

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

**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
(State or other jurisdiction of
incorporation or organization)

27-3269228
(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 |

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. Check one:

Large accelerated filer
Non-accelerated filer

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding at October 24, 2024: 78,414,645

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ORCHID ISLAND CAPITAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | (Unaudited) | | September 30, 2024 | December 31, 2023 |
|---|-------------|------------|-----------------------|----------------------|
| ASSETS: | | | | |
| Mortgage-backed securities, at fair value (includes pledged assets of \$5,438,185 and \$3,885,554, respectively) | \$ | 5,442,804 | \$ | 3,894,012 |
| U.S. Treasury securities, available-for-sale (amortized cost of \$9,412 and \$148,803; includes pledged assets of \$99,467 and \$79,680, respectively) | | 99,467 | | 148,820 |
| Cash and cash equivalents | | 322,105 | | 171,893 |
| Restricted cash | | 11,612 | | 28,396 |
| Accrued interest receivable | | 22,868 | | 14,951 |
| Derivative assets | | 16,846 | | 6,420 |
| Receivable for investment securities and TBA transactions | | 177 | | - |
| Other assets | | 614 | | 455 |
| Total Assets | \$ | 5,916,493 | \$ | 4,264,947 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| LIABILITIES: | | | | |
| Repurchase agreements | \$ | 5,230,871 | \$ | 3,705,649 |
| Payable for investment securities and TBA transactions | | 68 | | 60,454 |
| Dividends payable | | 9,396 | | 6,222 |
| Derivative liabilities | | - | | 12,694 |
| Accrued interest payable | | 16,372 | | 7,939 |
| Due to affiliates | | 1,177 | | 1,013 |
| Other liabilities | | 2,585 | | 1,031 |
| Total Liabilities | | 5,260,469 | | 3,795,002 |
| COMMITMENTS AND CONTINGENCIES | | | | |
| STOCKHOLDERS' EQUITY: | | | | |
| Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued and outstanding as of September 30, 2024 and December 31, 2023 | | - | | - |
| Common Stock, \$0.01 par value; 100,000,000 shares authorized, 78,082,645 shares issued and outstanding as of September 30, 2024 and 51,636,074 shares issued and outstanding as of December 31, 2023 | | 781 | | 516 |
| Additional paid-in capital | | 1,003,504 | | 849,845 |
| Accumulated deficit | | (348,316) | | (380,433) |
| Accumulated other comprehensive income | | 55 | | 17 |
| Total Stockholders' Equity | | 656,024 | | 469,945 |
| Total Liabilities and Stockholders' Equity | \$ | 5,916,493 | \$ | 4,264,947 |

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
For the Nine and Three Months Ended September 30, 2024 and 2023
(\$ in thousands, except per share data)

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|------------------------------------|--------------------|-------------------------------------|--------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Interest income | \$ 169,581 | \$ 128,030 | \$ 67,646 | \$ 50,107 |
| Interest expense | (172,428) | (149,593) | (67,306) | (58,705) |
| Net interest (expense) income | (2,847) | (21,563) | 340 | (8,598) |
| Realized gains (losses) on mortgage-backed securities | 510 | - | 510 | - |
| Unrealized gains (losses) on mortgage-backed securities and U.S. Treasury securities | 73,699 | (224,576) | 161,564 | (208,932) |
| (Losses) gains on derivative and other hedging instruments | (26,858) | 194,253 | (140,825) | 142,042 |
| Net portfolio income (loss) | 44,504 | (51,886) | 21,589 | (75,488) |
| Expenses: | | | | |
| Management fees | 6,867 | 8,216 | 2,449 | 2,870 |
| Allocated overhead | 1,967 | 1,772 | 637 | 557 |
| Incentive compensation | 470 | 1,110 | 269 | 322 |
| Directors' fees and liability insurance | 1,015 | 986 | 343 | 345 |
| Audit, legal and other professional fees | 1,065 | 1,200 | 269 | 301 |
| Direct REIT operating expenses | 564 | 531 | 216 | 193 |
| Other administrative | 439 | 652 | 86 | 56 |
| Total expenses | 12,387 | 14,467 | 4,269 | 4,644 |
| Net income (loss) | \$ 32,117 | \$ (66,353) | \$ 17,320 | \$ (80,132) |
| Unrealized gains on U.S. Treasury securities measured at fair value through other comprehensive net income (loss) | 38 | 16 | 48 | 16 |
| Comprehensive net income (loss) | \$ 32,155 | \$ (66,337) | \$ 17,368 | \$ (80,116) |
| Basic and diluted net income (loss) per share | \$ 0.53 | \$ (1.58) | \$ 0.24 | \$ (1.68) |
| Weighted Average Shares Outstanding | 60,700,959 | 42,103,532 | 72,377,373 | 47,773,409 |

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(in thousands)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) | Total |
|--|---------------------|------------------|---|--|--|--------------|
| | Shares | Par Value | | | | |
| Balances, June 30, 2024 | 64,824 | \$ 648 | \$ 920,913 | \$ (365,636) | \$ 7 | \$ 555,932 |
| Net income | - | - | - | \$ 17,320 | - | \$ 17,320 |
| Unrealized gain on available-for-sale securities | - | - | - | - | 48 | 48 |
| Cash dividends declared (\$0.36 per share) | - | - | (26,887) | - | - | (26,887) |
| Stock based awards and amortization | 8 | - | 232 | - | - | 232 |
| Issuance of common stock pursuant to public offerings, net | 13,314 | 134 | 109,757 | - | - | 109,891 |
| Shares repurchased and retired | (63) | (1) | (511) | - | - | (512) |
| Balances, September 30, 2024 | 78,083 | \$ 781 | \$ 1,003,504 | \$ (348,316) | \$ 55 | \$ 656,024 |
| Balances, June 30, 2023 | 43,897 | 439 | 817,074 | (327,428) | - | 490,085 |
| Net loss | - | - | - | (80,132) | - | (80,132) |
| Unrealized gain on available-for-sale securities | - | - | - | - | 16 | 16 |
| Cash dividends declared (\$0.48 per share) | - | - | (23,823) | - | - | (23,823) |
| Stock based awards and amortization | 3 | - | 269 | - | - | 269 |
| Issuance of common stock pursuant to public offerings, net | 8,432 | 84 | 80,342 | - | - | 80,426 |
| Shares repurchased and retired | - | - | - | - | - | - |
| Balances, September 30, 2023 | 52,332 | \$ 523 | \$ 873,862 | \$ (407,560) | \$ 16 | \$ 466,841 |
| Balances, January 1, 2024 | 51,636 | \$ 516 | \$ 849,845 | \$ (380,433) | \$ 17 | \$ 469,945 |
| Net income | - | - | - | \$ 32,117 | - | \$ 32,117 |
| Unrealized loss on available-for-sale securities | - | - | - | - | 38 | 38 |
| Cash dividends declared (\$1.08 per share) | - | - | (67,301) | - | - | (67,301) |
| Stock based awards and amortization | 49 | - | 817 | - | - | 817 |
| Issuance of common stock pursuant to public offerings, net | 26,794 | 269 | 223,429 | - | - | 223,698 |
| Shares repurchased and retired | (396) | (4) | (3,286) | - | - | (3,290) |
| Balances, September 30, 2024 | 78,083 | \$ 781 | \$ 1,003,504 | \$ (348,316) | \$ 55 | \$ 656,024 |
| Balances, January 1, 2023 | 36,765 | 368 | 779,602 | (341,207) | - | 438,763 |
| Net loss | - | - | - | (66,353) | - | (66,353) |
| Unrealized gain on available-for-sale securities | - | - | - | - | 16 | 16 |
| Cash dividends declared (\$1.44 per share) | - | - | (62,301) | - | - | (62,301) |
| Stock based awards and amortization | 60 | 1 | 1,240 | - | - | 1,241 |
| Issuance of common stock pursuant to public offerings, net | 15,880 | 157 | 159,281 | - | - | 159,438 |
| Shares repurchased and retired | (373) | (3) | (3,960) | - | - | (3,963) |
| Balances, September 30, 2023 | 52,332 | \$ 523 | \$ 873,862 | \$ (407,560) | \$ 16 | \$ 466,841 |

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(\$ in thousands)

| | 2024 | 2023 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 32,117 | \$ (66,353) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Stock based compensation | 334 | 939 |
| Discount accretion on U.S. Treasury Bills | (3,724) | (521) |
| Realized (gains) losses on mortgage-backed securities | (510) | - |
| Unrealized (gains) losses on mortgage-backed securities and U.S. Treasury securities | (73,699) | 224,576 |
| Realized and unrealized losses (gains) on derivative instruments | 93,902 | (111,100) |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | (7,917) | (5,797) |
| Other assets | (159) | (108) |
| Accrued interest payable | 8,433 | 6,627 |
| Other liabilities | 535 | 441 |
| Due to affiliates | 164 | 121 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 49,476 | 48,825 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| From mortgage-backed securities investments: | | |
| Purchases | (2,073,150) | (1,443,827) |
| Sales and maturities | 288,242 | - |
| Principal repayments | 310,325 | 237,904 |
| Purchases of U.S. Treasury securities, available-for-sale | (196,026) | (97,789) |
| Proceeds from maturity of U.S. Treasury securities, available-for-sale | 200,000 | 37,500 |
| Net (payments on) proceeds from derivative instruments | (126,851) | 114,494 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,597,460) | (1,151,718) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from repurchase agreements | 30,279,982 | 27,780,008 |
| Principal payments on repurchase agreements | (28,754,760) | (26,731,506) |
| Cash dividends | (64,065) | (59,762) |
| Proceeds from issuance of common stock, net of issuance costs | 223,698 | 159,438 |
| Common stock repurchases, including shares withheld from employee stock awards for payment of taxes | (3,443) | (4,287) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,681,412 | 1,143,891 |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 133,428 | 40,998 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of the period | 200,289 | 237,219 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of the period | \$ 333,717 | \$ 278,217 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

| | | |
|----------|------------|------------|
| Interest | \$ 163,995 | \$ 142,965 |
|----------|------------|------------|

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2024

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 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 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 9,742,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately \$ 151.8 million, and net proceeds of approximately \$ 149.3 million, after commissions and fees, prior to its termination in March 2023.

On March 7, 2023, Orchid entered into an equity distribution agreement (the "March 2023 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 \$ 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 24,675,497 shares under the March 2023 Equity Distribution Agreement for aggregate gross proceeds of approximately \$ 228.8 million and net proceeds of approximately \$ 225.0 million, after commissions and fees, prior to its termination in June 2024.

On June 11, 2024, Orchid entered into an equity distribution agreement (the "June 2024 Equity Distribution Agreement") with three 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 September 30, 2024, the Company issued a total of 15,309,022 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$ 128.6 million, and net proceeds of approximately \$ 126.5 million, after commissions and fees. Subsequent to September 30, 2024, the Company issued a total of 332,000 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$ 2.7 million, and net proceeds of approximately \$ 2.7 million, after commissions and fees.

Basis of Presentation and Use of Estimates

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim period have been included. Operating results for the nine and three month periods ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

The balance sheet at December 31, 2023 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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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 significantly 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 September 30, 2024.

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)

| | September 30, 2024 | December 31, 2023 |
|---|---------------------------|--------------------------|
| Cash and cash equivalents | \$ 322,105 | \$ 171,893 |
| Restricted cash | 11,612 | 28,396 |
| Total cash, cash equivalents and restricted cash | \$ 333,717 | \$ 200,289 |

The Company maintains cash balances at three banks, a government securities backed overnight sweep fund, and excess margin on account with three 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 Securities

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. The Company refers to IO and IIO securities as structured RMBS. The Company also invests in U.S. Treasury Notes ("T-Notes") and U.S. Treasury Bills (collectively, "U.S. Treasury securities"), primarily to satisfy collateral requirements of derivative counterparties. The Company has elected to account for its investment in RMBS and U.S. Treasury securities under the fair value option. Electing the fair value option requires the Company to record changes in fair value in net income, 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 has designated its U.S. Treasury securities purchased after August 2023 as available-for-sale, and changes in fair value during the period for reasons other than expected credit losses are recognized in other comprehensive income (loss).

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.

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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 securities are based on quoted prices for identical assets in active markets.

Income on PT RMBS and T-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 comprehensive income (loss). 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 investments for which the fair value option is elected are recorded in earnings and reported as unrealized gains or losses on mortgage-backed securities and U.S. Treasury securities in the accompanying statements of comprehensive income (loss). Realized gains and losses on sales of investments for which the fair value option has been elected, using the specific identification method, are reported as a separate component of net portfolio income on the statements of comprehensive income (loss).

U.S. Treasury Bills are zero-coupon bonds that are purchased at a discount to the par amount. This discount is accreted into income over the life of the investment and reported in the statements of comprehensive income (loss) as interest income. Changes in fair value of U.S. Treasury securities that are classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gain or loss to reclassify out of accumulated OCI into earnings based on the specific identification method. The Company evaluated securities for allowance for credit losses and since all of the Company's available-for-sale securities designated investments consist of U.S. Treasury securities, which are backed by the full faith and credit of the U.S. government, the Company does not record an allowance for credit losses.

