Opteum Inc.
Form 10-K/A
March 10, 2006

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

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from to .

Commission File Number: 001-32171

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
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 ý

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 ý

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

Indicate by check mark 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 ý 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 ý

As of March 9, 2006, there were 23,322,298 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 (21,080,090 shares) at March 9, 2006 was approximately $164,003,100. 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 March 9, 2006, all of the Registrant's Class B Common Stock was held by affiliates of the Registrant. As of March 9, 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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2006 Annual Stockholders' Meeting are incorporated by reference into Part III of this Annual Report on Form 10-K.

OPTEUM INC.

INDEX

PART I

ITEM 1. Business.

General

On February 6, 2006, Opteum announced that its board of directors ("Board" or "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 New York Stock Exchange, or 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 1,066 employees of OFS. One company and one national brand now represent a unified image to investors, customers and employees.

As used in this document, the parent company, "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", Opteum's taxable REIT subsidiary ("TRS") 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 such as the mortgage origination, acquisition and servicing activities, are conducted by OFS to help the Company comply with REIT requirements.

The Company was organized in September 2003 as a Maryland corporation for the purpose of investing 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 earns returns on the spread between the yield on its assets and its costs, including the interest expense on the funds it borrows. It intends to borrow between eight and twelve times the amount of its equity capital to attempt to enhance its returns to stockholders. For purposes of this calculation, Opteum treats its trust preferred securities as an equity capital equivalent. Opteum is self-managed and self-advised.

In evaluating its assets and their performance, Opteum's management team primarily evaluates these critical factors: asset performance in differing interest rate environments, duration of the security, yield to maturity, potential for prepayment of principal, and the market price of the investment. OFS originates mortgages and offers a wide array of mortgage products through its 29 retail mortgage origination branches and five wholesale mortgage offices in the United States. Additionally, OFS operates a correspondent lending channel that purchases closed loans from mortgage bankers nationwide under flow and bulk acquisition programs. The Company's website is located at www.opteum.com.

On September 29, 2005, Opteum executed a definitive merger agreement with Bimini Acquisition LLC, its acquisition subsidiary, OFS, and the members of OFS. The transaction, in which OFS became a wholly-owned TRS of Opteum, closed on November 3, 2005. 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 equity interests of OFS. The shares of Class A Redeemable Preferred Stock will be convertible into shares of Class A Common Stock of Opteum, on a one-for-one basis, if Opteum's stockholders approve the conversion at a future stockholder's 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 A Redeemable Preferred Stock, based on achievement by OFS of certain specific financial objectives. The three most senior executives of OFS have entered into long-term employment contracts with Opteum.

On October 7, 2005 the Company's Board of Directors authorized Opteum to acquire up to 1.8 million shares of its Class A Common Stock, or approximately 9% of its total shares of Class A Common Stock, outstanding as of October

7, 2005. Opteum began repurchasing shares on November 4, 2005 and as of December 31, 2005 had repurchased 561,800 shares at a total price of $5,236,354 including commissions of $16,854.

The following table presents information related to Opteum's repurchases of its Class A Common Stock during the fourth quarter of 2005 and other information related to our repurchase program:

Period	Total number of shares purchased	Average price paid per share	Maximum number of shares that may yet be purchased under the program
November 1-30, 2005	308,600	$ 9.49	
December 1-31, 2005	253,200	9.05	
Total	561,800	$ 9.29	1,238,200

As of December 31, 2005 the Company had total consolidated assets of $4.8 billion, substantially all of which consisted of mortgage related securities, whole mortgage loans held for sale, residual interests in asset backed securities, originated mortgage servicing rights and cash and cash equivalents. On that date, Opteum's portfolio of mortgage related securities totaled $3.5 billion and was comprised of 57.4% adjustable-rate mortgage-backed securities, 21.0% fixed-rate mortgage-backed securities, 20.2% hybrid adjustable-rate mortgage-backed securities (securities backed by mortgages with fixed initial rates which, after a period, convert to adjustable rates) and 1.4% balloon maturity mortgage-backed securities (securities backed by mortgages where a significant portion of principal is repaid only at maturity). Of this portfolio, 60.8% was issued by Fannie Mae, 21.1% was issued by Freddie Mac and 18.1% was issued by Ginnie Mae.

Opteum's $3.5 billion mortgage related securities portfolio had a weighted average yield of 4.21% as of December 31, 2005. Opteum's net weighted average borrowing cost as of December 31, 2005 was 4.15%. The constant prepayment rate for the portfolio was 28.4% for December 2005, which reflects the annualized proportion of principal that was prepaid. The effective duration for the portfolio was 1.28 as of December 31, 2005. Duration measures the price sensitivity of a fixed income security to movements in interest rates. Effective duration captures both the movement in interest rates and the fact that the cash flows of a mortgage related security are altered when interest rates move.

At year end OFS owned $894.2 million of mortgage loans which were classified as mortgage loans held for sale. In addition, OFS owned approximately $98.0 million of residual interests in asset backed securities and $86.1 million of originated mortgage servicing rights. It is the intention of OFS to either sell the loans held for sale to a third party investor or issue asset backed securities with the mortgages on the Opteum Mortgage Acceptance Corporation shelf ("OPMAC"), a wholly-owned special purpose entity set up for the execution of securitizations. Future prepayments, delinquencies, or defaults on these mortgage loans held for sale may affect the value of these loans in the future.

Opteum has elected to be taxed as REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with its initial taxable period from inception to December 31, 2003. Provided it continues to qualify as a REIT, Opteum will generally distribute to its stockholders all or substantially all of its net taxable income generated from its operations. As long as Opteum retains its REIT qualification, it generally will not be subject to federal income tax to the extent that it distributes its net taxable income to its stockholders. OFS has elected to be treated as a TRS, which is an entity that is subject to federal, state and local income taxation. In addition, the ability of OFS to deduct interest paid or accrued to Opteum for federal, state and local tax purposes is subject to certain limitations.

