

Opteum Inc.
Form 10-K/A
October 13, 2006

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

**FORM 10-K/A
(Amendment No. 2)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended December 31, 2005

Commission File Number: 001-32171

OPTEUM INC.

(Formerly Bimini Mortgage Management, Inc.)

(Exact name of registrant as specified in its charter)

Maryland

72-1571637

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

3305 Flamingo Drive, Vero Beach, FL 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 | Name of Each Exchange on Which Registered |
|---|--|
| Class A Common Stock, \$0.001 par value | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of October 12, 2006, there were 24,474,315 shares of the Registrant's Class A Common Stock outstanding. The aggregate market value of the Class A Common Stock, held by non-affiliates of the Registrant (22,197,880 shares) at October 12, 2006 was approximately \$186,684,171. The aggregate market value was calculated by using the closing price of the Class A Common Stock as of that date on the New York Stock Exchange. As of October 12, 2006, all of the Registrant's Class B Common Stock was held by affiliates of the Registrant. As of October 12, 2006, the aggregate market value of the Registrant's Class C Common Stock held by non-affiliates (319,388 shares) was \$319, which value is based on the initial purchase price of the Class C Common Stock.

Explanatory Note: The registrant is hereby amending Item 8. Financial Statements and Supplementary Data of Part II of its Form 10-K/A filed with the Securities and Exchange Commission on March 10, 2006 (the "Form 10-K/A"), to include a report of Deloitte & Touche LLP that was inadvertently omitted from the Form 10-K/A. Except for Item 8. Financial Statements and Supplementary Data of Part II of the Form 10-K/A which is amended hereby, the information set forth in the Form 10-K/A is incorporated by reference herein in its entirety.

OPTEUM INC.

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PART II

ITEM 8. Financial Statements and Supplementary Data.

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Management's Report on Internal Control over Financial Reporting

Management of Opteum Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. Management's assessment on internal controls did not include the internal controls of Opteum Financial Services, LLC which is included in the 2005 consolidated financial statements of the Company and constituted \$1.1 billion and \$49.9 million of total and net assets, as of December 31, 2005 and \$3.4 million and \$(6.6) million of total revenues and net income for the year then ended. Management did not assess the effectiveness of internal control over financial reporting at this entity because the Company did not have the ability to conduct an assessment of the acquired entity's internal controls over financial reporting during the time period from November 3, 2005, date of acquisition, through December 31, 2005, date of management's assessment. In making its assessment of the effectiveness of internal control, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2005.

The Company's independent auditors have issued an attestation report on management's assessment of the Company's internal control over financial reporting. The report is included herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Opteum Inc. (formerly known as Bimini Mortgage Management, Inc.)

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Opteum Inc. (formerly known as Bimini Mortgage Management, Inc.) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Opteum Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Opteum Financial Services, LLC, which is included in the 2005 consolidated financial statements of Opteum Inc., and constituted \$1.1 billion and \$49.9 million of total and net assets, respectively, as of December 31, 2005 and \$3.4 million and \$(6.6) million of net revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Opteum Inc. also did not include an evaluation of the internal control over financial reporting of Opteum Financial Services, LLC.

In our opinion, management's assessment that Opteum Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Opteum Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the each of the two years in the period ended December 31, 2005 and for the period from September 24, 2003 (date of inception) through December 31, 2003 of Opteum Inc. and our report dated March 1, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants
Miami, FL
March 1, 2006

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Opteum Inc. (formerly known as Bimini Mortgage Management, Inc.)

We have audited the accompanying consolidated balance sheets of Opteum Inc. (the Company) (formerly known as Bimini Mortgage Management, Inc.) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005 and for the period from September 24, 2003 (date of inception) through December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Opteum Financial Services, LLC and subsidiaries, a wholly owned subsidiary, which statements reflect total assets of \$1.1 billion as of December 31, 2005 and total net revenues of \$3.4 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts of Opteum Financial Services, LLC and subsidiaries, is based solely on the report of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Opteum Inc. as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 and for the period from September 24, 2003 (date of inception) through December 31, 2003, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Opteum Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Miami, Florida
March 1, 2006

Report of Independent Auditors

To the Stockholders of Opteum
Financial Services, LLC:

We have audited the accompanying consolidated balance sheet of Opteum Financial Services, LLC and subsidiaries (the "Company") as of December 31, 2005 and the related consolidated statement of operations, stockholders' equity, and cash flows for the period from November 3, 2005 (Date of Acquisition) to December 31, 2005. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Opteum Financial Services, LLC and subsidiaries as of December 31, 2005 and the results of their operations and their cash flows for the period from November 3, 2005 (Date of Acquisition) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

February 28, 2006

**OPTEUM INC.
CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|--|----------------------|----------------------|
| | 2005 | 2004 |
| ASSETS | | |
| MORTGAGE-BACKED SECURITIES: | | |
| Pledged to counterparties, at fair value | \$ 3,493,490,046 | \$ 2,901,158,559 |
| Unpledged, at fair value | 539,313 | 72,074,338 |
| TOTAL MORTGAGE-BACKED SECURITIES | 3,494,029,359 | 2,973,232,897 |
| CASH AND CASH EQUIVALENTS | 130,510,948 | 128,942,436 |
| RESTRICTED CASH | 2,310,000 | 8,662,000 |
| MORTGAGE LOANS HELD FOR SALE, NET | 894,237,630 | - |
| RETAINED INTERESTS, TRADING | 98,010,592 | - |
| SECURITIES HELD FOR SALE | 2,782,548 | - |
| MORTGAGE SERVICING RIGHTS, NET | 86,081,594 | - |
| RECEIVABLES, NET | 24,512,118 | - |
| PRINCIPAL PAYMENTS RECEIVABLE | 21,497,365 | 3,419,199 |
| ACCRUED INTEREST RECEIVABLE | 15,740,475 | 11,377,807 |
| PROPERTY AND EQUIPMENT, NET | 16,067,170 | 2,050,923 |
| PREPAIDS AND OTHER ASSETS | 19,321,766 | 732,469 |
| | \$ 4,805,101,565 | \$ 3,128,417,731 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Repurchase agreements | \$ 3,337,598,362 | \$ 2,771,162,957 |
| Warehouse lines of credit and drafts payable | 873,741,429 | - |
| Other secured borrowings | 104,886,339 | - |
| Junior subordinated notes due to Bimini Capital Trust I & II | 103,097,000 | - |
| Accrued interest payable | 30,232,719 | 7,980,829 |
| Unsettled security purchases | 58,278,701 | 65,765,630 |
| Deferred tax liability | 18,360,679 | - |
| Accounts payable, accrued expenses and other | 26,417,996 | 545,988 |
| TOTAL LIABILITIES | 4,552,613,225 | 2,845,455,404 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; designated, 1,800,000 shares as Class A Redeemable and 2,000,000 shares as Class B Redeemable; shares issued and | 1,223 | - |

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| | | |
|---|-------------------------|-------------------------|
| outstanding at December 31, 2005, 1,223,208 Class A Redeemable and no Class B Redeemable; no shares issued and outstanding at December 31, 2004 | | |
| Class A common stock, \$0.001 par value; 98,000,000 shares designated; 24,129,042 shares issued and 23,567,242 shares outstanding at December 31, 2005, 20,368,915 shares issued and outstanding at December 31, 2004 | 24,129 | 20,369 |
| Class B common stock, \$0.001 par value; 1,000,000 shares designated, 319,388 shares issued and outstanding at December 31, 2005 and 2004 | 319 | 319 |
| Class C common stock, \$0.001 par value; 1,000,000 shares designated, 319,388 shares issued and outstanding at December 31, 2005 and 2004 | 319 | 319 |
| Additional paid-in capital | 342,230,342 | 285,174,651 |
| Accumulated other comprehensive loss | (76,494,378) | (1,155,771) |
| Accumulated deficit | (8,037,260) | (1,077,560) |
| Treasury Stock; 561,800 shares of Class A common stock, at cost | (5,236,354) | - |
| STOCKHOLDERS' EQUITY | 252,488,340 | 282,962,327 |
| | \$ 4,805,101,565 | \$ 3,128,417,731 |

See notes to consolidated financial statements.

OPTEUM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | | September 24, 2003 (inception) through December 31, 2003 |
|--|-------------------------|----------------------|---|
| | 2005 | 2004 | |
| Interest income, net of amortization of premium and discount | \$ 160,640,830 | \$ 49,633,548 | \$ 71,480 |
| Interest expense | (123,658,728) | (22,634,919) | (20,086) |
| NET INTEREST INCOME | 36,982,102 | 26,998,629 | 51,394 |
| OTHER INCOME | 824,894 | - | - |
| Servicing fee income | 3,922,654 | - | - |
| Amortization of mortgage servicing rights | (2,429,759) | - | - |
| NET SERVICING INCOME | 1,492,895 | - | - |
| GAINS ON SALES OF MORTGAGE-BACKED SECURITIES | 1,993,457 | 95,547 | - |
| TOTAL NET REVENUES | 41,293,348 | 27,094,176 | 51,394 |
| DIRECT OPERATING EXPENSES | 994,784 | 730,903 | 45,482 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | | |
| Compensation and related benefits | 10,986,059 | 2,497,600 | 35,964 |
| Directors' fees | 357,843 | 174,384 | - |
| Directors' liability insurance | 283,134 | 176,265 | - |
| Audit, legal and other professional fees | 1,136,204 | 329,514 | 85,340 |
| Other interest expense | 1,093,054 | - | - |
| Occupancy and related expenses | 1,038,401 | 62,232 | 13,675 |
| Other administrative expenses | 5,341,198 | 266,368 | 138,100 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 20,235,893 | 3,506,363 | 273,079 |
| INCOME (LOSS) BEFORE INCOME TAXES | 20,062,671 | 22,856,910 | (267,167) |
| INCOME TAX BENEFIT | 4,220,000 | - | - |
| NET INCOME (LOSS) | \$ 24,282,671 | \$ 22,856,910 | \$ (267,167) |

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| | | | | | | |
|--|----|------------|----|------------|----|---------|
| BASIC AND DILUTED NET INCOME (LOSS) | | | | | | |
| PER CLASS A COMMON SHARE | \$ | 1.12 | \$ | 1.97 | \$ | (0.54) |
| BASIC AND DILUTED NET INCOME PER CLASS B COMMON SHARE | | | | | | |
| | \$ | 1.16 | \$ | 2.05 | \$ | - |
| WEIGHTED AVERAGE NUMBER OF CLASS A COMMON SHARES OUTSTANDING USED IN COMPUTING BASIC AND DILUTED PER SHARE AMOUNTS | | | | | | |
| | | 21,421,501 | | 11,452,258 | | 497,859 |
| WEIGHTED AVERAGE NUMBER OF CLASS B COMMON SHARES OUTSTANDING USED IN COMPUTING BASIC AND DILUTED PER SHARE AMOUNTS | | | | | | |
| | | 319,388 | | 159,694 | | - |
| CASH DIVIDENDS DECLARED PER: | | | | | | |
| CLASS A COMMON SHARE | \$ | 1.45 | \$ | 1.97 | \$ | - |
| CLASS B COMMON SHARE | \$ | 1.45 | \$ | 1.06 | \$ | - |

See notes to consolidated financial statements.

OPTEUM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock, Amounts at par value | | | Class A Preferred Stock | Treasury Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Accumulated | | Total |
|--|--|---------|---------|-------------------------------|-------------------|----------------------------------|---|--------------|--------------|
| | Class A | Class B | Class C | | | | Loss | Deficit | |
| Initial capitalization as of September 24, 2003, sale of Class B common shares | \$ - | \$ 319 | \$ - | \$ - | \$ - | \$ 1,181 | \$ - | \$ - | \$ 1,500 |
| Sale of Class A common shares | 7 | - | - | - | - | 28 | - | - | 35 |
| Sale of Class C common shares | - | - | 319 | - | - | 1,181 | - | - | 1,500 |
| Issuance of Class A shares pursuant to a private offering | 4,005 | - | - | - | - | 56,594,727 | - | - | 56,598,732 |
| Net loss | - | - | - | - | - | - | - | (267,167) | (267,167) |
| Unrealized loss on available for sale securities, net | - | - | - | - | - | - | (19,409) | - | (19,409) |
| Comprehensive loss | - | - | - | - | - | - | - | - | (286,576) |
| Balances, December 31, 2003 | 4,012 | 319 | 319 | - | - | 56,597,117 | (19,409) | (267,167) | 56,315,191 |
| Issuance of Class A common shares as board compensation | 12 | - | - | - | - | 174,374 | - | - | 174,386 |
| Sale of Class A common shares in January 2004 | 5,837 | - | - | - | - | 82,858,509 | - | - | 82,864,346 |
| Sale of Class A common shares in February 2004 | 158 | - | - | - | - | 2,248,313 | - | - | 2,248,471 |
| Cash dividends declared | - | - | - | - | - | - | - | (23,667,303) | (23,667,303) |
| Sale of Class A common shares | 5,750 | - | - | - | - | 75,875,807 | - | - | 75,881,557 |

| | | | | | | | | | |
|---|------------|---------|---------|-------|-------------|-----------------|-----------------|-----------------|-----------------|
| in September 2004 | | | | | | | | | |
| Amortization of equity plan compensation | - | - | - | - | - | 745,756 | - | - | 745,756 |
| Reclassify net realized gain on security sales | - | - | - | - | - | - | (95,547) | - | (95,547) |
| Sale of Class A common shares in December 2004 | 4,600 | - | - | - | - | 66,674,775 | - | - | 66,679,375 |
| Net income | - | - | - | - | - | - | - | 22,856,910 | 22,856,910 |
| Unrealized loss on available for sale securities, net | - | - | - | - | - | - | (1,040,815) | - | (1,040,815) |
| Comprehensive income | - | - | - | - | - | - | - | - | 21,816,095 |
| Balances, December 31, 2004 | 20,369 | 319 | 319 | - | - | 285,174,651 | (1,155,771) | (1,077,560) | 282,962,327 |
| Issuance of Class A common shares for board compensation and equity plan share exercises | 43 | - | - | - | - | 357,800 | - | - | 357,843 |
| Treasury stock purchases | - | - | - | - | (5,236,354) | - | - | - | (5,236,354) |
| Issuance of stock for an acquisition | 3,717 | - | - | 1,223 | - | 54,716,654 | - | - | 54,721,594 |
| Cash dividends declared | - | - | - | - | - | - | - | (31,242,371) | (31,242,371) |
| Amortization of equity plan compensation | - | - | - | - | - | 2,130,132 | - | - | 2,130,132 |
| Stock issuance costs | - | - | - | - | - | (148,895) | - | - | (148,895) |
| Reclassify net realized gain on security sales | - | - | - | - | - | - | (1,993,457) | - | (1,993,457) |
| Net income | - | - | - | - | - | - | - | 24,282,671 | 24,282,671 |
| Unrealized loss on available for sale securities, net | - | - | - | - | - | - | (73,345,150) | - | (73,345,150) |
| | - | - | - | - | - | - | - | - | (49,062,479) |

Comprehensive
loss

| | | | | | | | | | | | |
|-----------------------------------|----|--------|--------|--------|----------|---------------|---------------|-----------------|---------------|-------------|----|
| Balances, December 31, 2005 | \$ | 24,129 | \$ 319 | \$ 319 | \$ 1,223 | \$(5,236,354) | \$342,230,342 | \$ (76,494,378) | \$(8,037,260) | 252,488,340 | \$ |
|-----------------------------------|----|--------|--------|--------|----------|---------------|---------------|-----------------|---------------|-------------|----|

See notes to consolidated financial statements.