Derivative and Other Hedging 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 T-Note, Secured Overnight Financing Rate ("SOFR"), federal funds ("Fed Funds") futures contracts, short positions in U.S. Treasury securities, interest rate swaps, options to enter in interest rate swaps ("interest rate swaptions"), dual digital options, interest rate caps and floors, and "to-be-announced" ("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 comprehensive income (loss).

Derivative and other hedging instruments are carried at fair value, and changes in fair value are recorded in income as gains or losses on derivative and other hedging instruments 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 statements of cash flows. Cash payments and cash receipts from settlements of derivatives, including current period net cash settlements on interest rate swaps, are 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.

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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, Fed Funds, SOFR and T-Note futures contracts, interest rate swaps, interest rate swaptions, dual digital options, interest rate floors and caps, 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 13 of the financial statements.

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.

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 14 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 ("PUs"), deferred stock units ("DSUs") 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 the Company's common stock on the date of grant. Compensation expense is recognized over each award's respective service period using the graded vesting attribution method. The Company does not estimate forfeiture rates; but rather, adjusts for forfeitures in the periods in which they occur.

Income Taxes

Orchid has elected and is organized and operated so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). REITs are generally not subject to U.S. 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 November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07 "Segment Reporting (Topic 820): Improvements to Reportable Segment Disclosures". ASU 2023-07 requires additional disclosures about reportable segments' significant expenses on an interim and annual basis. The guidance in ASU 2023-07 is effective in annual periods beginning after December 15, 2023 and subsequent interim periods. The Company does not expect the provisions of ASU 2023-07 to have a significant impact on its future financial statements.

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NOTE 2. MORTGAGE-BACKED SECURITIES, AT FAIR VALUE

The following table presents the Company's RMBS portfolio that are remeasured at fair value through earnings as of September 30, 2024 and December 31, 2023:

(in thousands)

| | September 30, 2024 | | | December 31, 2023 | | |
|--|--------------------|--------------|--------------|-------------------|--------------|--------------|
| | Par Value | Cost(1) | Fair Value | Par Value | Cost(1) | Fair Value |
| Pass-Through RMBS Certificates: | | | | | | |
| Fixed-rate Mortgages | \$ 5,487,831 | \$ 5,613,352 | \$ 5,427,069 | \$ 4,051,145 | \$ 4,198,424 | \$ 3,877,082 |
| Total Pass-Through Certificates | 5,487,831 | 5,613,352 | 5,427,069 | 4,051,145 | 4,198,424 | 3,877,082 |
| Structured RMBS Certificates: | | | | | | |
| Interest-Only Securities(2) | n/a | 17,922 | 15,382 | n/a | 19,839 | 16,572 |
| Inverse Interest-Only Securities(3) | n/a | 1,598 | 353 | n/a | 1,825 | 358 |
| Total Structured RMBS Certificates | | 19,520 | 15,735 | | 21,664 | 16,930 |
| Total | \$ 5,487,831 | \$ 5,632,872 | \$ 5,442,804 | \$ 4,051,145 | \$ 4,220,088 | \$ 3,894,012 |

(1) The cost information in the table above represents the aggregate current par value, multiplied by the purchase price of each security in the portfolio.
 (2) The notional balance for the interest-only securities portfolio was \$88.8 million and \$98.6 million as of September 30, 2024 and December 31, 2023, respectively.
 (3) The notional balance for the inverse interest-only securities portfolio was \$23.4 million and \$26.8 million as of September 30, 2024 and December 31, 2023, respectively.

The following table is a summary of the Company's net gain (loss) from the sale of RMBS for the nine months ended September 30, 2024 and 2023.

(in thousands)

| | Nine Months Ended September 30, | |
|---------------------------------|---------------------------------|------|
| | 2024 | 2023 |
| Proceeds from sales of RMBS (1) | \$ 288,242 | \$ - |
| Carrying value of RMBS sold | (287,732) | - |
| Net gain on sales of RMBS | \$ 510 | \$ - |
| Gross gain on sales of RMBS | \$ 510 | \$ - |
| Gross loss on sales of RMBS | - | - |
| Net gain on sales of RMBS | \$ 510 | \$ - |

(1) During the nine months ended September 30, 2024, the Company resecuritized RMBS with a fair value of \$221.7 million by transferring the RMBS into a larger RMBS that is backed by the transferred RMBS. The Company retained the entire larger RMBS. No gain or loss was recorded on this resecuritization.

NOTE 3. U.S. TREASURY SECURITIES, AVAILABLE-FOR- SALE

As of September 30, 2024 and December 31, 2023, the Company held U.S. Treasury securities with a fair value of approximately \$ 99.5 million and \$ 148.8 million, respectively, that were classified as available-for-sale. U.S. Treasury securities are held primarily to satisfy collateral requirements of the Company's repurchase and derivative counterparties.

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The amortized cost, gross unrealized holding gains and losses, and fair value of available-for-sale investments as of September 30, 2024 and December 31, 2023 are as follows:

(in thousands)

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------------|------------------------|-------------------------|------------|
| September 30, 2024 | | | | |
| U.S. Treasury Bill maturing 10/24/2024 | \$ 49,836 | \$ 14 | \$ - | \$ 49,850 |
| U.S. Treasury Bill maturing 11/29/2024 | 49,576 | 41 | - | 49,617 |
| | \$ 99,412 | \$ 55 | \$ - | \$ 99,467 |
| December 31, 2023 | | | | |
| U.S. Treasury Bill maturing 1/2/2024 | \$ 49,671 | \$ 9 | \$ - | \$ 49,680 |
| U.S. Treasury Bill maturing 2/15/2024 | 49,992 | 8 | - | 50,000 |
| U.S. Treasury Bill maturing 4/30/2024 | 49,140 | - | - | 49,140 |
| | \$ 148,803 | \$ 17 | \$ - | \$ 148,820 |

Because all of the Company's available-for-sale securities are backed by the full faith and credit of the U.S. government, the Company has not recorded an allowance for credit losses.

NOTE 4. 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 September 30, 2024, the Company had met all margin call requirements.

As of September 30, 2024 and December 31, 2023, 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 |
|--|---------------------------------|-----------------------------|------------------------------|----------------------------|--------------|
| September 30, 2024 | | | | | |
| Fair market value of securities pledged, including accrued interest receivable | \$ - | \$ 4,117,723 | \$ 1,343,315 | \$ - | \$ 5,461,038 |
| Repurchase agreement liabilities associated with these securities | \$ - | \$ 3,938,523 | \$ 1,292,348 | \$ - | \$ 5,230,871 |
| Net weighted average borrowing rate | - | 5.23% | 5.25% | - | 5.24% |
| December 31, 2023 | | | | | |
| Fair market value of securities pledged, including accrued interest receivable | \$ - | \$ 3,125,315 | \$ 710,055 | \$ 65,106 | \$ 3,900,476 |
| Repurchase agreement liabilities associated with these securities | \$ - | \$ 2,966,650 | \$ 674,696 | \$ 64,303 | \$ 3,705,649 |
| Net weighted average borrowing rate | - | 5.55% | 5.54% | 5.46% | 5.55% |

In addition, cash pledged to counterparties for repurchase agreements was approximately \$ 9.2 million as of September 30, 2024. There was no cash pledged to counterparties for repurchase agreements as of December 31, 2023.

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 September 30, 2024, 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 \$ 221.0 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 September 30, 2024 or December 31, 2023.

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NOTE 5. 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 September 30, 2024 and December 31, 2023.

| <i>(in thousands)</i> | | Balance Sheet Location | September 30, 2024 | December 31, 2023 |
|--|--|---------------------------------------|---------------------------|--------------------------|
| Derivative and Other Hedging Instruments | | | | |
| Assets | | | | |
| Interest rate swaps | | Derivative assets, at fair value | \$ 14,678 | \$ 6,348 |
| Payer swaption (long position) | | Derivative assets, at fair value | - | 72 |
| TBA securities | | Derivative assets, at fair value | 2,168 | - |
| Total derivative assets, at fair value | | | \$ 16,846 | \$ 6,420 |
| Liabilities | | | | |
| TBA securities | | Derivative liabilities, at fair value | \$ - | \$ 12,694 |
| Total derivative liabilities, at fair value | | | \$ - | \$ 12,694 |
| Margin Balances Posted to (from) Counterparties | | | | |
| Futures contracts | | Restricted cash | \$ 2,440 | \$ 4,096 |
| TBA securities | | Restricted cash | - | 23,720 |
| TBA securities | | Other liabilities | (1,593) | - |
| Interest rate swaption contracts | | Restricted cash | - | 580 |
| Total margin balances on derivative contracts | | | \$ 847 | \$ 28,396 |

Fed Funds, T-Note and SOFR futures are cash and securities settled futures contracts on their respective underlying or delivery eligible underlying U.S. Treasury security, 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 and SOFR futures positions at September 30, 2024 and December 31, 2023.

(\$ in thousands)

| Expiration Year | | September 30, 2024 | | | |
|---|------------|---|------------------------------------|--|-----------------------|
| | | Average Contract Notional Amount | Weighted Average Entry Rate | Weighted Average Effective Rate | Open Equity(1) |
| T-Note Futures Contracts (Short Positions)(2) | | | | | |
| December 2024 10-year T-Note futures (Dec 2024 - Dec 2034 Hedge Period) | \$ 12,500 | 3.73% | 3.62% | \$ (88) | |
| SOFR Futures Contracts (Short Positions) | | | | | |
| December 2024 3-Month SOFR futures (Sep 2024 - Dec 2024 Hedge Period) | \$ 241,250 | 4.78% | 4.73% | \$ (110) | |
| March 2025 3-Month SOFR futures (Dec 2024 - Mar 2025 Hedge Period) | 129,250 | 4.23% | 4.04% | (242) | |
| June 2025 3-Month SOFR futures (Mar 2025 - Jun 2025 Hedge Period) | 129,000 | 3.77% | 3.52% | (333) | |
| September 2025 3-Month SOFR futures (Jun 2025 - Sep 2025 Hedge Period) | 129,000 | 3.49% | 3.21% | (356) | |
| December 2025 3-Month SOFR futures (Sep 2025 - Dec 2025 Hedge Period) | 129,000 | 3.31% | 3.07% | (320) | |
| March 2026 3-Month SOFR futures (Dec 2025 - Mar 2026 Hedge Period) | 129,000 | 3.21% | 3.00% | (275) | |
| June 2026 3-Month SOFR futures (Mar 2026 - Jun 2026 Hedge Period) | 104,000 | 3.15% | 2.97% | (178) | |
| September 2026 3-Month SOFR futures (Jun 2026 - Sep 2026 Hedge Period) | 104,000 | 3.11% | 2.98% | (137) | |
| December 2026 3-Month SOFR futures (Sep 2026 - Dec 2026 Hedge Period) | 29,000 | 3.34% | 3.01% | (96) | |
| March 2027 3-Month SOFR futures (Dec 2026 - Mar 2027 Hedge Period) | 16,250 | 3.10% | 3.04% | (10) | |

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(\$ in thousands)

| Expiration Year | December 31, 2023 | | | | |
|--|----------------------------------|-----------------------------|---------------------------------|------------|-----------|
| | Average Contract Notional Amount | Weighted Average Entry Rate | Weighted Average Effective Rate | Open | Equity(1) |
| T-Note Futures Contracts (Short Positions)(2) | | | | | |
| March 2024 5-year T-Note futures (Mar 2024 - Mar 2029 Hedge Period) | \$ 421,500 | 4.36% | 4.04% | \$ (9,936) | |
| March 2024 10-year T-Note futures (Mar 2024 - Mar 2034 Hedge Period) | 320,000 | 4.38% | 4.39% | (11,393) | |
| SOFR Futures Contracts (Short Positions) | | | | | |
| June 2024 3-Month SOFR futures (Mar 2024 - Jun 2024 Hedge Period) | \$ 25,000 | 5.08% | 4.99% | \$ (24) | |
| September 2024 3-Month SOFR futures (Jun 2024 - Sep 2024 Hedge Period) | 25,000 | 4.67% | 4.52% | (39) | |
| December 2024 3-Month SOFR futures (Sep 2024 - Dec 2024 Hedge Period) | 25,000 | 4.27% | 4.10% | (44) | |
| March 2025 3-Month SOFR futures (Dec 2024 - Mar 2025 Hedge Period) | 25,000 | 3.90% | 3.73% | (43) | |
| June 2025 3-Month SOFR futures (Mar 2025 - Jun 2025 Hedge Period) | 25,000 | 3.58% | 3.42% | (41) | |
| September 2025 3-Month SOFR futures (Jun 2025 - Sep 2025 Hedge Period) | 25,000 | 3.37% | 3.21% | (39) | |
| December 2025 3-Month SOFR futures (Sep 2025 - Dec 2025 Hedge Period) | 25,000 | 3.25% | 3.10% | (37) | |
| March 2026 3-Month SOFR futures (Dec 2025 - Mar 2026 Hedge Period) | 25,000 | 3.21% | 3.07% | (35) | |

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

(2) 10-Year T-Note futures contracts were valued at a price of \$ 114.28 at September 30, 2024 and \$ 112.89 at December 31, 2023. The contract values of the short positions were \$ 14.3 million and \$ 361.2 million at September 30, 2024 and December 31, 2023, respectively. 5-Year T-Note futures contracts were valued at a price of \$ 108.77 at December 31, 2023. The contract value of the short position was \$ 458.5 million at December 31, 2023.

