Orchid Island Capital, Inc.
Form 10-Q
November 04, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from __________ to ___________

Commission File Number: 001-35236

Orchid Island Capital, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ý

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

Number of shares outstanding at November 4, 2013: 3,341,665

ORCHID ISLAND CAPITAL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ORCHID ISLAND CAPITAL, INC.
BALANCE SHEETS

	(Unaudited) September 30, 2013	December 31, 2012
ASSETS:		
Mortgage-backed securities, at fair value		
Pledged to counterparties	$277,982,323	$109,604,559
Unpledged	53,804,610	5,775,015
Total mortgage-backed securities	331,786,933	115,379,574
Cash and cash equivalents	7,900,956	2,537,257
Restricted cash	2,580,875	449,000
Accrued interest receivable	1,388,496	440,877
Due from affiliates	-	45,126
Receivable for securities sold, pledged to counterparties	41,150,840	-
Prepaid expenses and other assets	671,733	9,122
Total Assets	$385,479,833	$118,860,956
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Repurchase agreements	$301,656,523	$103,941,174
Accrued interest payable	77,697	54,084
Due to affiliates	79,878	-
Payable for unsettled securities purchased	38,720,351	-
Accounts payable, accrued expenses and other	121,183	140,723
Total Liabilities	340,655,632	104,135,981
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of September 30, 2013 and no shares authorized as of December 31, 2012	-	-
Common Stock, $0.01 par value; 500,000,000 shares authorized, 3,341,665 shares issued and outstanding as of September 30, 2013 and 1,000,000 shares authorized, 154,110 shares issued and outstanding as of December 31, 2012	33,417	1,541
Additional paid-in capital	47,619,710	15,409,459
Accumulated deficit	(2,828,926)	(686,025)
Total Stockholders' Equity	44,824,201	14,724,975
Total Liabilities and Stockholders' Equity	$385,479,833	$118,860,956

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012
Interest income	$6,393,156	$2,224,749	$2,551,199	$696,905
Interest expense	(817,219)	(182,815)	(293,913)	(58,381)
Net interest income	5,575,937	2,041,934	2,257,286	638,524
Realized (losses) gains on mortgage-backed securities	(1,490,712)	115,871	(667,182)	(336)
Unrealized (losses) gains on mortgage-backed securities	(9,072,712)	(758,405)	86,070	156,014
Gains (losses) on Eurodollar futures contracts	4,095,788	(39,500)	(2,271,875)	(14,250)
Net portfolio (loss) income	(891,699)	1,359,900	(595,701)	779,952
Expenses:				
Management fees	489,700	185,000	179,500	64,600
Directors' fees and liability insurance	207,309	-	82,924	-
Audit, legal and other professional fees	321,436	133,237	70,949	72,301
Direct REIT operating expenses	137,177	149,923	36,550	49,781
Other administrative	95,580	90,184	31,483	47,862
Total expenses	1,251,202	558,344	401,406	234,544
Net (loss) income	$(2,142,901)	$801,556	$(997,107)	$545,408
Basic and diluted net (loss) income per share	$(0.74)	$0.82	$(0.30)	$0.56
Weighted Average Shares Outstanding	2,900,786	981,665	3,341,665	981,665
Dividends Declared Per Common Share	$0.945	$-	$0.405	$-

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
Nine Months Ended September 30, 2013

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balances, January 1, 2013	$1,541	$15,409,459	$ (686,025)	$14,724,975
Net loss	-	-	(2,142,901)	(2,142,901)
Cash dividends declared, $0.945 per share	-	(3,157,873)	-	(3,157,873)
Issuance of common stock pursuant to public offering	23,600	35,376,400	-	35,400,000
Issuance of common stock pursuant to stock dividend	8,276	(8,276)	-	-
Balances, September 30, 2013	$33,417	$47,619,710	$ (2,828,926)	$44,824,201

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)
For the Nine Months Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(2,142,901)	$801,556
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Realized and unrealized losses on mortgage-backed securities	10,563,424	642,534
Changes in operating assets and liabilities:		
Accrued interest receivable	(907,884)	36,708
Prepaid expenses and other assets	(118,425)	(31,346)
Accrued interest payable	23,613	19,961
Accounts payable, accrued expenses and other	(19,540)	241
Due to affiliates	125,004	213,759
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,523,291	1,683,413
CASH FLOWS FROM INVESTING ACTIVITIES:		
From mortgage-backed securities investments:		
Purchases	(489,923,917)	(109,739,149)
Sales	237,375,025	91,041,151
Principal repayments	22,563,699	7,248,554
(Increase) decrease in restricted cash	(2,131,875)	82,625
NET CASH USED IN INVESTING ACTIVITIES	(232,117,068)	(11,366,819)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from repurchase agreements	2,423,975,175	389,050,234
Principal payments on repurchase agreements	(2,226,259,826)	(376,803,831)
Cash dividends	(3,157,873)	-
Proceeds from issuance of common stock	35,400,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	229,957,476	12,246,403
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,363,699	2,562,997
CASH AND CASH EQUIVALENTS, beginning of the period	2,537,257	1,891,914
CASH AND CASH EQUIVALENTS, end of the period	$7,900,956	$4,454,911
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$793,606	$162,854
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Securities acquired settled in later period	$38,720,351	$-
Securities sold settled in later period	$40,955,374	$-