OPTEUM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | September 24, 2003 (inception) through December 31, 2003 |
|--|-------------------------|------------------------|---|
| | 2005 | 2004 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ 24,282,671 | \$ 22,856,910 | \$ (267,167) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Amortization of premium and discount on mortgage backed securities | 17,370,738 | 21,391,807 | - |
| Residual interest in asset backed securities | (3,399,370) | - | - |
| Originated mortgage servicing rights | 998,183 | - | - |
| Decrease in mortgage loans held for sale | 292,361,817 | - | - |
| Stock compensation | 2,487,975 | 920,142 | 1,209 |
| Depreciation and amortization | 842,113 | 26,886 | 5,452 |
| Deferred income tax benefit | (4,220,000) | - | - |
| Gain on sales of mortgage-backed securities | (1,993,457) | (95,547) | - |
| Changes in operating assets and liabilities: | | | |
| Receivables | 4,993,820 | - | - |
| Accrued interest receivable | (4,362,666) | (11,306,327) | (71,480) |
| Prepays and other assets | 3,427,374 | (711,221) | (21,248) |
| Accrued interest payable | 22,251,890 | 7,960,743 | 20,086 |
| Accounts payable, accrued expenses and other | (2,770,309) | 436,589 | 109,399 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 352,270,779 | 41,479,982 | (223,749) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| From available-for-sale securities: | | | |
| Purchases | (2,307,378,255) | (3,409,261,768) | (226,719,139) |
| Sales | 240,735,761 | 360,124,493 | - |
| Principal repayments | 1,429,565,048 | 342,517,917 | - |
| Cash acquired in OFS acquisition, net of costs | 1,651,892 | - | - |
| Purchases of property and equipment | (4,671,698) | (1,988,721) | (94,540) |
| NET CASH USED IN INVESTING ACTIVITIES | (640,097,252) | (2,708,608,079) | (226,813,679) |

CASH FLOWS FROM FINANCING
ACTIVITIES:

| | | | |
|--|-------------------|----------------|---------------|
| Decrease (increase) in restricted cash | 6,352,000 | (8,662,000) | - |
| Net borrowings under repurchase agreements | 566,435,405 | 2,582,321,957 | 188,841,000 |
| Decrease in warehouse lines of credit, drafts payable and other secured borrowings | (279,086,207) | - | - |
| Net proceeds from trust preferred securities offerings | 100,030,956 | - | - |
| Stock issuance costs | (148,895) | - | - |
| Related party debt repaid immediately following acquisition | (18,333,000) | - | - |
| Third party debt repaid immediately following acquisition | (50,223,536) | - | - |
| Proceeds from sales of common stock, net of issuance costs | - | 227,673,749 | 56,600,558 |
| Purchase of Treasury Stock | (5,236,354) | - | - |
| Cash dividends paid | (31,242,371) | (23,667,303) | - |
| Decrease in securities held for sale | 846,987 | - | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 289,394,985 | 2,777,666,403 | 245,441,558 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,568,512 | 110,538,306 | 18,404,130 |
| CASH AND CASH EQUIVALENTS, Beginning of the period | 128,942,436 | 18,404,130 | - |
| CASH AND CASH EQUIVALENTS, End of the period | \$ \$ 130,510,948 | \$ 128,942,436 | \$ 18,404,130 |

See note to consolidated financial statements.

OPTEUM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CON'T)

| | Year Ended December 31, | | September 24, 2003 (inception) through December 31, 2003 |
|--|-------------------------|---------------|---|
| | 2005 | 2004 | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the period for interest | \$ 101,406,838 | \$ 14,197,204 | \$ - |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Unsettled security purchases | \$ 58,278,701 | \$ 65,765,630 | \$ - |
| OFS acquisition: | | | |
| Fair value of assets acquired: | | | |
| Cash and cash equivalents | \$ 3,431,736 | | |
| Loans held for sale | 1,186,599,447 | | |
| Retained interests, trading | 94,611,222 | | |
| Mortgage servicing rights, net | 87,079,777 | | |
| Fixed assets | 9,919,100 | | |
| Goodwill | 2,107,130 | | |
| Identifiable intangibles | 4,042,617 | | |
| Other assets | 46,203,917 | | |
| Total | 1,433,994,946 | | |
| Fair value of liabilities assumed: | | | |
| Deferred income tax liability | (22,580,679) | | |
| Other liabilities | (1,354,912,827) | | |
| Issuance of 1,223,208 shares of Class A Redeemable Preferred Stock and 3,717,242 shares of Class A Common Stock, inclusive of cash paid of \$1,779,846 | \$ 56,501,440 | | |

See notes to consolidated financial statements.

OPTEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Description

Opteum Inc. (Opteum), formerly “Bimini Mortgage Management, Inc.”, was incorporated in Maryland on September 24, 2003, and it commenced its planned business activities on December 19, 2003, the date of the initial closing of a private issuance of its common stock.

On February 6, 2006, Opteum, announced that its board of directors voted unanimously to change its name from Bimini Mortgage Management, Inc. to Opteum Inc. On February 10, 2006, the corporate name change was effective and its NYSE, ticker symbol was changed from “BMM” to “OPX.” The corporate name change leverages the brand identity of Opteum Financial Services, LLC (OFS), and further enhances the integration of Opteum and the associates of OFS. One company and one national brand now represent a unified image to investors, customers and associates.

As used in this document, the parent company, the registrant, “Opteum” and discussions related to REIT qualifying activities or the general management of Opteum’s portfolio of mortgage backed securities (MBS) refers to “Opteum Inc.” Further, as used in this document, “OFS”, our taxable REIT subsidiary (TRS) or our non REIT eligible assets refer to Opteum Financial Services, LLC. Discussions relating to the “Company” refer to the consolidated entity (the combination of “Opteum” and our TRS “OFS”). The assets and activities that are not REIT eligible, such as mortgage origination, acquisition and servicing activities, are conducted by OFS.

Opteum Inc. was formed to invest primarily in, but not limited to, residential mortgage related securities issued by the Federal National Mortgage Association (more commonly known as Fannie Mae), the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac) and the Government National Mortgage Association (more commonly known as Ginnie Mae).

Opteum has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the “Code”). In order to maintain its REIT qualification, Opteum must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders, subject to certain adjustments.

Merger Agreement

On September 29, 2005, Opteum executed a definitive merger agreement with OFS, a privately held home mortgage lender headquartered in Paramus, New Jersey. OFS has 1,066 associates operating out of 34 offices and lending in 44 states. The transaction, in which OFS became a wholly-owned TRS of Opteum, closed on November 3, 2005 (see Note 2).

Under the terms of the merger agreement, Opteum issued 3,717,242 shares of Class A Common Stock and 1,223,208 shares of Class A Redeemable Preferred Stock to the stockholders of OFS in exchange for 100% of the stock of OFS. The shares of Class A Redeemable Preferred Stock will be convertible into Class A Common Stock of Opteum, on a one-for-one basis, if Opteum’s stockholders eligible to vote approve the conversion at a future stockholder meeting.

Opteum also agreed to pay the OFS stockholders a contingent earn-out of up to \$17.5 million over the next five years payable in cash, or under certain circumstances, shares of Class B Redeemable Preferred Stock, based on the achievement by OFS of certain specific financial objectives. The three most senior executives of OFS entered into long-term employment contracts upon completion of the merger.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("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. Significant estimates affecting the accompanying financial statements include the fair values of mortgage-backed securities, the prepayment speeds used to calculate amortization and accretion of premiums and discounts on mortgage-backed securities, deferred tax asset valuation, valuation allowance on mortgage loans held for sale, valuation of derivative financial instruments and fair value of mortgage servicing rights.

Consolidation

The accompanying consolidated financial statements include the accounts of Opteum and its wholly-owned subsidiary, OFS, as well the wholly-owned and majority owned subsidiaries of OFS. Opteum uses the equity method to account for investments for which it has the ability to exercise significant influence over operating and financial policies. As further described in Note 11, Opteum has an investment in two trusts used to complete the issuance of Opteum's junior subordinated notes. Pursuant to the accounting guidance provided in FASB Interpretation ("FIN") No. 46, "*Consolidation of Variable Interest Entities*," Opteum's common shares investment in the trusts are not consolidated in the financial statements of Opteum, and accordingly, these investments are accounted for on the equity method. Consolidated net earnings of Opteum include Opteum's share of the net earnings (losses) of these companies, if any. All material intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates its fair value at December 31, 2005 and 2004.

Restricted cash represents cash held on deposit as collateral with certain repurchase agreement counter-parties (i.e. lenders). Such amounts may be used to make principal and interest payments on the related repurchase agreements.

Valuation of Mortgage Backed Securities

In accordance with GAAP, Opteum classifies its investments in mortgage backed securities as either trading investments, available-for-sale investments or held-to-maturity investments. Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. Although Opteum intends to hold its mortgage-backed securities ("MBS") until maturity, it may, from time to time, sell any of its mortgage-backed securities as part of the overall management of the business. Opteum currently classifies all of its securities as available-for-sale, and assets so classified are carried on the balance sheet at fair value, and unrealized gains or losses arising from changes in market values are reported as other comprehensive income or loss as a component of stockholders' equity. Other than temporary impairment losses, if any, are reported in earnings.

When the fair value of an available for sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security. The decision is based on the credit quality of the issue (agency versus non-agency, and for non-agency, the credit performance of the underlying collateral), the security prepayment speeds and the length of time the security has been in an unrealized loss position. At December 31, 2005, Opteum did not hold any non-agency securities in its portfolio. If, in management's judgment, an other-than-temporary impairment exists, the cost basis of the security is written down in the period to the then-current

fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment).

Mortgage Loans Held for Sale

Mortgage loans held for sale represent mortgage loans originated and held pending sale to investors. The mortgages are carried at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Deferred net fees or costs are not amortized during the period the loans are held for sale, but are recognized when the loan is sold. OFS generally sells or securitizes loans with servicing rights retained. These transfers of financial assets are accounted as sales for financial reporting purposes when control over the assets has been surrendered. Control over transferred assets is surrendered when: the assets have been isolated from OFS; the investor obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets; and OFS does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. These transactions are treated as sales in accordance with SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. Gains or losses on such sales, are recognized at the time legal title transfers to the investor, are based upon the difference between the sales proceeds from the final investor and the allocated basis of the loan sold, adjusted for net deferred loan fees and certain direct costs and selling costs.

Valuation Allowance

A valuation allowance is recorded to adjust mortgage loans held for sale to the lower of cost or market.

Retained Interest, Trading

OFS uses warehouse loan arrangements to finance the origination and purchase of pools of principally fixed and adjustable-rate residential first mortgage loans (the "Mortgage Loans"). Subsequent to their origination or purchase, OFS either sells these loans to third party institutional investors through bulk sale arrangements, or through securitization transactions. OFS generally makes several representations and warranties regarding the performance of the Mortgage Loans in connection with each sale or securitization. OFS accumulates the desired amount of Mortgage Loans, and securitizes them in order to create marketable securities.

OFS, pursuant to a purchase and sale agreement, transfers the Mortgage Loans to Opteum Mortgage Acceptance Corp. (OPMAC), a wholly-owned special purpose entity set-up for the execution of these securitizations.

OPMAC then sells the Mortgage Loans to an institutional third party to serve as Depositor, pursuant to a Mortgage Loan Purchase and Servicing Agreement ("P&S Agreement"). Under this P&S Agreement, OFS makes general representations and warranties for Mortgage Loans sold by OFS.

The Depositor then deposits the Mortgage Loans into a Real Estate Mortgage Investment Conduit trust (the "REMIC") where the rights to such Mortgage Loans are pooled and converted into marketable debt securities pursuant to the P&S Agreement. These securities, issued by the REMIC, are divided into different classes of certificates (the "Certificates") with varying claims to payments received on the Mortgage Loans. These Certificates are transferred to the depositor in exchange for all of its rights in the Mortgage Loans deposited into the REMIC.

Certain Certificates are rated by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's ("S&P"). In all of the securitizations, all of the senior certificate classes were rated "AAA" by S&P, and "Aaa" by Moody's, respectively. In addition, most of the mezzanine classes of certificates, starting with Class M-1 through the lowest respective subordinate class for each offering, with each lower numerical class designation being subordinated to the previous designation (the "Mezzanine Certificates"), were each given investment grade ratings. The subordinate classes not given an investment grade rating were sold through a Private Placement Offering Memorandum. Certain of these Certificates are offered to the public (the "Public Certificates") pursuant to a prospectus. These Public Certificates are sold to underwriters on the closing date pursuant to an underwriting agreement. The proceeds from the sale of the

Public Certificates to the underwriters (less an underwriting discount) and the remaining non-publicly offered Certificates are transferred to OFS as consideration for the Mortgage Loans sold to the depositor pursuant to the P&S Agreement.

Finally, OFS transfers the proceeds from the sale of the Public Certificates and the non-publicly offered Certificates representing the residual interest in the REMIC to OPMAC pursuant to the Purchase and Sale Agreement. The additional non-publicly offered Certificates, representing prepayment penalties and overcollateralization fundings (the “Underlying Certificates”) are held by OPMAC in anticipation of a net interest margin (“NIM”) securitization. Subsequent to a securitization transaction as described above, OFS executes an additional securitization or “resecuritization” of the Underlying Certificates being held by OPMAC. This NIM securitization is typically transacted as follows:

OPMAC deposits the Underlying Certificates into a trust (the “NIM Trust”) pursuant to a deposit trust agreement. The NIM Trust is a Delaware statutory trust. The NIM Trust, pursuant to an indenture, issues (i) notes (the “NIM Notes”) representing interests in the Underlying Certificates and (ii) an owner trust certificate (the “Trust Certificate”) representing the residual interest in the NIM trust. The NIM Notes were sold to third parties via private placement transactions, and the Trust Certificate is transferred from OPMAC to OFS in consideration for the deposit of the Underlying Certificates.

Securities Held for Sale

Securities held for sale are recorded as of the date of purchase or sale at fair value. Changes in fair value subsequent to the purchase date are reflected in earnings as gains and losses from investments. Realized gains and losses are determined on a specific identified basis cost basis.

Mortgage Servicing Rights

OFS recognizes mortgage servicing rights ("MSR") as an asset when separated from the underlying mortgage loans, upon the sale of the loans. Upon sale of a loan, OFS measures the retained MSRs by allocating the total cost of originating a mortgage loan between the loan and the servicing right based on their relative fair values. Fair value is estimated based on expected cash flows considering market prepayment estimates, historical prepayment rates, portfolio characteristics, interest rates, and other economic factors. Gains or losses on the sale of MSRs are recognized when title and all risks and rewards have irrevocably passed to the buyer and there are no significant unresolved contingencies. MSRs are carried at the lower of cost, less accumulated amortization, or fair value. MSRs are amortized in proportion to, and over the period of, the estimated future net servicing income. Such amortization, which is recorded as a reduction of net servicing revenue in the accompanying consolidated financial statements, was \$2.4 million during the year ended December 31, 2005.

For purposes of performing its quarterly impairment evaluation, OFS stratifies its portfolio primarily on the basis of interest rates of the underlying mortgage loans and the type of product associated with the MSRs. OFS measures impairment for each stratum by comparing estimated fair value to the carrying amount. For the period ended December 31, 2005 there was no such impairment which would have been recorded as a reduction of net servicing revenue.

Property and Equipment, net

Property and equipment, net, consisting primarily of computer equipment, office furniture, land and building, is recorded at acquisition cost and depreciated using the straight-line method over the estimated useful lives of the assets. Asset lives range from five years for computer equipment to thirty years for the building. Property and equipment at December 31, 2005 and 2004 is net of accumulated depreciation of \$606,889 and \$32,338, respectively. Depreciation expense for the year ended December 31, 2005 was \$574,551. Depreciation expense for the year ended December 31, 2004 was \$26,886 and it was \$5,452 for the period from inception through December 31, 2003.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of Opteum's acquisition over the fair value of net assets acquired in a business combination. Contingent consideration paid in subsequent periods under the terms of the purchase agreement, if any, would be considered acquisition costs and classified as goodwill. Goodwill was \$2.1 million as of December 31, 2005.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, Opteum will subject its goodwill to at least an annual assessment for impairment by applying a fair value-based test. If the carrying value exceeds the fair value, goodwill is impaired. There was no impairment of goodwill as of December 31, 2005.