Risk Management Approach

Opteum seeks to differentiate itself from other mortgage portfolio managers through its approach to risk management. It invests in a limited universe of mortgage related securities, primarily, but not limited to, those issued by Fannie

Mae, Freddie Mac and Ginnie Mae. Payment of principal and interest underlying securities issued by Ginnie Mae is guaranteed by the U.S. Government. Fannie Mae and Freddie Mac mortgage related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. Opteum seeks to manage the risk of prepayments of the underlying mortgages by creating a diversified portfolio with a variety of prepayment characteristics. Finally, Opteum seeks to address interest rate risks by managing the interest rate indices and borrowing periods of its debt, as well as through hedging against interest rate changes.

Opteum has implemented a risk-based capital methodology patterned on the general principles underlying the proposed risk-based capital standards for internationally active banks of the Basel Committee on Banking Supervision, commonly referred to as the Basel II Accord. The Basel II Accord encourages banks to develop methods for measuring the risks of their banking activities to determine the amount of capital required to support those risks. Similarly, Opteum uses its methodology to calculate an internally generated risk measure for each asset in its portfolio. This measure is then used to establish the amount of leverage it uses. Opteum expects its risk management program to reduce its need to use hedging techniques.

Investment Strategy

The Company's Board of Directors may change its investment strategy without prior notice to its stockholders or by requesting the approval of its stockholders.

Asset Acquisition Strategy

The primary assets in Opteum’s current portfolio of mortgage related securities are adjustable-rate mortgage-backed securities, fixed-rate mortgage-backed securities, hybrid adjustable-rate mortgage-backed securities and balloon maturity mortgage-backed securities. The mortgage related securities that Opteum most typically acquires are obligations issued by federal agencies or federally chartered entities, primarily Fannie Mae, Freddie Mac and Ginnie Mae.

Opteum seeks to minimize the effects on its income caused by prepayments on the mortgage loans underlying its securities at a rate materially different than anticipated. Its diversified portfolio includes securities with prepayment characteristics that it expects to result in slower prepayments, such as pools of mortgage-backed securities collateralized by mortgages with low loan balances, mortgages originated under Fannie Mae's Expanded Approval Program or agency pools collateralized by loans against investment properties.

Borrowers with low loan balances have a lower economic incentive to refinance and have historically prepaid at lower rates than borrowers with larger loan balances. The reduced incentive to refinance has two parts: borrowers with low loan balances will have smaller interest savings because overall interest payments are smaller on their loans; and closing costs for refinancings, which are generally not proportionate to the size of a loan, make refinancing of smaller loans less attractive as it takes a longer period of time for the interest savings to cover the cost of refinancing.

Fannie Mae's Expanded Approval Program allows borrowers with slightly impaired credit histories or loan-to-value ratios greater than 80% to qualify for conventional conforming financing. Borrowers under this program have proportionately higher delinquency rates than typical Fannie Mae borrowers, resulting in a higher than market interest rate because of the increased default and delinquency risk. Prepayment rates on these securities are lower than average because refinancing is more difficult for delinquent or recently delinquent loans.

Agency pools collateralized by loans against investment properties generally result in slower prepayments because borrowers financing investment properties are required to pay an up front premium. Payment of this premium requires a larger rate movement for the borrower to achieve the same relative level of savings upon refinancing.

Opteum has created and will maintain a diversified portfolio to avoid undue geographic, loan originator, and other types of concentrations. By maintaining essentially all of its assets in AAA rated, government or government-sponsored or chartered enterprises and government or federal agencies, which may include an implied guarantee of the federal government as to payment of principal and interest, Opteum believes it can significantly reduce its exposure to losses from credit risk. It intends to acquire assets that will enable it to be exempt from the Investment Company Act.

Legislation may be proposed to change the relationship between certain agencies, such as Fannie Mae and the federal government. This may have the effect of reducing the actual or perceived credit quality of mortgage related securities issued by these agencies. As a result, such legislation could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac mortgage-backed securities. Opteum currently intends to continue to invest in such securities, even if such agencies' relationships with the federal government change.

Leverage Strategy

Opteum uses leverage in an attempt to increase potential returns to its stockholders. However, the use of leverage may also have the effect of increasing losses when economic conditions are unfavorable. Opteum generally borrows between eight and twelve times the amount of its equity, although its investment policies require no minimum or maximum leverage. For purposes of this calculation, Opteum treats its trust preferred securities as an equity capital equivalent. It uses repurchase agreements to borrow against existing mortgage related securities and uses the proceeds to acquire additional mortgage related securities.

Opteum seeks to structure the financing in such a way as to limit the effect of fluctuations in short-term rates on its interest rate spread. In general, Opteum's borrowings are short-term and it actively manages, on an aggregate basis, both the interest rate indices and interest rate adjustment periods of its borrowings against the interest rate indices and interest rate adjustment periods on its mortgage related securities in order to limit its liquidity and interest rate related risks. Opteum may also employ borrowings under longer term facilities.

Opteum generally borrows at short-term rates from various lenders through various contractual agreements including, repurchase agreements. Opteum has issued approximately $103 million of long-term junior unsecured debt, callable at any time after five years, called trust preferred securities. As of December 31, 2005, Opteum’s debt to equity ratio (where debt equals all repurchase transactions outstanding plus trust preferred securities and equity equals stockholders’ equity plus trust preferred securities) was 9.8:1. Repurchase agreements at that date totaled $3.3 billion. Repurchase agreements are generally, but not always, short-term in nature. Under these repurchase agreements, Opteum sells securities to a lender and agrees to repurchase those securities in the future for a price that is higher than the original sales price. The difference between the sales price Opteum receives and the repurchase price it pays represents interest paid to the lender. This is determined by reference to an interest rate index (such as the London Interbank Office Rate or, LIBOR) plus an interest rate spread. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which Opteum effectively pledges its securities as collateral to secure a short-term loan equal in value to a specified percentage of the market value of the pledged collateral. Opteum retains beneficial ownership of the pledged collateral, including the right to distributions. At the maturity of a repurchase agreement, Opteum is required to repay the loan and concurrently receive its pledged collateral from the lender or, with the consent of the lender, it renews such agreement at the then prevailing financing rate. Opteum's repurchase agreements may require it to pledge additional assets to the lender in the event the market value of the existing pledged collateral declines.