See Notes to Financial Statements

ORCHID ISLAND CAPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
UNAUDITED
SEPTEMBER 30, 2013

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 through February 20, 2013 Orchid was a wholly owned subsidiary of Bimini Capital Management, Inc. (“Bimini”). Orchid began operations on November 24, 2010. From incorporation through November 24, 2010, Orchid’s only activity was the issuance of common stock to Bimini. On February 20, 2013, Orchid completed the initial public offering (“IPO”) of its Common Stock in which it sold approximately 2.4 million shares of its common stock and raised proceeds of $35.4 million. Following the IPO, Bimini owns approximately 29.38% of Orchid’s outstanding common stock.

Basis of Presentation and Use of Estimates

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates affecting the accompanying financial statements are the fair values of MBS and Eurodollar futures contracts.

Statement of Comprehensive Income (Loss)

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments with original maturities of three months or less. Restricted cash, of approximately $2,581,000 at September 30, 2013, represents cash held by a broker as margin on Eurodollar futures contracts. Restricted cash, totaling approximately $449,000 at December 31, 2012, represents cash held on deposit as collateral with repurchase agreement counterparties.

The Company maintains cash balances at three banks, and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance reverted to $250,000 per depositor at each financial institution. At September 30, 2013, the Company's cash deposits exceeded federally insured limits by approximately $7.4 million. Restricted cash balances are uninsured, but are held in separate customer accounts that are segregated from the general funds of the counterparty. The Company believes that it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash balances.

Mortgage-Backed Securities

The Company invests primarily in mortgage pass-through ("PT") certificates, collateralized mortgage obligations, and interest only ("IO") securities and inverse interest only ("IIO") securities representing interest in or obligations backed by pools of mortgage-backed loans (collectively, "MBS"). These investments meet the requirements to be classified as available for sale under ASC 320-10-25, Debt and Equity Securities (which requires the securities to be carried at fair value on the balance sheet with changes in fair value charged to other comprehensive income, a component of stockholders' equity). However, the Company has elected to account for its investment in MBS under the fair value option. Electing the fair value option allows the Company to record changes in fair value in the statement of operations, which, in management's view, more appropriately reflects the results of our operations for a particular reporting period and is consistent with the underlying economics and how the portfolio is managed.

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

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

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

Derivative Financial Instruments

The Company has entered into Eurodollar futures contracts to manage interest rate risk, facilitate asset/liability strategies and manage other exposures, and it may continue to do so in the future. The Company has elected to not treat any of its derivative financial instruments as hedges. FASB ASC Topic 815, Derivatives and Hedging, requires that all derivative instruments be carried at fair value. Changes in fair value are recorded in earnings for each period.

Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value, either in the body of the financial statements or in the accompanying notes. MBS and Eurodollar futures contracts 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 11 of the financial statements.

The estimated fair value of cash and cash equivalents, restricted cash, accrued interest receivable, prepaid expenses and other assets, due from/to affiliates, receivable for securities sold, repurchase agreements, accrued interest payable, payable for unsettled securities purchased, accounts payable, accrued expenses and others generally approximates their carrying values as of September 30, 2013 and December 31, 2012 due to the short-term nature of these financial instruments.

Repurchase Agreements

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

Manager Compensation

The Company is externally managed by Bimini Advisors, LLC, a Maryland limited liability company and wholly-owned subsidiary of Bimini ("the Manager" or "Bimini Advisors"). The Company's management agreement with the Manager provides for the 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 12 for the terms of the management agreement.

Earnings Per Share

The Company follows the provisions of FASB ASC 260, Earnings Per Share. Basic earnings per share ("EPS") is calculated as net income 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 "if converted" method for common stock equivalents, if any. However, the common stock equivalents are not included in computing diluted EPS if the result is anti-dilutive.

Income Taxes

Bimini has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Until the closing of its IPO on February 20, 2013, Orchid was a "qualified REIT subsidiary" of Bimini under the Code. Beginning with its short tax period commencing on February 20, 2013 and ending December 31, 2013, Orchid expects to elect and intends to qualify to be taxed as a REIT. REITs are generally not subject to federal income tax on their REIT taxable income provided that they distribute to their stockholders at least 90% of their REIT taxable income on an annual basis. In addition, a REIT must meet other provisions of the Code to retain its tax status.