Derivative Assets and Derivative Liabilities

Opteum Financial Service's mortgage committed pipeline includes interest rate lock commitments ("IRLCs") that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. Effective with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for*

Derivative Instruments and Hedging Activities, as amended, OFS classifies and accounts for the IRLCs as freestanding derivatives. Accordingly, IRLCs are recorded at their fair value with changes in fair value recorded to current earnings. OFS uses other derivative instruments to economically hedge the IRLCs, which are also classified and accounted for as freestanding derivatives.

OFS's risk management objective for its mortgage loans held for sale includes use of mortgage forward delivery contracts designed as fair value derivative instruments to protect earnings from an unexpected change due to a decline in value. Effective with the adoption of SFAS No. 133, OFS mortgage forward delivery contracts are recorded at their fair value with changes in fair value recorded to current earnings.

IRLCs and derivative assets or liabilities arising from OFS's derivative activities are included in either receivables or accounts payable and accrued liabilities in the accompanying consolidated financial statements. OFS also evaluates its contractual arrangements, assets and liabilities for the existence of embedded derivatives.

Repurchase Agreements

Opteum finances the acquisition of its MBS through the use of repurchase agreements. Under these repurchase agreements, Opteum transfers securities to a lender and agrees to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sale price that Opteum receives and the repurchase price that Opteum pays represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which Opteum pledges its securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. Opteum retains beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, Opteum is required to repay the loan and concurrently receives back its pledged collateral from the lender or, with the consent of the lender, Opteum may renew such agreement at the then prevailing financing rate. These repurchase agreements may require Opteum to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines. As of December 31, 2005 and 2004, Opteum did not have any margin calls on its repurchase agreements that it was not able to satisfy with either cash or additional pledged collateral.

Original terms to maturity of Opteum's repurchase agreements generally range from one month to 36 months; however, Opteum is not precluded from entering into repurchase agreements with longer maturities. Should a counter-party decide not to renew a repurchase agreement at maturity, Opteum must either refinance elsewhere or be in a position to satisfy this obligation. If, during the term of a repurchase agreement, a lender should file for bankruptcy, Opteum might experience difficulty recovering its pledged assets and may have an unsecured claim against the lender's assets for the difference between the amount loaned to Opteum and the estimated fair value of the collateral pledged to such lender. At December 31, 2005, Opteum had amounts outstanding under repurchase agreements with fourteen separate lenders with a maximum net exposure (the difference between the amount loaned to Opteum and the estimated fair value of the security pledged by Opteum as collateral) to any single lender of approximately \$27.0 million. At December 31, 2004, Opteum had amounts outstanding under repurchase agreements with twelve separate lenders with a maximum net exposure to any single lender of approximately \$29.0 million.

During 2005, Opteum entered into contracts and paid commitment fees to three lenders providing for an aggregate of \$1.85 billion in committed repurchase lines at pre-determined borrowing rates and haircuts for a 364 day period following the commencement date of each contract. Opteum has no obligation to utilize these repurchase lines.

At December 31, 2005, Opteum's repurchase agreements had the following counter-parties, amounts at risk and weighted average remaining maturities:

| Repurchase Agreement Counter-parties | Amount Outstanding (\$000) | Amount at Risk(1) (\$000) | Weighted Average Maturity of Repurchase Agreements in Days | Percent of Total Amount Outstanding |
|---------------------------------------|----------------------------|---------------------------|--|-------------------------------------|
| Deutsche Bank Securities, Inc. | \$ 894,748 | \$ 12,018 | 135 | 26.81% |
| Nomura Securities International, Inc. | 623,631 | 27,010 | 122 | 18.69 |
| Cantor Fitzgerald | 467,638 | 15,958 | 70 | 14.01 |
| Washington Mutual | 375,345 | 11,630 | 7 | 11.25 |
| Goldman Sachs | 207,525 | 7,438 | 44 | 6.22 |
| Bear Stearns & Co. Inc. | 167,610 | 6,096 | 157 | 5.02 |
| UBS Investment Bank, LLC | 158,781 | 5,059 | 93 | 4.76 |
| Merrill Lynch | 128,119 | (7,949) | 96 | 3.84 |
| JP Morgan Securities | 115,807 | 1,652 | 151 | 3.47 |
| Morgan Stanley | 73,505 | 1,767 | 26 | 2.20 |

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| | | | | |
|---------------------------------|---------------------|------------------|-----|----------------|
| Lehman Brothers | 62,643 | 2,399 | 87 | 1.88 |
| Countrywide Securities Corp | 22,930 | 1,238 | 86 | 0.69 |
| Daiwa Securities America Inc. | 19,732 | 39 | 188 | 0.58 |
| Bank of America Securities, LLC | 19,584 | 815 | 27 | 0.58 |
| Total | \$ 3,337,598 | \$ 85,170 | | 100.00% |

(1) Equal to the fair value of securities sold, plus accrued interest income, minus the sum of repurchase agreement liabilities, plus accrued interest expense.

At December 31, 2004, Opteum's repurchase agreements had the following counter-parties, amounts at risk and weighted average remaining maturities:

| Repurchase Agreement Counter-parties | Amount Outstanding (\$000) | Amount at Risk(1) (\$000) | Weighted Average Maturity of Repurchase Agreements in Days | Percent of Total Amount Outstanding |
|---|-----------------------------------|----------------------------------|---|--|
| UBS Investment Bank, LLC | \$ 512,697 | \$ 29,005 | 64 | 18.5% |
| Nomura Securities International, Inc. | 463,901 | 26,083 | 99 | 16.7 |
| Bank of America Securities, LLC | 309,270 | 18,079 | 66 | 11.2 |
| Deutsche Bank Securities, Inc. | 308,645 | 16,246 | 227 | 11.1 |
| Lehman Brothers | 257,191 | 8,793 | 81 | 9.3 |
| Bear Stearns & Co. Inc. | 255,229 | 14,068 | 127 | 9.2 |
| Countrywide Securities Corp | 178,574 | 8,447 | 43 | 6.4 |
| Morgan Stanley | 119,659 | 352 | 65 | 4.3 |
| Daiwa Securities America Inc | 114,436 | 5,287 | 67 | 4.2 |
| Goldman Sachs | 107,822 | 1,706 | 37 | 3.9 |
| Merrill Lynch | 83,561 | 2,268 | 172 | 3.0 |
| JP Morgan Securities | 60,178 | 3,152 | 37 | 2.2 |
| Total | \$ 2,771,163 | \$ 133,486 | | 100.0% |

(1) Equal to the fair value of securities sold, plus accrued interest income, minus the sum of repurchase agreement liabilities, plus accrued interest expense.

Interest Income Recognition on MBS

Securities are recorded on the date the securities are purchased or sold, which is generally the trade date. Realized gains or losses from securities transactions are determined based on the specific identified cost of the securities. Interest income is accrued based on the outstanding principal amount of the securities and their stated contractual terms. Premiums and discounts associated with the purchase of the securities are accreted or amortized into interest income over the estimated lives of the assets adjusted for estimated prepayments using the effective interest method. Adjustments are made using the retrospective method to the effective interest computation each reporting period based on the actual prepayment experiences to date, and the present expectation of future prepayments of the underlying mortgages.

Gain on Sale of Loans

OFS recognizes gain (or loss) on the sale of loans. Gains or losses on such sales are recognized at the time legal title transfers to the investor based upon the difference between the sales proceeds from the final investor and the allocated basis of the loan sold, adjusted for net deferred loan fees and certain direct costs and selling costs. OFS defers net loan origination costs and fees as a component of the loan balance on the balance sheet. Such costs are not amortized and are recognized into income as a component of the gain or loss upon sale. The net gain on sale of loans was \$850,000 for the period ended December 31, 2005. The net gains on sale of loans for the period are a component of Other Income on the Consolidated Statement of Operations.

Servicing Fee Income

Servicing fee income is generally a fee based on a percentage of the outstanding principal balances of the mortgage loans serviced by OFS (or by a servicer where OFS is the master servicer) and is recorded as income as the installment payments on the mortgages are received by OFS or the servicer.

Loan Origination Fees and Costs

Loan fees, discount points, and certain direct origination costs are recorded as an adjustment of the cost of the loan and are included in gain on sales of loans when the loan is sold. Accordingly, salaries, commissions, benefits and other operating expenses have been reduced by \$10.3 million during the period ended December 31, 2005, due to direct loan origination costs, including commission costs. Loan fees related to the origination and funding of mortgage loans held for sale are \$1.3 million during the period ended December 31, 2005.

Comprehensive Income (Loss)

In accordance with SFAS No. 130, *Reporting Comprehensive Income*, the Company is required to separately report its comprehensive income (loss) each reporting period. Other comprehensive income refers to revenue, expenses, gains, and losses that under GAAP are included in comprehensive income but are excluded from net income, as these amounts are recorded directly as an adjustment to stockholders' equity. Other comprehensive income (loss) arises from unrealized gains or losses generated from changes in market values of its securities held as available-for-sale.

Comprehensive income (loss) is as follows:

| | Year Ended December 31, | |
|---|--------------------------------|---------------|
| | 2005 | 2004 |
| Net Income | \$ 24,282,671 | \$ 22,856,910 |
| Unrealized loss on available for sale securities, net | (73,345,150) | (1,040,815) |
| Comprehensive (Loss) Income | \$ (49,062,479) | \$ 21,816,095 |

Stock-Based Compensation

Stock-based compensation is accounted for using the fair value based method prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*. The adoption of SFAS No. 123(R), "Share-Based Payment" on January 1, 2006 is not expected to have a significant impact on Opteum. For stock and stock-based awards issued to employees, a compensation charge is recorded against earnings based on the fair value of the award. For transactions with non-employees in which services are performed in exchange for Opteum's common stock or other equity instruments, the transactions are recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date of issuance. Opteum's stock-based compensation transactions resulted in an aggregate of \$2.5 million of compensation expense for the year ended December 31, 2005, \$0.9 million of compensation expense for the year ended December 31, 2004 and \$1,209 of compensation expense for the period from September 24, 2003 (date of inception) to December 31, 2003.

Earnings Per Share

The Company follows the provisions of SFAS No. 128, *Earnings per Share*, and the guidance provided in the FASB's Emerging Issues Task Force ("EITF") Issue No. 03-6, *Participating Securities and the two-class method under FASB Statement No. 128, Earnings Per Share*, which requires companies with complex capital structures, common stock equivalents, or two classes of participating securities to present both basic and diluted earnings per share ("EPS") on the face of the statement of income. Basic EPS is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the "if converted" method for common stock equivalents.

As further described in Note 12, effective July 9, 2004, the shares of Class B Common Stock, participating and convertible into Class A Common Stock, became entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Following the provisions of EITF 03-6, the Class B Common Stock, beginning in the three-month period ended September 30, 2004, is included in the computation of basic EPS using the two-class method, and consequently is presented separately from Class A Common Stock. Prior to July 9, 2004, the Class B shares of common stock are not included in the basic EPS computation as the conditions to participate in earnings were not met, and they were not included in the computation of diluted Class A EPS as the conditions for conversion to Class A shares were not met.

The Class C common shares are not included in the basic EPS computation as these shares do not have participation rights. The Class C common shares totaling 319,388 are not included in the computation of diluted Class A EPS as the conditions for conversion to Class A shares were not met (see Note 12).

As further discussed in Note 2, effective November 3, 2005, the Company issued 1,223,208 shares of Class A Redeemable Preferred Stock, pursuant to the acquisition of OFS. Holders of shares of the preferred stock cannot receive or accrue dividend payments prior to January 1, 2006; therefore, these preferred shares are not included in the basic EPS computation as these shares do not have participation rights during the period from their issuance through December 31, 2005 (see Note 12). The shares of the Class A Redeemable Preferred Stock will only be eligible to convert into shares of our Class A Common Stock at such time as such conversion is approved by a majority number of stockholders; therefore, since this conversion is not yet approved, the shares are not included in the computation of diluted Class A Common Stock EPS.

The table below reconciles the numerators and denominators of the basic and diluted EPS.

| | Year Ended December 31, | | From September 24, |
|---|--------------------------------|---------------|----------------------------|
| | 2005 | 2004 | 2003 |
| | | | (inception) through |
| | | | December 31, 2003 |
| Basic and diluted EPS per Class A common share: | | | |
| Numerator: net income allocated to the Class A common shares | \$ 23,910,709 | \$ 22,529,855 | \$ (267,167) |
| Denominator: basic and diluted: | | | |
| Class A common shares outstanding at the balance sheet date | 23,567,242 | 20,368,915 | 4,012,102 |
| Dividend eligible equity plan shares issued as of the balance sheet date | 499,786 | 313,600 | - |
| Effect of weighting | (2,645,527) | (9,230,257) | (3,514,243) |
| Weighted average shares-basic and diluted | 21,421,501 | 11,452,258 | 497,859 |
| Basic and diluted EPS per Class A common share | \$ 1.12 | \$ 1.97 | \$ (0.54) |
| Basic and diluted EPS per Class B common share: | | | |
| Numerator: net income allocated to Class B common shares | \$ 371,962 | \$ 327,055 | \$ - |
| Denominator: basic and diluted: | | | |
| Class B common shares outstanding at the balance sheet date | 319,388 | 319,388 | 319,388 |
| Effect of weighting (based on date Class B shares participate in dividends) | - | (159,694) | (319,388) |
| Weighted average shares-basic and diluted | 319,388 | 159,694 | - |
| Basic and diluted EPS per Class B common share | \$ 1.16 | \$ 2.05 | \$ - |

Income Taxes

Opteum has elected to be taxed as a REIT under the Code. As further described below, the Company's TRS is a taxpaying entity for income tax purposes, and is taxed separately from Opteum. Opteum will generally not be subject to federal income tax on its taxable net income to the extent that Opteum distributes its taxable net income to its stockholders and satisfies the ongoing REIT requirements including meeting certain asset, income and stock ownership tests. Under the net income requirements, a REIT must generally distribute at least 90% of its taxable income to its stockholders of which 85% 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 timely filing date of our REIT tax return in the subsequent taxable year.

OFS is the Company's TRS, and its activities are subject to corporate income taxes, and the applicable provisions of SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, a revision of SFAS No. 123, which addresses the accounting for share-based payment transactions. SFAS No. 123(R) eliminates the ability to account for employee share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires instead that such transactions be accounted and recognized in the statement of operations based on their fair value. The adoption of SFAS No. 123(R) on January 1, 2006, will not have an impact on Opteum, as Opteum already uses the fair value method of accounting for all of its share-based payments.

On August 11, 2005, the FASB issued an Exposure draft to amend FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to (i) specify the conditions under which a qualifying special-purpose entity (SPE) is required to achieve sale accounting, (ii) eliminate inconsistent application of the principles upon which Statement 140 is based, and (iii) address other issues related to transfers of financial assets that arose during redeliberations on the amendment of Statement 140 in order to improve the comparability of financial statements. The Company has not yet evaluated the impact, if any, that application of these new principles will have.

NOTE 2. ACQUISITION OF OPTEUM FINANCIAL SERVICES, LLC

On November 3, 2005, Opteum acquired 100% of the equity interests of Opteum Financial Services, LLC and its subsidiaries ("OFS") through a newly formed wholly-owned subsidiary of Opteum. OFS is a mortgage lender that originates loans nationwide. Opteum acquired OFS to diversify its revenue stream while remaining in Opteum's area of expertise. For OFS, the acquisition provides increased access to capital to fund growth. The results of operations of OFS have been included in the accompanying consolidated financial statements for the period from November 3, 2005 through December 31, 2005.

