflation data, as evidenced by the CPI and Personal Consumption Expenditures data, slowed during the quarter as well - although such data was subsequently revised higher in early February of 2023. The one big exception was the labor market and wages, which were still tight in the case of the labor market and increasing in the case of wages. To central bankers, and in particular the Fed, this was problematic. As consumers migrated their consumption from goods to services as the effects of the pandemic wore off, service inflation remained elevated due to persistent worker shortages and the resulting wage pressures as employers struggled to fill positions. The Fed identified non-shelter related services inflation as the focus of their efforts to contain inflation and inflation expectations. In their efforts to rein in service-related inflation, the Fed has continued to raise the Fed Funds rate and plans to continue doing so into 2023. In fact, the Fed raised the Fed Funds rate at their February 2023 meeting and indicated additional hikes were likely while simultaneously stating their intention to hold rates at what they deem to be restrictive territory into 2024.

The financial markets were reluctant to accept that the Fed would be so aggressive in their tightening until late in the third quarter of 2022 when the Fed appeared to finally convince the markets of the extent and timing of the tightening plans. The market reacted swiftly as interest rates increased rapidly from August through late October 2022. Short maturity rates increased the most, in anticipation of the Fed raising Fed Funds as high as 5.0% in 2023. However, the market view, as expressed in interest rates, futures and the shape of the U.S. Treasury yield curve, differed from the view of the Fed during the last two months of 2022 and early 2023. Market pricing at the end of 2022 indicated a belief that the Fed would succeed in reining in inflation sooner than the Fed did, and that in so doing it would ultimately slow the economy so much that the Fed would have to pivot and move to lower rates by the end of 2023. The result of this view was a deeply inverted U.S. Treasury yield curve, with short term rates of maturities of two-years or less far in excess of longer maturity U.S. Treasuries.

The Agency RMBS market returns for 2022 were -11.9%. However, the sector returned 2.1% for the fourth quarter of 2022. The turning point coincided with the markets pivot towards believing the Fed tightening cycle was nearing its end and that the economy would slow in 2023. In late October 2022, spreads on Agency RMBS reached levels not seen since the 2007 financial crisis. However, as market sentiment turned in November and December of 2022 these spread levels appeared quite attractive. This was also true of most risk assets. As a result, the sector performed very well over the balance of the fourth quarter of 2022, and this has continued into early 2023, which has resulted in an increase in the valuation of our assets. In the case of even riskier asset classes the performance has been even better. As the first quarter of 2023 unfolds, the Agency RMBS sector is still trading at spread levels well above levels observed prior to the COVID-19 pandemic. However, the absence of two of the largest buyers of the sector, banks and, since the onset of the pandemic, the Fed may result in the sector recovering more slowly towards pre-pandemic levels, if such levels are even obtained at all. The risk to the sector would be a re-acceleration of inflation and the need for the Fed to tighten monetary policy even further. Data released in February of 2023 heightens this concern. Absent such a development, we expect the sector to perform well from a price perspective while net interest spreads are expected to remain depressed unless the Fed reduces funding levels.

Critical Accounting Estimates

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

Mortgage-Backed Securities

Our investments in Agency RMBS are accounted for at fair value. We acquire our Agency RMBS for the purpose of generating long-term returns, and not for the short-term investment of idle capital.

As discussed in Note 12 to the financial statements, our Agency RMBS are valued using Level 2 valuations, and such valuations currently are determined by our manager based on independent pricing sources and/or third party broker quotes, when available. Because the price estimates may vary, our Manager must make certain judgments and assumptions about the appropriate price to use to calculate the fair values. Alternatively, our Manager could opt to have the value of all of our positions in Agency RMBS determined by either an independent third-party or do so internally.

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

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

Management believes its pricing methodology to be consistent with the definition of fair value described in Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements.

Derivative Financial Instruments

We use derivative instruments to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and we may continue to do so in the future. The principal instruments that we have used to date are Fed Funds, T-Note and Eurodollar futures contracts, interest rate swaps, interest rate swaptions and TBA securities, but we may enter into other derivatives in the future.

We account for TBA securities as derivative instruments. Gains and losses associated with TBA securities transactions are reported in gain (loss) on derivative instruments in the accompanying statements of operations.

We have elected not to treat any of our derivative financial instruments as hedges in order to align the accounting treatment of its derivative instruments with the treatment of our portfolio assets under the fair value option election. All derivative instruments are carried at fair value, and changes in fair value are recorded in earnings for each period. Our futures contracts are Level 1 valuations, as they are exchange-traded instruments and quoted market prices are readily available. Our interest rate swaps, interest rate swaptions and TBA securities are Level 2 valuations. The fair value of interest rate swaps is determined using a discounted cash flow approach using forward market interest rates and discount rates, which are observable inputs. The fair value of interest rate swaptions is determined using an option pricing model. The fair value of our TBA securities are determined by the Company based on independent pricing sources and/or third party broker quotes, similar to how the fair value of our Agency RMBS is derived, as discussed above.

Income Recognition

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

All of our Agency RMBS are either pass-through securities or structured Agency RMBS, including CMOs, IOs, IIOs or POs. Income on pass-through securities, POs and CMOs that contain principal balances is based on the stated interest rate of the security. As a result of accounting for our RMBS under the fair value option, premium or discount present at the date of purchase is not amortized. For IOs, IIOs and CMOs that do not contain principal balances, income is accrued based on the carrying value and the effective yield. The difference between income accrued and the interest received on the security is characterized as a return of investment and serves to reduce the asset's carrying value. At each reporting date, the effective yield is adjusted prospectively for future reporting periods based on the new estimate of prepayments, current interest rates and current asset prices. The new effective yield is calculated based on the carrying value at the end of the previous reporting period, the new prepayment estimates and the contractual terms of the security. Changes in fair value of all of our Agency RMBS during the period are recorded in earnings and reported as unrealized gains (losses) on mortgage-backed securities in the accompanying statements of operations. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security.

Capital Expenditures

At December 31, 2022, we had no material commitments for capital expenditures.

Dividends

In addition to other requirements that must be satisfied to continue 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 deductions 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	$ 6.975	$ 4,662
2014	10.800	22,643
2015	9.600	38,748
2016	8.400	41,388
2017	8.400	70,717
2018	5.350	55,814
2019	4.800	54,421
2020	3.950	53,570
2021	3.900	97,601
2022	2.475	87,906
2023 YTD(1)	0.320	12,540
Totals	$ 64.970	$ 540,010

(1) On January 11, 2023, the Company declared a dividend of $0.16 per share that was paid on February 24, 2023. On February 15, 2023, the Company declared a dividend of $0.16 per share to be paid on March 29, 2023. The effects of these dividends are included in the table above but are not reflected in the Company's financial statements as of December 31, 2022.

ITEM 7A. 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, ability to realize gains from the sale of these assets and 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, interest rate swaps and swaptions. These instruments are intended to serve as an economic 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, loan payoffs in connection with home sales, and borrowers paying more than their scheduled loan payments, which accelerates the amortization of the loans.

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 SOFR) causes their price movements, and model duration, to be affected by changes in both prepayments and one month SOFR, 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 December 31, 2022 and December 31, 2021, assuming rates instantaneously fall 200 bps, fall 100 bps, fall 50 bps, rise 50 bps, rise 100 bps and rise 200 bps, adjusted to reflect the impact of convexity, which is the measure of the sensitivity of our hedge positions and Agency RMBS' effective duration to movements in interest rates. We have a negatively convex asset profile and a linear to slightly positively convex hedge portfolio (short positions). It is not at all uncommon for us to have losses in both directions.

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 December 31, 2022 and 2021.

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 December 31, 2022		
-200 Basis Points	0.52%	4.18%
-100 Basis Points	0.61%	4.92%
-50 Basis Points	0.40%	3.25%
+50 Basis Points	(0.43)%	(3.47)%
+100 Basis Points	(1.04)%	(8.38)%
+200 Basis Points	(2.51)%	(20.27)%
As of December 31, 2021		
-200 Basis Points	(2.01)%	(17.00)%
-100 Basis Points	(0.33)%	(2.76)%
-50 Basis Points	0.19%	1.59%
+50 Basis Points	(0.48)%	(4.04)%
+100 Basis Points	(1.64)%	(13.91)%
+200 Basis Points	(4.79)%	(40.64)%

(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 falls 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 December 31, 2022, we had unrestricted cash and cash equivalents of $205.7 million and unpledged securities of approximately $27.4 million (not including unsettled securities purchases or 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 swaps and 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 RMBS and CMOs 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 registered central clearing exchanges and major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting collateral posted as required. However, there is no guarantee our efforts to manage counterparty credit risk will be successful and we could suffer significant losses if unsuccessful.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Orchid Island Capital, Inc.
Vero Beach, Florida

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Orchid Island Capital, Inc. (the "Company") as of December 31, 2022 and 2021, the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 3, 2023, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Investments in Mortgage-Backed Securities

As described in Notes 1 and 12 to the financial statements, the Company accounts for its mortgage-backed securities at fair value, which totaled $3.5 billion at December 31, 2022. The fair value of mortgage-backed securities is 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 based on various techniques including observing the most recent market for like or identical assets (including security coupon rate, maturity, yield, prepayment speed), market credit spreads, and model driven approaches.