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 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 margin on its interest rate swap agreements. The table below presents information related to the Company's interest rate swap positions at September 30, 2024 and December 31, 2023.

(\$ in thousands)

| | Notional Amount | Average Fixed Pay Rate | Average Receive Rate | Average Maturity (Years) |
|-----------------------------|-----------------|------------------------|----------------------|--------------------------|
| | | | | |
| September 30, 2024 | | | | |
| Expiration > 1 to ≤ 5 years | \$ 1,450,000 | 1.69% | 5.41% | 3.6 |
| Expiration > 5 years | 2,036,800 | 3.55% | 5.35% | 7.2 |
| | \$ 3,486,800 | 2.78% | 5.37% | 5.7 |
| December 31, 2023 | | | | |
| Expiration > 1 to ≤ 5 years | \$ 500,000 | 0.84% | 5.64% | 2.7 |
| Expiration > 5 years | 1,826,500 | 2.62% | 5.40% | 6.8 |
| | \$ 2,326,500 | 2.24% | 5.45% | 5.9 |

Our interest rate swaps are centrally cleared through two registered commodities exchanges, the Chicago Mercantile Exchange ("CME") and the London Clearing House ("LCH"). The clearing exchanges require 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.

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The table below presents information related to the Company's payer swaption position at December 31, 2023.

(\$ in thousands)

| | Option | | | Underlying Swap | | | |
|--------------------------------|----------|------------|---------------------------------------|-----------------|--------------------|-----------------------|-------------------------------|
| | Cost | Fair Value | Weighted Average Months to Expiration | Notional Amount | Average Fixed Rate | Adjustable Rate Index | Weighted Average Term (Years) |
| December 31, 2023 | | | | | | | |
| Payer Swaption (long position) | \$ 1,619 | \$ 72 | 5.0 | \$ 800,000 | 5.40% | SOFR | 1.0 |

We purchase interest rate swaptions to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. 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. Our interest rate swaption agreements are not subject to central clearing. The difference between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative and other hedging instruments in our statements of comprehensive income (loss). If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap and the premium paid.

The following table summarizes the Company's contracts to purchase and sell TBA securities as of September 30, 2024 and December 31, 2023.

(\$ in thousands)

| | Notional Amount | | | Net Carrying Value(4) | |
|--------------------------------|-----------------|---------------|-----------------|-----------------------|--|
| | Long (Short)(1) | Cost Basis(2) | Market Value(3) | | |
| September 30, 2024 | | | | | |
| 30-Year TBA securities: | | | | | |
| 3.0% | \$ (300,000) | \$ (271,195) | \$ (269,027) | \$ 2,168 | |
| Total | \$ (300,000) | \$ (271,195) | \$ (269,027) | \$ 2,168 | |
| December 31, 2023 | | | | | |
| 30-Year TBA securities: | | | | | |
| 3.0% | \$ (70,700) | \$ (59,278) | \$ (62,647) | \$ (3,369) | |
| 5.0% | \$ (250,000) | \$ (242,725) | \$ (247,657) | \$ (4,932) | |
| 5.5% | \$ (325,000) | \$ (322,410) | \$ (326,803) | \$ (4,393) | |
| Total | \$ (645,700) | \$ (624,413) | \$ (637,107) | \$ (12,694) | |

(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.

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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 comprehensive income (loss) for the nine and three months ended September 30, 2024 and 2023.

(in thousands)

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|---------------------------------|-------------------|----------------------------------|-------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Interest rate futures contracts (short position) | \$ 16,100 | \$ 66,642 | \$ (14,668) | \$ 42,640 |
| Interest rate swaps | (39,469) | 101,257 | (110,085) | 78,317 |
| Payer swaptions (short positions) | - | 4,113 | - | (718) |
| Payer swaptions (long positions) | (72) | (7,389) | - | 1,613 |
| Interest rate caps | - | (415) | - | 493 |
| Dual digital option | (500) | - | (105) | - |
| Interest rate floors (short positions) | - | (1,143) | - | 73 |
| Interest rate floors (long positions) | - | 2,666 | - | 137 |
| TBA securities (short positions) | (3,370) | 31,120 | (16,315) | 21,511 |
| TBA securities (long positions) | 453 | (2,598) | 348 | (2,024) |
| Total | \$ (26,858) | \$ 194,253 | \$ (140,825) | \$ 142,042 |

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 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 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 or LCH serves as the central clearing party are presented as if these derivatives had been settled as of the reporting date.

NOTE 6. PLEDGED ASSETS

Assets Pledged to Counterparties

The table below summarizes the Company's assets pledged as collateral under repurchase agreements and derivative agreements by type, including securities pledged related to securities sold but not yet settled, as of September 30, 2024 and December 31, 2023.

(in thousands)

| Assets Pledged to Counterparties | September 30, 2024 | | | December 31, 2023 | | |
|--|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|---------------------|
| | Repurchase Agreements | Derivative Agreements | Total | Repurchase Agreements | Derivative Agreements | Total |
| PT RMBS - fair value | \$ 5,422,450 | \$ - | \$ 5,422,450 | \$ 3,868,624 | \$ - | \$ 3,868,624 |
| Structured RMBS - fair value | 15,735 | - | 15,735 | 16,930 | - | 16,930 |
| U.S. Treasury securities | - | 99,467 | 99,467 | - | 79,680 | 79,680 |
| Accrued interest on pledged securities | 22,853 | - | 22,853 | 14,922 | - | 14,922 |
| Restricted cash | 9,172 | 2,440 | 11,612 | - | 28,396 | 28,396 |
| Total | \$ 5,470,210 | \$ 101,907 | \$ 5,572,117 | \$ 3,900,476 | \$ 108,076 | \$ 4,008,552 |

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Assets Pledged from Counterparties

The table below summarizes assets pledged to the Company from counterparties under repurchase agreements and derivative agreements as of September 30, 2024 and December 31, 2023.

(in thousands)

| Assets Pledged to Orchid | September 30, 2024 | | | December 31, 2023 | | |
|---------------------------------------|-----------------------|-----------------------|-----------------|-----------------------|-----------------------|------------------|
| | Repurchase Agreements | Derivative Agreements | Total | Repurchase Agreements | Derivative Agreements | Total |
| Cash | \$ 4,954 | \$ 1,593 | \$ 6,547 | \$ 42,179 | \$ - | \$ 42,179 |
| U.S. Treasury securities - fair value | 1,923 | - | 1,923 | 10,429 | - | 10,429 |
| Total | \$ 6,877 | \$ 1,593 | \$ 8,470 | \$ 52,608 | \$ - | \$ 52,608 |

Cash received as margin is recognized as cash and cash equivalents with a corresponding amount recognized as an increase in repurchase agreements or other liabilities in the balance sheets.

NOTE 7. 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. CME 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 or LCH 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 September 30, 2024 and December 31, 2023.

(in thousands)

| | Offsetting of Assets | | | | | |
|---------------------------|-----------------------------------|--|---|--|-----------------------------|------------------|
| | Gross Amount of Recognized Assets | Gross Amount Offset in the Balance Sheet | Net Amount of Assets Presented in the Balance Sheet | Gross Amount Not Offset in the Balance Sheet | | |
| | | | | Financial Instruments Received as Collateral | Cash Received as Collateral | Net Amount |
| September 30, 2024 | | | | | | |
| Interest rate swaps | \$ 14,678 | \$ - | \$ 14,678 | \$ - | \$ - | \$ 14,678 |
| TBA securities | 2,168 | - | 2,168 | - | (1,593) | 575 |
| | \$ 16,846 | \$ - | \$ 16,846 | \$ - | \$ (1,593) | \$ 15,253 |
| December 31, 2023 | | | | | | |
| Interest rate swaps | \$ 6,348 | \$ - | \$ 6,348 | \$ - | \$ - | \$ 6,348 |
| Interest rate swaptions | 72 | - | 72 | - | - | 72 |
| | \$ 6,420 | \$ - | \$ 6,420 | \$ - | \$ - | \$ 6,420 |

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(in thousands)

| | Offsetting of Liabilities | | | | | | |
|---------------------------|--|--|--|--|--|---------------------------|------------|
| | Gross Amount of Recognized Liabilities | Gross Amount Offset in the Balance Sheet | Net Amount of Liabilities Presented in the Balance Sheet | Gross Amount Not Offset in the Balance Sheet | Financial Instruments Posted as Collateral | Cash Posted as Collateral | Net Amount |
| September 30, 2024 | | | | | | | |
| Repurchase Agreements | \$ 5,230,871 | \$ - | \$ 5,230,871 | \$ (5,221,699) | \$ (9,172) | \$ - | \$ - |
| | \$ 5,230,871 | \$ - | \$ 5,230,871 | \$ (5,221,699) | \$ (9,172) | \$ - | \$ - |
| December 31, 2023 | | | | | | | |
| Repurchase Agreements | \$ 3,705,649 | \$ - | \$ 3,705,649 | \$ (3,705,649) | \$ - | \$ - | \$ - |
| TBA securities | \$ 12,694 | \$ - | \$ 12,694 | \$ - | \$ (12,694) | \$ - | \$ - |
| | \$ 3,718,343 | \$ - | \$ 3,718,343 | \$ (3,705,649) | \$ (12,694) | \$ - | \$ - |

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 6 for a discussion of collateral posted or received against or for repurchase obligations and derivative and other hedging instruments.

NOTE 8. CAPITAL STOCK

Common Stock Issuances

During the nine months ended September 30, 2024 and the year ended December 31, 2023, 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) |
|-----------------------------------|----------------|--|------------------------|------------|-----------------|
| | | Received Per Share(1) | Weighted Average Price | | |
| 2024 | | | | | |
| At the Market Offering Program(3) | First Quarter | \$ 8.80 | \$ 1,490,075 | \$ 13,109 | |
| At the Market Offering Program(3) | Second Quarter | \$ 8.40 | \$ 11,990,383 | \$ 100,698 | |
| At the Market Offering Program(3) | Third Quarter | \$ 8.25 | \$ 13,314,022 | \$ 109,891 | |
| | | | \$ 26,794,480 | \$ 223,698 | |
| 2023 | | | | | |
| At the Market Offering Program(3) | First Quarter | \$ 11.77 | \$ 2,690,000 | \$ 31,657 | |
| At the Market Offering Program(3) | Second Quarter | \$ 9.95 | \$ 4,757,953 | \$ 47,355 | |
| At the Market Offering Program(3) | Third Quarter | \$ 9.54 | \$ 8,432,086 | \$ 80,426 | |
| At the Market Offering Program(3) | Fourth Quarter | \$ - | \$ - | \$ - | |
| | | | \$ 15,880,039 | \$ 159,438 | |

(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) The Company has entered into eleven equity distribution agreements, ten 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 1,061,315 shares, representing 10% of the Company's 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 September 30, 2024, the Company repurchased a total of 5,144,602 shares at an aggregate cost of approximately \$ 77.5 million, including commissions and fees, for a weighted average price of \$ 15.07 per share. During the nine months ended September 30, 2024, the Company repurchased a total of 396,241 shares at an aggregate cost of approximately \$ 3.3 million, including commissions and fees, for a weighted average price of \$ 8.30 per share. During the year ended December 31, 2023, the Company repurchased a total of 1,072,789 shares at an aggregate cost of approximately \$ 9.4 million, including commissions and fees, for a weighted average price of \$ 8.79 per share. The remaining authorization under the stock repurchase program as of October 24, 2024 was 3,832,361 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 | 1.800 | 81,127 |
| 2024 - YTD ⁽¹⁾ | 1.200 | 76,738 |
| Totals | \$ 67.650 | \$ 685,335 |

(1) On October 16, 2024, the Company declared a dividend of \$0.12 per share to be paid on November 27, 2024. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of September 30, 2024.

NOTE 9. 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 awards, PUs, other equity-based awards (and dividend equivalents with respect to awards of PUs 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, PUs under the Incentive Plans to certain executive officers and employees of its Manager. PUs vest after the end of a defined performance period, based on satisfaction of the performance conditions set forth in the PU agreement. When earned, each PU will be settled by the issuance of one share of the Company's common stock, at which time the PU will be cancelled. The PUs 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. PUs are subject to forfeiture should the participant no longer serve as an executive officer or employee of the Company or the Manager. Compensation expense for the PUs, included in incentive compensation on the statements of comprehensive income (loss), 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 PUs outstanding during the nine months ended September 30, 2024 and 2023.