Opteum initially issued 3,717,242 shares of Class A Common Stock and 1,800,000 shares of Class A Redeemable Preferred Stock to the owners of OFS. A portion of the Class A Redeemable Preferred Stock was to be returned to Opteum if OFS did not have a book value of \$60.0 million at the date of closing. On February 10, 2006, the owners of OFS and Opteum agreed that 576,792 shares of the Class A Redeemable Preferred Stock would be returned as the OFS book value at closing was less than \$60.0 million.

As described in Note 12, the Class A Redeemable Preferred Stock will be convertible into shares of Class A Common Stock if the Company's stockholders approve the conversion at a future stockholders' meeting. After accounting for the returned Class A Redeemable Preferred Stock, the final aggregate purchase price amounted to \$56,501,440. This consists of: 3,717,242 shares of Class A Common Stock valued at \$11.46 per share; 1,223,208 shares of Class A Redeemable Preferred Stock valued at \$9.91 per share; and \$1,779,846 of transaction costs. The values of the shares issued were based on the average market price of Opteum's Class A Common Stock over the five day period surrounding September 29, 2005, the date the acquisition agreement was signed and publicly announced.

The owner's of OFS will be eligible to receive up to \$17.5 million in cash (or preferred shares in certain circumstances) over the next five years, depending on the cash flows of certain residual interests in securitizations which were on OFS's balance sheet at the closing.

The following presents the allocation of the purchase price to the fair values of the assets acquired and the liabilities assumed as of November 3, 2005:

| | | |
|-----------------------------|----|---------------|
| Cash and cash equivalents | \$ | 3,431,736 |
| Loans held for sale | | 1,186,599,447 |
| Retained interests, trading | | 94,611,222 |

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| | |
|--------------------------------|-----------------|
| Mortgage servicing rights, net | 87,079,777 |
| Fixed assets | 9,919,100 |
| Goodwill | 2,107,130 |
| Identified intangibles | 4,042,617 |
| All other assets | 46,203,917 |
| Deferred income tax liability | (22,580,679) |
| All other liabilities | (1,354,912,827) |
| Net assets acquired | \$ 56,501,440 |

OFS is still in the process of obtaining final valuations and completing its analysis of certain of the intangible assets; accordingly, allocation of the purchase price is subject to potential modification. If changes to the purchase price occur during the twelve month period following the acquisition, the appropriate adjustments will be allocated to the fair values of the assets acquired and liabilities assumed. However, any modification is not expected to be significant. The identified intangibles will be amortized over a weighted average amortization period of approximately three years, and they are not expected to have any significant residual value. The Company recorded intangible assets in the amount of \$2,688,370 for proprietary software, unlocked loans and related items at the time of the acquisition. At December 31, 2005, the accumulated amortization on these intangibles was \$115,375. The Company recorded \$1,354,247 for an intangible related to the Opteum trade name, and \$2,107,130 of goodwill; these assets will not be subject to amortization.

The following pro-forma information is based on the assumption that the acquisition of OFS took place as of January 1, 2004. The impact of the application by the Company of SFAS No. 141 to the books and records of OFS upon consummation of the merger have been adjusted such that the impact is reflected in 2004 versus 2005. Accordingly, the figures below will not be consistent with figures presented in the amended Form 8-K filed by the Company on January 20, 2006.

| | 2005 | 2004 |
|--|----------------|----------------|
| Total Net Revenue | \$ 157,198,288 | \$ 110,823,422 |
| Income from Operations | 36,511,991 | 39,493,512 |
| Net Income | 32,467,979 | 32,027,655 |
| Class A Common stock - basic and diluted | 1.24 | 1.97 |
| Class B Common stock - basic and diluted | 1.24 | 1.97 |

NOTE 3. MORTGAGE LOANS HELD FOR SALE, NET

Upon the closing of a residential mortgage loan or shortly thereafter, OFS will securitize the majority of its mortgage loan originations. OFS also sells mortgage loans insured or guaranteed by various government-sponsored entities and private insurance agencies. The insurance or guaranty is provided primarily on a nonrecourse basis to OFS, except where limited by the Federal Housing Administration and Veterans Administration and their respective loan programs. At December 31, 2005, OFS serviced approximately \$7.7 billion of mortgage loans sold into the secondary market. All of OFS's loans held for sale are pledged as collateral under the various financing arrangements described in Note 8. Mortgage loans held for sale consist of the following as of December 31, 2005:

| | |
|-------------------------------------|----------------|
| Mortgage loans held for sale | \$ 884,751,317 |
| Deferred loan origination costs—net | 9,604,290 |
| Valuation allowance | (117,977) |
| | \$ 894,237,630 |

NOTE 4. RETAINED INTEREST, TRADING

Subordinated interests retained represent the over-collateralization and net interest spread, which represents the estimated cash-flows to be received from the trust in the future from mortgage loan securitizations structured as sales in accordance with SFAS No. 140. Generally, to meet the sale treatment requirements of SFAS No. 140, the REMIC Trust is structured as a "qualifying special purpose entity" or QSPE, which specifically limits the trust's activities, and

OFS surrenders control over the mortgage loans upon their transfer to the REMIC Trust. All of OFS's securitization issues were accounted for as a sale under SFAS No. 140. The subordinated interests retained are classified as "trading securities" and are reported at fair value with unrealized gains or losses reported in earnings.

Valuation of Investments. OFS classifies its retained interests as trading securities and therefore records these securities at their estimated fair value. In order to value the unrated, unquoted, investments, OFS will record these assets at their estimated fair value utilizing either pricing available directly from dealers or the present value calculated by projecting the future cash flows of an investment on a publicly available analytical system. When a publicly available analytical system is utilized, OFS will input the following variable factors which will have an impact on determining the market value:

Interest Rate Forecast. The forward LIBOR interest rate curve.

Discount Rate. The present value of all future cash flows utilizing a discount rate assumption established at the discretion of OFS to represent market conditions and value.

Prepayment Forecast. The prepayment forecast may be expressed by OFS in accordance with one of the following standard market conventions: 1) Constant Prepayment Rate (CPR) or 2) Percentage of a Prepayment Vector (PPV). Prepayment forecasts may be changed as OFS observes trends in the underlying collateral as delineated in the Statement to Certificate Holders generated by the REMIC trust's Trustee for each underlying security.

Credit Performance Forecast. A forecast of future credit performance of the underlying collateral pool will include an assumption of default frequency, loss severity, and a recovery lag. In general, OFS will utilize the combination of default frequency and loss severity in conjunction with a collateral prepayment assumption to arrive at a target cumulative loss to the collateral pool over the life of the pool based on historical performance of similar collateral by the originator. The target cumulative loss forecast will be developed and noted at the pricing date of the individual security but may be updated by OFS consistent with observations of the actual collateral pool performance.

Default Frequency may be expressed by OFS in accordance with any of three standard market conventions: 1) Constant Default Rate (CDR) 2) Percentage of a Standard Default Assumption (SDA) curve, or 3) a vector or curve established to meet forecasted performance for specific collateral pools.

Loss Severity will be expressed by OFS in accordance with historical performance of similar collateral and the standard market conventions of a percentage of the unpaid principal balance of the forecasted defaults lost during the foreclosure and liquidation process.

During the first year of a new issue OFS may balance positive or adverse effects of the prepayment forecast and the credit performance forecast allowing for deviation between actual and forecasted performance of the collateral pool. After the first year OFS will generally adjust the Prepayment and Credit Performance Forecasts to replicate actual performance trends without balancing adverse and positive effects.

The following table summarizes OFS's residual interests in securitizations as of December 31, 2005:

| Series | Issue Date | December 31, 2005 |
|----------------|--------------------|-------------------|
| HMAC 2004-1 | March 4, 2004 | \$ 5,096,056 |
| HMAC 2004-2 | May 10, 2004 | 3,240,431 |
| HMAC 2004-3 | June 30, 2004 | 1,055,651 |
| HMAC 2004-4 | August 16, 2004 | 3,749,261 |
| HMAC 2004-5 | September 28, 2004 | 6,177,669 |
| HMAC 2004-6 | November 17, 2004 | 14,321,046 |
| OpteMac 2005-1 | January 31, 2005 | 14,720,910 |
| OpteMac 2005-2 | April 5, 2005 | 11,301,619 |
| OpteMac 2005-3 | June 17, 2005 | 14,656,477 |
| OpteMac 2005-4 | August 25, 2005 | 12,551,775 |
| OpteMac 2005-5 | November 23, 2005 | 11,139,697 |
| Total | | \$ 98,010,592 |

Key economic assumptions used in measuring the fair value of retained interests at the date of securitization resulting from securitizations completed during 2005 were as follows:

| | 2005 |
|-------------------------|---------------------------|
| Prepayment speeds (CPR) | 28.65% |
| Weighted-average-life | 2.830 |
| Expected credit losses | 1.069% |
| Discount rates | 14.896% |
| Interest rates | Forward LIBOR Yield curve |

At December 31, 2005 key economic assumptions and the sensitivity of the current fair value of residual cash flows to the immediate 10% and 20% adverse change in those assumptions are as follows:

| | | |
|---|----|------------------------------|
| Balance Sheet Carrying value of retained interests - fair value | \$ | 98,010,592 |
| Weighted average life (in years) | | 2.62 |
| Prepayment assumption (annual rate) | | 32.53% |
| Impact on fair value of 10% adverse change | \$ | (7,817,000) |
| Impact on fair value of 20% adverse change | \$ | (16,089,000) |
| Expected Credit losses (annual rate) | | 0.607% |
| Impact on fair value of 10% adverse change | \$ | (3,247,000) |
| Impact on fair value of 20% adverse change | \$ | (6,419,000) |
| Residual Cash-Flow Discount Rate | | 13.96% |
| Impact on fair value of 10% adverse change | \$ | (3,804,000) |
| Impact on fair value of 20% adverse change | \$ | (7,392,000) |
| Interest rates on variable and adjustable loans and bonds | | Forward LIBOR Yield Curve |
| Impact on fair value of 10% adverse change | \$ | (21,265,000) |
| Impact on fair value of 20% adverse change | \$ | (34,365,000) |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based upon a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of the variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption, in reality, changes in one factor may result in changes in another which may magnify or counteract the sensitivities. To estimate the impact of a 10% and 20% adverse change of the Forward LIBOR curve, a parallel shift in the forward LIBOR curve was assumed based on the Forward LIBOR curve at December 31, 2005.

Static pool losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets. The amount shown here is calculated based upon all securitizations occurring in that year.

**Residential Mortgage
Loans Securitized In:**

| | |
|---|-------------|
| Actual and Projected Credit Losses (%) as of : | 2005 |
| December 31, 2005 | 0.712% |

The table below summarizes certain cash flows received from and paid to securitization trusts:

| | | |
|-------------------------------|----|---|
| | | For the Period November 3, 2005 (date of merger) through December 31, 2005 |
| Proceeds from securitizations | \$ | 989,843,000 |
| Servicing fees received | | 2,837,500 |
| Servicing advances | | 290,952 |

Repayments of servicing advances 0

The following information presents quantitative information about delinquencies and credit losses on securitized financial assets as of December 31, 2005:

| Type of loan: | Total Principal Amount of Loans | Principal Amount of Loans Greater than 60 Days Past Due | Net Credit Losses |
|----------------------|--|--|--------------------------|
| Mortgage Loans | \$ 6,363,279,281 | \$ 57,871,123 | \$ 912,990 |

NOTE 5. MORTGAGE SERVICING RIGHTS, NET

Activities for mortgage servicing rights are summarized as follows at December 31, 2005:

| | | |
|-------------------------------|----|-------------|
| Balance on acquisition date: | \$ | 87,079,777 |
| Additions | | 1,431,576 |
| Amortization | | (2,429,759) |
| Balance at December 31, 2005: | \$ | 86,081,594 |

Estimated amortization expense for the five years ended December 31 and thereafter:

| | | |
|------------|----|------------|
| 2006 | \$ | 14,872,566 |
| 2007 | | 13,450,007 |
| 2008 | | 12,027,449 |
| 2009 | | 10,604,890 |
| 2010 | | 9,182,331 |
| Thereafter | | 25,944,351 |
| | \$ | 86,081,594 |

At December 31, 2005, key economic assumptions and the sensitivity of the current fair value of mortgage servicing rights cash flows to the immediate 10 percent and 20 percent adverse change in those assumptions are as follows:

| | | |
|--|----|-------------|
| Prepayment assumption (annual rate) (PSA) | | 253.72 |
| Impact on fair value of 10% adverse change | \$ | (3,615,000) |
| Impact on fair value of 20% adverse change | \$ | (6,936,000) |
| MSR Cash-Flow Discount Rate | | 10.74% |
| Impact on fair value of 10% adverse change | \$ | (4,856,000) |
| Impact on fair value of 20% adverse change | \$ | (9,280,000) |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based upon a 10% and 20% variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of the variation in a particular assumption on the fair value of the mortgage servicing right is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another which may magnify or counteract the sensitivities.

NOTE 6. MORTGAGE-BACKED SECURITIES

At December 31, 2005 and 2004, all of Opteum's mortgage-backed securities ("MBS") were classified as available-for-sale and, as such, are reported at their estimated fair value. Estimated fair value was determined based on the average of third-party broker quotes received and/or independent pricing sources when available.

At December 31, 2005, Opteum had financed MBS with a historical amortized cost of \$99.3 million with the party it acquired the MBS. Such securities are included in MBS at a fair value of \$98.0 million and a corresponding repurchase agreement of \$94.9 million at December 31, 2005.

The following are the carrying values of Opteum's MBS portfolio at December 31, 2005 and 2004:

| | December 31, 2005 | December 31, 2004 |
|--------------------------|--------------------------|--------------------------|
| Floating Rate CMO's | \$ - | \$ 250,438,730 |
| Hybrid Arms and Balloons | 753,895,705 | 569,623,089 |
| Adjustable Rate | 2,006,767,437 | 1,403,381,666 |
| Mortgages | 733,366,217 | 749,789,412 |
| Fixed Rate Mortgages | 733,366,217 | 749,789,412 |
| Totals | \$ 3,494,029,359 | \$ 2,973,232,897 |

The following table presents the components of the carrying value of Opteum's MBS portfolio at December 31, 2005 and 2004:

| | December 31, 2005 | December 31, 2004 |
|-------------------------------------|--------------------------|--------------------------|
| Principal balance | \$ 3,457,887,912 | \$ 2,876,568,150 |
| Unamortized premium | 115,133,248 | 98,202,287 |
| Unaccreted discount | (2,497,423) | (381,769) |
| Gross unrealized gains | 265,615 | 7,824,313 |
| Gross unrealized losses | (76,759,993) | (8,980,084) |
| Carrying value/estimated fair value | \$ 3,494,029,359 | \$ 2,973,232,897 |

The following table presents for Opteum's MBS investments with gross unrealized losses, the estimated fair value and gross unrealized losses aggregated by investment category, at December 31, 2005:

| | Loss Position Less than 12 Months | | Loss Position More than 12 Months | | Total | |
|---------------------------|--|--------------------------|--|--------------------------|-----------------------------|--------------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| Hybrid Arms and Balloons | \$ 563,661,156 | \$ (8,409,428) | \$ 141,675,752 | \$ (4,510,901) | \$ 705,336,908 | \$ (12,920,329) |
| Adjustable Rate Mortgages | 1,648,085,054 | (27,917,630) | 270,945,493 | (8,944,837) | 1,919,030,547 | (36,862,467) |
| Fixed Rate Mortgages | 425,260,838 | (10,762,306) | 346,435,009 | (16,214,890) | 771,695,847 | (26,977,197) |
| | \$ 2,637,007,048 | \$ (47,089,364) | \$ 759,056,254 | \$ (29,670,628) | \$ 3,396,063,302 | \$ (76,759,993) |

The following table presents for Opteum's MBS investments with gross unrealized losses, the estimated fair value and gross unrealized losses aggregated by investment category, at December 31, 2004:

| | Loss Position Less than 12 Months | | Loss Position More than 12 Months | | Total | |
|---------------------------|--|--------------------------|--|--------------------------|-----------------------------|--------------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| Hybrid Arms and Balloons | \$ 334,918,233 | \$ (1,974,605) | \$ 31,954,324 | \$ (75,968) | \$ 366,872,557 | \$ (2,050,573) |
| Adjustable Rate Mortgages | 479,284,021 | (2,930,772) | 9,374,573 | (21,845) | 488,658,594 | (2,952,617) |
| Fixed Rate Mortgages | 519,546,019 | (3,950,372) | 11,260,668 | (26,522) | 530,806,687 | (3,976,894) |
| | \$ 1,333,748,273 | \$ (8,855,749) | \$ 52,589,565 | \$ (124,335) | \$ 1,386,337,838 | \$ (8,980,084) |

At December 31, 2005, all of Opteum's MBS investments have contractual maturities greater than twenty-three months. Actual maturities of MBS investments are generally shorter than stated contractual maturities. Actual maturities of Opteum's MBS investments are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal.