We identified the valuation of mortgage-backed securities as a critical audit matter. The principal considerations for our determination are: (i) the potential for bias in how the Company subjectively selects the price from multiple pricing sources to determine the fair value of the mortgage-backed securities and (ii) the audit effort involved, including the involvement of valuation professionals with specialized skill and knowledge.

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of controls relating to the valuation of mortgaged-backed securities, including controls over the Company's process to select the price from multiple pricing sources.

- Reviewing the range of values used for each investment position, and assessing the price selected for potential bias by comparing the price to the high, low and average of the range of pricing sources.

- Utilizing personnel with specialized knowledge and skill in valuation to develop an independent estimate of the fair value of each investment position by:
    - considering the stated security coupon rate, maturity, yield, and prepayment speeds, and comparing to the fair value used by the Company;
    - comparing the Company's fair value estimate of certain securities to recent available market transactions.

/s/ BDO USA, LLP
Certified Public Accountants

We have served as the Company's auditor since 2011.

West Palm Beach, Florida
March 3, 2023

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

		December 31, 2022		December 31, 2021
ASSETS:				
Mortgage-backed securities, at fair value (includes pledged assets of $3,512,640 and $6,506,372, respectively)	$	3,540,002	$	6,511,095
U.S. Treasury Notes, at fair value (includes pledged assets of $36,382 and $29,740, respectively)		36,382		37,175
Cash and cash equivalents		205,651		385,143
Restricted cash		31,568		65,299
Accrued interest receivable		11,519		18,859
Derivative assets		40,172		50,786
Other assets		442		320
Total Assets	$	3,865,736	$	7,068,677
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES:				
Repurchase agreements	$	3,378,445	$	6,244,106
Dividends payable		5,908		11,530
Derivative liabilities		7,161		7,589
Accrued interest payable		9,209		788
Due to affiliates		1,131		1,062
Other liabilities		25,119		35,505
Total Liabilities		3,426,973		6,300,580
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Preferred stock, $0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding as of December 31, 2022 and December 31, 2021		-		-
Common Stock, $0.01 par value; 100,000,000 shares authorized, 36,764,983 shares issued and outstanding as of December 31, 2022 and 35,398,610 shares issued and outstanding as of December 31, 2021		368		354
Additional paid-in capital		779,602		850,497
Accumulated deficit		(341,207)		(82,754)
Total Stockholders' Equity		438,763		768,097
Total Liabilities and Stockholders' Equity	$	3,865,736	$	7,068,677

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2022, 2021 and 2020
($ in thousands, except per share data)

		2022		2021		2020
Interest income	$	144,633	$	134,700	$	116,045
Interest expense		(61,708)		(7,090)		(25,056)
Net interest income		82,925		127,610		90,989
Realized losses on mortgage-backed securities		(133,695)		(5,542)		(24,986)
Unrealized (losses) gains on mortgage-backed securities and U.S. Treasury Notes		(642,710)		(198,454)		25,761
Gains (losses) on derivative instruments		455,736		26,877		(79,092)
Net portfolio (loss) income		(237,744)		(49,509)		12,672
Expenses:						
Management fees		10,447		8,156		5,281
Allocated overhead		2,042		1,632		1,514
Incentive compensation		957		1,132		38
Directors' fees and liability insurance		1,251		1,169		998
Audit, legal and other professional fees		1,143		1,112		1,045
Direct REIT operating expenses		4,091		1,475		1,057
Other administrative		778		575		611
Total expenses		20,709		15,251		10,544
Net (loss) income	$	(258,453)	$	(64,760)	$	2,128
Basic and diluted net (loss) income per share	$	(6.90)	$	(2.67)	$	0.16
Weighted Average Shares Outstanding		37,464,671		24,228,865		13,442,163

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2022, 2021 and 2020
(in thousands)

	Common Stock		Additional Paid-in	Retained Earnings	
	Shares	Par Value	Capital	(Deficit)	Total
Balances, January 1, 2020	12,612	$ 126	$ 415,503	$ (20,122)	$ 395,507
Net income	-	-	-	2,128	2,128
Cash dividends declared	-	-	(53,570)	-	(53,570)
Issuance of common stock pursuant to public offerings, net	2,605	26	71,024	-	71,050
Stock based awards and amortization	2	-	244	-	244
Shares repurchased and retired	(4)	-	(68)	-	(68)
Balances, December 31, 2020	15,215	152	433,133	(17,994)	415,291
Net loss	-	-	-	(64,760)	(64,760)
Cash dividends declared	-	-	(97,601)	-	(97,601)
Issuance of common stock pursuant to public offerings, net	20,166	202	513,857	-	514,059
Stock based awards and amortization	18	-	1,108	-	1,108
Balances, December 31, 2021	35,399	354	850,497	(82,754)	768,097
Net loss	-	-	-	(258,453)	(258,453)
Cash dividends declared	-	-	(87,906)	-	(87,906)
Issuance of common stock pursuant to public offerings, net	3,885	38	40,542	-	40,580
Stock based awards and amortization	30	-	1,055	-	1,055
Shares repurchased and retired	(2,549)	(24)	(24,586)	-	(24,610)
Balances, December 31, 2022	36,765	$ 368	$ 779,602	$ (341,207)	$ 438,763

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022, 2021 and 2020
($ in thousands)

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (258,453)	$ (64,760)	$ 2,128
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Stock based compensation	685	772	244
Realized losses on mortgage-backed securities	133,695	5,542	24,986
Unrealized losses (gains) on mortgage-backed securities and U.S. Treasury Notes	642,710	198,454	(25,761)
Realized and unrealized (gains) losses on derivative instruments	(245,421)	(35,350)	58,891
Changes in operating assets and liabilities:			
Accrued interest receivable	7,340	(9,138)	2,683
Other assets	(128)	196	(446)
Accrued interest payable	8,421	(369)	(9,944)
Other liabilities	454	663	2,583
Due to affiliates	69	430	10
NET CASH PROVIDED BY OPERATING ACTIVITIES	289,372	96,440	55,374
CASH FLOWS FROM INVESTING ACTIVITIES:			
From mortgage-backed securities investments:			
Purchases	(1,004,526)	(6,430,725)	(4,859,434)
Sales	2,759,919	2,851,708	4,200,536
Principal repayments	440,094	591,086	523,699
Purchases of U.S. Treasury Notes	-	(37,440)	-
Net proceeds from reverse repurchase agreements	-	-	30
Net proceeds from (payments on) derivative instruments	245,335	8,571	(64,171)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,440,822	(3,016,800)	(199,340)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from repurchase agreements	40,040,024	35,950,241	33,140,625
Principal payments on repurchase agreements	(42,905,685)	(33,301,721)	(32,993,145)
Cash dividends	(93,494)	(90,984)	(53,645)
Proceeds from issuance of common stock, net of issuance costs	40,580	514,059	71,050
Common stock repurchases, including shares withheld from employee stock awards for payment of taxes	(24,842)	(299)	(68)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,943,417)	3,071,296	164,817
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(213,223)	150,936	20,851
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period	450,442	299,506	278,655
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period	$ 237,219	$ 450,442	$ 299,506
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 53,288	$ 7,458	$ 35,000

See Notes to Financial Statements

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 the completion of Orchid's initial public offering of its common stock on 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 January 23, 2020, Orchid entered into an equity distribution agreement (the "January 2020 Equity Distribution Agreement") with three sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $200,000,000 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 634,145 shares under the January 2020 Equity Distribution Agreement for aggregate gross proceeds of $19.8 million, and net proceeds of approximately $19.4 million, after commissions and fees, prior to its termination in August 2020.