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

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This new standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. The ASU is effective beginning January 1, 2014 on either a prospective or retrospective basis. The guidance represents a change in financial statement presentation only and the Company does not expect that this ASU will have a material impact on its financial results.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The standard permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes. The new guidance is effective for hedging relationships entered into on or after July 17, 2013. The Company does not expect that this ASU will have a material impact on its financial statements.

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The amendments in this Update modify the guidance for determining whether an entity is an investment company, update the measurement requirements for noncontrolling interests in other investment companies and require additional disclosures for investment companies under US GAAP. The amendments in the Update develop a two-tiered approach for the assessment of whether an entity is an investment company which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The amendments in this Update also revise the measurement guidance in Topic 946 such that investment companies must measure noncontrolling ownership interests in other investment companies at fair value, rather than applying the equity method of accounting to such interests. The new guidance is effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The Company does not expect that this ASU will have a material impact on its financial statements.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ("ASU 2013-04"). The objective of the amendments in this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing GAAP. The amendments in ASU 2013-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be retrospectively applied to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted. The Company does not expect that this ASU will have a material impact on its financial statements.

In January 2013, the FASB released ASU 2013-01 Balance Sheet: Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which served solely to clarify the scope of financial instruments included in ASU 2011-11 as there was concern about diversity in practice. The objectives of ASU 2013-01 and ASU 2011-11 are to support further convergence of US GAAP and IFRS requirements. These updates are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU had no effect on the Company’s financial statements.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. The Company is required to apply the amendments for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures required are to be provided retrospectively for all comparative periods presented. The adoption of this ASU had no effect on the Company’s financial statements.

NOTE 2. MORTGAGE-BACKED SECURITIES

The following table presents the Company’s MBS portfolio as of September 30, 2013 and December 31, 2012:

(in thousands)

	September 30, 2013	December 31, 2012
Pass-Through Certificates:		
Hybrid Adjustable-rate Mortgages	$120,205	$59,485
Adjustable-rate Mortgages	6,150	6,531
Fixed-rate Mortgages	184,662	43,589
Total Pass-Through Certificates	311,017	109,605
Structured MBS Certificates:		
Interest-Only Securities	15,371	2,884
Inverse Interest-Only Securities	5,399	2,891
Total Structured MBS Certificates	20,770	5,775
Total	$331,787	$115,380

The following table summarizes the Company’s MBS portfolio as of September 30, 2013 and December 31, 2012, according to the contractual maturities of the securities in the portfolio. Actual maturities of MBS investments are generally shorter than stated contractual maturities and are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

(in thousands)

	September 30, 2013	December 31, 2012
Greater than five years and less than ten years	$1,662	$12,980
Greater than or equal to ten years	330,125	102,400
Total	$331,787	$115,380

The Company generally pledges its MBS assets as collateral under repurchase agreements. At September 30, 2013 and December 31, 2012, the Company had unpledged securities totaling $53.8 million and $5.8 million, respectively. The unpledged balance at September 30, 2013 includes unsettled securities purchases with a fair value of approximately $38.8 million that will be pledged as collateral under repurchase agreements on the settlement date in October 2013.

NOTE 3. REPURCHASE AGREEMENTS

As of September 30, 2013, the Company had outstanding repurchase obligations of approximately $301.7 million with a net weighted average borrowing rate of 0.37%. These agreements were collateralized by MBS with a fair value, including accrued interest and receivable for securities sold, of approximately $320.0 million. As of December 31, 2012, the Company had outstanding repurchase obligations of approximately $103.9 million with a net weighted average borrowing rate of 0.49%. These agreements were collateralized by MBS with a fair value, including accrued interest, of approximately $109.9 million, and cash pledged to counterparties of approximately $0.4 million.

As of September 30, 2013 and December 31, 2012, 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, 2013					
Fair market value of securities pledged, including accrued interest receivable and receivable for securities sold	$ 25,386	$ 192,889	$ 101,706	$ -	$ 319,981
Repurchase agreement liabilities associated with these securities	$ 25,067	$ 181,002	$ 95,588	$ -	$ 301,657
Net weighted average borrowing rate	0.35 %	0.38 %	0.34 %	-	0.37 %
December 31, 2012					
Fair market value of securities pledged, including accrued interest receivable	$ -	$ 109,863	$ -	$ -	$ 109,863
Repurchase agreement liabilities associated with these securities	$ -	$ 103,941	$ -	$ -	$ 103,941
Net weighted average borrowing rate	-	0.49 %	-	-	0.49 %