The decline in fair value MBS of investments is not considered to be other than temporary. Accordingly, the write down to fair value is recorded in other comprehensive loss as an unrealized loss. The factors considered in making this determination include: the expected cash flow from the MBS investment, the general quality of the MBS owned, any credit protection available, current market conditions, and the magnitude and duration of the historical decline in market prices as well as Opteum's ability and intention to hold the MBS owned.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The valuation of Opteum's investments in mortgage backed securities is governed by SFAS No. 107. SFAS No. 107, Disclosures about Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. All REIT securities are reflected in the financial statements at their estimated fair value as of December 31, 2005 and 2004. Estimated fair values for MBS are based on the average of third-party broker quotes received and/or independent pricing sources when available. However, the fair values reported reflect estimates and may not necessarily be indicative of the amounts Opteum could realize in a current market exchange. Cash and cash equivalents, accrued interest receivable, repurchase agreements and accrued interest payable are reflected in the financial statements at their costs, which approximates their fair value because of the short-term nature of these instruments.

Fair value of mortgage loans held for sale, mortgage servicing rights, interest rate lock commitments and commitments to deliver mortgages are based on estimates. Fair value estimates are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience, and other factors.

Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the Company's fair values should not be compared to those of other companies. All forward delivery commitments and option contracts to buy securities are to be contractually settled within six months of the balance sheet date.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The fair value of certain OFS assets and liabilities either equal or approximate carrying value due to their short-term nature, terms of repayment, floating interest rate associated with the asset or liability or accounting principles applied. Such assets or liabilities include cash, receivables, retained interests, other trading securities, accounts payable and other liabilities, warehouse lines of credit and drafts payable.

The following describes the methods and assumptions used by OFS in estimating fair values of other financial instruments:

§ Mortgage Loans Held for Sale— Mortgage loans held for sale represent mortgage loans originated and held pending sale to investors. The mortgages are carried at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Deferred net fees or costs are not amortized during the period the loans are held for sale, but are recognized when the loan is sold.

§ Mortgage Servicing Rights— the estimated fair value of MSR is determined by obtaining a market valuation from a specialist who brokers MSRs. To determine the market valuation, the third party uses a valuation model which incorporates assumptions relating to the estimate of the cost of servicing per loan, a discount rate, a float value, an inflation rate, ancillary income per loan, prepayment speeds, and default rates that market participants use for acquiring similar servicing rights.

§ Interest Rate Lock Commitments—The fair value of interest rate lock commitments is estimated using the fees and rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter-parties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

§ Commitments to Deliver Mortgages—The fair value of these instruments is estimated using current market prices for dealer or investor commitments relative to the Company's existing positions. These instruments contain an element of risk in the event that the counter-parties may be unable to meet the terms of such agreements. In the event a counterparty to a delivery commitment was unable to fulfill its obligation, the Company would not incur any material loss by replacing the position at market rates in effect at December 31, 2005. The Company minimizes its risk exposure by limiting the counter-parties to those major banks, investment bankers, and private investors who meet established credit and capital guidelines. Management does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any loss due to counterparty default.

The following tables set forth information about financial instruments and other selected assets, except for those noted above for which the carrying value approximates fair value.

| | Notional Amounts | Carrying Amount | Estimated Fair Value |
|--|-----------------------------|----------------------------|---------------------------------|
| December 31, 2005 | | | |
| Assets: | | | |
| Mortgage loans held for sale | \$ - | \$ 884,751,317 | \$ 886,334,438 |
| Mortgage servicing rights | - | 86,081,594 | 94,968,119 |
| Commitments and contingencies: | | | |
| Mortgage loans held for sale related asset (liability) positions: | | | |
| Interest Rate Lock Commitments | \$ 368,457,709 | \$ 1,684,606 | \$ 1,684,606 |
| Interest Rate SWAP Agreements | 727,900,000 | (1,678,327) | (1,678,327) |
| Forward delivery commitments | 144,059,873 | 113,986 | 113,986 |

NOTE 8. WAREHOUSE LINES OF CREDIT AND DRAFTS PAYABLE

OFS issues drafts or wires at loan settlement in order to facilitate the closing of mortgage loans held for sale. Drafts payable represent mortgage loans on which a closing has occurred prior to year end but the related drafts have not cleared the respective bank. Upon clearing the bank, the drafts are funded by the appropriate warehouse line of credit. Warehouse and aggregate lines of credit and loans sale agreements accounted for as financing consisted of the following at December 31, 2005:

| Warehouse and aggregate lines of credit: | 2005 |
|---|--------------|
| A committed warehouse line of credit for \$100 million between OFS and Residential Funding Corporation ("RFC"). The agreement expires on March 31, 2006. The agreement provides for interest rates based upon 1 month LIBOR plus a margin between 1.25% and 1.50% depending on the product that was originated or acquired. | \$ 9,246,486 |
| A committed warehouse line of credit for \$284.5 million between OFS and Colonial Bank. The agreement expires on May 30, 2006. The agreement provides for interest rates, based upon 1 month LIBOR, plus a margin of 1.25% to 2.00% depending on the product that was originated or acquired. | 246,706,788 |
| A committed warehouse line of credit for \$150 million between OFS and JP Morgan Chase. The agreement expires on May 30, 2006 and is expected to be renewed prior to its expiration. The agreement provides for interest rates based upon 1 month LIBOR plus a margin of 1.25% to 2.00% depending on the product originated or acquired. | 67,969,568 |
| An Aggregation facility for \$1.0 billion between OFS and Citigroup Global Markets Realty Inc. to aggregate loans pending securitization. The agreement expires on February 28, 2007. The agreement provides for interest rates based upon 1 month LIBOR plus a margin of .75%. | 70,269,031 |
| An Aggregation facility for \$500 million between OFS and Bear Stearns to aggregate loans pending securitization. The agreement expires on March 11, 2006 and it is expected to be renewed prior to its expiration. The agreement provides for interest rates based upon 1 month LIBOR plus a margin of 0.75%. | - |
| A \$750 million purchase and security agreement between OFS and UBS Warburg Real Estate Securities, Inc. ("UBS Warburg") The facility is due upon demand and can be cancelled by either party upon notification to the counterparty. OFS incurs a charge for the facility based on 1 month LIBOR plus 1% to 1.35% depending on the product originated. The facility is secured by loans held for sale and cash generated from sales to investors. | 469,811,083 |
| | 864,002,956 |
| Drafts Payable | 9,738,473 |

Total Warehouse lines and drafts payable \$ 873,741,429

In addition to the RFC, Colonial Bank, UBS Warburg, and Citigroup facilities, OFS has purchase and sale agreements with Greenwich Capital and Fannie Mae. The agreements allow for OFS to accelerate the sale of its mortgage loan inventory, resulting in a more effective use of its warehouse facilities. OFS has a combined capacity of \$300 million under these purchase and sale agreements. There were no amounts sold and being held under these agreements at December 31, 2005. The agreements are not committed facilities and may be terminated at the discretion of either party.

The facilities are secured by mortgage loans and other assets of OFS. The facilities contain various covenants pertaining to tangible net worth, net income, available cash and liquidity, leverage ratio, current ratio and servicing delinquency. At December 31, 2005, OFS was not in compliance with respect to two covenants with one lender. The two covenants pertained to tangible net worth and net income at December 31, 2005. The violations were attributable to the loss reported for the period November 3, 2005, (date of merger) through December 31, 2005, resulting from the required purchase accounting adjustments to the carrying value of certain assets of OFS. On February 28, 2006, these violations were waived by the lender.

NOTE 9. OTHER SECURED BORROWINGS

Other secured borrowings consisted of the following at December 31:

| | 2005 |
|---|------------------------------|
| A committed working capital line of credit for \$82.5 million between OFS and Colonial Bank. The agreement expires on May 30, 2006. The agreement provides for an interest rate, based on 1 month LIBOR plus a margin of up to 2.6% and is secured by the servicing rights for FNMA, FHLMC and REMIC securitizations. | \$ 73,204,674 |
| A committed warehouse line of credit for \$150.0 million between OFS and JP Morgan Chase, that allows for a sublimit for mortgage servicing rights. The agreement expires May 30, 2006 and is expected to be renewed prior to its expiration. The agreement provides for interest rate based on LIBOR plus 2.0% | 7,410,000 |
| Citigroup Global Realty Inc., working capital line of credit secured by the Retained interests in securitizations through OPMAC 2005-4. The facility expires on October 31, 2006. The agreement provides for interest rate based on LIBOR plus 3.00% | 24,271,665 \$ 104,886,339 |

NOTE 10. Repurchase Agreements

Opteum has entered into repurchase agreements to finance most of its MBS security purchases. The repurchase agreements are short-term borrowings that bear interest at rates that have historically moved in close relationship to LIBOR. At December 31, 2005, Opteum had an outstanding amount of \$3.3 billion with a net weighted average borrowing rate of 4.15%, and these agreements were collateralized by MBS with a fair value of \$3.5 billion and restricted cash of \$2.3 million. At December 31, 2004, Opteum had an outstanding amount of \$2.8 billion with a net weighted average borrowing rate of 2.28%, and these agreements were collateralized by MBS with a fair value of \$2.9 billion and restricted cash of \$8.7 million.

At December 31, 2005, Opteum's repurchase agreements had remaining maturities as summarized below:

| | OVERNIGHT (1 DAY OR LESS) | BETWEEN 2 AND 30 DAYS | BETWEEN 31 AND 90 DAYS | GREATER THAN 90 DAYS | TOTAL |
|--|--|--------------------------------------|---------------------------------------|-------------------------------------|------------------|
| Agency-Backed Mortgage-Backed Securities: Amortized cost of securities sold, including accrued interest receivable | \$ — | \$ 906,106,459 | \$ 813,436,832 | \$ 1,533,016,956 | \$ 3,252,560,247 |

| | | | | | | |
|---|----|---|----------------|----------------|------------------|------------------|
| Fair market value of securities sold, including accrued interest receivable | \$ | — | \$ 893,159,892 | \$ 791,259,152 | \$ 1,498,980,224 | \$ 3,183,399,268 |
| Repurchase agreement liabilities associated with these securities | \$ | — | \$ 914,262,355 | \$ 857,995,007 | \$ 1,565,341,000 | \$ 3,337,598,362 |
| Net weighted average borrowing rate | | — | 4.22% | 4.01% | 4.19% | 4.15% |

At December 31, 2004, Opteum's repurchase agreements had remaining maturities as summarized below:

| | | OVERNIGHT (1 DAY OR LESS) | BETWEEN 2 AND 30 DAYS | BETWEEN 31 AND 90 DAYS | GREATER THAN 90 DAYS | TOTAL |
|---|----|--|--------------------------------------|---------------------------------------|-------------------------------------|------------------|
| Agency-Backed Mortgage-Backed Securities: | | | | | | |
| Amortized cost of securities sold, including accrued interest receivable | \$ | — | \$ 821,387,879 | \$ 975,251,727 | \$ 1,028,522,165 | \$ 2,825,161,771 |
| Fair market value of securities sold, including accrued interest receivable | \$ | — | \$ 823,087,580 | \$ 975,020,524 | \$ 1,025,389,631 | \$ 2,823,497,735 |
| Repurchase agreement liabilities associated with these securities | \$ | — | \$ 797,655,321 | \$ 968,417,528 | \$ 1,005,090,108 | \$ 2,771,162,957 |
| Net weighted average borrowing rate | | — | 2.28% | 2.11% | 2.45% | 2.28% |

NOTE 11. TRUST PREFERRED SECURITIES

On May 17, 2005, Opteum completed a private offering of \$50.0 million of trust preferred securities of Bimini Capital Trust I, a Delaware statutory business trust sponsored by Opteum.

Bimini Capital Trust I (“BCTI” or the “trust”) used the proceeds of the private offering, together with Opteum’s investment of \$1.6 million in the BCTI common securities, to purchase \$51.6 million aggregate principal amount of Opteum’s Junior Subordinated Notes with terms that parallel the terms of the trust preferred securities. The trust preferred securities have a fixed rate of interest until March 30, 2010 at 7.61% and thereafter through maturity in 2035 the rate will float at a spread of 3.30% over the prevailing three-month LIBOR rate. The trust preferred securities require quarterly interest distributions and are redeemable at Opteum’s option, in whole or in part and without penalty, beginning March 30, 2010 and at any date thereafter. The notes are subordinate and junior in right of payment of all present and future senior indebtedness. The proceeds from the private offering net of costs were approximately \$48.5 million.

On October 5, 2005, Opteum completed a private offering of \$50.0 million of trust preferred securities of Bimini Capital Trust II, a Delaware statutory business trust sponsored by Opteum.

Bimini Capital Trust II ("BCTII") used the proceeds of the private offering, together with Opteum's investment of \$1.5 million in the BCTII common securities to purchase \$51.5 million aggregate principal amount of Opteum's Junior Subordinated Notes with terms that parallel the terms of the trust preferred securities. The trust preferred securities have a fixed rate of interest until December 15, 2010 at 7.8575% and thereafter through maturity in 2035 the rate will float at a spread of 3.50% over the prevailing three-month LIBOR rate. The trust preferred securities require quarterly interest distributions and are redeemable at Opteum's option, in whole or in part and without penalty, beginning December 15, 2010 and at any date thereafter. The notes are subordinate and junior in right of payment of all present and future senior indebtedness. The proceeds from the private offering net of costs were approximately \$48.5 million.

The trust is a variable interest entity pursuant to FIN No. 46, because the holders of the equity investment at risk do not have adequate decision making ability over the trust's activities. Because Opteum's investment in the trust's common shares was financed directly by the trust as a result of its loan of the proceeds to Opteum, that investment is not considered to be an equity investment at risk pursuant to FIN No. 46. Since Opteum's common shares investment in BCTI is not a variable interest, Opteum is not the primary beneficiary of the trust. Therefore, Opteum has not consolidated the financial statements of BCTI into its financial statements. Based on the aforementioned accounting guidance, the financial statements present the notes issued to the trust as a liability and the investment in the BCTI as an asset. For financial statement purposes, Opteum records interest expense on the corresponding notes issued to the BCTI on its statements of income.

NOTE 12. CAPITAL STOCK

Authorized Shares

The total number of shares of capital stock which the Company has the authority to issue is 110,000,000 shares, consisting of 100,000,000 shares of common stock having a par value of \$0.001 per share and 10,000,000 shares of preferred stock having a par value of \$0.001 per share. The Board of Directors has the authority to classify any unissued shares by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares.

Common Stock

Of the 100,000,000 authorized shares of common stock, 98,000,000 shares were designated as Class A Common Stock, 1,000,000 shares were designated as Class B Common Stock and 1,000,000 shares were designated as Class C Common Stock. Holders of shares of common stock have no sinking fund or redemption rights and have no preemptive rights to subscribe for any of our securities.

Class A Common Stock

Each outstanding share of Class A Common Stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Holders of shares of Class A Common Stock are not entitled to cumulate their votes in the election of directors.