On August 4, 2020, Orchid entered into an equity distribution agreement (the "August 2020 Equity Distribution Agreement") with four sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $150,000,000 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 5,498,730 shares under the August 2020 Equity Distribution Agreement for aggregate gross proceeds of approximately $150.0 million, and net proceeds of approximately $147.4 million, after commissions and fees, prior to its termination in June 2021.

On January 20, 2021, Orchid entered into an underwriting agreement (the "January 2021 Underwriting Agreement") with J.P. Morgan Securities LLC ("J.P. Morgan"), relating to the offer and sale of 1,520,000 shares of the Company's common stock. J.P. Morgan purchased the shares of the Company's common stock from the Company pursuant to the January 2021 Underwriting Agreement at $26.00 per share. In addition, the Company granted J.P. Morgan a 30-day option to purchase up to an additional 228,000 shares of the Company's common stock on the same terms and conditions, which J.P. Morgan exercised in full on January 21, 2021. The closing of the offering of 1,748,000 shares of the Company's common stock occurred on January 25, 2021, with proceeds to the Company of approximately $45.2 million, after deduction of underwriting discounts and commissions and other estimated offering expenses.

On March 2, 2021, Orchid entered into an underwriting agreement (the "March 2021 Underwriting Agreement") with J.P. Morgan, relating to the offer and sale of 1,600,000 shares of the Company's common stock. J.P. Morgan purchased the shares of the Company's common stock from the Company pursuant to the March 2021 Underwriting Agreement at $27.25 per share. In addition, the Company granted J.P. Morgan a 30-day option to purchase up to an additional 240,000 shares of the Company's common stock on the same terms and conditions, which J.P. Morgan exercised in full on March 3, 2021. The closing of the offering of 1,840,000 shares of the Company's common stock occurred on March 5, 2021, with proceeds to the Company of approximately $50.0 million, after deduction of underwriting discounts and commissions and other estimated offering expenses.

On June 22, 2021, Orchid entered into an equity distribution agreement (the "June 2021 Equity Distribution Agreement") with four sales agents pursuant to which the Company could offer and sell, from time to time, up to an aggregate amount of $250,000,000 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 9,881,467 shares under the June 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $250.0 million, and net proceeds of approximately $246.0 million, after commissions and fees, prior to its termination in October 2021.

On October 29, 2021, Orchid entered into an equity distribution agreement (the "October 2021 Equity Distribution Agreement") with four sales agents pursuant to which the Company may offer and sell, from time to time, up to an aggregate amount of $250,000,000 of shares of the Company's common stock in transactions that are deemed to be "at the market" offerings and privately negotiated transactions. Through December 31, 2022, the Company issued a total of 7,052,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $119.6 million, and net proceeds of approximately $117.6 million, after commissions and fees. Subsequent to December 31, 2022 and through March 3, 2023, the Company issued a total of 2,690,000 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately $32.2 million, and net proceeds of approximately $31.7 million, after commissions and fees.

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of RMBS and derivatives. Management believes the estimates and assumptions underlying the financial statements are reasonable based on the information available as of December 31, 2022.

Common Stock Reverse Split

On August 30, 2022, the Company effected a 1-for-5 reverse stock split of its common stock and proportionately decreased the number of authorized shares of common stock. All share, per share, deferred stock unit ("DSU") and performance unit ("PU") information has been retroactively adjusted to reflect the reverse split. The shares of common stock retain a par value of $0.01 per share.

Variable Interest Entities (VIEs)

The Company obtains interests in VIEs through its investments in mortgage-backed securities. The Company's interests in these VIEs are passive in nature and are not expected to result in the Company obtaining a controlling financial interest in these VIEs in the future. As a result, the Company does not consolidate these VIEs and accounts for these interests in these VIEs as mortgage-backed securities. See Note 2 for additional information regarding the Company's investments in mortgage-backed securities. The maximum exposure to loss for these VIEs is the carrying value of the mortgage-backed securities.

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)

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 205,651	$ 385,143
Restricted cash	31,568	65,299
Total cash, cash equivalents and restricted cash	$ 237,219	$ 450,442

The Company maintains cash balances at three banks, a government securities backed overnight sweep fund, and excess margin on account with two exchange clearing members. 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. 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 banks and exchange clearing members and believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities and U.S. Treasury Notes

The Company invests primarily in mortgage pass-through ("PT") residential mortgage backed securities ("RMBS") and collateralized mortgage obligations ("CMOs") issued by Freddie Mac, Fannie Mae or Ginnie Mae, interest-only ("IO") securities and inverse interest-only ("IIO") securities representing interest in or obligations backed by pools of RMBS. The Company refers to RMBS and CMOs as PT RMBS and IO and IIO securities as structured RMBS. The Company also invests in U.S. Treasury Notes, primarily to satisfy collateral requirements of derivative counterparties. The Company has elected to account for its investment in RMBS and U.S. Treasury Notes under the fair value option. Electing the fair value option requires the Company to record changes in fair value in the statement of operations, which, in management's view, more appropriately reflects the results of the Company's operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

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

Fair value is defined as 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. Estimated fair values for U.S. Treasury Notes are based on quoted prices for identical assets in active markets.

Income on PT RMBS and U.S. Treasury Notes 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 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 for future reporting periods based on the new estimate of prepayments and the contractual terms of the security. For IIO securities, effective yield and income recognition calculations also take into account the index value applicable to the security. Changes in fair value of RMBS during each reporting period are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities in the accompanying statements of operations. Realized gains and losses on sales of RMBS and U.S. Treasury Notes, using the specific identification method, are reported as a separate component of net portfolio income on the statement of operations.

Derivative Financial Instruments

The Company uses derivative and other hedging 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"), federal funds ("Fed Funds") and Eurodollar futures contracts, short positions in U.S. Treasury securities, interest rate swaps, options to enter in interest rate swaps ("interest rate swaptions") and TBA securities transactions, but the Company may enter into other derivative and other hedging instruments in the future.

The Company accounts for TBA securities as derivative instruments. Gains and losses associated with TBA securities transactions are reported in gain (loss) on derivative instruments in the accompanying statements of operations.

Derivative and other hedging instruments are carried at fair value, and changes in fair value are recorded in earnings for each period. The Company's derivative financial instruments are not designated as hedge accounting relationships, but rather are used as economic hedges of its portfolio assets and liabilities. Gains and losses on derivatives, except those that result in cash receipts or payments, are included in operating activities on the statement of cash flows. Cash payments and cash receipts from settlements of derivatives, including current period net cash settlements on interest rate swaps, is classified as an investing activity on the statements of cash flows.

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 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. The Company's derivative agreements require it to post or receive collateral to mitigate such risk. In addition, the Company uses only registered central clearing exchanges and well-established commercial banks as counterparties, monitors positions with individual counterparties and adjusts posted collateral as required.

Financial Instruments

The fair value of financial instruments for which it is practicable to estimate that value is disclosed, either in the body of the financial statements or in the accompanying notes. RMBS, Eurodollar, Fed Funds and T-Note futures contracts, interest rate swaps, interest rate swaptions and TBA securities are accounted for at fair value in the balance sheets. The methods and assumptions used to estimate fair value for these instruments are presented in Note 12 of the 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 Level 2 assets under the fair value hierarchy as of December 31, 2022 and December 31, 2021 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. Repurchase agreements are accounted for as collateralized financing transactions, which are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

Reverse Repurchase Agreements and Obligations to Return Securities Borrowed under Reverse Repurchase Agreements

The Company borrows securities to cover short sales of U.S. Treasury securities through reverse repo transactions under our master repurchase agreements. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. The securities received as collateral in connection with our reverse repurchase agreements mitigate our credit risk exposure to counterparties. Our reverse repurchase agreements typically have maturities of 30 days or less.

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

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 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.

Stock-Based Compensation

The Company may grant equity-based compensation to non-employee members of its board of directors and to the executive officers and employees of the Manager. Stock-based awards issued include Performance Units, Deferred Stock Units and immediately vested common stock awards. Compensation expense is measured and recognized for all stock-based payment awards made to employees and non-employee directors based on the fair value of our common stock on the date of grant. Compensation expense is recognized over each award’s respective service period using the graded vesting attribution method. We do not estimate forfeiture rates; rather, we adjust for forfeitures in the periods in which they occur.

Income Taxes

Orchid elected and is organized and operated so as to qualify to be taxed as a REIT under the Code. REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders all of their REIT taxable income on an annual basis. A REIT must distribute at least 90% of its REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gain, and meet other requirements of the Code to retain its tax status.