If, during the term of a repurchase agreement, a lender should file 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, receivable for securities sold and cash posted by the Company as collateral. At September 30, 2013, the Company had a maximum amount at risk (the difference between the amount loaned to the Company, including interest payable, and the fair value of securities pledged, including accrued interest on such securities and receivable for securities sold) of approximately $18.2 million. Summary information regarding the Company's amounts at risk with individual counterparties greater than 10% of the Company's equity at September 30, 2013 and December 31, 2012 is as follows:

(in thousands)

Repurchase Agreement Counterparties	Amount at Risk(1)	Weighted Average Maturity (in Days)
September 30, 2013		
Citigroup Global Markets, Inc.	$6,924	26
December 31, 2012		
Citigroup Global Markets, Inc.	$3,714	18
South Street Securities, LLC	1,802	7

(1) Equal to the fair value of securities sold, cash posted as collateral, receivable for securities sold, plus accrued interest receivable, minus the sum of repurchase agreement liabilities and accrued interest payable.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with its interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. The Company has not elected hedging treatment under GAAP, and as such all gains and losses on these instruments are reflected in earnings for all periods presented.

As of September 30, 2013, such instruments were comprised entirely of Eurodollar futures contracts. Eurodollar futures are cash settled futures contracts on an interest rate, with gains and losses credited and charged to the Company's account on a daily basis. A minimum balance, or "margin", is required to be maintained in the account on a daily basis. The Company is exposed to the changes in value of the futures by the amount of margin held by the broker. The table below presents information related to the Company's Eurodollar futures positions at September 30, 2013. As of December 31, 2012, the Company had no outstanding futures positions.

(in thousands)

Expiration Year	Weighted Average LIBOR Rate	Average Contract Notional Amount	Open Equity(1)
2014	0.47 %	262,500	(96)
2015	0.89 %	275,000	95
2016	1.86 %	250,000	1,286

2017	2.83	%	250,000	1,794
2018	3.51	%	250,000	1,088
	1.95	%		$4,167
Cash posted as collateral, included in restricted cash				$2,581

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

The table below presents the effect of the Company's derivative financial instruments on the statements of operations for the nine and three months ended September 30, 2013 and 2012.

(in thousands)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012
Eurodollar futures contracts (short positions)	$4,096	$(40)	$(2,272)	$(14)

NOTE 5. CAPITAL STOCK

At December 31, 2012, the Company had the authority to issue 1,000,000 shares of $0.01 par value common stock. In connection with the Company's IPO in February 2013, the Company's charter was amended to increase the authorized capital stock to 600,000,000 shares of which (i) 500,000,000 shares are designated as common stock and (ii) 100,000,000 shares are designated as preferred stock, each with a par value of $0.01 per share. Holders of shares of the common stock generally have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of the Company. Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock, all holders of shares of the common stock will have equal liquidation and other rights.

Common Stock Issuances

During July 2012, Bimini acquired 4,110 additional shares of common stock of the Company in satisfaction of an amount due to Bimini at June 30, 2012 of approximately $411,000 for prior management fees, overhead allocations and direct expense reimbursements.

On February 20, 2013, Orchid completed the IPO of its common stock in which it sold 2,360,000 shares of its common stock and raised proceeds of $35,400,000.

Stock Dividend

On February 14, 2013, Orchid's Board of Directors declared a stock dividend whereby 5.37 shares of common stock were issued for each share of common stock outstanding. The 827,555 shares distributed pursuant to this dividend were issued to Bimini on February 20, 2013, immediately prior to the Company's IPO.

Cash Dividends

The table below presents the cash dividends declared on the Company's common stock during 2013.

Declaration Date	Record Date	Payment Date	Per Share Amount	Total
March 8, 2013	March 25, 2013	March 27, 2013	$0.135	$451,125
April 10, 2013	April 25, 2013	April 30, 2013	0.135	451,125
May 9, 2013	May 28, 2013	May 31, 2013	0.135	451,125
June 10, 2013	June 25, 2013	June 28, 2013	0.135	451,125
July 9, 2013	July 25, 2013	July 31, 2013	0.135	451,125
August 12, 2013	August 26, 2013	August 30, 2013	0.135	451,125
September 10, 2013	September 25, 2013	September 30, 2013	0.135	451,125
October 10, 2013	October 25, 2013	October 31, 2013	0.135	451,125

NOTE 6. EXPENSES

The table below presents the Company's operating expenses for the nine and three months ended September 30, 2013 and 2012.