Subject to the preferential rights of any other class or series of stock and to the provisions of the Company's charter, as amended, regarding the restrictions on transfer of stock, holders of shares of Class A Common Stock are entitled to receive dividends on such stock if, as and when authorized and declared by the Board of Directors.

Class B Common Stock

Each outstanding share of Class B Common Stock entitles the holder to one vote on all matters submitted to a vote of common stockholders, including the election of directors. Holders of shares of Class B Common Stock are not entitled

to cumulate their votes in the election of directors. Holders of shares of Class A Common Stock and Class B Common Stock shall vote together as one class in all matters except that any matters which would adversely affect the rights and preferences of Class B Common Stock as a separate class shall require a separate approval by holders of a majority of the outstanding shares of our Class B Common Stock.

Holders of shares of Class B Common Stock are entitled to receive dividends on each share of Class B Common Stock in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors. Prior to July 9, 2004, no dividends were declared on the shares of Class B Common Stock due to a provision which required that cumulative dividends paid on each share of Class A Common Stock be equal to or greater than the difference between the book value per share of Class A Common Stock at the time of issuance of such shares of Class A Common Stock and \$15.00 per share, before dividends could be paid on the Class B Common Stock. As of July 9, 2004, the cumulative dividends paid on each share of Class A Common Stock met this requirement; therefore, as of July 9, 2004, the shares of Class B Common Stock became entitled to receive dividends in an amount equal to the dividends declared on each share of Class A Common Stock if, as and when authorized and declared by the Board of Directors.

Each share of Class B Common Stock shall automatically be converted into one share of Class A Common Stock on the first day of the fiscal quarter following the fiscal quarter during which the Company's Board of Directors were notified that, as of the end of such fiscal quarter, the stockholders' equity attributable to the Class A Common Stock, calculated on a pro forma basis as if conversion of the Class B Common Stock (or portion thereof to be converted) had occurred, and otherwise determined in accordance with GAAP, equals no less than \$15.00 per share (adjusted equitably for any stock splits, stock combinations, stock dividends or the like); provided, that the number of shares of Class B Common Stock to be converted into Class A Common Stock in any quarter shall not exceed an amount that will cause the stockholders' equity attributable to the Class A Common Stock calculated as set forth above to be less than \$15.00 per share; provided further, that such conversions shall continue to occur until all shares of Class B Common Stock have been converted into shares of Class A Common Stock; and provided further, that the total number of shares of Class A Common Stock issuable upon conversion of the Class B Common Stock shall not exceed 3% of the total shares of common stock outstanding prior to completion of an initial public offering of Opteum's Class A Common Stock. Opteum's Class A Common Stock has a book value per share of \$10.33 at December 31, 2005.

Class C Common Stock

No dividends will be paid on the Class C Common Stock. Holders of shares of Class C Common Stock are not entitled to vote on any matter submitted to a vote of stockholders, including the election of directors, except that any matters that would adversely affect the rights and privileges of the Class C Common Stock as a separate class shall require the approval of a majority of the Class C Common Stock.

Each share of Class C Common Stock shall automatically be converted into one share of Class A Common Stock on the first day of the fiscal quarter following the fiscal quarter during which the Company's Board of Directors were notified that, as of the end of such fiscal quarter, the stockholders' equity attributable to the Class A Common Stock, calculated on a pro forma basis as if conversion of the Class C Common Stock had occurred and giving effect to the conversion of all of the shares of Class B Common Stock as of such date, and otherwise determined in accordance with GAAP, equals no less than \$15.00 per share (adjusted equitably for any stock splits, stock combinations, stock dividends or the like); provided, that the number of shares of Class C Common Stock to be converted into Class A Common Stock shall not exceed an amount that will cause the stockholders' equity attributable to the Class A Common Stock calculated as set forth above to be less than \$15.00 per share; and provided further, that such conversions shall continue to occur until all shares of Class C Common Stock have been converted into shares of Class A Common Stock and provided further, that the total number of shares of Class A Common Stock issuable upon conversion of the Class C Common Stock shall not exceed 3% of the total shares of common stock outstanding prior to completion of an initial public offering of Opteum's Class A Common Stock. Opteum's Class A Common Stock has a book value per share of \$10.33 at December 31, 2005.

Initial Capitalization

The three initial independent directors of the Company's Board of Directors subscribed for a total of 7,500 shares of Class A Common Stock in October 2003 at par value, or a price of \$0.001 per share. Compensation totaling \$28 was recorded as a result of this issuance. See below for a description of additional Class A Common Stock issuances.

Of the 1,000,000 shares of Class B Common Stock authorized for issuance, 319,388 shares were issued to Opteum's initial officers, Jeffrey J. Zimmer and Robert E. Cauley, in October 2003 for a total price of \$1,500. Of the 1,000,000 shares of Class C Common Stock authorized for issuance, 319,388 shares were subscribed to by Flagstone Securities, LLC in October 2003 at par value, or a price of \$0.001 per share. Compensation totaling \$1,181 was recorded as a result of this issuance.

Issuances of Common Stock

On December 11, 2003, Opteum began a private placement offering (the "Offering") of up to 10,000,000 shares of Class A Common Stock at a price to the investors of \$15.00 per share. On December 19, 2003, Opteum completed a first closing, in which Opteum issued 4,004,602 shares and received proceeds of \$56,598,732, which is net of placement agency fees and expenses totaling \$3,350,297. On January 30, 2004, the Offering was closed, and Opteum issued an additional 5,837,055 shares and received proceeds of \$82,864,346, which is net of placement agency fees and expenses totaling \$4,691,479.

On February 17, 2004, Opteum issued a total of 158,343 shares of Class A Common Stock in a private offering and received proceeds of \$2,248,471, which is net of placement agency fees and expenses totaling \$126,674.

On September 21, 2004, Opteum issued a total of 5,000,000 shares of Class A Common Stock in an initial public offering and, on September 24, 2004 issued 750,000 shares of Class A Common Stock pursuant to the exercise of an over allotment option by the underwriters. Proceeds of \$75,881,557, which is net of underwriter fees and expenses totaling \$7,481,136 were received by Opteum.

On December 16, 2004, Opteum issued a total of 4,000,000 shares of Class A Common Stock in a secondary public offering and, on December 17, 2004 issued 600,000 shares of Class A Common Stock pursuant to the exercise of an over allotment option by the underwriters. Proceeds of \$66,679,375, which is net of underwriter fees and expenses totaling \$4,620,625 were received by Opteum.

During 2004, Opteum issued a total of 11,415 shares of Class A Common Stock to its directors for the payment of director fees. The compensation charges for these issuances were recorded at the respective fair-values at the date of each issuance in accordance with SFAS No. 123. Total compensation charges related to these issuances was \$174,386 for the year ended December 31, 2004.

During 2005, Opteum issued a total of 27,800 shares of Class A Common Stock to its directors for the payment of director fees. The compensation charges for these issuances were recorded at the respective fair-values at the date of each issuance in accordance with SFAS No. 123. Total compensation charges related to these issuances was \$357,843 for the year ended December 31, 2005.

During 2005, Opteum issued 3,717,242 shares of its Class A Common Stock in connection with an acquisition (see Note 2). Also, a total of 14,667 shares of Class A Common Stock were issued in connection with Opteum's stock-based compensation plans.

Dividends

On March 9, 2005, the Company's Board of Directors declared a \$0.53 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 20,374,883 shares of Class A Common Stock, 516,961 phantom shares granted under the Company's stock incentive plan (see Note 14) and 319,388 shares of Class B Common Stock. The distribution totaling \$11,241,953 was paid on April 8, 2005.

On May 31, 2005, the Company's Board of Directors declared a \$0.40 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 20,385,936 shares of Class A Common Stock, 512,072 phantom shares granted under the Company's stock incentive plan (see Note 14) and 319,388 shares of Class B Common Stock. The distribution totaling \$8,486,958 was paid on July 8, 2005.

On August 24, 2005, the Company's Board of Directors declared a \$0.38 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 20,397,210 shares of Class A Common Stock, 504,675 phantom

shares granted under the Company's stock incentive plan (see Note 14) and 319,388 shares of Class B Common Stock. The distribution totaling \$8,064,084 was paid on October 7, 2005.

On November 30, 2005, the Company's Board of Directors declared a \$0.14 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 23,819,222 shares of Class A Common Stock, 499,786 phantom shares granted under the Company's stock incentive plan (see Note 14) and 319,388 shares of Class B Common Stock. The distribution totaling \$3,449,375 was paid on December 29, 2005.

On March 11, 2004, the Company's Board of Directors declared a \$0.39 per share cash distribution to holders of its Class A Common Stock, totaling \$3,903,569. The distribution was paid on April 23, 2004.

On June 2, 2004, the Company's Board of Directors declared a \$0.52 per share cash distribution to holders of its Class A Common Stock. Dividends payable on the 10,012,188 shares of Class A common stock outstanding total \$5,206,338. Including the dividends paid on the 313,600 phantom shares granted under the Company's stock incentive plan (see Note 7), the distribution totaled \$5,369,410. The distribution was paid on July 9, 2004.

On August 24, 2004, the Company's Board of Directors declared a \$0.52 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 10,015,656 shares of Class A Common Stock, 313,600 phantom shares granted under the Company's stock incentive plan (see Note 7) and 319,388 shares of Class B Common Stock. The distribution totaling \$5,537,295 was paid on October 8, 2004.

On November 30, 2004, the Company's Board of Directors declared a \$0.54 per share cash distribution to holders of its Class A Common Stock. Dividends were payable on 15,768,915 shares of Class A Common Stock, 313,600 phantom shares granted under the Company's stock incentive plan (see Note 7) and 319,388 shares of Class B Common Stock. The distribution totaling \$8,857,029 was paid on December 29, 2004.

Preferred Stock

General

The Company's Board of Directors has the authority to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series of preferred stock previously authorized by the Board of Directors. Prior to issuance of shares of each class or series of preferred stock, the Board of Directors is required by the Company's charter to fix the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series.

Classified and Designated Shares

Pursuant to the Company's supplementary amendment of its charter, effective November 3, 2005, and by resolutions adopted on September 29, 2005, the Company's Board of Directors classified and designated 1,800,000 shares of the authorized but unissued preferred stock, \$0.001 par value, as Class A Redeemable Preferred Stock and 2,000,000 shares of the authorized but unissued preferred stock as Class B Redeemable Preferred Stock.

Class A Redeemable Preferred Stock and Class B Redeemable Preferred Stock

The Class A Redeemable Preferred Stock and Class B Redeemable Preferred Stock rank equal to each other and shall have the same preferences, rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms; provided, however that the redemption provisions of the Class A Redeemable Preferred Stock and the Class B Redeemable Preferred Stock differ. Each outstanding share of Class A Redeemable Preferred Stock and Class B Redeemable Preferred Stock shall have one-fifth of a vote on all matters submitted to a vote of stockholders (or such lesser fraction of a vote as would be required to comply with the rules and regulations of the NYSE relating to our right to issue securities without obtaining a stockholder vote). Holders of shares of preferred stock shall vote together with holders of shares of common stock as one class in all matters that would be subject to a vote of stockholders.

If the Class A Redeemable Preferred Stock has not been converted into Class A Common Stock on or before December 31, 2009, then a holder of Class A Redeemable Preferred Stock shall have the right to have his or her shares of Class A Redeemable Preferred stock redeemed in whole or in part at any time and from time to time, at a redemption price per share equal to \$24.00 plus all dividends declared and unpaid on such shares to the date of such redemption, subject to certain limitations.

Shares of the Class B Redeemable Preferred Stock are not redeemable prior to the date that is five years from the date of the issuance of such shares (except in connection with a merger transaction, as defined in our amended charter). On or after the date that is five years from the date of issuance, a holder of Class B Redeemable Preferred Stock can redeem his or her shares of Class B Redeemable Preferred Stock in whole or in part at any time and from time to time at a redemption price per share equal to the average daily closing price for the Class A Common Stock on the NYSE for the ten trading day period ending on the trading day immediately preceding the date of issuance of such Class B Redeemable Preferred Stock, plus all dividends declared and unpaid on such Class B Redeemable Preferred Stock from the date of the original issuance of such stock to the date of such redemption.

Holders of shares of Opteum's preferred stock cannot receive or accrue dividend payments prior to January 1, 2006. After January 1, 2006 and prior to March 31, 2006, holders of the preferred stock are entitled to receive dividends according to the formula described in the Company's amended charter. On or after March 31, 2006, holders of shares of the preferred stock are entitled to receive dividends in the same amount and at the same times as dividends are paid on each share of Class A Common Stock if, as and when authorized and declared by our Board of Directors.

Conversion and Redemption of the Preferred Stock

Pursuant to Opteum's amended charter, the shares of the Class A Redeemable Preferred Stock and Class B Redeemable Preferred Stock will convert into shares of shares of Class A Common Stock at such time as such conversion is approved by the requisite number of stockholders.

If there is a merger transaction without first converting the Class A Redeemable Preferred Stock into Class A Common Stock in accordance with the provisions of our amended charter, the Class A Redeemable Preferred Stock shall automatically be redeemed by Opteum at a redemption price per share in cash equal to \$31.50 plus all declared and unpaid dividends.

Issuances of Class A Redeemable Preferred Stock

On November 3, 2005, pursuant to an acquisition (see Note 2), Opteum issued 1,223,208 shares of Class A Redeemable Preferred Stock (net of returned shares). No shares of the Class B Redeemable Preferred Stock have been issued as of December 31, 2005.

Liquidation Rights

As used herein, the term "Class A Redeemable Preferred Stock Per Share Preference Amount" shall mean \$24.00, adjusted equitably for any stock splits, stock combinations, stock dividends or the like.

In the event of any involuntary liquidation, dissolution or winding up of the Company, after payment or adequate provision for all known debts and liabilities, and subject to the preferential rights of the holders of any stock senior to Class A Redeemable Preferred Stock, liquidation proceeds shall be allocated to the holders of Class A Redeemable Preferred Stock or to holders of stock on parity with Class A Redeemable Preferred Stock.

Whenever funds are insufficient to pay in full the applicable Class A Redeemable Preferred Stock Per Share Preference Amount, the available funds shall be allocated ratably among the holders of Class A Redeemable Preferred Stock and to holders of stock on parity with such stock.

Ownership Limitations

Opteum's amended charter, subject to certain exceptions, contains certain restrictions on the number of shares of stock that a person may own. Opteum's amended charter contains a stock ownership limit that prohibits any person from acquiring or holding, directly or indirectly, applying attribution rules under the Code, shares of stock in excess of 9.8% of the total number or value of the outstanding shares of Opteum's common stock, whichever is more restrictive, or Opteum's stock in the aggregate. Opteum's amended charter further prohibits (i) any person from beneficially or constructively owning shares of Opteum's stock that would result in Opteum being "closely held" under Section 856(h) of the Code or otherwise cause Opteum to fail to qualify as a REIT, and (ii) any person from transferring shares of Opteum's stock if such transfer would result in shares of Opteum's stock being owned by fewer than 100 persons. Opteum's board of directors, in its sole discretion, may exempt a person from the stock ownership limit. However, Opteum's board of directors may not grant such an exemption to any person whose ownership, direct or indirect, of an excess of 9.8% of the number or value of the outstanding shares of Opteum's stock (whichever is more restrictive) would result in Opteum being "closely held" within the meaning of Section 856(h) of the Code or otherwise would result in failing to qualify as a REIT. The person seeking an exemption must represent to the satisfaction of Opteum's board of directors that it will not violate the aforementioned restriction. The person also must agree that any violation or attempted violation of any of the foregoing restrictions will result in the automatic transfer of the shares of stock causing such violation to the trust (as defined below). Opteum's board of directors may require a ruling from the IRS or an opinion of counsel, in either case in form and substance satisfactory to Opteum's board of directors in its sole

discretion, to determine or ensure Opteum's qualification as a REIT.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of Opteum's stock that will or may violate any of the foregoing restrictions on transferability and ownership, or any person who would have owned shares of Opteum's stock that resulted in a transfer of shares to the trust in the manner described below, will be required to give notice immediately to Opteum and provide Opteum with such other information as Opteum may request in order to determine the effect of such transfer on us.