(\$ in thousands, except per share data)

| | Nine Months Ended September 30, | | | |
|--|---------------------------------|--|----------|--|
| | 2024 | | 2023 | |
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Unvested, beginning of period(1) | 81,403 | \$ 12.48 | 36,921 | \$ 20.57 |
| Granted | 36,773 | 8.62 | 76,696 | 10.82 |
| Vested and issued | (29,299) | 14.16 | (13,386) | 22.09 |
| Unvested, end of period | 88,877 | \$ 10.33 | 100,231 | \$ 12.91 |
| Compensation expense during period | | \$ 303 | | \$ 430 |
| Unrecognized compensation expense, end of period | | \$ 432 | | \$ 757 |
| Intrinsic value, end of period | | \$ 731 | | \$ 853 |
| Weighted-average remaining vesting term (in years) | | 1.2 | | 1.4 |

(1) The number of shares of common stock issuable upon the vesting of the remaining outstanding PUs as of December 31, 2023 was reduced by 14,365 shares as a result of a book value impairment event that occurred pursuant to the terms of the long term equity incentive compensation plans (the "Plans") established under the Company's Incentive Plans. The book value impairment event occurred when the Company's book value per share declined by more than 15 % during the quarter ended September 30, 2023 and the Company's book value per share decline from July 1, 2023 to December 31, 2023 was more than 10 %. The Plans provide that if such a book value impairment event occurs, then the number of outstanding PUs that are outstanding as of the last day of such two quarter period shall be reduced by 15%.

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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. The following table presents information related to fully vested common stock issued during the nine months ended September 30, 2024 and 2023. All of the fully vested shares of common stock issued during the nine months ended September 30, 2024 and 2023, and the related compensation expense, were granted with respect to service performed during the fiscal years ended December 31, 2023 and 2022, respectively.

(\$ in thousands, except per share data)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2024 | 2023 |
| Fully vested shares granted | 36,773 | 76,696 |
| Weighted average grant date price per share | \$ 8.62 | \$ 10.82 |
| Compensation expense related to fully vested shares of common stock awards | \$ 317 | \$ 830 |

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 could 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 comprehensive income (loss). The DSUs contain dividend equivalent rights, which entitle the participant to receive distributions declared by the Company on common stock. These dividend equivalent rights are settled in 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 nine months ended September 30, 2024 and 2023.

(\$ in thousands, except per share data)

| | Nine Months Ended September 30, | | | |
|------------------------------------|--|---|-------------|---|
| | 2024 | Weighted Average Grant Date Fair Value | 2023 | Weighted Average Grant Date Fair Value |
| | Shares | | Shares | |
| Outstanding, beginning of period | 96,704 | \$ 15.69 | 54,197 | \$ 20.29 |
| Granted and vested | 41,007 | 8.54 | 29,091 | 10.50 |
| Outstanding, end of period | 137,711 | \$ 13.56 | 83,288 | \$ 16.87 |
| Compensation expense during period | | \$ 315 | | \$ 279 |
| Intrinsic value, end of period | | \$ 1,132 | | \$ 709 |

NOTE 10. 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 September 30, 2024.

NOTE 11. 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 which 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.

NOTE 12. EARNINGS PER SHARE (EPS)

The Company had dividend eligible PUs and DSUs that were outstanding during the nine and three months ended September 30, 2024 and 2023. The basic and diluted per share computations include these unvested PUs and DSUs if there is income available to common stock, as they have dividend participation rights. The unvested PUs and DSUs have no contractual obligation to share in losses. Because there is no such obligation, the unvested PUs and DSUs 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 nine and three months ended September 30, 2024 and 2023.

(in thousands, except per share information)

| | Nine Months Ended September 30, 2024 | | Three Months Ended September 30, 2024 | |
|---|--------------------------------------|-------------|---------------------------------------|-------------|
| | 2024 | 2023 | 2024 | 2023 |
| Basic and diluted EPS per common share: | | | | |
| Numerator for basic and diluted EPS per share of common stock: | | | | |
| Net income (loss) - Basic and diluted | \$ 32,117 | \$ (66,353) | \$ 17,320 | \$ (80,132) |
| Weighted average shares of common stock: | | | | |
| Shares of common stock outstanding at the balance sheet date | 78,083 | 52,332 | 78,083 | 52,332 |
| Unvested dividend eligible share based compensation outstanding at the balance sheet date | 227 | - | 227 | - |
| Effect of weighting | (17,609) | (10,228) | (5,933) | (4,559) |
| Weighted average shares-basic and diluted | 60,701 | 42,104 | 72,377 | 47,773 |
| Net income (loss) per common share: | | | | |
| Basic and diluted | \$ 0.53 | \$ (1.58) | \$ 0.24 | \$ (1.68) |
| Anti-dilutive incentive shares not included in calculation | - | 184 | - | 184 |

NOTE 13. 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 presentation of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These inputs 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.

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The Company's RMBS and TBA securities are Level 2 valuations, and such valuations currently are determined by the Company based on independent pricing sources and/or third party broker quotes. 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 securities 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, interest rate swaptions and dual digital options 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 and dual digital options are determined using an option pricing model.

RMBS (based on the fair value option), U.S. Treasury securities, derivatives and TBA securities were recorded at fair value on a recurring basis during the nine and three months ended September 30, 2024 and 2023. 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 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 due to the short-term nature of these financial instruments as of September 30, 2024 and December 31, 2023. The Company estimates the fair value of the cash and cash equivalents using Level 1 inputs, and the 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 using Level 2 inputs.

The following table presents financial assets (liabilities) measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023. 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) |
|----------------------------|---|---|--|
| September 30, 2024 | | | |
| Mortgage-backed securities | \$ - | \$ 5,442,804 | \$ - |
| U.S. Treasury securities | 99,467 | - | - |
| Interest rate swaps | - | 14,678 | - |
| TBA securities | - | 2,168 | - |
| December 31, 2023 | | | |
| Mortgage-backed securities | \$ - | \$ 3,894,012 | \$ - |
| U.S. Treasury securities | 148,820 | - | - |
| Interest rate swaps | - | 6,348 | - |
| Interest rate swaptions | - | 72 | - |
| TBA securities | - | (12,694) | - |

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During the nine and three months ended September 30, 2024 and 2023, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 14. RELATED PARTY TRANSACTIONS

Management Agreement

The Company is externally managed and advised by Bimini Advisors, LLC (the "Manager") pursuant to the terms of a management agreement. The management agreement has been renewed through February 20, 2025 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 pays 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 \$ 9.4 million and \$ 3.3 million for the nine and three months ended September 30, 2024, respectively, and \$ 10.5 million and \$ 3.6 million for the nine and three months ended September 30, 2023, respectively. At September 30, 2024 and December 31, 2023, the net amount due to affiliates was approximately \$ 1.2 million and \$ 1.0 million, 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, IV, 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 September 30, 2024, Bimini owned 569,071 shares, or 0.7 %, of the Company's common stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are a specialty finance company that invests in residential mortgage-backed securities ("RMBS") which are issued and guaranteed by a federally chartered corporation or agency ("Agency RMBS"). Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS, such as mortgage pass-through certificates issued by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac" and together with Fannie Mae, the "Enterprises") or the Government National Mortgage Association ("Ginnie Mae" and, together with the Enterprises 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 Capital Management, Inc. ("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, LLC ("Bimini Advisors," or our "Manager"), 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 real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). We generally will not be subject to U.S. federal income tax to the extent that we currently distribute all of our REIT taxable income (as defined in the Code) to our stockholders and maintain our REIT qualification.

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

Capital Raising Activities

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 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 9,742,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately \$151.8 million, and net proceeds of approximately \$149.3 million, after commissions and fees, prior to its termination in March 2023.

On March 7, 2023, we entered into an equity distribution agreement (the "March 2023 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 \$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 24,675,497 shares under the March 2023 Equity Distribution Agreement for aggregate gross proceeds of approximately \$228.8 million and net proceeds of approximately \$225.0 million, after commissions and fees, prior to its termination in June 2024.

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On June 11, 2024, we entered into an equity distribution agreement (the "June 2024 Equity Distribution Agreement") with three 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 September 30, 2024, we issued a total of 15,309,022 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$128.6 million, and net proceeds of approximately \$126.5 million, after commissions and fees. Subsequent to September 30, 2024, we issued a total of 332,000 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$2.7 million, and net proceeds of approximately \$2.7 million, after commissions and fees.

Stock Repurchase Agreement

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 1,061,315 shares, representing 10% of the Company's 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 September 30, 2024, the Company repurchased a total of 5,144,602 shares at an aggregate cost of approximately \$77.5 million, including commissions and fees, for a weighted average price of \$ 15.07 per share. During the nine months ended September 30, 2024, the Company repurchased a total of 396,241 shares of its common stock at an aggregate cost of approximately \$ 3.3 million, including commissions and fees, for a weighted average price of \$ 8.30 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;
- changes in our cost of funds, including increases in the Fed Funds rate that are controlled by the Federal Reserve (the "Fed") that occurred in 2023, the decrease in the Fed Funds rate in 2024, or potential additional decreases in the Fed Funds rate;
- 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 Federal Housing Financing Agency (the "FHFA"), The Federal Deposit Insurance Corporation ("FDIC"), Federal Housing Administration (the "FHA"), the Federal Open Market Committee (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, including bank failures.

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

- our degree of leverage;
- our access to funding and borrowing capacity;
- our borrowing costs;
- our hedging activities;
- the market value of our investments; and
- the requirements to maintain our qualification 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 nine and three months ended September 30, 2024, as compared to the Company's results of operations for the nine and three months ended September 30, 2023.

Net Income (Loss) Summary

Net income for the nine months ended September 30, 2024 was \$32.1 million, or \$0.53 per share. Net loss for the nine months ended September 30, 2023 was \$66.4 million, or \$1.58 per share. Net income for the three months ended September 30, 2024 was \$17.3 million, or \$0.24 per share. Net loss for the three months ended September 30, 2023 was \$80.1 million, or \$1.68 per share. The components of net income (loss) for the nine and three months ended September 30, 2024 and 2023, along with the changes in those components are presented in the table below:

(in thousands)

| | Nine Months Ended September 30, | | | Three Months Ended September 30, | | |
|---|---------------------------------|-------------|-----------|----------------------------------|-------------|-----------|
| | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Interest income | \$ 169,581 | \$ 128,030 | \$ 41,551 | \$ 67,646 | \$ 50,107 | \$ 17,539 |
| Interest expense | (172,428) | (149,593) | (22,835) | (67,306) | (58,705) | (8,601) |
| Net interest (expense) income | (2,847) | (21,563) | 18,716 | 340 | (8,598) | 8,938 |
| Gains (losses) on RMBS and derivative contracts | 47,351 | (30,323) | 77,674 | 21,249 | (66,890) | 88,139 |
| Net portfolio income (loss) | 44,504 | (51,886) | 96,390 | 21,589 | (75,488) | 97,077 |
| Expenses | (12,387) | (14,467) | 2,080 | (4,269) | (4,644) | 375 |
| Net income (loss) | \$ 32,117 | \$ (66,353) | \$ 98,470 | \$ 17,320 | \$ (80,132) | \$ 97,452 |

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," "Economic Net Interest Income," "Interest Income – Inclusive of Premium Amortization/Discount Accretion" and "Yield on Average RMBS – Inclusive of Premium Amortization/Discount Accretion."

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 comprehensive income (loss).

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 comprehensive income (loss) 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.

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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 nine months ended September 30, 2024 and 2023, and for each quarter in 2024 to date and 2023.

| Net Earnings 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 Loss Excluding Realized and Unrealized Gains and Losses | Net Income (Loss) (GAAP) | Realized and Unrealized Gains and Losses | Net Loss Excluding Realized and Unrealized Gains and Losses | | | |
| Three Months Ended | | | | | | | | | |
| September 30, 2024 | \$ 17,320 | 21,249 | \$ (3,929) | \$ 0.24 | \$ 0.29 | \$ (0.05) | | | |
| June 30, 2024 | (4,979) | 98 | (5,077) | (0.09) | 0.00 | (0.09) | | | |
| March 31, 2024 | 19,776 | 26,004 | (6,228) | 0.38 | 0.50 | (0.12) | | | |
| December 31, 2023 | 27,127 | 33,977 | (6,850) | 0.52 | 0.65 | (0.13) | | | |
| September 30, 2023 | (80,132) | (66,890) | (13,242) | (1.68) | (1.40) | (0.28) | | | |
| June 30, 2023 | 10,249 | 23,828 | (13,579) | 0.25 | 0.59 | (0.34) | | | |
| March 31, 2023 | 3,530 | 12,739 | (9,209) | 0.09 | 0.33 | (0.24) | | | |
| Nine Months Ended | | | | | | | | | |
| September 30, 2024 | \$ 32,117 | \$ 47,351 | \$ (15,234) | \$ 0.53 | \$ 0.78 | \$ (0.25) | | | |
| September 30, 2023 | (66,353) | (30,323) | (36,030) | (1.58) | (0.72) | (0.86) | | | |

(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 Fed Funds, SOFR and T-Note futures contracts, short positions in U.S. Treasury securities, dual digital options, interest rate floors and caps, and 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 comprehensive income (loss) 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.