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012
Directors fees and liability insurance	$207,309	$-	$82,924	$-
Legal fees	71,286	-	10,949	-
Other professional fees	250,150	133,237	60,000	72,301
Management fees	489,700	185,000	179,500	64,600
Other direct REIT operating expenses	137,177	149,923	36,550	49,781
Other administrative expenses	95,580	90,184	31,483	47,862
Total expenses	$1,251,202	$558,344	$401,406	$234,544

NOTE 7. STOCK INCENTIVE PLAN

In October 2012, our Board of Directors adopted and Bimini, then the Company's sole stockholder, approved, the Orchid Island Capital, Inc. 2012 Equity Incentive Plan (the "Incentive Plan") to recruit and retain employees, directors and other service providers, including employees of the Manager and other affiliates. The Incentive Plan provides for the award of stock options, stock appreciation rights, stock award, performance units, other equity-based awards (and dividend equivalents with respect to awards of performance units and other equity-based awards) and incentive awards. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors except that the Company's full Board of Directors will administer awards made to directors who are not employees of the Company or its affiliates. The Incentive Plan provides for awards of up to an aggregate of 10% of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the awards, subject to a maximum aggregate 4,000,000 shares of the Company's common stock that may be issued under the Incentive Plan. To date, no awards have been made under the Incentive Plan.

NOTE 8. 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, 2013.

NOTE 9. INCOME TAXES

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

NOTE 10. EARNINGS PER SHARE (EPS)

The table below reconciles the numerator and denominator of EPS for the nine and three months ended September 30, 2013 and 2012.

(in thousands, except per-share information)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012
Basic and diluted EPS per common share:				
Numerator for basic and diluted EPS per common share:				
Net (loss) income - Basic and diluted	$(2,143)	$802	$(997)	$545
Weighted average common shares:				
Common shares outstanding or to be issued at the balance sheet date	3,342	982	3,342	982
Effect of weighting	(441)	-	-	-
Weighted average shares-basic and diluted	2,901	982	3,342	982
(Loss) income per common share:				
Basic and diluted	$(0.74)	$0.82	$(0.30)	$0.56

On February 14, 2013, Orchid's Board of Directors declared a stock dividend whereby 5.37 shares of common stock were issued for each share of common stock outstanding. The 827,555 shares distributed pursuant to the dividend were issued to Bimini on February 20, 2013, immediately prior to Orchid's IPO. For the nine and three months ended September 30, 2012, the 981,665 common shares, which includes the 154,110 shares of common stock outstanding at December 31, 2012 and the 827,555 shares distributed as a stock dividend, is used for the EPS computation, as Bimini was the sole stockholder during the entire period.

NOTE 11. FAIR VALUE

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

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

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

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

MBS and Eurodollar futures contracts were recorded at fair value on a recurring basis during the nine months ended September 30, 2013 and 2012. When determining fair value measurements, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset. When possible, the Company looks to active and observable markets to price identical assets. When identical assets are not traded in active markets, the Company looks to market observable data for similar assets. The following table presents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

(in thousands)

	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
Mortgage-backed securities	$ 331,787	$-	$331,787	$ -
Eurodollar futures contracts	2,581	2,581	-	-
December 31, 2012				
Mortgage-backed securities	$ 115,380	$-	$115,380	$ -

During the nine and three months ended September 30, 2013 and 2012, there were no transfers of financial assets or liabilities between levels 1, 2 or 3.

NOTE 12. RELATED PARTY TRANSACTIONS

Management Agreement

The Company entered into a management agreement with Bimini, which provided for an initial term through December 31, 2011 with automatic one-year extension options. The agreement was extended under the option to December 31, 2013, but was terminated at the completion of the Company's IPO. At the completion of the IPO, the Company entered into a management agreement with the Manager, which provides for an initial term through February 20, 2016 with automatic one-year extensions and is subject to certain termination rights. Under the terms of the management agreement, Bimini Advisors will be responsible for administering the business activities and day-to-day operations of the Company. Bimini Advisors will receive a monthly management fee in the amount of:

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

The Company is obligated to reimburse Bimini Advisors for any direct expenses incurred on its behalf. In addition, once the Company's Equity, as defined in the management agreement, equals $100 million, Bimini Advisors will begin allocating to the Company, it's pro rata portion of certain overhead costs as defined in the management agreement. Should the Company terminate the management agreement without cause, it shall pay to Bimini Advisors 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 initial term or automatic renewal term.

The Company was obligated to reimburse Bimini for its costs incurred under the original management agreement. In addition, the Company was required to pay Bimini a monthly fee of $7,200, which represents an allocation of overhead expenses for items that include, but are not limited to, occupancy costs, insurance and administrative expenses. These expenses were allocated based on the ratio of the Company's assets and Bimini's consolidated assets. Total expenses recorded during the nine and three months ended September 30, 2013 for the management fee and costs incurred was approximately $504,000 and $180,000, respectively, compared to $250,000 and $86,000, respectively, for the nine and three months ended September 30, 2012.