Opteum has engaged AVM, L.P., a securities broker-dealer, and III Associates, a registered investment adviser affiliated with AVM, L.P., to provide it with repurchase agreement trading, clearing and administrative services. III Associates acts as its agent and adviser in arranging for third parties to enter into repurchase agreements with Opteum, executes and maintains records of its repurchase transactions and assists in managing the margin arrangements between Opteum and its counter-parties for each of its repurchase agreements.

Opteum seeks to protect its capital base through the use of a risk-based capital methodology. This methodology is patterned on the general principles underlying the Basel II Accord. These principles are intended to promote the use by internationally active banks of increasingly sophisticated internal risk management processes and measurements for purposes of allocating capital on a weighted basis. Opteum's methodology follows this framework in that the inherent risk of an asset will create a capital allocation for the asset, which will in turn define the amount of leverage Opteum will employ.

As with the Basel approach, Opteum identifies components of risk associated with the assets it employs. However, unlike typical bank loans, which may bear a significant degree of credit risk, the risks associated with the assets that Opteum employs are primarily related to movements in interest rates. The elements relating to interest rate risk that Opteum analyzes are effective duration, convexity, expected return and the slope of the yield curve. "Effective duration" measures the sensitivity of a security's price to movements in interest rates. "Convexity" measures the sensitivity of a security's effective duration to movements in interest rates. "Expected return" captures the market's assessment of the risk of a security. Opteum assumes markets are efficient with respect to the pricing of risk.

While these three risk components primarily address the price movement of a security, Opteum believes the income earning potential of its portfolio—as reflected in the slope of the yield curve—offsets potential negative price movements. It believes the risk of its portfolio is lower when the slope of the yield curve is steep, and thus is inversely proportional to the slope of the yield curve.

Opteum uses these components of risk to arrive at a risk coefficient for each asset. The product of this coefficient and the amount of Opteum's investment represents its "risk measure" for the asset. Opteum calculates risk measures for each asset and then aggregates them into the risk measure for the entire portfolio, which guides it to an appropriate amount of overall leverage. Opteum analyzes the portfolio's risk measures on a daily basis. The leverage ratio will rise as the risk level of the portfolio declines and will fall as the portfolio's risk level increases. The goal of Opteum's approach is to ensure that its portfolio's leverage ratio is appropriate for the level of risk inherent in the portfolio.

Interest Rate Risk Management

Opteum believes the primary risk inherent in its investments is the effect of movements in interest rates. This risk arises because the effects of interest rate changes on its borrowings will not be perfectly coordinated with the effects of interest rate changes on the income from, or value of, its investments. Opteum therefore follows an interest rate risk management program designed to offset the potential adverse effects resulting from the rate adjustment limitations on its mortgage related securities. It seeks to minimize differences between interest rate indices and interest rate adjustment periods of its adjustable-rate mortgage-backed securities and related borrowings by matching the terms of assets and related liabilities both as to maturity and to the underlying interest rate index used to calculate interest rate charges.

Opteum's interest rate risk management program encompasses a number of procedures, including the following:

§ monitoring and adjusting, if necessary, the interest rate sensitivity of its mortgage related securities compared with the interest rate sensitivities of its borrowings.

§ structuring its repurchase agreements that fund its purchases of adjustable-rate mortgage-backed securities to have varying maturities and interest rate adjustment periods in order to match the reset dates on its adjustable-rate mortgage-backed securities. At December 31, 2005, the weighted average months to reset of its adjustable-rate mortgage-backed securities was 4.5 months and the weighted average reset on the corresponding repurchase agreements was 2.6 months; and

§ actively managing, on an aggregate basis, the interest rate indices and interest rate adjustment periods of its mortgage related securities and comparing them to the interest rate indices and adjustment periods of its borrowings. Its liabilities under its repurchase agreements are all LIBOR based, and Opteum, among other considerations, selects its adjustable-rate mortgage-backed securities to favor LIBOR indexes. As of December 31, 2005, over 29% of Opteum's adjustable-rate mortgage-backed securities were LIBOR-based.

As a result, Opteum expects to be able to adjust the average maturities and reset periods of its borrowings on an ongoing basis by changing the combination of maturities and interest rate adjustment periods as borrowings mature or are renewed. Through the use of these procedures, Opteum attempts to reduce the risk of differences between interest rate adjustment periods of its adjustable-rate mortgage-backed securities and its related borrowings.

Opteum may from time to time use derivative financial instruments to hedge all or a portion of the interest rate risk associated with its borrowings. It may enter into swap or cap agreements, option, put or call agreements, futures contracts, forward rate agreements or similar financial instruments to hedge indebtedness that it may incur or plans to incur. These contracts would be intended to more closely match the effective maturity of, and the interest received on, Opteum's assets with the effective maturity of, and the interest owed on, its liabilities. However, no assurances can be given that interest rate risk management strategies can successfully be implemented. Derivative instruments will not be used for speculative purposes.

Opteum may also use derivative financial instruments in an attempt to protect it against declines in the market value of its assets that result from general trends in debt markets. The inability to match closely the maturities and interest rates of its assets and liabilities or the inability to protect adequately against declines in the market value of its assets could result in losses.

Description of Mortgage Related Securities

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

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

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

Payment of principal and interest on mortgage pass-through certificates issued by Ginnie Mae are guaranteed by the full faith and credit of the federal government and those issued by Fannie Mae and Freddie Mac are guaranteed by the respective agency issuing the security. These guarantees do not cover the market value of the securities.

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

§ Adjustable-Rate Mortgages. Opteum classifies adjustable rate mortgages or ARMs as those securities whose coupons reset within one years time. As of December 31, 2005, 57.4% of Opteum's portfolio consisted of adjustable-rate mortgage-backed securities. ARMs, are mortgages for which the borrower pays an interest rate that varies over the term of the loan. The interest rate usually resets based on market interest rates, although the adjustment of such an interest rate may be subject to certain limitations. Traditionally, interest rates reset periodically. Opteum refers to such ARMs as "traditional" ARMs. Since interest rates on ARMs fluctuate based on market conditions, ARMs tend to have interest rates that do not deviate from current market rates by a large amount. This in turn can mean that ARMs have less price sensitivity to interest rates.