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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 Fed Funds, SOFR and U.S. Treasury futures, dual digital options, interest rate floors and caps, 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.

From time to time, we invest 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 comprehensive income (loss) 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 nine months ended September 30, 2024 and 2023, and for each quarter of 2024 to date and 2023.

| Gains (Losses) on Derivative Instruments | | | | | | |
|--|--------------|--|-------------------------------|-----------|--|--|
| (in thousands) | | Recognized in Income Statement (GAAP) | TBA Securities Gain (Loss) | | Attributed to Current Period (Non-GAAP) | Attributed to Future Periods (Non-GAAP) |
| | | (Short Positions) | (Long Positions) | | | |
| Three Months Ended | | | | | | |
| September 30, 2024 | \$ (140,825) | \$ (16,315) | \$ 348 | \$ 31,924 | \$ (156,782) | |
| June 30, 2024 | 26,068 | 3,042 | 0 | 29,459 | (6,433) | |
| March 31, 2024 | 87,899 | 9,903 | 105 | 27,587 | 50,304 | |
| December 31, 2023 | (149,016) | (29,750) | (2,262) | 25,161 | (142,165) | |
| September 30, 2023 | 142,042 | 21,511 | (2,024) | 24,440 | 98,115 | |
| June 30, 2023 | 93,367 | 15,599 | (574) | 23,482 | 54,860 | |
| March 31, 2023 | (41,156) | (5,990) | - | 19,211 | (54,377) | |
| Nine Months Ended | | | | | | |
| September 30, 2024 | \$ (26,858) | \$ (3,370) | \$ 453 | \$ 88,970 | \$ (112,911) | |
| September 30, 2023 | 194,253 | 31,120 | (2,598) | 67,133 | 98,598 | |

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Economic Interest Expense and Economic Net Interest Income

(in thousands)

| | Interest Expense on Borrowings | | | | Net Interest Income | | |
|---------------------------|--------------------------------|-----------------------------|---|---------------------------------------|------------------------------------|-------------------------------------|---------------------------------------|
| | | | Gains (Losses) on Derivative Instruments | Attributed to Current Period(1) | Economic Interest Expense(2) | GAAP | |
| | GAAP Interest Income | GAAP Interest Expense | | | | Net Interest Income (Expense) | Economic Net Interest Income(3) |
| Three Months Ended | | | | | | | |
| September 30, 2024 | \$ 67,646 | \$ 67,306 | \$ 31,924 | \$ 35,382 | \$ 340 | \$ 32,264 | |
| June 30, 2024 | 53,064 | 53,761 | 29,459 | 24,302 | (697) | 28,762 | |
| March 31, 2024 | 48,871 | 51,361 | 27,587 | 23,774 | (2,490) | 25,097 | |
| December 31, 2023 | 49,539 | 52,325 | 25,161 | 27,164 | (2,786) | 22,375 | |
| September 30, 2023 | 50,107 | 58,705 | 24,440 | 34,265 | (8,598) | 15,842 | |
| June 30, 2023 | 39,911 | 48,671 | 23,482 | 25,189 | (8,760) | 14,722 | |
| March 31, 2023 | 38,012 | 42,217 | 19,211 | 23,006 | (4,205) | 15,006 | |
| Nine Months Ended | | | | | | | |
| September 30, 2024 | \$ 169,581 | \$ 172,428 | \$ 88,970 | \$ 83,458 | \$ (2,847) | \$ 86,123 | |
| September 30, 2023 | 128,030 | 149,593 | 67,133 | 82,460 | (21,563) | 45,570 | |

(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 (Expense)

During the nine months ended September 30, 2024, we incurred net interest expense of \$2.8 million consisting of \$169.6 million of interest income from RMBS assets offset by \$172.4 million of interest expense on borrowings. For the comparable period ended September 30, 2023, we incurred \$21.6 million of net interest expense, consisting of \$128.0 million of interest income from RMBS assets offset by \$149.6 million of interest expense on borrowings. The \$41.6 million increase in interest income was due to a 106 basis point ("bps") increase in the yield on average RMBS, combined with a \$223.7 million increase in average RMBS. The \$22.8 million increase in interest expense was due to a 47 bps increase in the average cost of funds, combined with an \$217.2 million increase in average outstanding borrowings.

During the three months ended September 30, 2024, we earned net interest income of \$0.3 million consisting of \$67.6 million of interest income from RMBS assets offset by \$67.3 million of interest expense on borrowings. For the comparable period ended September 30, 2023, we incurred \$8.6 million of net interest expense, consisting of \$50.1 million of interest income from RMBS assets offset by \$58.7 million of interest expense on borrowings. The \$17.5 million increase in interest income was due to a 92 bps increase in the yield on average RMBS, combined with a \$537.2 million increase in average RMBS. The \$8.6 million increase in interest expense was due to an 18 bps increase in the average cost of funds, combined with a \$474.0 million increase in average outstanding borrowings.

On an economic basis, our interest expense on borrowings for the nine months ended September 30, 2024 and 2023 was \$83.5 million and \$82.5 million, respectively, resulting in \$86.1 million and \$45.6 million of economic net interest income, respectively.

On an economic basis, our interest expense on borrowings for the three months ended September 30, 2024 and 2023 was \$35.4 million and \$34.3 million, respectively, resulting in \$32.3 million and \$15.8 million of economic net interest income, respectively.

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The tables below provide information on our portfolio average balances, interest income, yield on assets, average borrowings, interest expense, cost of funds, net interest income and net interest spread for the nine months ended September 30, 2024 and 2023, and each quarter of 2024 to date and 2023 on both a GAAP and economic basis.

(\$ in thousands)

| | Average RMBS Held(1) | Interest Income | Yield on Average RMBS | Average Borrowings(1) | Interest Expense | | Average Cost of Funds | |
|---------------------------|----------------------------|--------------------|-----------------------------|--------------------------|------------------|----------------------|-----------------------|----------------------|
| | | | | | GAAP Basis | Economic Basis(2) | GAAP Basis | Economic Basis(3) |
| Three Months Ended | | | | | | | | |
| September 30, 2024 | \$ 4,984,279 | \$ 67,646 | 5.43% | \$ 4,788,287 | \$ 67,306 | \$ 35,382 | 5.62% | 2.96% |
| June 30, 2024 | 4,203,416 | 53,064 | 5.05% | 4,028,601 | 53,761 | 24,302 | 5.34% | 2.41% |
| March 31, 2024 | 3,887,545 | 48,871 | 5.03% | 3,708,573 | 51,361 | 23,774 | 5.54% | 2.56% |
| December 31, 2023 | 4,207,118 | 49,539 | 4.71% | 4,066,298 | 52,325 | 27,164 | 5.15% | 2.67% |
| September 30, 2023 | 4,447,098 | 50,107 | 4.51% | 4,314,332 | 58,705 | 34,265 | 5.44% | 3.18% |
| June 30, 2023 | 4,186,939 | 39,911 | 3.81% | 3,985,577 | 48,671 | 25,189 | 4.88% | 2.53% |
| March 31, 2023 | 3,769,954 | 38,012 | 4.03% | 3,573,941 | 42,217 | 23,006 | 4.72% | 2.57% |
| Nine Months Ended | | | | | | | | |
| September 30, 2024 | \$ 4,358,413 | \$ 169,581 | 5.19% | \$ 4,175,154 | \$ 172,428 | \$ 83,458 | 5.51% | 2.67% |
| September 30, 2023 | 4,134,664 | 151,474 | 4.13% | 3,957,950 | 149,593 | 82,460 | 5.04% | 2.78% |
| (\$ in thousands) | | | | | | | | |
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Average Asset Yield

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 nine months ended September 30, 2024 and 2023, and for each quarter of 2024 to date and 2023.

(\$ 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 | | | | | | | | | |
| September 30, 2024 | \$ 4,968,076 | \$ 16,203 | \$ 4,984,279 | \$ 67,328 | \$ 318 | \$ 67,646 | 5.42% | 7.87% | 5.43% |
| June 30, 2024 | 4,186,794 | 16,622 | 4,203,416 | 52,705 | 359 | 53,064 | 5.04% | 8.64% | 5.05% |
| March 31, 2024 | 3,870,794 | 16,751 | 3,887,545 | 48,483 | 388 | 48,871 | 5.01% | 9.27% | 5.03% |
| December 31, 2023 | 4,189,599 | 17,519 | 4,207,118 | 49,135 | 404 | 49,539 | 4.69% | 9.21% | 4.71% |
| September 30, 2023 | 4,429,159 | 17,939 | 4,447,098 | 49,661 | 446 | 50,107 | 4.48% | 9.96% | 4.51% |
| June 30, 2023 | 4,168,333 | 18,606 | 4,186,939 | 39,495 | 416 | 39,911 | 3.79% | 8.95% | 3.81% |
| March 31, 2023 | 3,750,184 | 19,770 | 3,769,954 | 37,594 | 418 | 38,012 | 4.01% | 8.44% | 4.03% |
| Nine Months Ended | | | | | | | | | |
| September 30, 2024 | \$ 4,341,888 | \$ 16,525 | \$ 4,358,413 | \$ 168,516 | \$ 1,065 | \$ 169,581 | 5.17% | 8.60% | 5.19% |
| September 30, 2023 | 4,115,892 | 18,772 | 4,134,664 | 126,750 | 1,280 | 128,030 | 4.11% | 9.09% | 4.13% |

Interest Expense and the Cost of Funds

We had average outstanding borrowings of \$4.2 billion and \$4.0 billion and total interest expense of \$172.4 million and \$149.6 million for the nine months ended September 30, 2024 and 2023, respectively. Our average cost of funds was 5.51% for the nine months ended September 30, 2024, compared to 5.04% for the comparable period in 2023. The \$22.8 million increase in interest expense was due to the 47 bps increase in the average cost of funds, combined with a \$217.2 million increase in average outstanding borrowings during the nine months ended September 30, 2024, as compared to the comparable period in 2023.

We had average outstanding borrowings of \$4.8 billion and \$4.3 billion and total interest expense of \$67.3 million and \$58.7 million for the three months ended September 30, 2024 and 2023, respectively. Our average cost of funds was 5.62% for the three months ended September 30, 2024, compared to 5.44% for the comparable period in 2023. The \$8.6 million increase in interest expense was due to the 18 bps increase in the average cost of funds, combined with a \$474.0 million increase in average outstanding borrowings during the three months ended September 30, 2024, as compared to the comparable period in 2023.

Our economic interest expense was \$83.5 million and \$82.5 million for the nine months ended September 30, 2024 and 2023, respectively. There was an 11 bps decrease in the average economic cost of funds to 2.67% for the nine months ended September 30, 2024, from 2.78% for the nine months ended September 30, 2023.

Our economic interest expense was \$35.4 million and \$34.3 million for the three months ended September 30, 2024 and 2023, respectively. There was a 22 bps decrease in the average economic cost of funds to 2.96% for the three months ended September 30, 2024, from 3.18% for the three months ended September 30, 2023.

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 46 bps above the one-month average SOFR and 25 bps above the six-month average SOFR for the quarter ended September 30, 2024. Our average economic cost of funds was 220 bps below the average one-month SOFR and 241 bps below the average six-month SOFR for the quarter ended September 30, 2024. The average term to maturity of the outstanding repurchase agreements was 25 days at September 30, 2024 and 26 days at December 31, 2023.