Payment of Certain Offering Expenses

Bimini Advisors has paid, or has agreed to reimburse Orchid for all offering expenses in connection with the Company's IPO. During the year ended December 31, 2012, these expenses were approximately $247,000. During the nine months ended September 30, 2013, Bimini Advisors paid additional expenses related to this offering of approximately $3,042,000. In addition, during the year ended December 31, 2012, Bimini Advisors paid certain expenses totaling approximately $833,000 on behalf of the Company associated with a failed merger attempt. The Company has no obligation or intent to reimburse Bimini Advisors, either directly or indirectly, for the offering costs or attempted merger costs, therefore they are not included in the Company's financial statements. At September 30, 2013 and December 31, 2012, the net amount due (to) from affiliates was approximately ($80,000) and $45,000, respectively.

Board Memberships

John B. Van Heuvelen, one of the Company's independent directors, owns shares of common stock of Bimini. Robert Cauley, the Company's Chief Executive Officer and Chairman of the Company's Board of Directors, also serves as Chief Executive Officer and Chairman of the Board of Directors of Bimini and owns shares of common stock of Bimini. Hunter Haas, the Company's Chief Financial Officer, Chief Investment Officer, Secretary and a member of the Company's 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.

Consulting Agreement

In September 2010, the Company entered into a consulting agreement with W Coleman Bitting, who became one of the Company's independent directors in February 2013. The terms of the consulting agreement provided that Mr. Bitting would advise the Company with respect to financing alternatives, business strategies and related matters as requested during the term of the agreement. In exchange for his services, the consulting agreement provided that the Company pay Mr. Bitting an hourly fee of $150 and reimburse him for all out-of-pocket expenses reasonably incurred in the performance of his services. During the nine months ended September 30, 2013 and 2012, the Company paid Mr. Bitting approximately $3,800 and $12,900, respectively, under this agreement. Mr. Bitting's consulting agreement was terminated upon completion of the Company's IPO. The total compensation Mr. Bitting received under the consulting agreement was approximately $115,000.

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 and any subsequent Quarterly Reports on Form 10-Q, our actual results may differ materially from those anticipated in such forward-looking statements.

Overview

We are a specialty finance company that invests in Agency RMBS. Our investment strategy focuses on, and our portfolio consists of, two categories of Agency RMBS: (i) traditional pass-through Agency RMBS and (ii) structured Agency RMBS, such as CMOs, IOs, IIOs and POs, among other types of structured Agency RMBS. From inception through the closing of the initial public offering of our common stock, we were managed by Bimini. We are currently externally managed by Bimini Advisors, a registered investment adviser with the Securities and Exchange Commission ("SEC").

We were formed by Bimini in August 2010 and commenced operations on November 24, 2010. At December 31, 2012, Bimini was our sole stockholder. We completed our initial public offering on February 20, 2013. In that offering we raised $35.4 million from the sale of 2,360,000 shares of our common stock.

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 pass-through Agency RMBS portfolio and the leveraged portion of our structured Agency RMBS portfolio, and (ii) the interest income we generate from the unleveraged portion of our structured Agency RMBS portfolio. We intend to fund our pass-through Agency RMBS and certain of our structured Agency RMBS through short-term borrowings structured as repurchase agreements. Pass-through Agency RMBS and structured Agency RMBS typically exhibit materially different sensitivities to movements in interest rates. Declines in the value of one portfolio may be offset by appreciation in the other. The percentage of capital that we allocate to our two Agency RMBS asset categories will vary and will be actively managed in an effort to maintain the level of income generated by the combined portfolios, the stability of that income stream and the stability of the value of the combined portfolios. We believe that this strategy will enhance our liquidity, earnings, book value stability and asset selection opportunities in various interest rate environments.

We intend to qualify and will elect to be taxed as a REIT under the Code commencing with our short taxable year ending December 31, 2013. We generally will not be subject to U.S. federal income tax to the extent that we annually distribute all of our REIT taxable income to our stockholders and qualify as a REIT.

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;
-

prepayment rates on mortgages underlying our Agency RMBS, and credit trends insofar as they affect prepayment rates, borrowing rates and exposure to our lenders;

- the difference between Agency RMBS yields and our funding and hedging costs;
- competition for investments in Agency RMBS;
- recent actions taken by the Federal Reserve and the U.S. Treasury; and
- other market developments.

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

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

We anticipate that, for any period during which changes in the interest rates for our adjustable rate assets do not coincide with interest rate changes on the corresponding liabilities, such assets will re-price more slowly than the corresponding liabilities. Consequently, changes in interest rates, particularly short term interest rates, may significantly influence our net income.

Our net income may be affected by a difference between actual prepayment rates and our projections. Prepayments on loans and securities may be influenced by changes in market interest rates and homeowners' ability and desire to refinance their mortgages.

Results of Operations

Described below are the Company's results of operations for the nine and three months ended September 30, 2013, as compared to the Company's results of operations for the nine and three months ended September 30, 2012.