§ Fixed-Rate Mortgages. As of December 31, 2005, 21.0% of Opteum's portfolio consisted of fixed-rate mortgage-backed securities. Fixed-rate mortgages allow each borrower to pay an interest rate that is constant throughout the term of the loan. Traditionally, most fixed-rate mortgages have an original term of 30 years. However, shorter terms (also referred to as final maturity dates) have become common in recent years. Because the interest rate on the loan never changes, even when market interest rates change, over time there can be a divergence between the interest rate on the loan and current market interest rates. This in turn can make a fixed-rate mortgage's price sensitive to market fluctuations in interest rates. In general, the longer the remaining term on the mortgage loan, the greater the price sensitivity.

§ Hybrid Adjustable-Rate Mortgages. As of December 31, 2005, 20.2% of Opteum's portfolio consisted of hybrid adjustable-rate mortgage-backed securities. Hybrid ARMs have a fixed-rate for the first few years of the loan, often three, five, or seven years, and thereafter reset periodically like a traditional ARM. Effectively such mortgages are hybrids, combining the features of a pure fixed-rate mortgage and a "traditional" ARM. Hybrid ARMs have price sensitivity to interest rates similar to that of a fixed-rate mortgage during the period when the interest rate is fixed and similar to that of an ARM when the interest rate is in its periodic reset stage. However, even though hybrid ARMs usually have a short time period in which the interest rate is fixed, during such period the price sensitivity may be high.

§ Balloon Maturity Mortgages. As of December 31, 2005, 1.4% of Opteum's portfolio consisted of balloon maturity mortgage-backed securities. Balloon maturity mortgages are a type of fixed-rate mortgage where all or most of the principal amount is due at maturity, rather than paid in periodic equal installments, or amortized, over the life of the loan. These mortgages have a static interest rate for the life of the loan. However, the term of the loan is usually quite short, typically less than seven years. As the balloon maturity mortgage approaches its maturity date, the price sensitivity of the mortgage declines.

With respect to REIT related activities Opteum does not anticipate investing in other types of mortgage related securities, known as derivative securities, such as "inverse floaters," "inverse I.O.s" and "residuals", however OFS owns residuals as well as mortgage servicing rights in the normal course of business.

Mortgage Banking

The Company originates and purchases residential mortgage loans through OFS that generally fall into one of the following categories:

§ Alternate "A" Loans (Alt-A.). These are first lien mortgage loans made to borrowers whose credit is generally within typical Fannie Mae or Freddie Mac guidelines, but have loan characteristics that do not conform under those guidelines. From a credit risk standpoint, Alt-A borrowers present a profile comparable to that of conforming loan borrowers, but entail special underwriting considerations, such as a higher loan-to-value ratios or limited income verification. The most significant portion of the loans originated or purchased by OFS are Alt-A.

§ Subprime Mortgage Loans ("Nonprime Mortgage Loans" or "Nonprime Lending"). These are first and second lien mortgage loans secured by one-to-four family residences, made to individuals with credit profiles that do not qualify them for a prime loan.

§ Conventional Prime Mortgage Loans. These are high credit quality first-lien mortgage loans secured by single (one-to-four) family residences.

§ Prime Home Equity Loans. These are high credit quality second-lien mortgage loans, including home equity lines of credit, secured by single (one-to-four) family residences.

§ Prime Mortgage Loans. Such loans include conventional mortgage loans, loans insured by the Federal Housing Administration ("FHA"), and loans guaranteed by the Veterans Administration ("VA"). FHA and VA loans are government loans. Some of the conventional loans qualify for inclusion in guaranteed mortgage securities backed by Fannie Mae or Freddie Mac ("conforming loans").

The following table summarizes OFS's loan production by business segment and by loan type for the period November 3, 2005 (date of merger) through December 31, 2005:

Product Type	Loans		Amount	Percent
Alt- A	2,338	$	674,883,632	67.93%
Subprime	564		136,133,842	13.70
Conventional	486		93,301,889	9.39
Second Mortgages	844		49,141,899	4.95
Government	264		40,060,635	4.03
Total	**4,496**	**$**	**993,521,897**	**100.00%**

Nearly all of the mortgage loans that OFS produces in this segment are sold into the secondary mortgage market, primarily in the form of mortgage-backed securities.

OFS originates mortgage loans on a national scale through four channels: retail, wholesale, conduit, and telemarketing. The following table summarizes our loan production by channel for the period November 3, 2005 (date of merger) through December 31, 2005:

Channel	Loans		Loan Amount	Percent
Wholesale	1,340	$	331,963,061	33.41%
Retail	1,983		322,968,139	32.51
Conduit	914		284,340,661	28.62
Telemarketing	259		54,250,036	5.46
Total	**4,496**	**$**	**993,521,897**	**100.00%**

§

Wholesale Channel. The wholesale lending operation funds and helps originate mortgage loans through mortgage loan brokers and other financial intermediaries. As of December 31, 2005, OFS's wholesale lending division operated five branch offices in various parts of the country. This division services approximately 2,250 mortgage loan brokers nationwide.

§ Retail Channel. The retail channel originates mortgage loans primarily through relationships with real estate agents and builders. As of December 31, 2005, this network consisted of 29 branch offices in six states.

§ Conduit Channel. OFS's conduit operation purchases mortgage loans from other lenders, which include mortgage bankers, savings and loan associations, home builders, and credit unions. As of December 31, 2005, this division served approximately 160 approved lenders who are subject to initial and on-going credit evaluation and monitoring.

§ Telemarketing Channel. The telemarketing channel originates mortgage loans directly from the consumer through the Internet and through joint venture call centers. This channel focuses on customer acquisition by generally providing mortgage customers with an efficient and convenient means to refinance their existing mortgage. As of December 31, 2005, the telemarketing channel consisted of two joint venture call centers and three centralized processing centers.

Credit and Interest Rate Risk

OFS offers an extensive array of products, each having specific underwriting guidelines and criteria based upon the risk associated with that product. The credit history requirements for a borrower applying for a sub-prime product are substantially different than those applying for a higher credit quality, prime loan program. OFS has a Credit Committee which is chaired by its Chief Credit Officer. The members of that committee include OFS's Secondary Market Manager, Product Development Manager, National Production Executive, Wholesale Production Manager, Conduit Credit Officer, and the Manager of Structured Finance. The committee is responsible for reviewing all products and guidelines to insure that the overall risk to OFS is consistent with our corporate philosophy. In addition to a review of the guidelines, the execution strategy for the product (retain or sell) is determined. For those products which will be sold into the secondary market, the guidelines of the targeted investors are also considered and incorporated into the program.