Orchid assesses the likelihood, based on their technical merit, that uncertain 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 March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions to GAAP requirements for modifications on debt instruments, leases, derivatives, and other contracts, related to the expected market transition from the London Interbank Offered Rate ("LIBOR"), and certain other floating rate benchmark indices, or collectively, IBORs, to alternative reference rates. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. The guidance in ASU 2020-04 is optional and may be elected over time, through December 31, 2022, as reference rate reform activities occur. In December 2022, the FASB issued ASU 2022-06 "Reference Rate Reform (Topic 848)," deferring the sunset date provided in ASU 2020-04 from December 31, 2022 to December 31, 2024. The Company does not believe the adoption of this ASU will have a material impact on its financial statements.

In January 2021, the FASB issued ASU 2021-01 "Reference Rate Reform (Topic 848). ASU 2021-01 expands the scope of ASC 848 to include all affected derivatives and give market participants the ability to apply certain aspects of the contract modification and hedge accounting expedients to derivative contracts affected by the discounting transition. In addition, ASU 2021-01 adds implementation guidance to permit a company to apply certain optional expedients to modifications of interest rate indexes used for margining, discounting or contract price alignment of certain derivatives as a result of reference rate reform initiatives and extends optional expedients to account for a derivative contract modified as a continuation of the existing contract and to continue hedge accounting when certain critical terms of a hedging relationship change to modifications made as part of the discounting transition. The guidance in ASU 2021-01 is effective immediately and available generally through December 31, 2024, as reference rate reform activities occur. The Company does not believe the adoption of this ASU will have a material impact on its financial statements.

NOTE 2. MORTGAGE-BACKED SECURITIES AND U.S. TREASURY NOTES

The following table presents the Company's RMBS portfolio as of December 31, 2022 and December 31, 2021:

(in thousands)

	December 31, 2022	December 31, 2021
Pass-Through RMBS Certificates:		
Fixed-rate Mortgages	$ 3,519,906	$ 6,298,189
Total Pass-Through Certificates	3,519,906	6,298,189
Structured RMBS Certificates:		
Interest-Only Securities	19,669	210,382
Inverse Interest-Only Securities	427	2,524
Total Structured RMBS Certificates	20,096	212,906
Total	$ 3,540,002	$ 6,511,095

As of December 31, 2022 and 2021, the Company held U.S. Treasury Notes with a fair value of approximately $36.4 million and $37.2 million, primarily to satisfy collateral requirements of one of its derivative counterparties.

The following table is a summary of the Company's net loss from the sale of mortgage-backed securities for the years ended December 31, 2022, 2021 and 2020.

(in thousands)

		2022		2021		2020
Proceeds from sales of RMBS	$	2,759,919	$	2,851,708	$	4,200,536
Carrying value of RMBS sold		(2,893,614)		(2,857,250)		(4,225,522)
Net loss on sales of RMBS	$	(133,695)	$	(5,542)	$	(24,986)
Gross gain on sales of RMBS	$	2,705	$	7,930	$	8,678
Gross loss on sales of RMBS		(136,400)		(13,472)		(33,664)
Net loss on sales of RMBS	$	(133,695)	$	(5,542)	$	(24,986)

NOTE 3. REPURCHASE AGREEMENTS

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 December 31, 2022, the Company had met all margin call requirements.

As of December 31, 2022 and 2021, 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
December 31, 2022										
Fair market value of securities pledged, including accrued interest receivable	$	-	$	2,496,769	$	884,632	$	142,658	$	3,524,059
Repurchase agreement liabilities associated with these securities	$	-	$	2,404,329	$	837,299	$	136,817	$	3,378,445
Net weighted average borrowing rate		-		4.43%		4.51%		4.15%		4.44%
December 31, 2021										
Fair market value of securities pledged, including accrued interest receivable	$	-	$	4,624,396	$	1,848,080	$	52,699	$	6,525,175
Repurchase agreement liabilities associated with these securities	$	-	$	4,403,182	$	1,789,327	$	51,597	$	6,244,106
Net weighted average borrowing rate		-		0.15%		0.13%		0.15%		0.15%

Included in the table above are repurchase agreements with outstanding principal balances of approximately $190.3 million as of December 31, 2022, with interest rates indexed to the Secured Overnight Financing Rate ("SOFR") that reprice daily.

In addition, cash pledged to counterparties as collateral for repurchase agreements was approximately $13.3 million and $57.3 million as of December 31, 2022 and 2021, respectively.

If, during the term of a repurchase agreement, a lender files for bankruptcy, the Company might experience difficulty recovering its pledged assets, which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged to such lender, including the accrued interest receivable and cash posted by the Company as collateral. At December 31, 2022, 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 $149.8 million. The Company did not have an amount at risk with any individual counterparty that was greater than 10% of the Company’s equity at December 31, 2022 and 2021.

NOTE 4. DERIVATIVE AND OTHER HEDGING INSTRUMENTS

The table below summarizes fair value information about the Company's derivative and other hedging instruments assets and liabilities as of December 31, 2022 and 2021.

(in thousands)

Derivative and Other Hedging Instruments	Balance Sheet Location	December 31, 2022	December 31, 2021
Assets			
Interest rate swaps	Derivative assets, at fair value	$ 4,983	$ 29,293
Payer swaptions (long positions)	Derivative assets, at fair value	33,398	21,493
Interest rate caps	Derivative assets, at fair value	1,119	-
TBA securities	Derivative assets, at fair value	672	-
Total derivative assets, at fair value		$ 40,172	$ 50,786
Liabilities			
Interest rate swaps	Derivative liabilities, at fair value	$ -	$ 2,862
Payer swaptions (short positions)	Derivative liabilities, at fair value	5,982	4,423
TBA securities	Derivative liabilities, at fair value	1,179	304
Total derivative liabilities, at fair value		$ 7,161	$ 7,589
Margin Balances Posted to (from) Counterparties			
Futures contracts	Restricted cash	$ 16,493	$ 8,035
TBA securities	Restricted cash	1,734	-
TBA securities	Other liabilities	(532)	(856)
Interest rate swaption contracts	Other liabilities	(12,489)	(6,350)
Interest rate swap contracts	Other liabilities	-	-
Total margin balances on derivative contracts		$ 5,206	$ 829

Eurodollar, Fed Funds 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 T-Note futures positions at December 31, 2022 and 2021.

($ in thousands)

	December 31, 2022			
Expiration Year	Average Contract Notional Amount	Weighted Average Entry Rate	Weighted Average Effective Rate	Open Equity(1)
U.S. Treasury Note Futures Contracts (Short Positions)(2)				
March 2023 5-year T-Note futures (Mar 2023 - Mar 2028 Hedge Period)	$ 750,500	4.20%	4.22%	$ (100)
March 2023 10-year Ultra futures (Mar 2023 - Mar 2033 Hedge Period)	$ 174,500	3.66%	3.79%	$ 965

($ in thousands)

	December 31, 2021			
Expiration Year	**Average Contract Notional Amount**	**Weighted Average Entry Rate**	**Weighted Average Effective Rate**	**Open Equity(1)**
U.S. Treasury Note Futures Contracts (Short Position)(2)				
March 2022 5-year T-Note futures (Mar 2022 - Mar 2027 Hedge Period)	$ 369,000	1.56%	1.62%	$ 1,013
March 2022 10-year Ultra futures (Mar 2022 - Mar 2032 Hedge Period)	$ 220,000	1.22%	1.09%	$ (3,861)

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

(2) 5-Year T-Note futures contracts were valued at a price of $107.93 at December 31, 2022 and $120.98 at December 31, 2021. The contract values of the short positions were $810.0 million and $446.4 million at December 31, 2022 and 2021, respectively. 10-Year Ultra futures contracts were valued at price of $118.28 at December 31, 2022 and $146.44 at December 31, 2021. The contract value of the short positions was $206.4 million and $322.2 million at December 31, 2022 and 2021, respectively.

Under its interest rate swap agreements, the Company typically pays a fixed rate and receives a floating rate ("payer swaps") based on an index, such as the London Interbank Offered Rate ("LIBOR") and the Secured Overnight Financing Rate ("SOFR). The floating rate the Company receives under its swap agreements has the effect of offsetting the repricing characteristics of its repurchase agreements and cash flows on such liabilities. The Company is typically required to post collateral on its interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at December 31, 2022 and 2021.