Net (Loss) Income Summary

Net loss for the nine months ended September 30, 2013 was $2.1 million, or $0.74 per share. Net income for the nine months ended September 30, 2012 was $0.8 million, or $0.82 per share. Net loss for the three months ended September 30, 2013 was $1.0 million, or $0.30 per share. Net income for the three months ended September 30, 2012 was $0.5 million, or $0.56 per share.

The components of net (loss) income for the nine and three months ended September 30, 2013 and 2012, 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,		
	2013	2012	Change	2013	2012	Change
Interest income	$6,393	$2,225	$4,168	$2,551	$697	$1,854
Interest expense	(817)	(183)	(634)	(294)	(58)	(236)
Net interest income	5,576	2,042	3,534	2,257	639	1,618
(Losses) gains on MBS and Eurodollar futures	(6,468)	(682)	(5,786)	(2,853)	141	(2,994)
Net portfolio (deficiency) income	(892)	1,360	(2,252)	(596)	780	(1,376)
Expenses	(1,251)	(558)	(693)	(401)	(235)	(166)
Net (loss) income	$(2,143)	$802	$(2,945)	$(997)	$545	$(1,542)

GAAP and Non-GAAP Reconciliation

To date, we have used derivatives, specifically Eurodollar futures contracts, to hedge the interest rate risk on repurchase agreements in a rising rate environment. We have not elected to designate our derivative holdings for hedge accounting treatment under the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging. Changes in fair value of these instruments are presented in a separate line item in our Statements of Operations. As such, for financial reporting purposes, interest expense and cost of funds are not impacted by the fluctuation in value of the Eurodollar futures contracts. In the future, we may use other derivative instruments to hedge our interest expense and/or elect to designate our derivative holdings for hedge accounting treatment.

For the purpose of computing net interest income and ratios relating to cost of funds measures throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, interest expense has been adjusted to reflect the effect of our Eurodollar hedges on our interest expense for each period presented. The adjustment to reflect this effect includes only the gains or losses on our Eurodollar futures contracts in effect for the applicable period, whereas the gains or losses on Eurodollar futures contracts reflected in our statements of operations include gains or losses for all Eurodollar futures contracts in effect as of the end of each period in accordance with GAAP. As of September 30, 2013, we have Eurodollar futures contracts in place through 2018. Since we have taken short positions on these contracts, when interest rates move higher the value of our short position may increase in value. The opposite would be true if interest rates were to decrease. In fact, if the relevant portion of the yield curve for which we have employed funding hedges is positively sloped and rates remain unchanged, we would expect the value of the short position to decrease in value. Adjusting our interest expense for the periods presented by the gains on all Eurodollar futures would not accurately reflect our economic interest expense for these periods. Combining the effects of the Eurodollar positions in place for only the periods presented with the interest expense on repurchase agreements reflects total economic interest expense on these obligations and the economic effect of our hedging strategy for the applicable period. Interest expense, including the effect of Eurodollar futures contracts for the period, is referred to as economic interest expense. Net interest income, including the effect of Eurodollar futures contracts for the period, is referred to as economic net interest income.

We believe that economic interest expense and economic net interest income provides meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help us to evaluate our 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.

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 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 following table presents the effect of our hedging strategy on interest expense and net interest income for the nine and three months ended September 30, 2013 and 2012 and for each quarter during 2013 and 2012.

(dollars in thousands)

	GAAP Interest Expense	Effect of Eurodollar Hedges(1)	Economic Interest Expense(2)	GAAP Net Interest Income	Economic Net Interest Income(3)
Three Months Ended,					
September 30, 2013	$294	$(28)	$322	$2,257	$2,229
June 30, 2013	322	(4)	326	2,107	2,103
March 31, 2013	201	(65)	266	1,211	1,146
December 31, 2012	94	(62)	156	379	317
September 30, 2012	58	(28)	86	639	611
June 30, 2012	74	(10)	84	695	685
March 31, 2012	51	(4)	55	708	704
Nine Months Ended,					
September 30, 2013	$817	$(97)	$914	$5,575	$5,478
September 30, 2012	183	(42)	225	2,042	2,000

(1) Reflects the effect of Eurodollar futures contract hedges for only the period presented. For the three month periods ended September 30, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $(2,271,875) and $(14,250), respectively. For the nine month periods ended September 30, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $4,095,788 and $(39,500), respectively.

(2) Calculated by subtracting the effect of Eurodollar hedges from GAAP interest expense.

(3) Calculated by adding the effect of Eurodollar hedges to GAAP net interest income.

Net Interest Income

During the nine months ended September 30, 2013, we generated $5.5 million of economic net interest income, consisting of a combination of $6.4 million of interest income from MBS assets and $0.9 million of economic interest expense on repurchase liabilities. For the comparable period ended September 30, 2012, we generated $2.0 million of economic net interest income, consisting of $2.2 million of interest income from MBS assets offset by $0.2 million of economic interest expense on repurchase liabilities.