Underwriting is done within the credit policies established by OFS's Chief Credit Officer. Underwriters are given lending authority, based upon their experience, and only after their work has been reviewed for a period of time. In addition to loan limits, lending authority is also established for specific product lines, such as government loans and sub-prime underwriting. On a monthly basis, the Chief Credit Officer will distribute a monthly report listing the approved lending authority limits. In addition, the limit is incorporated into OFS system, which is a validation edit performed by the loan origination system. The Chief Credit Officer re-evaluates the authority levels of all underwriting personnel on an on-going basis. All loans over $1.0 million must be reviewed by the Chief Credit Officer.

Exceptions to underwriting criteria are approved by authorized managers and are reviewed on a monthly basis. In addition, a separate Quality Assurance division within OFS reviews a minimum of 10% of all closed loans in order to insure compliance with the underwriting criteria. This review is in addition to the "loan level validation" which is performed within the OFS loan origination system.

For all products originated, the underwriting guidelines take into consideration, credit, collateral, capacity, and compliance.

§ Credit. The length of credit history, prior mortgage delinquencies, public records, and credit scores.

§ Collateral. The Quality A underwriting guidelines considers the property via the review of an appraisal. In some instances, the guidelines require both an initial and a review appraisal. Appraisal requirements are established based upon product risk, documentation type, occupancy, and loan-to-value ratios.

§ Capacity. The underwriting guidelines consider the borrower's ability to repay the debt. OFS offers income verified, stated, and "no doc" programs. Limitations on debt to income ratios will be established based upon product risk, documentation type, occupancy, and loan-to-value ratios.

§ Compliance. All loans must be in full compliance with federal, state, and investor regulatory regulations. OFS does not offer or approve any loans deemed to be high cost or predatory in nature.

Many products incorporate the use of automated underwriting engines such as Desktop Underwriter, Loan Prospector, Assetwise and Clout. In addition, OFS is developing a proprietary underwriting engine for OFS's "5-Star" (our proprietary product line which will render a credit decision consistent with the product guidelines promulgated by the Chief Credit Officer).

Information about mortgage loan portfolio performance can be accessed via the Company’s website at www.opteum.com and is located within the "Corporate" section on the home page in the ”Investors” tab.

OFS typically sells substantially all the mortgage loans that it produces, generally through securitizations. However, OFS does not always sell loans immediately after production. Instead, OFS may decide to sell certain loans in later periods as part of its overall management of interest rate risk. The timing of such sales can have a material impact on its results, particularly in the short-term. When OFS securitizes mortgage loans, it retains limited credit risk. This credit risk arises through representations and warranties that OFS makes as part of its securitization activities, as well as through retention of limited recourse for credit losses in the case of certain securitizations

OFS typically bears interest rate risk from the time a loan application is taken through the sale of the loan. Thereafter, OFS continues to bear interest rate risk related to the interests retained in the loans sold, which are typically in the form of mortgage servicing rights and residual securities.

Securitizations and Sales

Generally, originated as well as purchased mortgages are eventually sold in one of three ways.

§ *Pooling*. Many loans can be pooled into agency or government securities which are then sold directly by OFS to securities firms or financial institutions. From November 3, 2005 (date of merger) to December 31, 2005, OFS sold $260.6 million of government or agency pools.

§ *Whole Loan Sales*. OFS sometimes sells bulk packages of unsecuritized loans. Occasionally, single loans or small groups of loans are sold directly to investors. From November 3, 2005 (date of merger) to December 31, 2005 OFS sold $127.1 million worth of whole loans.

§ *Underwritten Securitizations*. The balance of OFS loans are securitized on the OPMAC securities shelf and a Real Estate Mortgage Investment Conduit trust (the “REMIC”) distributed through an underwriting syndicate - most typically a small consortium of securities firms. From November 3, 2005 (date of merger) through December 31, 2005 OFS executed one securitization collateralized by $986.3 million of loans on the OPMAC shelf.

There are 15 to 45 days between the time OFS commits to purchase a mortgage and the time OFS sells or securitizes mortgages, depending on certain factors, including the length of the purchase commitment period, volume by product type and the securitization process. REMICs are accounted for as sales transactions. REMIC securities generally consist of one or more classes of “regular interests” and a single class of “residual interest.” The regular interests are tailored to the needs of investors and may be issued in multiple classes with varying maturities, average lives and interest rates. REMICs created by OFS are structured so that one or more of the classes of securities are rated investment grade by at least one nationally recognized rating agency. The ratings for the REMICs are based upon the perceived credit risk by the applicable rating agency of the underlying mortgages, the structure of the securities and the associated level of credit enhancement. Credit enhancement is designed to provide protection to the security holders in the event of borrower defaults and other losses including those associated with fraud or reductions in the principal balances or interest rates on mortgages as required by law or a bankruptcy court.

When OFS sells mortgage loans as part of a securitization, it generally retains the rights to service the loans. Typically, this is called originated mortgage servicing rights (“OMSRs”) or mortgage servicing rights (“MSRs”). The value of the MSRs are included as assets on the balance sheet. OFS may also retain other financial interests when loans are securitized, often referred to as “residual interests.” These residual interests are included as assets on the Company’s balance sheet.

The servicing of mortgage loans includes collecting loan payments, responding to customer inquiries, accounting for principal and interest dollar amounts, holding custodial (impound) funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and other administrative tasks as are required for the loan to function properly. OFS receives fees for performing these functions.

Included in Opteum's acquisition of OFS were residual interests on prior securitizations issued by OFS. Prior to being named Opteum Financial Services, LLC, OFS was named Homestar Mortgage and issued securities under the Homestar Mortgage Acceptance shelf (HMAC).