($ in thousands)

	Notional Amount	**Average Fixed Pay Rate**	**Average Receive Rate**	**Average Maturity (Years)**
December 31, 2022				
Expiration > 3 to ≤ 5 years	$ 500,000	0.84%	4.75%	3.7
Expiration > 5 years	$ 900,000	1.70%	4.23%	6.6
	$ 1,400,000	1.39%	4.41%	5.6
December 31, 2021				
Expiration > 3 to ≤ 5 years	$ 955,000	0.64%	0.16%	4.0
Expiration > 5 years	$ 400,000	1.16%	0.21%	7.3
	$ 1,355,000	0.79%	0.18%	5.0

Our interest rate swaps are centrally cleared through a two registered commodities exchanges, Chicago Mercantile Exchange ("CME") and the London Clearing House ("LCH"). The clearing exchanges requires that we post an "initial margin" amount determined by the exchanges. The initial margin amount is intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement and is subject to adjustment based on changes in market volatility and other factors. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchanges.

The table below presents information related to the Company's interest rate cap positions at December 31, 2022. The Company had no interest rate cap positions in place at December 31, 2021.

($ in thousands)

Expiration	**Notional Amount**	**Cost**	**Strike Swap Rate**	**Curve Spread**	**Net Estimated Fair Value**
February 8, 2024	$ 200,000	$ 1,450	0.09%	2Y10Y	$ 1,119

The table below presents information related to the Company's interest rate swaption positions at December 31, 2022 and 2021.

($ in thousands)

	Option			Underlying Swap			
Expiration	**Cost**	**Fair Value**	**Weighted Average Months to Expiration**	**Notional Amount**	**Average Fixed Rate**	**Average Adjustable Rate (LIBOR)**	**Weighted Average Term (Years)**
December 31, 2022							
Payer Swaptions (long positions)							
≤ 1 year	$ 36,685	$ 21,253	9.6	1,250,000	4.09%	3 Month	10.0
> 10 years	$ 11,021	$ 12,145	239.5	120,000	2.05%	3 Month	10.0
	$ 47,706	$ 33,398	29.8	$ 1,370,000	3.91%	3 Month	10.0
Payer Swaptions (short positions)							
≤ 1 year	$ (17,800)	$ (5,982)	3.6	$ (917,000)	4.09%	3 Month	10.0
December 31, 2021							
Payer Swaptions (long positions)							
≤ 1 year	$ 4,000	$ 1,575	3.2	400,000	1.66%	3 Month	5.0
> 1 year ≤ 2 years	32,690	19,918	18.4	1,258,500	2.46%	3 Month	14.1
	$ 36,690	$ 21,493	14.7	$ 1,658,500	2.27%	3 Month	11.9
Payer Swaptions (short positions)							
≤ 1 year	$ (16,185)	$ (4,423)	5.3	$ (1,331,500)	2.29%	3 Month	11.4

The following table summarizes the Company's contracts to purchase and sell TBA securities as of December 31, 2022 and 2021.

($ in thousands)

	Notional Amount Long (Short)(1)	**Cost Basis(2)**	**Market Value(3)**	**Net Carrying Value(4)**
December 31, 2022				
30-Year TBA securities:				
2.0%	$ (175,000)	$ (142,268)	$ (143,145)	$ (877)
3.0%	(500,000)	(440,644)	(440,274)	370
Total	$ (675,000)	$ (582,912)	$ (583,419)	$ (507)
December 31, 2021				
30-Year TBA securities:				
3.0%	$ (575,000)	$ (595,630)	$ (595,934)	$ (304)
Total	$ (575,000)	$ (595,630)	$ (595,934)	$ (304)

(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 the balance sheets.

Gain (Loss) From Derivative and Other Hedging Instruments, Net

The table below presents the effect of the Company's derivative and other hedging instruments on the statements of operations for the years ended December 31, 2022, 2021 and 2020.

(in thousands)

	2022	2021	2020
U.S. Treasury Note futures contracts (short position)	$ 207,511	$ (846)	$ (4,707)
Eurodollar futures contracts (short positions)	-	(10)	(8,337)
Interest rate swaps	170,297	23,613	(66,212)
Payer swaptions (long positions)	152,365	(2,580)	98
Payer swaptions (short positions)	(81,050)	9,062	(3,070)
Interest rate caps	919	-	-
Interest rate floors	-	2,765	-
TBA securities (short positions)	4,494	3,432	(6,719)
TBA securities (long positions)	1,200	(8,559)	9,950
U.S. Treasury securities (short positions)	-	-	(95)
Total	$ 455,736	$ 26,877	$ (79,092)

Credit Risk-Related Contingent Features

The use of derivatives and other hedging instruments 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. The Company attempts to minimize this risk by limiting its 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, the Company may be required to pledge assets as collateral for its 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, the Company may not receive payments provided for under the terms of its derivative agreements, and may have difficulty obtaining its assets pledged as collateral for its derivatives. The cash and cash equivalents pledged as collateral for the Company's derivative instruments are included in restricted cash on its balance sheets.

It is the Company's policy not to offset assets and liabilities associated with open derivative contracts. However, CME, Intercontinental Exchange ("ICE"), and LCH rules characterize variation margin transfers as settlement payments, as opposed to adjustments to collateral. As a result, derivative assets and liabilities associated with centrally cleared derivatives for which the CME, ICE, or LCH serves as the central clearing party are presented as if these derivatives had been settled as of the reporting date.

NOTE 5. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes the Company's assets pledged as collateral under our repurchase agreements and derivative agreements by type, including securities pledged related to securities sold but not yet settled, as of December 31, 2022 and 2021.

(in thousands)

	December 31, 2022			December 31, 2021		
Assets Pledged to Counterparties	Repurchase Agreements	Derivative Agreements	Total	Repurchase Agreements	Derivative Agreements	Total
PT RMBS - fair value	$ 3,492,544	$ -	$ 3,492,544	$ 6,294,102	$ -	$ 6,294,102
Structured RMBS - fair value	20,096	-	20,096	212,270	-	212,270
U.S. Treasury Notes	-	36,382	36,382	-	29,740	29,740
Accrued interest on pledged securities	11,419	16	11,435	18,804	13	18,817
Restricted cash	13,341	18,227	31,568	57,264	8,035	65,299
Total	$ 3,537,400	$ 54,625	$ 3,592,025	$ 6,582,440	$ 37,788	$ 6,620,228

Assets Pledged from Counterparties

The table below summarizes assets pledged to the Company from counterparties under repurchase agreements and derivative agreements as of December 31, 2022 and 2021.

(in thousands)

	December 31, 2022			December 31, 2021		
Assets Pledged to Orchid	**Repurchase Agreements**	**Derivative Agreements**	**Total**	**Repurchase Agreements**	**Derivative Agreements**	**Total**
Cash	$ 3,075	$ 13,021	$ 16,096	$ 4,339	$ 7,206	$ 11,545
U.S. Treasury securities - fair value	197	-	197	-	-	-
Total	$ 3,272	$ 13,021	$ 16,293	$ 4,339	$ 7,206	$ 11,545

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

NOTE 6. OFFSETTING ASSETS AND LIABILITIES

The Company's derivative agreements 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 in the case of repurchase agreements and for certain derivative agreements. For derivative assets and liabilities associated with centrally cleared derivatives for which LCH serves as the central clearing party variation margin transfer amounts are considered adjustments to collateral. In such cases the market exposure is not reset or extinguished by the transfer of collateral. Such variation margin is recorded on a gross basis and separate from the fair value of the derivative asset or liability. However, CME and ICE rules characterize variation margin transfers as settlement payments, as opposed to adjustments to collateral. As a result, derivative assets and liabilities associated with centrally cleared derivatives for which the CME or ICE serves as the central clearing party are presented as if these derivatives had been settled as of the reporting date.

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 December 31, 2022 and 2021.