During the three months ended September 30, 2013, we generated $2.2 million of economic net interest income, consisting of a combination of $2.6 million of interest income from MBS assets and $0.3 million of economic interest expense on repurchase liabilities. For the three months ended September 30, 2012, we generated $0.6 million of economic net interest income, consisting of $0.7 million of interest income from MBS assets offset by $0.1 million of economic interest expense on repurchase liabilities.

The table below provides information on our portfolio average balances, interest income, yield on assets, average repurchase agreement balances, economic interest expense, economic cost of funds, economic net interest income and economic net interest spread for the nine months ended September 30, 2013 and 2012 and for each quarter in 2013 and 2012.

(dollars in thousands)

	Average MBS Securities Held(1)	Interest Income(2)	Yield on Average MBS Securities	Average Repurchase Agreements(1)	Economic Interest Expense(3)	Average Economic Cost of Funds	Economic Net Interest Income(3)	Economic Net Interest Spread
Three Months Ended,								
September 30, 2013	$335,467	$ 2,551	3.04 %	$ 305,196	$ 322	0.42 %	$ 2,229	2.62 %
June 30, 2013	349,704	2,429	2.78 %	312,591	326	0.42 %	2,103	2.36 %
March 31, 2013	237,820	1,412	2.38 %	210,194	266	0.51 %	1,146	1.87 %
December 31, 2012	91,094	473	2.08 %	80,256	156	0.78 %	317	1.30 %
September 30, 2012	64,378	697	4.33 %	53,698	86	0.64 %	611	3.69 %
June 30, 2012	73,559	769	4.18 %	62,407	84	0.54 %	685	3.64 %
March 31, 2012	70,585	759	4.30 %	59,157	55	0.37 %	704	3.93 %
Nine Months Ended,								
September 30, 2013	$307,664	$ 6,392	2.77 %	$ 275,993	$ 914	0.44 %	$ 5,478	2.33 %
September 30, 2012	69,507	2,225	4.27 %	58,421	225	0.51 %	2,000	3.76 %

(1) Portfolio yields and costs of borrowings presented in the table above and the tables on pages 22 and 23 are calculated based on the average balances of the underlying investment portfolio/repurchase agreement balances and are annualized for the quarterly periods presented. Average balances for quarterly periods are calculated using two data points, the beginning and ending balances. Average balances for the year to date periods are calculated as the average of the average quarterly periods.

(2) Interest income presented in the table above includes only interest earned on the Company's MBS investments and excludes interest earned on cash balances, and excludes the impact of discounts or premiums on MBS investments, as discounts or premiums are not amortized under the fair value option. Interest income and net portfolio interest income may not agree with the information presented in the statements of operations.

(3) Economic interest expense and economic net interest income presented in the table above and the table on page 23 includes the effect of Eurodollar futures contract hedges for only the period presented. For the three month periods ended September 30, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $(2,271,875) and $(14,250), respectively. For the nine month periods ended September 30, 2013 and 2012, total gains (losses) on Eurodollar contracts recognized in our statements of operations for GAAP purposes were $4,095,788 and $(39,500), respectively.

Interest Income and Average Earning Asset Yield

Our interest income for the nine months ended September 30, 2013 and 2012 was $6.4 million and $2.2 million, respectively. We had average MBS holdings of $307.7 million and $69.5 million for the nine months ended September 30, 2013 and 2012, respectively. The yield on our portfolio was 2.77% and 4.27% for the nine months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, there was a $4.2 million increase in interest income due to a $238.2 million increase in average MBS, partially offset by a 150 basis point decrease in the yield on average MBS for the nine months ended September 30, 2013 when compared to the nine months ended September 30, 2012.

Our interest income for the three months ended September 30, 2013 and 2012 was $2.6 million and $0.7 million, respectively. We had average MBS holdings of $335.5 million and $64.4 million for the three months ended September 30, 2013 and 2012, respectively. The yield on our portfolio was 3.04% and 4.33% for the three months ended September 30, 2013 and 2012, respectively. For the three months ended September 30, 2013 as compared to the three months ended September 30, 2012, there was a $1.9 million increase in interest income due to a $271.1 million increase in average MBS, partially offset by a 129 basis point decrease in the yield on average MBS for the three months ended September 30, 2013 when compared to the three months ended September 30, 2012.

The table below presents the average portfolio size, income and yields of our respective sub-portfolios, consisting of structured MBS and PT MBS.

(dollars in thousands)	Average MBS Held			Interest Income			Realized Yield on Average MBS	
	PT MBS	Structured MBS	Total	PT MBS	Structured		PT	Structured