The following table summarizes the OFS 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
OPMAC 2005-1	January 31, 2005	14,720,910
OPMAC 2005-2	April 5, 2005	11,301,619
OPMAC 2005-3	June 17, 2005	14,656,477
OPMAC 2005-4	August 25, 2005	12,551,775
OPMAC 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 was as follows

	2005
Prepayment speeds (CPR)	28.65%
Weighted-average-life	2.83
Expected credit losses	1.07%
Discount rates	14.90%
Interest rates	Forward LIBOR Yield curve

Loan Servicing

OFS subcontracts a substantial portion of its servicing obligations to independent third parties pursuant to sub-servicing agreements. The servicing, although subcontracted, is generally done under the OFS name and as such is transparent to the consumer. It is cost efficient for OFS to use third-party subservicers. Additionally, some rating agencies required third party servicers in order to achieve higher rating levels on OFS securitizations. OFS intends its own to grow the servicing platform and is working towards having its own servicing operations rated. Currently, OFS continually monitors the performance of servicers or subservicers through performance reviews and regular site visits. Servicing fees are charged on the declining principal balances of loans serviced and generally are 0.25% per annum for fixed rate mortgages, 0.375% per annum for adjustable rate mortgages, 0.50% per annum for lower credit quality mortgages and 0.75% per annum for properties secured by second liens. As of December 31, 2005 OFS subcontracted out 34,235 loans with a principal value of $7,291.4 million and serviced 2,701 loans with a principal value of $412.8 million.

Customer Service

As part of outsourced functions, the Customer Service Call Centers managed almost 288,000 contacts with customers in 2005. These contacts were primarily handled through the Customer Service Representatives, Automated Phone System, and Web site by the subservicer.

Remittance Processing

The Remittance Processing division processes all payments, loan payoffs and payoff demand statements.

Collections and Loss Mitigation

The Collections and Loss Mitigation unit helps delinquent borrowers avoid foreclosure. Efforts are tailored to the specific borrower's circumstances and comply with the requirements of the underlying mortgage investor.

Foreclosure and Bankruptcy

Foreclosure and bankruptcy are complex processes that are subject to federal and state laws and regulations, as well as various guidelines imposed by mortgage investors and insurers.

Investor Accounting

The Investor Accounting department reconciles custodial accounts, processes investor remittances, and maintains accounting records on behalf of OFS's mortgage investors, including Fannie Mae, Ginnie Mae and Freddie Mac, as well as other private investors.

Related Services

OFS performs several loan servicing functions that similar loan servicers typically outsource to third parties. OFS believes the integration of these functions gives OFS a competitive advantage by lowering overall servicing costs and enabling OFS to provide a high level of service to our mortgage customers and mortgage investors. OFS's integrated services include property tax payment processing, acting as a foreclosure trustee, performing property inspections and insurance tracking and premium payment processing.

The following table sets forth certain information regarding the OFS loan servicing portfolio.

Servicing Portfolio by Category as of December 31, 2005

		Principal Outstanding	# of Loans	Average Age in Months
Prime Agencies	$	993,966,332	7,044	23.4
Government Agencies		645,857,920	4,908	19.2
Private Label Securitizations		6,036,428,296	24,689	7.6
Total	$	7,676,252,548	36,641	10.6

Other Investments of Opteum and OFS

Opteum and OFS may purchase interest rate caps to hedge against changes in its funding rates. The purchaser of these caps is only at risk for the fee paid. Opteum and OFS may also enter into longer term funding arrangements with acceptable counter-parties.

Opteum intends to operate in a manner that will not subject it to regulation under the Investment Company Act. Although major changes are not anticipated at this time, the Company's Board of Directors has the authority to modify or waive its current operating policies and strategies without prior notice to the Company's stockholders and without stockholder approval.

Policies With Respect to Certain Other Activities

If the Company's Board of Directors determines that additional funding is required, the Company may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Code concerning distribution requirements and the taxability of undistributed net taxable income) or a combination of these methods. In the event that its Board of Directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time.

Opteum has authority to offer Class A Common Stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire shares and may engage in such activities in the future.

Subject to gross income and asset tests necessary for REIT qualification, Opteum may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

14

The Company may engage in the purchase and sale of investments. It does not underwrite the securities of other issuers.

The Company's Board of Directors may change any of these policies without prior notice to its stockholders and without the approval of its stockholders.

Certain Federal Income Tax Considerations

The following discussion summarizes the material federal income tax considerations regarding Opteum's qualification and taxation as a REIT. The information in this summary is based on the Code, current, temporary and proposed Treasury regulations promulgated under the Code, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue service (the "IRS") and court decisions, all as of the date hereof. The administrative interpretations and practices of the IRS upon which this summary is based include its practices and policies as expressed in private letter rulings which are not binding on the IRS, except with respect to the taxpayers who requested and received such rulings. No assurance can be given that future legislation, Treasury regulations, administrative interpretations and practices and court decisions will not significantly change current law, or adversely affect existing interpretations of existing law, on which the information in this summary is based. Even if there is no change in applicable law, no assurance can be provided that the statements made in the following summary will not be challenged by the IRS or will be sustained by a court if so challenged, and Opteum will not seek a ruling with respect to any part of the information discussed in this summary. This summary is qualified in its entirety by the applicable provisions of the Code, Treasury regulations, and administrative and judicial interpretations of the Code.

INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF OUR CLASS A COMMON STOCK AND THE POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

General

Opteum has elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2003. Opteum believes that it has been organized and operated, and intends to continue to be organized and to operate, in a manner so as to qualify as a REIT. However, no assurance can be given that Opteum in fact qualifies or will remain qualified as a REIT.

Opteum's qualification and taxation as a REIT depends on its ability to meet, through actual annual operating results, income and asset requirements, distribution levels, diversity of stock ownership, and the various other qualification tests imposed under the Code discussed below. While Opteum intends to operate so that it qualifies as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations and the possibility of future changes in Opteum's circumstances or in the law, no assurance can be given that Opteum's actual results for any particular taxable year will satisfy these requirements. In addition, qualification as a REIT may depend on future transactions and events that cannot be known at this time.