(in thousands)

	Offsetting of Assets					
				Gross Amount Not		
	Gross Amount of Recognized Assets	**Gross Amount Offset in the Balance Sheet**	**Net Amount of Assets Presented in the Balance Sheet**	**Offset in the Balance Sheet Financial Instruments Received as Collateral**	**Cash Received as Collateral**	**Net Amount**
December 31, 2022						
Interest rate swaps	$ 4,983	$ -	$ 4,983	$ -	$ -	$ 4,983
Interest rate swaptions	33,398	-	33,398	-	(12,489)	20,909
Interest rate caps	1,119	-	1,119	-	-	1,119
TBA securities	672	-	672	-	(532)	140
	$ 40,172	$ -	$ 40,172	$ -	$ (13,021)	$ 27,151
December 31, 2021						
Interest rate swaps	$ 29,293	$ -	$ 29,293	$ -	$ -	$ 29,293
Interest rate swaptions	21,493	-	21,493	-	(6,350)	15,143
TBA securities	-	-	-	-	-	-
	$ 50,786	$ -	$ 50,786	$ -	$ (6,350)	$ 44,436

(in thousands)

Offsetting of Liabilities						
			Net Amount	Gross Amount Not		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	of Liabilities Presented in the Balance Sheet	Offset in the Balance Sheet Financial Instruments Posted as Collateral	Cash Posted Collateral	Net Amount
December 31, 2022						
Repurchase Agreements	$ 3,378,445	$ -	$ 3,378,445	$ (3,365,104)	$ (13,341)	$ -
Interest rate swaps	-	-	-	-	-	-
Interest rate swaptions	5,982	-	5,982	-	-	5,982
TBA securities	1,179	-	1,179	-	(1,179)	-
	$ 3,385,606	$ -	$ 3,385,606	$ (3,365,104)	$ (14,520)	$ 5,982
December 31, 2021						
Repurchase Agreements	$ 6,244,106	$ -	$ 6,244,106	$ (6,186,842)	$ (57,264)	$ -
Interest rate swaps	2,862	-	2,862	(2,862)	-	-
Interest rate swaptions	4,423	-	4,423	-	-	4,423
TBA securities	304	-	304	-	-	304
	$ 6,251,695	$ -	$ 6,251,695	$ (6,189,704)	$ (57,264)	$ 4,727

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 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 and other hedging instruments.

NOTE 7. CAPITAL STOCK

Reverse Stock Split

On August 30, 2022, the Company effected a 1-for-5 reverse stock split of its common stock and proportionately decreased the number of authorized shares of common stock. All share, per share, DSU and PU information has been retroactively adjusted to reflect the reverse split. The shares of common stock retain a par value of $0.01 per share.

Common Stock Issuances

During 2022 and 2021, the Company completed the following public offerings of shares of its common stock.

($ in thousands, except per share amounts)

Type of Offering	Period	Weighted Average Price Received Per Share(1)	Shares	Net Proceeds(2)
2022				
At the Market Offering Program(3)	First Quarter	$ -	-	$ -
At the Market Offering Program(3)	Second Quarter	-	-	-
At the Market Offering Program(3)	Third Quarter	-	-	-
At the Market Offering Program(3)	Fourth Quarter	10.45	3,885,048	40,580
			3,885,048	$ 40,580
2021				
At the Market Offering Program(3)	First Quarter	$ 25.50	61,610	$ 1,572
Follow-on Offerings	First Quarter	26.55	3,588,000	95,336
At the Market Offering Program(3)	Second Quarter	27.00	4,617,418	124,746
At the Market Offering Program(3)	Third Quarter	24.70	7,163,668	177,007
At the Market Offering Program(3)	Fourth Quarter	24.34	4,734,940	115,398
			20,165,635	$ 514,059

(1) Weighted average price received per share is after deducting the underwriters' discount, if applicable, and other offering costs.
(2) Net proceeds are net of the underwriters' discount, if applicable, and other offering costs.
(3) As of December 31, 2022, the Company had entered into ten equity distribution agreements, nine of which have either been terminated because all shares were sold or were replaced with a subsequent agreement.

Stock Repurchase Program

On July 29, 2015, the Company's Board of Directors authorized the repurchase of up to 400,000 shares of the Company's common stock. On February 8, 2018, the Board of Directors approved an increase in the stock repurchase program for up to an additional 904,564 shares of the Company's common stock. Coupled with the 156,751 shares remaining from the original 400,000 share authorization, the increased authorization brought the total authorization to 1,061,316 shares, representing 10% of the then outstanding share count.

On December 9, 2021, the Board of Directors approved an increase in the number of shares of the Company's common stock available in the stock repurchase program for up to an additional 3,372,399 shares, bringing the remaining authorization under the stock repurchase program to 3,539,861 shares, representing approximately 10% of the Company's then outstanding shares of common stock.

On October 12, 2022, the Board of Directors approved an increase in the number of shares of the Company's common stock available in the stock repurchase program for up to an additional 4,300,000 shares, bringing the remaining authorization under the stock repurchase program to 6,183,601 shares, representing approximately 18% of the Company's then outstanding shares of common stock.

As part of the stock repurchase program, shares may be purchased in open market transactions, 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. The stock repurchase program has no termination date.

From the inception of the stock repurchase program through December 31, 2022, the Company repurchased a total of 3,675,572 shares at an aggregate cost of approximately $64.8 million, including commissions and fees, for a weighted average price of $17.63 per share. During the year ended December 31, 2022, the Company repurchased a total of 2,538,470 shares at an aggregate cost of approximately $24.5 million, including commissions and fees, for a weighted average price of $9.63 per share. No shares were repurchased during the year ended December 31, 2021. Subsequent to December 31, 2022, and through March 3, 2023, the Company repurchased a total of 373,041 shares at an aggregate cost of approximately $4.0 million, including commissions and fees, for a weighted average price of $10.62 per share. The remaining authorization under the stock repurchase program as of March 3, 2023 was 4,928,350 shares.

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	$ 6.975	$ 4,662
2014	10.800	22,643
2015	9.600	38,748
2016	8.400	41,388
2017	8.400	70,717
2018	5.350	55,814
2019	4.800	54,421
2020	3.950	53,570
2021	3.900	97,601
2022	2.475	87,906
2023 YTD(1)	0.320	12,540
Totals	$ 64.970	$ 540,010

(1) On January 11, 2023, the Company declared a dividend of $0.16 per share that was paid on February 24, 2023. On February 15, 2023, the Company declared a dividend of $0.16 per share to be paid on March 29, 2023. The effect of these dividends are included in the table above, but are not reflected in the Company's financial statements as of December 31, 2022.

NOTE 8. STOCK INCENTIVE PLAN

In 2021, the Company's Board of Directors adopted, and the stockholders approved, the Orchid Island Capital, Inc. 2021 Equity Incentive Plan (the "2021 Incentive Plan") to replace the Orchid Island Capital, Inc. 2012 Equity Incentive Plan (the "2012 Incentive Plan" and together with the 2021 Incentive Plan, the "Incentive Plans"). The 2021 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 2021 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 2021 Incentive Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of the Company's common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 1,473,324 shares of the Company's common stock that may be issued under the 2021 Incentive Plan. The 2021 Incentive Plan replaces the 2012 Incentive Plan, and no further grants will be made under the 2012 Incentive Plan. However, any outstanding awards under the 2012 Incentive Plan will continue in accordance with the terms of the 2012 Incentive Plan and any award agreement executed in connection with such outstanding awards.

Performance Units

The Company has issued, and may in the future issue additional performance units under the Incentive Plan to certain executive officers and employees of its Manager. "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 underlying shares of common stock. Performance Units are subject to forfeiture should the participant no longer serve as an executive officer or employee of the Company. Compensation expense for the Performance Units, included in incentive compensation on the statements of operations, is 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 years ended December 31, 2022 and 2021.

($ in thousands, except per share data)

	2022		2021	
	Shares	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Unvested, beginning of period	26,645	$ 29.40	911	$ 37.25
Granted	35,114	16.55	27,579	29.40
Forfeited	(14,980)	21.04	(934)	29.40
Vested and issued	(9,859)	29.40	(911)	37.25
Unvested, end of period	36,920	$ 20.57	26,645	$ 29.40
Compensation expense during period		$ 376		$ 321
Unrecognized compensation expense, end of period		$ 357		$ 467
Intrinsic value, end of period		$ 388		$ 599
Weighted-average remaining vesting term (in years)		1.2		1.4

The number of shares of common stock issuable upon the vesting of the remaining outstanding Performance Units was reduced as a result of two book value impairment events that occurred pursuant to the terms of the long term equity incentive compensation plans (the “Plans”) established under the Company’s 2012 Equity Incentive Plan and 2021 Equity Incentive Plan. The first book value impairment event occurred when the Company's book value per share declined by more than 15% during the quarter ended March 31, 2022 and the Company’s book value per share decline from January 1, 2022 to June 30, 2022 was more than 10%. The second book value impairment event occurred when the Company's book value per share declined by more than 15% during the quarter ended September 30, 2022 and the Company’s book value per share decline from July 1, 2022 to December 31, 2022 was more than 10%. The Plans provide that if such a book value impairment event occurs, then the number of outstanding Performance Units that are outstanding as of the last day of such two quarter period shall be reduced by 15%.