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The tables below present the average balance of borrowings outstanding, interest expense and average cost of funds, and average one-month and six-month SOFR rates for the nine months ended September 30, 2024 and 2023, and for each quarter in 2024 to date and 2023, 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 | | | | | |
| September 30, 2024 | \$ 4,788,287 | \$ 67,306 | \$ 35,382 | 5.62% | 2.96% |
| June 30, 2024 | 4,028,601 | 53,761 | 24,302 | 5.34% | 2.41% |
| March 31, 2024 | 3,708,573 | 51,361 | 23,774 | 5.54% | 2.56% |
| December 31, 2023 | 4,066,298 | 52,325 | 27,164 | 5.15% | 2.67% |
| September 30, 2023 | 4,314,332 | 58,705 | 34,265 | 5.44% | 3.18% |
| June 30, 2023 | 3,985,577 | 48,671 | 25,189 | 4.88% | 2.53% |
| March 31, 2023 | 3,573,941 | 42,217 | 23,006 | 4.72% | 2.57% |
| Nine Months Ended | | | | | |
| September 30, 2024 | \$ 4,175,154 | \$ 172,428 | \$ 83,458 | 5.51% | 2.67% |
| September 30, 2023 | 3,957,950 | 149,593 | 82,460 | 5.04% | 2.78% |

| | | | Average GAAP Cost of Funds Relative to Average | | Average Economic Cost of Funds Relative to Average | |
|---------------------------|--------------|-----------|---|-------------------|---|-------------------|
| | Average SOFR | | One-Month SOFR | Six-Month SOFR | One-Month SOFR | Six-Month SOFR |
| | One-Month | Six-Month | | | | |
| Three Months Ended | | | | | | |
| September 30, 2024 | 5.16% | 5.37% | 0.46% | 0.25% | (2.20)% | (2.41)% |
| June 30, 2024 | 5.34% | 5.39% | 0.00% | (0.05)% | (2.93)% | (2.98)% |
| March 31, 2024 | 5.32% | 5.39% | 0.22% | 0.15% | (2.76)% | (2.83)% |
| December 31, 2023 | 5.34% | 5.35% | (0.19)% | (0.20)% | (2.67)% | (2.68)% |
| September 30, 2023 | 5.32% | 5.17% | 0.12% | 0.27% | (2.14)% | (1.99)% |
| June 30, 2023 | 5.07% | 4.78% | (0.19)% | 0.10% | (2.54)% | (2.25)% |
| March 31, 2023 | 4.63% | 4.09% | 0.09% | 0.63% | (2.06)% | (1.52)% |
| Nine Months Ended | | | | | | |
| September 30, 2024 | 5.27% | 5.38% | 0.24% | 0.13% | (2.60)% | (2.71)% |
| September 30, 2023 | 5.00% | 4.68% | 0.04% | 0.36% | (2.22)% | (1.90)% |

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Gains or Losses

The table below presents our gains or losses for the nine and three months ended September 30, 2024 and 2023.

(in thousands)

| | Nine Months Ended September 30, | | | Three Months Ended September 30, | | |
|--|---------------------------------|------------|--------------|----------------------------------|------------|--------------|
| | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Realized gains (losses) on sales of RMBS | \$ 510 | \$ - | \$ 510 | \$ 510 | \$ - | \$ 510 |
| Unrealized gains (losses) on RMBS and U.S. Treasury securities | 73,699 | (224,576) | 298,275 | 161,564 | (208,932) | 370,496 |
| Total gains (losses) on RMBS and U.S. Treasury securities | 74,209 | (224,576) | 298,785 | 162,074 | (208,932) | 371,006 |
| Gains on T-Note futures | 16,100 | 66,642 | (50,542) | (14,668) | 42,640 | (57,308) |
| (Losses) gains on interest rate swaps | (39,469) | 101,257 | (140,726) | (110,085) | 78,317 | (188,402) |
| Gains on payer swaptions (short positions) | - | 4,113 | (4,113) | - | (718) | 718 |
| Losses on payer swaptions (long positions) | (72) | (7,389) | 7,317 | - | 1,613 | (1,613) |
| Losses on interest rate caps | - | (415) | 415 | - | 493 | (493) |
| Losses on dual digital option | (500) | - | (500) | (105) | - | (105) |
| Losses on interest rate floors (short positions) | - | (1,143) | 1,143 | - | 73 | (73) |
| Gains on interest rate floors (long positions) | - | 2,666 | (2,666) | - | 137 | (137) |
| (Losses) gains on TBA securities (short positions) | (3,370) | 31,120 | (34,490) | (16,315) | 21,511 | (37,826) |
| Gains (losses) on TBA securities (long positions) | 453 | (2,598) | 3,051 | 348 | (2,024) | 2,372 |
| Total (losses) gains from derivative instruments | \$ (26,858) | \$ 194,253 | \$ (221,111) | \$ (140,825) | \$ 142,042 | \$ (282,867) |

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 nine months ended September 30, 2024, we received proceeds of \$288.2 million. Approximately \$221.7 million of these proceeds consisted of pools that were consolidated into a larger pool and simultaneously acquired by us. No gain or loss was recorded on this resecuritization. During the three months ended September 30, 2024, we received proceeds of approximately \$66.5 million from the sales of RMBS, resulting in gains of approximately \$0.5 million. We did not sell any RMBS during the three and nine months ended September 30, 2023.

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 accrued 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 2024 to date and 2023.

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| | 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) |
|--------------------|---------------------------------------|--|--|--|------------------------------|
| September 30, 2024 | 3.58% | 3.80% | 5.16% | 6.08% | 5.31% |
| June 30, 2024 | 4.33% | 4.34% | 6.16% | 6.86% | 5.35% |
| March 31, 2024 | 4.22% | 4.21% | 6.11% | 6.79% | 5.35% |
| December 31, 2023 | 3.84% | 3.87% | 5.93% | 6.61% | 5.36% |
| September 30, 2023 | 4.61% | 4.57% | 6.72% | 7.31% | 5.27% |
| June 30, 2023 | 4.13% | 3.82% | 6.06% | 6.71% | 5.00% |
| March 31, 2023 | 3.61% | 3.49% | 5.56% | 6.32% | 4.51% |

(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. The SOFR averages are compounded averages of the SOFR over rolling 30 and 180 calendar day periods.

Unrealized Gains and Losses on PT RMBS

For the purpose of recording income on the Company's investments in PT RMBS, interest income is based on the stated interest rate of the security. Using the fair value accounting method, premiums or discounts to the face value of the PT RMBS 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 comprehensive income (loss). The following table adjusts the Company's interest income as reported on the Company's statements of comprehensive income (loss) for the periods indicated to show interest income adjusted for premium amortization and discount accretion on its mortgage-backed security investments. The purpose of presenting this non-GAAP measure of interest income is to provide management and investors with an alternative way of evaluating yield on RMBS that may be more comparable to some of the Company's peers who amortize premiums and discounts on their PT RMBS investments.

(\$ in thousands)

| | Average RMBS Held | Interest Income | Yield on Average RMBS | Unrealized Gains (Losses) on PT RMBS | | | Inclusive of Premium Amortization/ Discount Accretion | | |
|---------------------------|-------------------------|--------------------|-----------------------------|--------------------------------------|--|---------------------------------|---|--------------------------------|--|
| | | | | As Reported(1) | (Premium Amortization)/ Discount Accretion(2) | Unrealized Gains (Losses) | Price Only Interest Income(3) | Yield on Average RMBS(3) | |
| | | | | | | | | | |
| Three Months Ended | | | | | | | | | |
| September 30, 2024 | \$ 4,984,279 | \$ 67,646 | 5.43% | \$ 161,919 | \$ 5,048 | \$ 156,871 | \$ 72,694 | 5.83% | |
| June 30, 2024 | 4,203,416 | 53,064 | 5.05% | (26,642) | 4,402 | (31,044) | 57,466 | 5.47% | |
| March 31, 2024 | 3,887,545 | 48,871 | 5.03% | (62,111) | 3,037 | (65,148) | 51,908 | 5.34% | |
| December 31, 2023 | 4,207,118 | 49,539 | 4.71% | 206,222 | 8,067 | 198,155 | 57,606 | 5.48% | |
| September 30, 2023 | 4,447,098 | 50,107 | 4.51% | (210,159) | 7,252 | (217,411) | 57,359 | 5.16% | |
| June 30, 2023 | 4,186,939 | 39,911 | 3.81% | (68,898) | 4,886 | (73,784) | 44,797 | 4.28% | |
| March 31, 2023 | 3,769,954 | 38,012 | 4.03% | 53,444 | 4,774 | 48,670 | 42,786 | 4.54% | |

(1)As reported in the Company's statements of comprehensive income (loss) using the fair value accounting method.

(2)Premium amortization/discount accretion for each period is calculated using the beginning of period market value of all securities. Amounts presented are intended to approximate amortization/accretion using the yield method over the life of the security based on premium/discount present at purchase date.

(3)Interest Income – Inclusive of Premium Amortization/Discount Accretion and Yield on Average RMBS – Inclusive of Premium Amortization/Discount Accretion are non-GAAP measures. See “—GAAP and Non-GAAP Reconciliations,” for a description of our non-GAAP measures.

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Expenses

For the nine and three months ended September 30, 2024, the Company's total operating expenses were approximately \$12.4 million and \$4.3 million, compared to approximately \$14.5 million and \$4.6 million for the nine and three months ended September 30, 2023. The table below presents a breakdown of operating expenses for the nine and three months ended September 30, 2024 and 2023.

(in thousands)

| | Nine Months Ended September 30, | | | Three Months Ended September 30, | | |
|--|---------------------------------|-----------|------------|----------------------------------|----------|----------|
| | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Management fees | \$ 6,867 | \$ 8,216 | \$ (1,349) | \$ 2,449 | \$ 2,870 | \$ (421) |
| Overhead allocation | 1,967 | 1,772 | 195 | 637 | 557 | 80 |
| Accrued incentive compensation | 470 | 1,110 | (640) | 269 | 322 | (53) |
| Directors fees and liability insurance | 1,015 | 986 | 29 | 343 | 345 | (2) |
| Audit, legal and other professional fees | 1,065 | 1,200 | (135) | 269 | 301 | (32) |
| Direct REIT operating expenses | 564 | 531 | 33 | 216 | 193 | 23 |
| Other administrative | 439 | 652 | (213) | 86 | 56 | 30 |
| Total expenses | \$ 12,387 | \$ 14,467 | \$ (2,080) | \$ 4,269 | \$ 4,644 | \$ (375) |

As of December 31, 2023, the Company had accrued a liability of \$0.6 million for bonuses to be paid to the Manager's employees. During the first nine months of 2024, the Company awarded shares of Company common stock with a fair value of \$0.3 million. Accrued incentive compensation for the nine months ended September 30, 2024 includes a reversal of the over accrual of this liability.

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, 2025 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 pays 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.

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The following table summarizes the management fee and overhead allocation expenses for the nine months ended September 30, 2024 and 2023, and for each quarter in 2024 to date and 2023.

(\$ in thousands)

| Three Months Ended | Average Orchid MBS | Average Orchid Equity | Advisory Services | | | Total |
|--------------------------|--------------------------|-----------------------------|-------------------|------------------------|----------|-------|
| | | | Management Fee | Overhead Allocation | | |
| September 30, 2024 | \$ 4,984,279 | \$ 780,010 | \$ 2,449 | \$ 637 | \$ 3,086 | |
| June 30, 2024 | 4,203,416 | 699,766 | 2,257 | 732 | 2,989 | |
| March 31, 2024 | 3,887,545 | 672,057 | 2,161 | 598 | 2,759 | |
| December 31, 2023 | 4,207,118 | 851,532 | 2,275 | 617 | 2,892 | |
| September 30, 2023 | 4,447,098 | 964,230 | 2,870 | 557 | 3,427 | |
| June 30, 2023 | 4,186,939 | 899,109 | 2,704 | 639 | 3,343 | |
| March 31, 2023 | 3,769,954 | 865,722 | 2,642 | 576 | 3,218 | |
| Nine Months Ended | | | | | | |
| September 30, 2024 | \$ 4,358,413 | \$ 717,278 | \$ 6,867 | \$ 1,967 | \$ 8,834 | |
| September 30, 2023 | 4,134,664 | 909,687 | 8,216 | 1,772 | 9,988 | |

Financial Condition:

Mortgage-Backed Securities

As of September 30, 2024, our RMBS portfolio consisted of \$5,442.8 million of Agency RMBS at fair value and had a weighted average coupon on assets of 4.90%. During the nine months ended September 30, 2024, we received principal repayments of \$310.3 million, compared to \$237.9 million for the nine months ended September 30, 2023. The average three month prepayment speeds for the quarters ended September 30, 2024 and 2023 were 8.8% and 6.0%, 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 (%) |
|--------------------|--------------------------|-------------------------------------|-------------------------------------|------------------------|
| | | PT RMBS Portfolio (%) | Structured RMBS Portfolio (%) | |
| September 30, 2024 | 8.8 | 6.4 | 8.8 | |
| June 30, 2024 | 7.6 | 7.1 | 7.6 | |
| March 31, 2024 | 6.0 | 5.9 | 6.0 | |
| December 31, 2023 | 5.4 | 7.9 | 5.5 | |
| September 30, 2023 | 6.1 | 5.7 | 6.0 | |
| June 30, 2023 | 5.6 | 7.0 | 5.6 | |
| March 31, 2023 | 3.9 | 5.7 | 4.0 | |

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The following tables summarize certain characteristics of the Company's PT RMBS and structured RMBS as of September 30, 2024 and December 31, 2023:

(\$ in thousands)

| Asset Category | Fair Value | Percentage of Entire Portfolio | Weighted Average Coupon | Weighted Average Maturity in Months | Longest Maturity |
|----------------------------------|--------------|--------------------------------|-------------------------|-------------------------------------|------------------|
| September 30, 2024 | | | | | |
| Fixed Rate RMBS | \$ 5,427,069 | 99.7% | 4.94% | 327 | 1-Oct-54 |
| Interest-Only Securities | 15,382 | 0.3% | 4.01% | 214 | 25-Jul-48 |
| Inverse Interest-Only Securities | 353 | 0.0% | 0.00% | 264 | 15-Jun-42 |
| Total Mortgage Assets | \$ 5,442,804 | 100.0% | 4.90% | 325 | 1-Oct-54 |
| December 31, 2023 | | | | | |
| Fixed Rate RMBS | \$ 3,877,082 | 99.6% | 4.33% | 334 | 1-Nov-53 |
| Interest-Only Securities | 16,572 | 0.4% | 4.01% | 223 | 25-Jul-48 |
| Inverse Interest-Only Securities | 358 | 0.0% | 0.00% | 274 | 15-Jun-42 |
| Total Mortgage Assets | \$ 3,894,012 | 100.0% | 4.30% | 331 | 1-Nov-53 |