So long as Opteum qualifies for taxation as a REIT, Opteum generally will be permitted a deduction for dividends that Opteum distributes to its stockholders. As a result, Opteum generally will not be required to pay federal income taxes on its net taxable income that is currently distributed to its stockholders. This treatment substantially eliminates the "double taxation" that ordinarily results from investment in a corporation. Double taxation means taxation once at the corporate level when income is earned and once again at the stockholder level when this income is distributed. Under current law, dividends received by non-corporate U.S. stockholders through 2008 from certain U.S. corporations and qualified foreign corporations generally are eligible for taxation at the rates applicable to long-term capital gains (a maximum of 15%). This substantially reduces, but does not completely eliminate, the double taxation that has historically applied to corporate dividends. With limited exceptions, however, dividends paid by Opteum or other entities that are taxed as REITs are not eligible for the reduced rates on dividends, and will continue to be taxed at rates applicable to ordinary income, which will be as high as 35% through 2010.

Even as a REIT, however, Opteum will be subject to federal taxation, as follows.

§ Opteum will be required to pay tax at regular corporate rates on any undistributed net taxable income, including undistributed net capital gain.

§ Opteum may be subject to the "alternative minimum tax" on its items of tax preference, if any.

§ If Opteum has (i) net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, Opteum will be required to pay tax at the highest corporate rate on this income. Foreclosure property is generally defined as property acquired through foreclosure or after a default on a loan secured by the property or on a lease of the property.

§ Opteum will be required to pay a 100% tax on any net income from prohibited transactions. Prohibited transactions are, in general, sales or other taxable dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business depends on all the facts and circumstances surrounding the particular transaction.

§ If Opteum fails to satisfy the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because certain other requirements are met, Opteum will be subject to a 100% tax on an amount equal to the greater of (i) the amount by which Opteum fails the 75% gross income test and (ii) the amount by which Opteum fails the 95% gross income test, multiplied by a fraction intended to reflect its profitability.

§ Commencing with Opteum's taxable year beginning on January 1, 2005, if due to reasonable cause Opteum fails to satisfy any of the REIT asset tests, as described below, by more than a *de minimis* amount, and Opteum nonetheless maintains its REIT qualification because of specified cure provisions, Opteum will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net taxable income generated by the nonqualifying assets.

§ Commencing with Opteum's taxable year beginning on January 1, 2005, if Opteum fails to satisfy any provision of the Code that would result in its failure to qualify as a REIT (other than a violation of the REIT gross income or asset tests described below) and the violation is due to reasonable cause, Opteum may retain its REIT qualification but Opteum will be required to pay a penalty of $50,000 for each such failure.

§ Opteum will be required to pay a 4% excise tax on the excess of the required distribution over the amounts actually distributed if Opteum fails to distribute during each calendar year at least the sum of (i) 85% of its ordinary net taxable income for the year; (ii) 95% of its capital gain net income for the year; and (iii) any undistributed taxable income from prior periods. This distribution requirement is in addition to, and different from, the distribution requirements discussed below.

§ If Opteum acquires any asset from a corporation which is or has been taxed as a C corporation under the Code in a transaction in which the basis of the asset in Opteum's hands is determined by reference to the basis of the asset in the hands of the C corporation, and Opteum subsequently recognizes gain on the disposition of the asset during the 10-year period beginning on the date that Opteum acquired the asset, then Opteum will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (i) the fair market value of the asset, over (ii) Opteum's adjusted basis in the asset, in each case determined as of the date on which Opteum acquired the asset. The results described in this paragraph with respect to the recognition of gain will apply unless an election under Treasury regulation Section 1.337(d)-7(c) is made to cause the C corporation to recognize all of the gain inherent in the property at the time of acquisition of the asset.

§ Opteum will generally be subject to tax on the portion of any excess inclusion income derived from an investment in residual interests in REMICs to the extent its stock is held by specified tax-exempt organizations not subject to tax on unrelated business taxable income.

- § Opteum could be subject to a 100% excise tax if its dealings with any of its TRSs are not at arm's length.

In addition, OFS has elected to be treated as a TRS, which is an entity that is subject to federal, state, and local income taxation. OFS' ability to deduct interest paid or accrued to Opteum for federal, state and local tax purposes is also subject to certain limitations.

Requirements for Qualification as a REIT

The Code defines a REIT as a corporation, trust or association:

(i) that is managed by one or more trustees or directors;

(ii) that issues transferable shares or transferable certificates to evidence beneficial ownership;

(iii) that would be taxable as a domestic corporation but for Sections 856 through 859 of the Code;

(iv) that is not a financial institution or an insurance company within the meaning of the Code;

(v) that is beneficially owned by 100 or more persons;

(vi) not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities), during the last half of each taxable year (the " 5¤50 Rule"); and

(vii) that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

The Code provides that all of the first four conditions stated above must be met during the entire taxable year and that the fifth condition must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. The fifth and sixth conditions do not apply until after the first taxable year for which an election is made to be taxed as a REIT.

Opteum's charter provides for restrictions regarding ownership and transfer of its stock. These restrictions are intended to assist Opteum in satisfying the share ownership requirements described in the fifth and sixth conditions above. These restrictions, however, may not ensure that Opteum will, in all cases, be able to satisfy the stock ownership rules. If Opteum fails to satisfy any of these stock ownership rules, and no other relief provisions apply, its qualification as a REIT may terminate. If, however, Opteum complied with the rules contained in the applicable Treasury regulations that require a REIT to determine the actual ownership of its stock and Opteum does not know, or would not have known through the exercise of reasonable diligence, that Opteum failed to meet the requirement of the 5¤50 Rule, Opteum would not be disqualified as a REIT.

To monitor its compliance with the stock ownership tests, Opteum is required to maintain records regarding the actual ownership of its shares of stock. To do so, Opteum is required to demand written statements each year from the record holders of certain percentages of its shares of stock in which the record holders are to disclose the actual owners of the shares (*i.e.*, the persons required to include Opteum's dividends in gross income). A list of those persons failing or refusing to comply with this demand must be maintained as part of Opteum's records. A record holder who fails or refuses to comply with the demand must submit a statement with its tax return disclosing the actual ownership of the shares of stock and certain other information.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. Opteum's taxable year is the calendar year.