Stock Awards

The Company has issued, and may in the future issue additional, immediately vested common stock under the Incentive Plans to certain executive officers and employees of its Manager. Compensation expense for the stock awards is based on the fair value of the Company’s common stock on the grant date and is included in incentive compensation in the statements of operations. The following table presents information related to fully vested common stock issued during the years ended December 31, 2022 and 2021. All of the fully vested shares of common stock issued during the years ended December 31, 2022 and 2021, and the related compensation expense, were granted with respect to service performed during the previous fiscal years.

($ in thousands, except per share data)

	2022	2021
Fully vested shares granted	35,114	27,579
Weighted average grant date price per share	$ 16.55	$ 29.40
Compensation expense related to fully vested shares of common stock awards(1)	$ 581	$ 811

(1) The awards issued during the year ended December 31, 2022 were granted with respect to service performed in 2021. Approximately $600,000 of compensation expense related to the 2022 awards was accrued and recognized in 2021.

Deferred Stock Units

Non-employee directors receive a portion of their compensation in the form of DSU awards pursuant to the Incentive Plans. Each DSU represents a right to receive one share of the Company’s common stock. Beginning in 2022, each non-employee director can elect to receive all of his or her compensation in the form of DSUs. The DSUs are immediately vested and are settled at a future date based on the election of the individual participant. Compensation expense for the DSUs is included in directors’ fees and liability insurance in the statements of operations. The DSUs contain dividend equivalent rights, which entitle the participant to receive distributions declared by the Company on common stock. These distributions will be made in the form of cash or additional DSUs at the participant’s election. The DSUs do not include the right to vote the underlying shares of common stock.

The following table presents information related to the DSUs outstanding during the years ended December 31, 2022 and 2021.

($ in thousands, except per share data)

	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	28,595	$ 26.92	18,189	$ 27.20
Granted and vested	25,602	12.89	10,406	26.43
Outstanding, end of period	54,197	$ 20.29	28,595	$ 26.92
Compensation expense during period		$ 328		$ 240
Intrinsic value, end of period		$ 569		$ 643

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 December 31, 2022.

NOTE 10. INCOME TAXES

The Company will generally not be subject to U.S. 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, determined without regard to the deductions for dividends paid and excluding net capital gain, to its stockholders, annually to maintain REIT status. An amount equal to the sum of 85% of its REIT ordinary income and 95% of its REIT capital gain net income, plus certain undistributed income from prior taxable years, 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.

REIT taxable income (loss) is computed in accordance with the Code, which is different than the Company's financial statement net income (loss) computed in accordance with GAAP. 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 hedges for tax purposes.

As of December 31, 2022, we had distributed all of our estimated REIT taxable income through fiscal year 2022. Accordingly, no income tax provision was recorded for 2022, 2021 and 2020.

NOTE 11. EARNINGS PER SHARE (EPS)

The Company had dividend eligible Performance Units and Deferred Stock Units that were outstanding during the years ended December 31, 2022, 2021 and 2020. The basic and diluted per share computations include these unvested Performance Units and Deferred Stock Units if there is income available to common stock, as they have dividend participation rights. The unvested Performance Units and Deferred Stock Units have no contractual obligation to share in losses. Because there is no such obligation, the unvested Performance Units and Deferred Stock 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 years ended December 31, 2022, 2021 and 2020.

(in thousands, except per-share information)

	2022	2021	2020
Basic and diluted EPS per common share:			
Numerator for basic and diluted EPS per share of common stock:			
Net (loss) income - Basic and diluted	$ (258,453)	$ (64,760)	$ 2,128
Weighted average shares of common stock:			
Shares of common stock outstanding at the balance sheet date	36,765	35,399	15,215
Unvested dividend eligible share based compensation outstanding at the balance sheet date	-	-	19
Effect of weighting	700	(11,170)	(1,792)
Weighted average shares-basic and diluted	37,465	24,229	13,442
Net (loss) income per common share:			
Basic and diluted	$ (6.90)	$ (2.67)	$ 0.16
Anti-dilutive incentive shares not included in calculation.	91	55	-

NOTE 12. FAIR VALUE

The framework for using fair value to measure assets and liabilities defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit 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 and TBA securities are Level 2 valuations, and such valuations 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. The Company and the independent pricing sources use various valuation techniques to determine the price of the Company's securities. These techniques include observing the most recent market for like or identical assets (including security coupon, maturity, yield, and prepayment speeds), spread pricing techniques to determine market credit spreads (option adjusted spread, zero volatility spread, spread to the U.S. Treasury curve or spread to a benchmark such as a TBA), and model driven approaches (the discounted cash flow method, Black Scholes and SABR models which rely upon observable market rates such as the term structure of interest rates and volatility). The appropriate spread pricing method used is based on market convention. The pricing source determines the spread of recently observed trade activity or observable markets for assets similar to those being priced. The spread is then adjusted based on variances in certain characteristics between the market observation and the asset being priced. Those characteristics include: type of asset, the expected life of the asset, the stability and predictability of the expected future cash flows of the asset, whether the coupon of the asset is fixed or adjustable, the guarantor of the security if applicable, the coupon, the maturity, the issuer, size of the underlying loans, year in which the underlying loans were originated, loan to value ratio, state in which the underlying loans reside, credit score of the underlying borrowers and other variables if appropriate. The fair value of the security is determined by using the adjusted spread.

The Company's U.S. Treasury Notes are based on quoted prices for identical instruments in active markets and are classified as Level 1 assets.

The Company's futures contracts are Level 1 valuations, as they are exchange-traded instruments and quoted market prices are readily available. Futures contracts are settled daily. The Company's interest rate swaps and interest rate swaptions are Level 2 valuations. The fair value of interest rate swaps is determined using a discounted cash flow approach using forward market interest rates and discount rates, which are observable inputs. The fair value of interest rate swaptions is determined using an option pricing model.

RMBS (based on the fair value option), derivatives and TBA securities were recorded at fair value on a recurring basis during the years ended December 31, 2022, 2021 and 2020. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets.

The following table presents financial assets (liabilities) measured at fair value on a recurring basis as of December 31, 2022 and 2021. Derivative contracts are reported as a net position by contract type, and not based on master netting arrangements.

(in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022			
Mortgage-backed securities	$ -	$ 3,540,002	$ -
U.S. Treasury Notes	36,382	-	-
Interest rate swaps	-	4,983	-
Interest rate swaptions	-	27,416	-
Interest rate caps	-	1,119	-
TBA securities	-	(507)	-
December 31, 2021			
Mortgage-backed securities	$ -	$ 6,511,095	$ -
U.S. Treasury Notes	36,382	-	-
Interest rate swaps	-	26,431	-
Interest rate swaptions	-	17,070	-
TBA securities	-	(304)	-

During the years ended December 31, 2022 and 2021, 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 the Manager pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2024 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 month-end equity, as defined in the management agreement,
- One-twelfth of 1.25% of the Company's month-end 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 month-end equity that is greater than $500 million.

On April 1, 2022, pursuant to the third amendment to the management agreement entered into on November 16, 2021, the Manager began providing certain repurchase agreement trading, clearing and administrative services to the Company that had been previously provided by AVM, L.P. under an agreement terminated on March 31, 2022. In consideration for such services, the Company will pay the following fees to the Manager:

- A daily fee equal to the outstanding principal balance of repurchase agreement funding in place as of the end of such day multiplied by 1.5 basis points for the amount of aggregate outstanding principal balance less than or equal to $5 billion, and multiplied by 1.0 basis point for any amount of aggregate outstanding principal balance in excess of $5 billion, and
- A fee for the clearing and operational services provided by personnel of the Manager equal to $10,000 per month

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 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, allocated overhead and repurchase agreement trading, clearing and administrative services were approximately $13.0 million, $9.8 million and $6.8 million, for the years ended December 31, 2022, 2021 and 2020, respectively.

Other Relationships with Bimini

Robert Cauley, the Company's Chief Executive Officer and Chairman of the Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. George H. Haas, the Company's Chief Financial Officer, Chief Investment Officer, Secretary and a member of the 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 December 31, 2022, Bimini owned 569,071 shares, or 1.5%, of the Company's common stock.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

We had no disagreements with our Independent Registered Public Accounting Firm on any matter of accounting principles or practices or financial statement disclosure.

ITEM 9A. 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 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 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 our 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 Control 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.