If any transfer of shares of Opteum's stock occurs which, if effective, would result in any person beneficially or constructively owning shares of Opteum's stock in excess or in violation of the above transfer or ownership limitations, then that number of shares of Opteum's stock the beneficial or constructive ownership of which otherwise would cause such person to violate such limitations (rounded to the nearest whole share) shall be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the prohibited owner shall not acquire any rights in such shares. Such automatic transfer shall be deemed to be effective as of the close of business on the business day prior to the date of such violative transfer. Shares of stock held in the trust shall be issued and outstanding shares of Opteum's stock. The prohibited owner shall not benefit economically from ownership of any shares of stock held in the trust, shall have no rights to dividends and shall not possess any rights to vote or other rights attributable to the shares of stock held in the trust. The trustee of the trust shall have all voting rights and rights to dividends or other distributions with respect to shares of stock held in the trust, which rights shall be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to the discovery by Opteum that shares of stock have been transferred to the trustee shall be paid by the recipient of such dividend or distribution to the trustee upon demand, and any dividend or other distribution authorized but unpaid shall be paid when due to the trustee. Any dividend or distribution so paid to the trustee shall be held in trust for the charitable beneficiary. The prohibited owner shall have no voting rights with respect to shares of stock held in the trust and, subject to Maryland law, effective as of the date that such shares of stock have been transferred to the trust, the trustee shall have the authority (at the trustee's sole discretion) (i) to rescind as void any vote cast by a prohibited owner prior to the discovery by Opteum that such shares have been transferred to the trust, and (ii) to recast such vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if Opteum has already taken irreversible corporate action, then the trustee shall not have the authority to rescind and recast such vote.

Within 20 days after receiving notice from Opteum that shares of Opteum's stock have been transferred to the trust, the trustee shall sell the shares of stock held in the trust to a person, whose ownership of the shares will not violate any of the ownership limitations set forth in Opteum's amended charter. Upon such sale, the interest of the charitable beneficiary in the shares sold shall terminate and the trustee shall distribute the net proceeds of the sale to the prohibited owner and to the charitable beneficiary as follows. The prohibited owner shall receive the lesser of (i) the price paid by the prohibited owner for the shares or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other such transaction), the market price, as defined in Opteum's amended charter, of such shares on the day of the event causing the shares to be held in the trust and (ii) the price per share received by the trustee from the sale or other disposition of the shares held in the trust, in each case reduced by the costs incurred to enforce the ownership limits as to the shares in question. Any net sale proceeds in excess of the amount payable to the prohibited owner shall be paid immediately to the charitable beneficiary. If, prior to the discovery by Opteum that shares of Opteum's stock have been transferred to the trust, such shares are sold by a prohibited owner, then (i) such shares shall be deemed to have been sold on behalf of the trust and (ii) to the extent that the prohibited owner received an amount for such shares that exceeds the amount that such prohibited owner was entitled to receive pursuant to the aforementioned requirement, such excess shall be paid to the trustee upon demand.

Pursuant to a letter dated November 2, 2006 from the Company to Mr. Norden, the Alyssa Blake Norden Trust of 1993, the Michael Jared Norden Trust of 1993 and the Amy Suzanne Trust of 1993, and based on representations from such persons, the Company increased the ownership limit for the foregoing stockholders to ensure that they would be able to acquire and own the shares of Company Class A Common Stock and Class A Preferred issued to them in connection with the Company's acquisition of OFS. The Company also agreed to monitor its outstanding share ownership, including the extent to which it repurchases its stock, and to use its best efforts to enable the foregoing stockholders to be able to acquire and own any additional Company shares issuable to them in connection with the Company's acquisition of OFS, as well as any Company shares issuable to Mr. Norden pursuant to any present or future employment or other compensation agreement between the Company and Mr. Norden, in each case, with respect to the Company's ownership limits.

In addition, shares of Opteum's stock held in the trust shall be deemed to have been offered for sale to us, or Opteum's designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the trust (or, in the case of a devise or gift, the market price at the time of such devise or gift) and (ii) the market price on the date Opteum, or Opteum's designee, accept such offer. Opteum shall have the right to accept such offer until the trustee has sold the shares of stock held in the trust. Upon such a sale to us, the interest of the charitable beneficiary in the shares sold shall terminate and the trustee shall distribute the net proceeds of the sale to the prohibited owner.

All certificates representing shares of Opteum's common stock and preferred stock, if issued, will bear a legend referring to the restrictions described above.

Every record holder of 0.5% or more (or such other percentage as required by the Internal Revenue Code and the related Treasury regulations) of all classes or series of Opteum's stock, including shares of Opteum's common stock on any dividend record date during each taxable year, within 30 days after the end of the taxable year, shall be required to give written notice to Opteum stating the name and address of such record holder, the number of shares of each class and series of Opteum's stock which the record holder beneficially owns and a description of the manner in which such shares are held. Each such record holder shall provide to Opteum such additional information as Opteum may request in order to determine the effect, if any, of such beneficial ownership on Opteum's qualification as a REIT and to ensure compliance with the stock ownership limits. In addition, each record holder shall upon demand be required to provide to Opteum such information as Opteum may reasonably request in order to determine Opteum's qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance. Opteum may request such information after every sale, disposition or transfer of Opteum's common stock prior to the date a registration statement for such stock becomes effective.

These ownership limits could delay, defer or prevent a change in control or other transaction of Opteum that might involve a premium price for the Class A Common Stock or otherwise be in the best interest of the stockholders.

NOTE 13. TRANSACTIONS WITH RELATED PARTIES

Transactions with Stockholders

During the period from September 24, 2003 (date of inception) through December 19, 2003, Opteum's start-up activities were being fully paid for and supported by Opteum's President and Chief Executive Officer, Jeffrey J. Zimmer. Mr. Zimmer was also a Class B stockholder during this period of time. On December 19, 2003, at the initial closing of the Offering, Opteum reimbursed the CEO \$247,980 for these costs, which were recorded primarily as property and equipment and operating expenses.

The entire issuance of Class C Common Stock was purchased by Flagstone Securities, LLC. Flagstone was the placement agent for Opteum's Class A Common Stock private placement offerings, and pursuant to the terms of the offerings, received fees for its services. Through December 31, 2003, Flagstone had received \$2,943,042 in fees from the Offering, and Flagstone received an additional \$4,747,517 from the proceeds of the Offerings that closed in January and February 2004. Flagstone was the lead underwriter for Opteum's Class A Common Stock initial public offering and pursuant to the terms of the offering, received fees of \$5,836,250 in connection with the sale of Class A Common Stock in the initial public offering, including shares issued in the exercise of the underwriters' over allotment option. Flagstone was also the lead underwriter for Opteum's additional Class A Common Stock public offering and pursuant to the terms of the offering, received fees of \$4,278,000 in connection with the sale of Class A Common Stock in the secondary public offering, including shares issued in the exercise of the underwriters' over allotment option. During 2005 Flagstone received fees of \$15,000 in connection with the acquisition of OFS.

Employment Agreements

Opteum entered into employment agreements with Opteum's initial officers, Jeffrey J. Zimmer and Robert E. Cauley, in 2003. The employment agreements provide for Mr. Zimmer to serve as President and Chief Executive Officer and Mr. Cauley to serve as Chief Investment Officer and Chief Financial Officer. Messrs. Zimmer and Cauley's employment agreements were amended and restated in 2004. The amended and restated agreements extend the term of the agreements to April 2007 and provide that on September 16, 2004, when the registration statement for Opteum's Class A Common Shares became effective that Mr. Zimmer's annual base salary increased to \$400,000 and Mr. Cauley's annual base salary increased to \$267,500.

Upon the termination of an executive officer's employment either by the Company without "cause" or by the executive officer for "good reason" or by the executive officer for any reason within three months after a "change of control,"

the executive officer will be entitled to the following severance payments and benefits, subject to his execution and non-revocation of a general release of claims: lump-sum cash payment equal to 300% of the sum of his then-current annual base salary plus average bonus over the prior three years; his prorated annual bonus for the year in which the termination occurs; all stock options held by the executive officer will become fully exercisable and will continue to be exercisable for their full terms and all restricted stock held by such executive officer will become fully vested; health benefits for three years following the executive officer's termination of employment at no cost to the executive officer, subject to reduction to the extent that the executive officer receives comparable benefits from a subsequent employer; and outplacement services at Company expense.

Each of Messrs. Zimmer and Cauley is bound by a non-competition covenant for so long as he is an officer of Opteum and for a one-year period thereafter, unless his employment is terminated by Opteum without "cause" or by him with "good reason" (in each case, as defined in his employment agreement) or by him for any reason after a "change in control" (as defined in his employment agreement) of the Company, in which case his covenant not to compete will lapse on the date of his termination.

OFS has an employment agreement with Peter Norden to serve as Chief Executive Officer and President of OFS and Senior Executive Vice President of Opteum. The employment agreement requires Mr. Norden to devote substantially full-time attention and time to OFS's and Opteum's affairs, but also permit him to devote time to his outside business interests. The employment agreement terminates in September 2008; provided, however, that the term shall automatically be extended for one-year periods unless, not later than three months prior to the termination of the existing term, either party provides written notice to the other party of its intent not to further extend the term. The employment agreement provide for an annual base salary of \$750,000 and an annual non-discretionary bonus of \$750,000 payable in four equal installments.

Upon the termination of Mr. Norden's employment either by OFS for "cause" or by the executive officer without "good reason" during the term of his employment agreement, Mr. Norden will be entitled to receive his base salary and bonus accrued through the date of termination of his employment.

Upon the termination of an executive officer's employment either by the OFS without cause or by the executive officer for good reason, Mr. Norden will be entitled under his employment agreement to the following severance payments and benefits, subject to his execution and non-revocation of a general release of claims:

§ lump-sum cash payment equal to 250% of the sum of his then-current annual base salary plus non-discretionary bonus;

§ health benefits for three years following the termination of employment at no cost to the Mr. Norden, subject to reduction to the extent that the Mr. Norden receives comparable benefits from a subsequent employer; and

§ outplacement services at the Company's expense.

The employment agreement also contain confidentiality provisions that apply indefinitely and non-compete provisions that include covenants not to: (i) conduct, directly or indirectly, any business involving mortgage REITs without the consent of Opteum's Chief Executive Officer, whether such business is conducted by him individually or as principal, partner, officer, director, consultant, employee, stockholder or manager of any person, partnership, corporation, limited liability company or any other entity; or (ii) own interests in any entity that is competitive, directly or indirectly, with any business carried on by OFS or its successors, subsidiaries and affiliates, with some exceptions.

Mr. Norden is bound by his non-competition covenant for so long as he is an officer of the OFS and for a two-year period thereafter, unless his employment is terminated by OFS without cause or by him with good reason (in each case, as defined in his employment agreement), in which case his covenant not to compete will lapse on the date of his termination.

Other

In January 2005, the four independent directors received a total of 5,968 shares of Class A Common Stock, valued at \$92,027, as compensation for their activities as directors. In April 2005, the four independent directors received a total of 6,164 shares of Class A Common Stock, valued at \$84,015, as compensation for their activities as directors. In July 2005, the four independent directors received a total of 5,967 shares of Class A Common Stock, valued at

\$84,015, as compensation for their activities as directors. In October 2005, the four independent directors received a total of 8,481 shares of Class A Common Stock, valued at \$85,488, as compensation for their activities as directors. In November 2005, a new independent director was added to the Board of Directors and was issued 1,220 shares of Class A Common Stock, valued at \$ 12,298, as compensation for his activities as a director.

One of the Company's directors, Mr. Buford Ortale, was previously a Managing Director in the Investment Banking Group at Avondale Partners, LLC ("Avondale"), one of the placement agents for Opteum's Offering that was completed in January 2004. Mr. Ortale has a continuing affiliation with Avondale pursuant to which he receives compensation from investment banking fees earned by Avondale on transactions referred to Avondale by Mr. Ortale. Mr. Ortale has been paid \$360,000 from Avondale for referring Opteum to Avondale.

OFS has a subordinated promissory agreement with Opteum for borrowings in the amount of \$65.0 million at December 31, 2005. The note bears an annual interest rate of 11%. This promissory agreement matures on November 1, 2015. Interest accrued at December 31, 2005 was \$1,116,575. These amounts are eliminated during the process of preparing consolidated financial statements for the Company. A portion of these loan proceeds were used to repay \$18.3 million of debt to the former OFS owners immediately after the closing of the merger transaction.

NOTE 14. STOCK INCENTIVE PLAN

On December 1, 2003, Opteum adopted the 2003 Long Term Incentive Compensation Plan (the "2003 Plan") to provide Opteum with the flexibility to use stock options and other awards as part of an overall compensation package to provide a means of performance-based compensation to attract and retain qualified personnel. The 2003 Plan was amended and restated in March 2004. Key employees, directors and consultants are eligible to be granted stock options, restricted stock, phantom shares, dividend equivalent rights and other stock-based awards under the 2003 Plan. Subject to adjustment upon certain corporate transactions or events, a maximum of 4,000,000 shares of the Class A Common Stock (but not more than 10% of the Class A Common Stock outstanding on the date of grant) may be subject to stock options, shares of restricted stock, phantom shares and dividend equivalent rights under the 2003 Plan. An initial grant of 313,600 phantom shares was made in June 2004.

During the year ended December 31, 2005, Opteum granted 204,861 phantom shares to employees. Each phantom share represents a right to receive a share of Opteum's Class A Common Stock. Dividend equivalent rights were also granted on 203,361 of these phantom shares; the remaining 1,500 phantom shares are not entitled to receive dividend equivalent rights until they vest.

Phantom share awards are valued at the fair value of Opteum's Class A Common Stock at the date of the grant. The total grant date value of all awards is \$7,822,313 and the grant date value of awards granted in 2005 is \$3,118,313. The phantom awards do not have an exercise price. The grant date value is being amortized to compensation expense on a straight-line basis over the vesting period of the respective award. The phantom shares vest, based on the employees' continuing employment, following a schedule as provided in the grant agreements, for periods through November 15, 2008.

As of December 31, 2005, a total of 518,461 phantom stock awards have been granted since the inception of the 2003 Plan, however 2,090 shares were forfeited during 2005 due to the termination of the grantee's employment. Of the remaining shares, 172,727 shares have fully vested and 343,644 shares remain unvested. The future compensation charge that was eliminated by the forfeiture totaled \$31,852. No phantom share awards have expired. Of the vested shares, 15,085 were distributed to grantees during the year ended December 31, 2005. As of December 31, 2005, 501,286 phantom shares were outstanding. Total compensation cost recognized for the year ended December 31, 2005 and 2004 was \$2,130,132 and \$745,756 respectively. Dividends paid on phantom shares are charged to retained earnings when declared.

NOTE 15. SAVINGS INCENTIVE PLAN

Opteum's employees have the option to participate in the Bimini Mortgage Management Inc., 401K Plan (the "Plan"). Under the terms of the Plan, eligible employees can make tax-deferred 401(k) contributions, and at Opteum's sole discretion, Opteum can match the employees' contributions. For the period ended December 31, 2005, Opteum made 401(k) matching contributions of \$40,547.

OFS's employees have the option to participate in The Company Savings and Incentive Plan (the "Plan"). Under the terms of the Plan, eligible employees can make tax-deferred 401(k) contributions, and at the OFS's sole discretion, OFS can match the employees' contributions as well as make annual profit-sharing contributions to the Plan. For the period November 3, 2005 (date of merger) through December 31, 2005, OFS made 401(k) matching contributions of

\$40,956.

NOTE 16. OPERATING LEASES

Certain facilities and equipment are leased under short-term lease agreements expiring at various dates through December 2012. All such leases are accounted for as operating leases.