(\$ in thousands)

| | September 30, 2024 | | December 31, 2023 | |
|--|--------------------|--------------------------------|-------------------|--------------------------------|
| | Fair Value | Percentage of Entire Portfolio | Fair Value | Percentage of Entire Portfolio |
| Agency | | | | |
| Fannie Mae | \$ 3,692,047 | 67.8% | \$ 2,714,192 | 69.7% |
| Freddie Mac | 1,750,757 | 32.2% | 1,179,820 | 30.3% |
| Total Portfolio | \$ 5,442,804 | 100.0% | \$ 3,894,012 | 100.0% |
| | | | | |
| | | September 30, 2024 | December 31, 2023 | |
| Weighted Average Pass-through Purchase Price | \$ | 102.72 | \$ | 104.10 |
| Weighted Average Structured Purchase Price | \$ | 18.74 | \$ | 18.74 |
| Weighted Average Pass-through Current Price | \$ | 98.89 | \$ | 95.70 |
| Weighted Average Structured Current Price | \$ | 14.02 | \$ | 13.51 |
| Effective Duration (1) | | 3.490 | | 4.400 |

(1) Effective duration is the approximate percentage change in price for a 100 bps change in rates. An effective duration of 3.490 indicates that an interest rate increase of 1.0% would be expected to cause a 3.490% decrease in the value of the RMBS in the Company's investment portfolio at September 30, 2024. An effective duration of 4.400 indicates that an interest rate increase of 1.0% would be expected to cause a 4.400% decrease in the value of the RMBS in the Company's investment portfolio at December 31, 2023. 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 nine months ended September 30, 2024 and 2023, including securities purchased during the period that settled after the end of the period, if any.

(\$ in thousands)

| | 2024 | | | 2023 | | |
|-------------------|--------------|---------------|------------------------|--------------|---------------|------------------------|
| | Total Cost | Average Price | Weighted Average Yield | Total Cost | Average Price | Weighted Average Yield |
| Pass-through RMBS | \$ 2,073,150 | \$ 102.34 | 5.72% | \$ 1,443,827 | \$ 100.16 | 5.34% |
| Structured RMBS | - | - | - | - | - | - |

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Borrowings

As of September 30, 2024, 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 25 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 September 30, 2024, we had obligations outstanding under the repurchase agreements of approximately \$5,230.9 million with a net weighted average borrowing cost of 5.24%. The remaining maturity of our outstanding repurchase agreement obligations ranged from 9 to 51 days, with a weighted average remaining maturity of 25 days. Securing the repurchase agreement obligations as of September 30, 2024 are RMBS with an estimated fair value, including accrued interest, of approximately \$5,461.0 million, and cash pledged to counterparties of approximately \$9.2 million. Through October 25, 2024, we have been able to maintain our repurchase facilities with comparable terms to those that existed at September 30, 2024, with maturities through November 20, 2024.

The table below presents information about our period end, maximum and average balances of borrowings for each quarter in 2024 to date and 2023.

(\$ 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 | Percent |
| September 30, 2024 | \$ 5,230,871 | \$ 5,252,365 | \$ 4,788,287 | \$ 442,584 | 9.24% |
| June 30, 2024 | 4,345,704 | 4,354,704 | 4,028,601 | 317,103 | 7.87% |
| March 31, 2024 | 3,711,498 | 3,774,739 | 3,708,573 | 2,925 | 0.08% |
| December 31, 2023 | 3,705,649 | 4,426,947 | 4,066,298 | (360,649) | (8.87)% |
| September 30, 2023 | 4,426,947 | 4,494,858 | 4,314,332 | 112,615 | 2.61% |
| June 30, 2023 | 4,201,717 | 4,201,717 | 3,985,577 | 216,140 | 5.42% |
| March 31, 2023 | 3,769,437 | 3,849,137 | 3,573,941 | 195,496 | 5.47% |

Leverage

We use two primary measures of leverage. Economic leverage is calculated by dividing the sum of total liabilities and our net notional TBA position, by stockholders' equity. We include our net TBA position in our calculation of economic leverage because a forward contract to purchase or sell an Agency RMBS in the TBA market carries similar risks to an Agency RMBS purchased or sold in the cash market and funded with repurchase agreement liabilities. Adjusted leverage is calculated by dividing our repurchase agreements by stockholders' equity. Our economic leverage at September 30, 2024 was 7.6 to 1, compared to 6.7 to 1 as of December 31, 2023. Our adjusted leverage at September 30, 2024 was 8.0 to 1, compared to 7.9 to 1 as of December 31, 2023. The following table presents information related to our historical leverage.

(\$ in thousands)

| | Ending Repurchase Agreements | Ending Total Liabilities | Ending Net TBA Positions | Ending Stockholders' Equity | Adjusted Leverage | Economic Leverage |
|--------------------|------------------------------|--------------------------|--------------------------|-----------------------------|-------------------|-------------------|
| September 30, 2024 | \$ 5,230,871 | \$ 5,260,469 | \$ (300,000) | \$ 656,024 | 8.0:1 | 7.6:1 |
| June 30, 2024 | 4,345,704 | 4,373,973 | (400,000) | 555,932 | 7.8:1 | 7.1:1 |
| March 31, 2024 | 3,711,498 | 3,733,031 | (370,700) | 481,632 | 7.7:1 | 7.0:1 |
| December 31, 2023 | 3,705,649 | 3,795,002 | (645,700) | 469,945 | 7.9:1 | 6.7:1 |
| September 30, 2023 | 4,426,947 | 4,470,052 | (502,500) | 466,841 | 9.5:1 | 8.5:1 |
| June 30, 2023 | 4,201,717 | 4,240,845 | (250,000) | 490,086 | 8.6:1 | 8.1:1 |
| March 31, 2023 | 3,769,437 | 3,814,651 | (875,000) | 451,361 | 8.4:1 | 6.5:1 |

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 short-term and long-term 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, 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 nine months ended September 30, 2024, haircuts on our pledged collateral remained stable and as of September 30, 2024, our weighted average haircut was approximately 4.3% of the value of our collateral.

TBAs represent a form of off-balance sheet financing and are accounted for as derivative instruments. (See Note 5 to our Financial Statements in this Form 10-Q for additional details on 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.

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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 repurchase market. This structured RMBS strategy has been a core element of the Company's overall investment strategy since inception. However, we have and may continue to pledge a portion of our structured RMBS in order to raise our cash levels, but generally will not pledge these securities in order to acquire additional assets.

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 September 30, 2024, we had cash and cash equivalents of \$322.1 million. We generated cash flows of \$459.4 million from principal and interest payments on our RMBS and had average repurchase agreements outstanding of \$4,175.2 million during the nine months ended September 30, 2024.

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 October 29, 2021, we entered into an equity distribution agreement (the "October 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 9,742,188 shares under the October 2021 Equity Distribution Agreement for aggregate gross proceeds of approximately \$151.8 million, and net proceeds of approximately \$149.3 million, after commissions and fees, prior to its termination in March 2023.

On March 7, 2023, we entered into an equity distribution agreement (the "March 2023 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 \$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 24,675,497 shares under the March 2023 Equity Distribution Agreement for aggregate gross proceeds of approximately \$228.8 million and net proceeds of approximately \$225.0 million, after commissions and fees, prior to its termination in June 2024.

On June 11, 2024, we entered into an equity distribution agreement (the "June 2024 Equity Distribution Agreement") with three 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 September 30, 2024, we issued a total of 15,309,022 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$128.6 million, and net proceeds of approximately \$126.5 million, after commissions and fees. Subsequent to September 30, 2024, we issued a total of 332,000 shares under the June 2024 Equity Distribution Agreement for aggregate gross proceeds of approximately \$2.7 million, and net proceeds of approximately \$2.7 million, after commissions and fees.

Outlook

Economic Summary

The trajectory of the economy that existed as the second quarter of 2024 ended continued into the third quarter. The trend was apparent in the incoming economic data, the level of interest rates and the outlook for monetary policy on the part of the Fed. With respect to the latter, the Fed finally lowered the Fed Funds rate in late September by 50 basis points, the first interest rate cut since the Fed stopped tightening monetary policy in March of 2023. The move was well telegraphed by various Fed officials during their public comments leading up to the event as the Fed was careful not to surprise the market with the cut. Throughout the third quarter, incoming labor market and inflation data was consistent with the Fed's view that inflation was approaching its 2% target and would soon get there. The Fed's focus has shifted to the labor market and ensuring the supply/demand balance that had led to a low unemployment rate and outsized wage gains did not slow too much and jeopardize its efforts to fulfill its second mandate of full employment. Further, elevated interest rate levels had materially impacted the housing market and other interest rate sensitive sectors of the economy, so the Fed feared that if the labor market cooled too much then economic growth could as well. The manufacturing side of the economy was already weak, so all things considered the Fed's movement of monetary policy back towards the neutral rate was consistent with its mandates.

Unlike the inflation and labor market data, consumer spending levels and economic growth generally – as measured by GDP – were still quite robust during the third quarter and, in the case of the latter, trending at or above sustainable trend growth rates. However, as long as inflation data continued to move towards its target level – and such data was already there when three- or six-month measures were annualized – the Fed appeared comfortable lowering the Fed Funds rate to ensure the labor market did not cool too much. As the fourth quarter of 2024 begins, the latest reading on the labor market appears to have reversed the slowing trend apparent over the last several months as the September reading was very strong, previous months data was revised higher and the unemployment rate declined. Also, in late September, the government revised previously released data on gross domestic income ("GDI"), another measure of economic growth. GDI data over the past several quarters had been quite low and inconsistent with GDP data and consumer spending levels. Most economists believed the GDI data painted the more accurate picture of the true level of economic growth in the economy. However, the GDI data was revised higher and was now consistent with the GDP data. Together with the latest labor market data, the economy now appears quite healthy and the market expects that the Fed will be more conservative in the timing and extent of further reductions in the Fed Funds rate.

Interest Rates

Over the course of the third quarter of 2024, interest rates continued to decrease as they had through the last two months of the second quarter. After the yield on the 10-year T-Note peaked at 4.7% in late April 2024, the yield trended downward until hitting a year-to-date low near 3.6% on September 16, 2024. However, the GDI revisions in late September, coupled with the resurgence in the labor market data released in early October, drove 10-year U.S. Treasury rates back above 4% in early October. Otherwise, the U.S Treasury and swap curves steepened throughout the third quarter of 2024. The spread between the 2-year and 10-year T-Notes turned positive in early September 2024 for the first time since mid-2022, ending the longest period of inversion ever recorded.

As noted above, the Fed reduced the overnight Fed Funds rate at its meeting in September by 50 basis points. Given developments discussed above that occurred prior to the Fed's meeting in September – cooling inflation data, a slowing labor market and comments by Fed officials regarding their desire to start to remove overly restrictive monetary policy – the market anticipated two such 50 basis point cuts and at least one additional 25 basis point cut by year-end based on price levels in the futures and related markets. The developments late in the third quarter of 2024 and early in the fourth quarter of 2024 – the GDI revisions, September labor market report and even the September inflation report released in early October, which was slightly higher than expectations – have reduced market expectations of further Fed Funds rate cuts this year to less than two more 25 basis point cuts. Some economists believe the economy may have achieved a "soft" landing after the 500+ basis point hikes initiated by the Fed. A soft landing refers to the outcome where the economy does not suffer a contraction or even slowdown growth following a tightening cycle by the Fed. Such instances are very rare, and it remains to be seen if this will prove to be the case.

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Interest rate volatility embedded in interest rate derivatives, as measured by the MOVE index, was elevated throughout the third quarter of 2024 and even increased further still late in the quarter after the Fed Funds rate cut, likely in response to the developments discussed above, geopolitical events in the Middle East and uncertainty surrounding the U.S. presidential election in November. The value of the index approached a year-to-date high reading in early October. Given that uncertainty surrounding these same events remains, it is likely interest rate volatility will remain elevated through the fourth quarter of 2024.