Management's Report of Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, the Company's management used criteria set forth in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on management's assessment, the Company's management believes that, as of December 31, 2022, the Company's internal control over financial reporting was effective based on those criteria. The Company's independent registered public accounting firm, BDO USA, LLP, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Orchid Island Capital, Inc.
Vero Beach, Florida

Opinion on Internal Control over Financial Reporting

We have audited Orchid Island Capital, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the balance sheets of the Company as of December 31, 2022 and 2021, the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated March 3, 2023, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Certified Public Accountants
West Palm Beach, Florida
March 3, 2023

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 and not otherwise set forth below is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company’s 2023 Annual Meeting of Stockholders (the “Proxy Statement”), which the Company expects to file with the SEC, pursuant to Regulation 14A, not later than 120 days after December 31, 2022.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is incorporated herein by reference to the Proxy Statement and to Part II, Item 5 of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

a. Financial Statements. The financial statements of the Company, together with the report of Independent Registered Public Accounting Firm thereon, are set forth in Part II-Item 8 of this Form 10-K and are incorporated herein by reference.

The following information is filed as part of this Form 10-K:

b. Financial Statement Schedules.

Not applicable.

c. Exhibits.

Exhibit No.	Description
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	Certificate of Correction of Orchid Island Capital, Inc. (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on February 22, 2019 and incorporated herein by reference)
3.3	Articles of Amendment of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 30, 2022 and incorporated herein by reference)
3.4	Amended and Restated Bylaws of Orchid Island Capital, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 13, 2022 and incorporated herein by reference)
4.1	Specimen Certificate of common stock of Orchid Island Capital, Inc. (filed as Exhibit 4.1 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)
4.2	Description of Securities (filed as Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on February 21, 2020 and incorporated herein by reference)
10.1	Management Agreement between Orchid Island Capital, Inc. and Bimini Advisors, LLC, dated as of February 20, 2013 (filed as Exhibit 10.2 to the Company's Current Report on Form 8 K filed on April 3, 2014 and incorporated herein by reference)†
10.2	First Amendment to Management Agreement, effective as of April 1, 2014 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 3, 2014 and incorporated herein by reference)†

10.3	Second Amendment to Management Agreement, effective as of June 30, 2014 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 3, 2014 and incorporated herein by reference)†
10.4	Third Amendment to Management Agreement, effective as of November 17, 2021 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 17, 2021 and incorporated herein by reference)†
10.5	Form of Investment Allocation Agreement by and among Orchid Island Capital, Inc., Bimini Advisors, LLC and Bimini Capital Management, Inc. (filed as Exhibit 10.2 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)†
10.6	2012 Equity Incentive Plan (filed as Exhibit 10.3 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)†
10.7	2021 Equity Incentive Plan (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 15, 2021 and incorporated herein by reference)†
10.8	Form of Indemnification Agreement by and between Orchid Island Capital, Inc. and Indemnitee (filed as Exhibit 10.4 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)†
10.9	Form of Master Repurchase Agreement (filed as Exhibit 10.5 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)
10.10	Performance Unit Award Agreement by Orchid Island Capital, Inc. to Robert E. Cauley dated January 21, 2015 (filed as Exhibit 99.2 to Form 8-K filed on January 23, 2015 and incorporated herein by reference)†
10.11	Performance Unit Award Agreement by Orchid Island Capital, Inc. to George H. Haas, IV dated January 21, 2015 (filed as Exhibit 99.4 to Form 8-K filed on January 23, 2015 and incorporated herein by reference)†
10.12	2015 Long Term Incentive Compensation Plan (filed as Exhibit 99.1 to Form 8-K filed on March 25, 2015 and incorporated herein by reference)†
10.13	2016 Long Term Incentive Compensation Plan (filed as Exhibit 10.1 to Form 10-Q filed on April 28, 2016 and incorporated herein by reference)†
10.14	2017 Long Term Incentive Compensation Plan (filed as Exhibit 10.2 to Form 10-Q filed on April 28, 2017 and incorporated herein by reference)†
10.15	2018 Long Term Incentive Compensation Plan (filed as Exhibit 10.5 to Form 10-Q filed on April 27, 2018 and incorporated herein by reference)†
10.16	2019 Long Term Incentive Compensation Plan (filed as Exhibit 10.1 to Form 10-Q filed on April 26, 2019 and incorporated herein by reference)†
10.17	2020 Long Term Incentive Compensation Plan (filed as Exhibit 10.1 to Form 10-Q filed on May 1, 2020 and incorporated herein by reference)†
10.18	2021 Long Term Incentive Compensation Plan (filed as Exhibit 10.1 to Form 10-Q filed on April 30, 2021 and incorporated herein by reference)†
10.19	2022 Long Term Incentive Compensation Plan (filed as Exhibit 10.1 to Form 10-Q filed on April 29, 2022 and incorporated herein by reference)†
10.20	2023 Long Term Incentive Compensation Plan†*
10.21	Form of Deferred Stock Unit Grant Notice and Agreement under the 2021 Equity Incentive Plan (filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on February 25, 2022 and incorporated herein by reference)†
10.22	Form of Director Cash Compensation Deferral Election Form (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K filed on February 25, 2022 and incorporated herein by reference)†
21.1	Subsidiaries of the Company (filed as Exhibit 21.1 to the Company’s Annual Report on Form 10-K filed on February 26, 2021 and incorporated herein by reference)
23.1	Consent of BDO USA, LLP*
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 George H. 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.**
32.2	Certification of George H. Haas, IV, Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Exhibit 101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) ***
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema Document ***
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document***
Exhibit 101.DEF	Inline XBRL Additional Taxonomy Extension Definition Linkbase Document Created***
Exhibit 101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document ***
Exhibit 101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document ***
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.
*** Submitted electronically herewith.
† Management contract or compensatory plan.

ITEM 16. FORM 10-K SUMMARY

The Company has elected not to provide summary information.

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:	March 3, 2023	By:	/s/ Robert E. Cauley Robert E. Cauley Chief Executive Officer, President and Chairman of the Board
Date:	March 3, 2023	By:	/s/ George H. Haas, IV George H. Haas, IV Secretary, Chief Financial Officer, Chief Investment Officer and Director (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ Robert E. Cauley Robert E. Cauley	Chairman of the Board, Director, Chief Executive Officer, and President (Principal Executive Officer)	March 3, 2023
/s/ George H. Haas, IV George H. Haas, IV	Chief Financial Officer, Chief Investment Officer, and Director (Principal Financial and Accounting Officer)	March 3, 2023
/s/ W Coleman Bitting W Coleman Bitting	Independent Director	March 3, 2023
/s/ Frank P. Filipps Frank P. Filipps	Independent Director	March 3, 2023
/s/ Paula Morabito Paula Morabito	Independent Director	March 3, 2023
/s/ Ava L. Parker Ava L. Parker	Independent Director	March 3, 2023

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert E. Cauley, CFA
Chairman of the Board

G. Hunter Haas, IV
Employee Director

W Coleman Bitting
Independent Director and
Chair of Compensation
Committee

Frank P. Filipps
Lead Independent Director

Paula Morabito
Independent Director and
Chair of Audit Committee

Ava L. Parker
Independent Director and
Chair of Nominating and
Corporate Governance
Committee

OFFICERS

Robert E. Cauley, CFA
President and
Chief Executive Officer

G. Hunter Haas, IV
Chief Financial Officer and
Chief Investment Officer

Jerry M. Sintes, CPA
Treasurer

HEADQUARTERS

Orchid Island Capital, Inc.
3305 Flamingo Drive
Vero Beach, FL 32963
(772) 231-1400

TRANSFER AGENT & REGISTRAR

Continental Stock Transfer & Trust Company
17 Battery Place
New York, NY 10004
(212) 509-4000

Specific questions regarding the transfer or replacement of lost stock certificated, replacement of lost dividend checks, or dividend tax information should be made to Continental Stock Transfer & Trust Company directly at (212) 509-4000

STOCK SYMBOL

Orchid Island Capital, Inc.'s Common Stock is listed on the NYSE under the ticker symbol "ORC"

ANNUAL MEETING

The 2023 Annual Meeting of Stockholders will be held Wednesday, June 14, 2023, at 8:30 a.m. Eastern Time at:

Orchid Island Capital, Inc.
3305 Flamingo Drive
Vero Beach, FL 32963

ORCHID ISLAND CAPITAL

3305 FLAMINGO DRIVE
VERO BEACH, FL 32963