Obligations under non-cancelable operating leases which have an initial term of more than a year are as follows:

| | | |
|------------|----|------------|
| 2006 | \$ | 5,422,465 |
| 2007 | | 5,020,108 |
| 2008 | | 3,655,990 |
| 2009 | | 1,751,847 |
| 2010 | | 1,046,334 |
| Thereafter | | 695,561 |
| | \$ | 17,592,305 |

Rental expense for the year ended December 31, 2005 was \$931,640, \$52,458 for the year ended December 31, 2004 and \$12,264 for the period ended December 31, 2003.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Loans Sold to Investors. Generally, OFS is not exposed to significant credit risk on its loans sold to investors. In the normal course of business, OFS provides certain representations and warranties during the sale of mortgage loans which obligate it to repurchase loans which are subsequently unable to be sold through the normal investor channels. The repurchased loans are secured by the related real estate properties, and can usually be sold directly to other permanent investors. There can be no assurance, however, that OFS will be able to recover the repurchased loan value either through other investor channels or through the assumption of the secured real estate.

OFS recognizes a liability for the estimated fair value of this obligation at the inception of each mortgage loan sale based on the anticipated repurchase levels and historical experience. The liability is recorded as a reduction of the gain on sale of mortgage loans and included as part of other liabilities in the accompanying financial statements.

Changes in the liability during 2005:

| | | |
|---------------------------|----|-----------|
| Balance—Beginning of year | \$ | 2,291,944 |
| Provision | | 306,259 |
| Charge-Offs | | (560,223) |
| Balance—End of year | \$ | 2,037,980 |

Loan Funding and Delivery Commitments. At December 31, 2005, OFS has commitments to fund loans approximating \$ 368,458,000. OFS hedges the interest rate risk of such commitments primarily with mandatory delivery commitments. The remaining commitments to fund loans with agreed-upon rates are anticipated to be sold through “best-efforts” and investor programs. OFS does not anticipate any material losses from such sales.

Net Worth Requirements. OFS is required to maintain certain specified levels of minimum net worth to maintain its approved status with Fannie Mae, HUD, and other investors. At December 31, 2005, the highest minimum net worth requirement applicable to OFS was approximately \$1,740,000.

Outstanding Litigation. OFS is involved in litigation arising in the normal course of business. Although the amount of any ultimate liability arising from these matters cannot presently be determined, OFS does not anticipate that any such liability will have a material effect on OFS's consolidated financial position or results of operations.

NOTE 18. SEGMENTS

Opteum follows SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information.*" The Company operates in two reportable segments: as a REIT, and as an originator of mortgage loans.

Certain of our operations qualify as a REIT, under applicable provisions of the Code. The REIT activities primarily involve Opteum investing in residential mortgage-related securities. As a REIT, these activities are not subject to federal income tax on our net taxable income as long as the earnings from REIT activities are distributed to the stockholders.

On November 3, 2005, Opteum acquired OFS. OFS is a mortgage lender that originates loans. It offers retail and wholesale products including fixed- and adjustable-rate mortgages, 100% financing, interest-only products and home loans for the credit challenged. Opteum has 34 offices and lending in 44 states. Goodwill associated with OFS was \$2.1 million at December 31, 2005.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company evaluates the performance of its REIT segment and mortgage origination business segment results based on net income. Each of the business segments' net income or loss includes direct costs incurred at each segment's operating level, plus a minimal amount of allocated corporate-level expenses.

The following table shows year 2005 summarized financial information concerning the Company's reportable segments.

| (Amounts in thousands) | REIT | OFS (1) | TOTAL |
|-----------------------------------|-----------|-----------|-----------|
| Net interest income | \$ 35,885 | \$ 1,097 | \$ 36,982 |
| Other revenues, net | 1,993 | 2,318 | 4,311 |
| Inter-segment interest income | - | - | - |
| Income (loss) before income taxes | 30,914 | (10,851) | 20,063 |
| Other interest expense | - | 1,093 | 1,093 |
| Depreciation and amortization | 347 | 495 | 842 |
| Income tax expense (benefit) | - | (4,220) | (4,220) |
| Total assets | 3,666,257 | 1,138,844 | 4,805,101 |
| Capital expenditures | 3,803 | 869 | 4,672 |

(1) Figures reflect the elimination of inter-company transactions between Opteum and OFS.

The following information is needed to reconcile the segment amounts to the total information, which agrees to the amounts shown in the accompanying consolidated financial statements. During the consolidation process, loans receivable totaling \$65.0 million, and the related interest income and accrued interest, which are recorded on Opteum's segment financial statements, are eliminated against corresponding liabilities and expenses recorded on OFS's segment financial statements. The interest income related to these loans is reported above as inter-segment interest income. There were no inter-segment gross revenues during the period ended December 31, 2005, except for this interest, and therefore all other revenues were from external sources.

No single customer accounted for more than 10% of revenues at OFS. For the REIT activities, approximately 97.3% of the interest income was derived from MBS issued by U.S. Government agencies.

For the year ended December 31, 2004, and for the Company's initial period ended December 31, 2003, the Company's sole activities were as a REIT. Therefore segment disclosures are the same as reported in the accompanying consolidated financial statements for those periods.

NOTE 19. INCOME TAXES

Year 2004 and 2003

Opteum recorded a deferred tax asset generated by the net operating loss for its initial period of operation from September 24, 2003 (date of inception) to December 31, 2003. This net operating loss was offset by a full valuation allowance, as management believed, pursuant to the REIT qualification of Opteum, that it was not likely that the loss would be utilized in the future to offset taxes payable. There is no tax provision included for the year ended December 31, 2004, as Opteum had satisfied the REIT taxation requirements for 2004. The net operating loss carryover from 2003 was fully applied against taxable net income in 2004 and 2005 and is now zero at December 31, 2005.

Year 2005

As more fully described in Note 2, Opteum acquired OFS on November 3, 2005. OFS is a TRS, which is a taxpaying entity for income tax purposes, and is taxed separately from Opteum. At the date of acquisition, OFS recorded a deferred tax liability of approximately \$22.6 million related to the difference in the carrying amount and the tax basis of the originated mortgage servicing rights at the date of the business combination, among other items. The tax impacts of OFS are included in the schedules below for its operating activities from November 3, 2005 through December 31, 2005.

Income taxes were as follows for the year ended December 31, 2005 (amounts in thousands):

| | |
|------------------------------|----------|
| Deferred income tax benefit: | |
| Federal | \$ 3,797 |
| State | 423 |
| Total income tax benefit | \$ 4,220 |

The effective income taxes (benefit) for the year ended December 31, 2005 differ from the amount determined by applying the statutory federal rate of 35% to income before income tax as follows (amounts in thousands):

| | |
|--|------------|
| Net income, if taxed at the federal tax rate | \$ 6,994 |
| Exclusion of REIT taxable income | (10,792) |
| Permanent tax differences | 1 |
| State tax benefit, net of federal tax effect | (423) |
| Total income tax benefit | \$ (4,220) |

The tax affected cumulative temporary differences that give rise to deferred tax assets and liabilities for the year ended December 31, 2005 are as follows (amounts in thousands):

| | |
|---|-----------|
| Deferred tax assets: | |
| Federal tax loss carryforward | \$ 2,322 |
| State tax loss carryforward | 423 |
| Mark-to-market adjustments | 1,158 |
| Total gross deferred tax assets | \$ 3,903 |
| Deferred tax liabilities: | |
| Capitalized cost of mortgage servicing rights | 18,436 |
| Loan origination amounts | 2,138 |
| Intangible assets | 1,690 |
| Total gross deferred tax liabilities | \$ 22,264 |
| Net deferred tax liabilities | \$ 18,361 |

Management believes that the deferred tax asset will more likely than not be realized due to the reversal of the deferred tax liability and expected future taxable income. As of December 31, 2005, the TRS had an estimated federal tax net operating loss carryforward of \$7.1 million, which expires in 2025, and is fully available to offset future taxable income.

Tax differences on REIT income

Taxable net income, as generated by Opteum's qualifying REIT activities, is computed differently from Opteum's financial statement net income from REIT activities as computed in accordance with generally accepted accounting principles. Depending on the number and size of the various items or transactions being accounted for differently, the differences between Opteum's taxable net income and Opteum's financial statement net income from REIT activities

can be substantial, and each item can affect several years. Opteum's most significant items and transactions currently being accounted for differently from REIT activities include restricted stock awards, depreciation of property and equipment, and the accounting for debt issuance costs.

For the year 2005, Opteum's taxable net income was \$2.1 million greater than Opteum's financial statement net income from REIT activities. The most significant portion of this amount, \$2.0 million, is attributable to the phantom stock awards, and the future deduction of this amount against taxable net income is uncertain both as to the year (as the timing of the tax impact of each restricted stock award is up to each employee who has received a grant) and as to the amount (the amount of the tax impact is measured at the fair value of the shares as of a future date, and this amount may be greater than or less than the financial statement deduction already taken by Opteum).

For the year 2004, Opteum's taxable net income was \$0.8 million greater than Opteum's financial statement net income from REIT activities. Of this amount, \$0.7 million is attributable to the phantom stock awards. Since inception through December 31, 2005, Opteum's taxable net income, as reported on its tax returns, is \$3.0 million greater than Opteum's financial statement net income from REIT activities as reported in its financial statements.

NOTE 20. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of the quarterly results of operations for the year ended December 31, 2005 (amounts in thousands, except per share data).

| | March 31, | June 30, | September 30, | December 31, |
|--|------------------|-----------------|----------------------|---------------------|
| | 2005 | 2005 | 2005 | 2005 |
| Interest income | \$ 31,070 | \$ 36,749 | \$ 43,574 | \$ 49,248 |
| Interest expense | (19,842) | (26,453) | (33,509) | (43,854) |
| Net interest income | 11,228 | 10,296 | 10,065 | 5,394 |
| Net gain on sales of mortgage-backed securities | 1,982 | - | 11 | - |
| Direct operating expenses | 590 | 284 | 299 | 109 |
| General and administrative expenses | 1,713 | 1,793 | 1,902 | 14,828 |
| Net income | \$ 10,907 | \$ 8,219 | \$ 7,875 | \$ (2,718) |
| Net income per Class A Common Share—Basic and Diluted | \$ 0.52 | \$ 0.39 | \$ 0.37 | \$ (0.12) |
| Net income per Class B Common Share—Basic and Diluted | \$ 0.51 | \$ 0.39 | \$ 0.37 | \$ (0.11) |
| Weighted average number of Class A common shares outstanding—Basic and Diluted | 20,796 | 20,897 | 20,901 | 23,073 |
| Weighted average number of Class B common shares outstanding—Basic and Diluted | 319 | 319 | 319 | 319 |

The following is a presentation of the quarterly results of operations for the year ended December 31, 2004 (amounts in thousands, except per share data).

| | March 31, | June 30, | September | December 31, |
|---|------------------|-----------------|------------------|---------------------|
| | 2004 | 2004 | 30, 2004 | 2004 |
| Interest income | \$ 7,194 | \$ 10,959 | \$ 11,017 | \$ 20,463 |
| Interest expense | 2,736 | 4,344 | 4,253 | 10,824 |
| Net interest income | 4,458 | 6,615 | 6,764 | 9,639 |
| Net gain on sales of mortgage-backed securities | — | — | 122 | (26) |
| Direct operating expenses | 226 | 280 | 328 | 374 |
| General and administrative expenses | 288 | 768 | 812 | 1,638 |
| Net income | \$ 3,944 | \$ 5,567 | \$ 5,746 | \$ 7,601 |
| Net income per Class A Common Share—Basic and Diluted | \$ 0.49 | \$ 0.56 | \$ 0.51 | \$ 0.44 |
| Net income per Class B Common Share—Basic and Diluted | N/A | N/A | 0.53 | 0.46 |

| | | | | |
|--|-------|--------|--------|--------|
| Weighted average number of Class A common shares outstanding—Basic and Diluted | 8,001 | 10,012 | 10,867 | 16,825 |
| Weighted average number of Class B common shares outstanding—Basic and Diluted | — | — | 319 | 319 |

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

- (a) The following documents are filed as part of this report:

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1. Financial Statements. The consolidated financial statements of the Company, together with the reports of Independent Registered Public Accounting Firms thereon, are set forth on pages 68 through 106 of this Form 10-K and are incorporated herein by reference.

2. Financial Statement Schedules. Financial statement schedules have been omitted because they are not applicable or the required information is presented in the financial statements and/or in the notes to financial statements filed in response to Item 8 hereof.

3. Exhibits

- *2.1 Agreement of Plan of Merger
- *3.1 Articles of Amendment and Restatement
- *3.2 Articles Supplementary
- *3.3 Articles of Amendment
- *3.4 Amended and Restated Bylaws
- *10.2 2003 Long-Term Incentive Compensation Plan
- *10.3 Employment Agreement dated April 12, 2004 between Bimini Mortgage Management, Inc. and Jeffrey J. Zimmer
- *10.4 Employment Agreement dated April 12, 2004 between Bimini Mortgage Management, Inc. and Robert E. Cauley
- *10.5 Employment Agreement dated September 29, 2005 between Opteum Financial Services, LLC and Peter R. Norden
- *10.6 Letter Agreement, dated November 4, 2003 from AVM, L.P. to Bimini Mortgage Management, Inc. with respect to consulting services to be provided by AVM, L.P. and Letter Agreement, dated February 10, 2004 from AVM, L.P. to Bimini Mortgage Management with respect to assignment of AVM, L.P.'s rights, interest and responsibilities to III Associates.
- *10.7 Agency Agreement, dated November 20, 2003 by and among AVM, L.P. and Bimini Mortgage Management, Inc.
- *10.8 2004 Performance Bonus Plan
- *10.9 Phantom Share Award Agreement dated August 13, 2004 between Bimini Mortgage Management, Inc. and Jeffrey J. Zimmer
- *10.10 Phantom Share Award Agreement dated August 13, 2004 between Bimini Mortgage Management, Inc. and Robert E. Cauley
- *10.12 Voting Agreement, dated November 3, 2005, between certain stockholders of Bimini Mortgage Management, Inc., Jeffrey J. Zimmer, Robert E. Cauley, Amber K. Luedke, George H. Haas, IV, Kevin L. Bespolka, Maureen A. Hendricks, W. Christopher Mortenson, Buford H. Ortale, Peter Norden, certain of Mr. Norden's affiliates, Jason Kaplan, certain of Mr. Kaplan's affiliates and other former owners of Opteum Financial Services, LLC
- *21.1 List of subsidiaries.
- **23.1 Consent of Ernst & Young LLP.
- **23.2 Consent of Deloitte & Touche LLP.
- *24.1 Powers of Attorney
- **31.1 Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- **31.2 Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- **32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- **32.2

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Certification of the Cheif Financial Officer, pusuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*

Previously filed.

**

Filed 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 on October 13, 2006.

OPTEUM
 INC.
 (Registrant)
 By /s/ Robert E. Cauley
Robert E. Cauley
Senior Executive Vice President,
Chief Financial Officer and Chief Investment
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on October 13, 2006.

| <u>Signature</u> | <u>Capacity</u> | |
|---|---|--|
| <u>/s/ Jeffrey J. Zimmer</u> Jeffrey J. Zimmer | Director, Chairman of the Board, Chief Executive Officer and President | |
| <u>/s/ Robert E. Cauley</u> Robert E. Cauley | Director, Vice Chairman of the Board, Senior Executive Vice President, Chief Financial Officer and Chief Investment Officer | |
| Peter R. Norden | Director and Senior Executive Vice President |) |
| Kevin L. Bespolka | Director |) |
| Maureen A. Hendricks | Director |) |
| | | By <u>/s/ Robert E. Cauley</u> Robert E. Cauley, <i>Attorney-in-Fact</i> |
| Jason Kaplan | Director |) |

| | | |
|--------------------------|----------|---|
| W. Christopher Mortenson | Director |) |
| Buford H. Ortale | Director |) |