The Agency RMBS Market

As the economic data, particularly inflation, moderated over the course of the second quarter of 2024, market participants expected that should the trend continue the Fed would soon begin loosening monetary policy and the curve slope would normalize and become positively sloped again. Risk assets of all kinds performed very well for the second quarter as investors became comfortable short-term rates had peaked and would soon be heading lower, reducing funding costs and enhancing levered returns on risk assets. Lower risk assets also generated positive returns, such as Agency RMBS, but the returns were modest. The Agency RMBS index generated a total return for the quarter of 0.2%, and 0.3% for Fannie Mae Agency RMBS. Versus comparable duration U.S. Treasuries (a proxy for hedge adjusted returns), the returns were (0.2)% and (0.25)%, respectively. These returns for the second quarter of 2024 compare to 4.3% for the S&P 500, 1.1% for the high yield index and absolute returns of between 1.0% and 1.7% for the various sub-sectors of the non-Agency RMBS indices.

Within the stack of 30-year, fixed rate Agency RMBS (the asset class in which the Company invests the vast majority of its capital), absolute returns tracked the coupons of the securities - the higher the coupon, the higher the return. The return for 2.0% coupon securities was 0.1% for the second quarter, the lowest return, and 1.3% for 7.0% coupon securities, the highest return and coupon. Within the stack of 30-year, fixed rate Agency RMBS, excess returns versus comparable duration swaps for the second quarter (a proxy for hedged returns) were better for coupons on the lower and higher end of the coupon range, with returns for the middle coupons lagging. The lowest coupon securities, 2.0%, 2.5%, 3.0% and 3.5%, had excess returns of (0.1)%. The highest coupons securities, 6.5% and 7.0%, had excess returns of (0.2)% and 0.0%, respectively. The middle coupon security returns, 4.0% coupons through 6.0% coupons, had excess returns between (0.3)% and (0.6)%.

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 its balance sheet by a maximum of \$60 billion of U.S. Treasuries and \$35 billion of Agency RMBS per month. On May 1, 2024, the FOMC announced the Fed's decision to reduce its balance sheet by a maximum of \$25 billion of U.S. Treasuries and remove the cap on Agency RMBS reduction, with any amounts in excess of \$35 billion per month being reinvested in U.S. Treasury securities. Relatively high interest rates and slow prepayment speeds have kept the balance sheet reduction for Agency RMBS below \$20 billion per month throughout 2024, although an increase in mortgage refinance applications following the announcement of the Fed Funds rate cut in September 2024 may accelerate the process. As of August 2024, the Fed had reduced its balance sheet for Agency RMBS by approximately \$440 billion from the peak to \$2.3 trillion, shedding approximately 32% of the Agency RMBS added during pandemic quantitative easing and representing the lowest level since June 2021.

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On September 14, 2021, the U.S. Treasury and the FHFA suspended certain policy provisions in the Enterprise capital framework established in December 2020, including limits on loans acquired for cash consideration, multifamily loans, loans with higher risk characteristics and second homes and investment properties. Effective April 26, 2022, the FHFA further amended this framework 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 and negatively impacted liquidity and pricing in the market for TBA securities. On November 30, 2023, the FHFA published a final rule, which became effective April 1, 2024, which will, among other things, reduce the risk weight and credit conversion factor for guarantees on commingled securities to 5% and 50%, respectively; replace the current exposure methodology with the standardized approach for counterparty credit risk as the method for computing exposure and risk-weighted asset amounts for derivatives and cleared transactions; update the credit score assumption to 680 for single-family mortgage exposures originated without a representative credit score; and introduce a risk weight of 20% for guarantee assets.

On July 27, 2023, the federal banking regulators, including the Office of the Comptroller of the Currency, (the "OCC") the FDIC and the Fed, jointly issued a proposed rule that would revise large bank capital requirements (the "Basel III Endgame"). The Basel III Endgame, if implemented as proposed, would significantly increase the credit weight risk for balance-sheet mortgages and for Agency RMBS sold to the GSEs, which could disincentivize banks from originating mortgages for sale to the GSEs and impact pricing in the Agency RMBS markets. The comment period for the Basel III Endgame closed on January 16, 2024, and the proposed rule was met with strong objections from the banking industry. In testimony before the United States Senate Committee on Banking, Housing and Urban Affairs in July 2024, Fed chairman Jerome Powell stated that the OCC, the FDIC and the Fed were in discussions to materially revise the proposed rule, and that there was consensus at the Fed to undergo another comment period. In remarks given on September 10, 2024, Michael Barr, the Fed's Vice Chair for Supervision, confirmed that the Basel III Endgame was being rewritten to, among other things, reduce the risk weights for residential real estate and retail exposures, extend the scope of the reduced risk weight for certain low-risk corporate debt, and eliminate the minimum haircut for securities financing transactions.

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.

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If prepayment levels increase, the value of any of our Agency RMBS that are carried at a premium to par that are 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. If prepayment levels decrease, the value of any of our Agency RMBS that are carried at a discount to par that are affected by such prepayments may increase. This is because a principal prepayment accelerates the effective term of an Agency RMBS, which would shorten the timeframe over which an investor would receive the principal of the underlying loans. Agency RMBS backed by mortgages with low interest rates are less susceptible to prepayment risk because holders of those mortgages are less likely to refinance to a higher 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.

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 or SOFR 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. The impact of these increases 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 Fed Funds, SOFR and T-Note futures contracts, dual digital options or interest rate swaptions.

Summary

The long-awaited impacts of tight monetary policy orchestrated by the Fed appear to have finally slowed inflation sufficiently such that the Fed could re-focus on its second mandate – full employment in the economy. The labor market data over the course of the second and third quarters of 2024 reflected greater balance between the supply and demand for labor, such that hiring and wage growth were slowing and the unemployment rate was rising gradually. In late September 2024, the Fed reduced the Fed funds rate by 50 basis points, and the market anticipated it was the first of many such cuts. In contrast, growth in the economy, as measured by both GDP and GDI as well as consumer spending, has remained robust throughout. However, the non-farm payroll report for September 2024, released in early October, as well as the latest readings on inflation suggest that the Fed may be more conservative in the timing and extent of further reductions in the Fed Funds rate than the market had expected at the beginning of the third quarter.

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Interest rates decreased over the course of the third quarter of 2024, continuing the trend started in late April 2024. The U.S. Treasury curve also steepened as the market anticipated additional easing of monetary policy by the Fed and the spread between the 2-year and 10-year T-Notes finally turned positive in early September 2024 after being inverted since mid-2022, the longest inversion ever. Cheaper funding levels coupled with a still healthy economy were supportive of risk assets, and domestic fixed income securities all generated positive returns for the quarter. Agency RMBS also generated positive excess returns versus comparable duration swaps. Based on recent positive economic data, it is unclear how much further the Fed will go in relaxing monetary policy. Further, geo-political events around the world, especially in the Middle East, as well as the U.S. presidential election in November, are cause for uncertainty in the outlook for markets and the economy. The market in which the Company invests the preponderance of its capital, the Agency RMBS market, has performed well so far in 2024, and potential returns available in the market remain attractive. While additional Fed Funds rate cuts by the Fed may be supportive of the Company's earnings going forward, the Company also expects that its hedge positions in place will allow it to continue to generate attractive dividends if current market rates persist.

Critical Accounting Estimates

Our condensed 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 estimates involve decisions and assessments which could significantly affect reported assets, liabilities, revenues and expenses. There have been no changes to our critical accounting estimates as discussed in our annual report on Form 10-K for the year ended December 31, 2023.

Capital Expenditures

At September 30, 2024, 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 deduction for dividends paid and excluding any net capital gains. REIT taxable income (loss) is computed in accordance with the Code, and can be greater than or less than our financial statement net income (loss) computed in accordance with GAAP. These book to tax differences primarily relate to the recognition of interest income on RMBS, unrealized gains and losses on RMBS, and the amortization of losses on derivative instruments that are treated as funding hedges for tax purposes.

We intend to pay regular monthly dividends to our stockholders and have declared the following dividends since the completion of our IPO.

(in thousands, except per share amounts)

| Year | Per Share Amount | Total |
|---------------|------------------|-------------------|
| 2013 | \$ 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 | 1.800 | 81,127 |
| 2024 - YTD(1) | 1.200 | 76,738 |
| Totals | \$ 67.650 | \$ 685,335 |

(1) On October 16, 2024, the Company declared a dividend of \$0.12 per share to be paid on November 27, 2024. The effect of this dividend is included in the table above but is not reflected in the Company's financial statements as of September 30, 2024.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates can also affect the rate of prepayments of our securities and the value of the RMBS that constitute our investment portfolio, which affects our net income, 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, dual digital options, interest rate swaps and swaptions, and interest rate floors and caps. 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 fixed-rate RMBS, adjustable-rate RMBS ("ARMs") and hybrid adjustable-rate RMBS. We generally seek to acquire low duration assets that offer high levels of protection from mortgage prepayments provided that they are reasonably priced by the market. Although the duration of an individual asset can change as a result of changes in interest rates, we strive to maintain a hedged PT RMBS portfolio with an effective duration of less than 2.0. The stated contractual final maturity of the mortgage loans underlying our portfolio of PT RMBS generally ranges up to 30 years. However, the effect of prepayments of the underlying mortgage loans tends to shorten the resulting cash flows from our investments substantially. Prepayments occur for various reasons, including refinancing of underlying mortgages and loan payoffs in connection with home sales, 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.

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The following sensitivity analysis shows the estimated impact on the fair value of our interest rate-sensitive investments and hedge positions as of September 30, 2024 and December 31, 2023, 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 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 September 30, 2024 and December 31, 2023.

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 the overall management of our investment portfolio.

| Change in Interest Rate | Interest Rate Sensitivity(1) | |
|---------------------------------|------------------------------|------------------|
| | Portfolio Market Value(2)(3) | Book Value(2)(4) |
| As of September 30, 2024 | | |
| -200 Basis Points | (2.68)% | (22.20)% |
| -100 Basis Points | (0.87)% | (7.20)% |
| -50 Basis Points | (0.31)% | (2.55)% |
| +50 Basis Points | 0.04% | 0.34% |
| +100 Basis Points | (0.18)% | (1.53)% |
| +200 Basis Points | (1.32)% | (10.93)% |
| As of December 31, 2023 | | |
| -200 Basis Points | (2.03)% | (16.78)% |
| -100 Basis Points | (0.54)% | (4.48)% |
| -50 Basis Points | (0.17)% | (1.40)% |
| +50 Basis Points | 0.00% | 0.02% |
| +100 Basis Points | (0.15)% | (1.23)% |
| +200 Basis Points | (0.81)% | (6.70)% |

- (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 government sponsored entity 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.

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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, dual digital options, interest rate swaps and swaptions, and interest rate caps and floors 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 September 30, 2024, we had unrestricted cash and cash equivalents of \$322.1 million and unpledged securities of approximately \$4.6 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, dual digital options 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "evaluation date"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the 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 Manager's 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.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

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

ITEM 1A. RISK FACTORS

A description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2023. As of September 30, 2024, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2023.

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

The Company did not have any unregistered sales of its equity securities during the three months ended September 30, 2024.

The table below presents the Company's share repurchase activity for the three months ended September 30, 2024.

| | Total Number of Shares of Common Stock 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 |
|--|---|---------------------------------------|---|--|
| July 1, 2024 - July 31, 2024 | - | \$ - | - | 3,895,829 |
| August 1, 2024 - August 31, 2024 | - | - | - | 3,895,829 |
| September 1, 2024 - September 30, 2024 | 64,423 | \$ 8.06 | 63,468 | 3,832,361 |
| Totals / Weighted Average | 64,423 | \$ 8.06 | 63,468 | 3,832,361 |

(1) Includes 955 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 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION**Trading Arrangements**

During the quarter ended September 30, 2024, none of the Company's directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as each term is defined in Item 408 of Regulation S-K).

ITEM 6. EXHIBITS

Exhibit No.

3.1 [Articles of Amendment and Restatement of Orchid Island Capital, Inc. \(filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 \(File No. 333-184538\) filed on November 28, 2012 and incorporated herein by reference\).](#)

3.2 [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 to the Articles of Amendment and Restatement of the Company \(filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 30, 2022 and incorporated herein by reference\).](#)

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\).](#)

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.

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: October 25, 2024 By: /s/ Robert E. Cauley
Robert E. Cauley
Chief Executive Officer, President and Chairman of the Board
(Principal Executive Officer)

Date: October 25, 2024 By: /s/ George H. Haas, IV
George H. Haas, IV
Secretary, Chief Financial Officer, Chief Investment Officer and
Director (Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Robert E. Cauley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 25, 2024

/s/ Robert E. Cauley

Robert E. Cauley
Chairman of the Board, Chief Executive Officer and
President

CERTIFICATIONS

I, George H. Haas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 25, 2024

/s/ George H. Haas, IV

George H. Haas, IV
Chief Financial Officer

**CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

In connection with the quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "Company") for the period ended September 30, 2024 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Robert E. Cauley, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

October 25, 2024

/s/ Robert E. Cauley

Robert E. Cauley,
Chairman of the Board and
Chief Executive Officer

**CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

In connection with the quarterly report on Form 10-Q of Orchid Island Capital, Inc. (the "Company") for the period ended September 30, 2024 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, George H. Haas, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

October 25, 2024

/s/ George H. Haas, IV

George H. Haas, IV
Chief Financial Officer