Effect of Subsidiary Entities

Opteum owns 100% of the stock of OFS. Opteum has made an election to treat OFS as a TRS. A TRS may earn income that would be nonqualifying income if earned directly by a REIT and is generally subject to full corporate level tax. A REIT may own up to 100% of all outstanding stock of a TRS. However, no more than 20% of a REIT's assets may consist of the securities of TRSs. Any dividends that a REIT receives from a TRS will generally be eligible to be taxed at the preferential rates applicable to qualified dividend income and, for purposes of REIT gross income tests, will be qualifying income for purposes of the 95% gross income test but not the 75% gross income test. Certain restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of federal income taxation. First, a TRS may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed, generally, 50% of the TRS' adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that year). Additionally, if a TRS pays interest, rent or another amount to a REIT that exceeds the amount that would be paid to an unrelated party in an arm's length transaction, an excise tax equal to 100% of such excess will be imposed.

An unincorporated domestic entity, such as a partnership or limited liability company, that has a single owner, generally is not treated as an entity separate from its parent for federal income tax purposes. If Opteum owns 100% of the interests of such an entity, Opteum will be treated as owning its assets and receiving its income directly. An unincorporated domestic entity with two or more owners generally is treated as a partnership for federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its proportionate share of the gross income of the partnership, based on its percentage of capital interests, for the purposes of the applicable REIT qualification tests. Commencing with Opteum's taxable year beginning on January 1, 2005, solely for purposes of the 10% value test described below, the determination of a REIT's interest in partnership assets will be based on the REIT's proportionate interest in any securities issued by the partnership, excluding for these purposes, certain excluded securities as described in the Code. Thus, Opteum's proportionate share of the assets, liabilities and items of income of any partnership, joint venture or limited liability company that is treated as a partnership for federal income tax purposes in which Opteum acquires an interest directly or indirectly will be treated as Opteum's assets and gross income for purposes of applying the various REIT qualification requirements.

Income Tests

Opteum must satisfy two gross income requirements annually to maintain its qualification as a REIT. First, Opteum must derive at least 75% of its gross income, excluding gross income from prohibited transactions, from specified real estate sources, including rental income, interest on obligations secured by mortgages on real property or on interests in real property, dividends or other distributions on, and gain from the sale of, stock in other REITs, gain from the disposition of “real estate assets" (*i.e.*, interests in real property, mortgages secured by real property or interests in real property, and some other assets) and income from certain types of temporary investments. Second, Opteum must derive at least 95% of its gross income, excluding gross income from prohibited transactions and qualifying hedges entered into after December 31, 2004, from the sources of income that satisfy the 75% gross income test described above, and dividends, interest and gain from the sale or disposition of stock or securities, and qualifying interest rate swap and cap agreements, options, futures and forward contracts entered into before January 1, 2005 to hedge debt incurred to acquire and own real estate assets.

For these purposes, interest earned by a REIT ordinarily does not include any interest if the determination of all or some of the amount of interest depends on the income or profits of any person. An amount will generally not be excluded from the term "interest," however, solely by reason of being based on a fixed percentage or percentages of receipts or sales.

Any amount includible in Opteum's gross income with respect to a regular or residual interest in a REMIC generally is treated as interest on an obligation secured by a mortgage on real property. If, however, less than 95% of the assets of a REMIC consists of real estate assets (determined as if Opteum held such assets), Opteum will be treated as receiving directly its proportionate share of the income of the REMIC. In addition, if Opteum receives interest income with respect to a mortgage loan that is secured by both real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date Opteum became committed to make or purchase the mortgage loan, a portion of the interest income, equal to (i) such highest principal amount minus such value, divided by (ii) such highest principal amount, generally will not be qualifying income for purposes of the 75% gross income test. Interest income received with respect to non-REMIC pay-through bonds and pass-through debt instruments, such as collateralized mortgage obligations or CMOs, however, generally will not be qualifying income for purposes of the 75% gross income test.

Opteum inevitably may have some gross income from sources that will not be qualifying income for purposes of one or both of the gross income tests. However, Opteum intends to maintain its qualification as a REIT by monitoring and limiting any such non-qualifying income.

If Opteum fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, Opteum may nevertheless, qualify as a REIT for such taxable year if Opteum is entitled to relief under applicable provisions of the Code. Generally, Opteum may be entitled to relief if:

- its failure to meet these tests was due to reasonable cause and not due to willful neglect
- Opteum attaches a schedule of the sources of its income to its federal income tax return and
- any incorrect information on the schedule was not due to fraud with intent to evade tax.

Commencing with Opteum's taxable year beginning on January 1, 2005, in order to maintain its qualification as a REIT, if Opteum fails to satisfy the 75% or 95% gross income test, such failure must be due to reasonable cause and not due to willful neglect, and, following its identification of such failure for any taxable year, Opteum must set forth a description of each item of its gross income that satisfies the REIT gross income tests in a schedule for the taxable year filed in accordance with regulations prescribed by the Treasury.

If Opteum is entitled to avail itself of the relief provisions, Opteum will maintain its qualification as a REIT but will be subject to certain taxes as described above. Opteum may not, however, be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions do not apply to a particular set of circumstances, Opteum will not qualify as a REIT. Opteum may not always be able to maintain compliance with the gross income tests for REIT qualification despite monitoring its income.

Foreclosure Property

Net income realized by Opteum from foreclosure property is generally subject to tax at the maximum federal corporate tax rate (currently at 35%). Foreclosure property is real property and related personal property that is acquired through foreclosure following a default on a lease of such property or indebtedness secured by such property and for which an election is made to treat the property as foreclosure property.

Prohibited Transaction Income

Any gain realized by Opteum on the sale of any asset other than foreclosure property, held as inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business, will be prohibited transaction income and subject to a 100% excise tax. Prohibited transaction income may also adversely affect Opteum's ability to satisfy the gross income test for qualification as a REIT. Whether an asset is held as inventory or primarily for sale to customers in the ordinary course of a trade or business depends on all facts and circumstances surrounding the particular transaction. While the Code provides a safe harbor which, if met, would cause a sale of an asset to not be treated as a prohibited transaction, Opteum may not be able to meet the requirements of the safe harbor in all circumstances. Any sales of assets made through a TRS, such as OFS, will not be subject to the prohibited transaction tax but will be subject to regular corporate income taxation.

Asset Tests

At the close of each quarter of its taxable year, Opteum must satisfy four tests relating to the nature and diversification of its assets. First, at least 75% of the value of its total assets must be represented by real estate assets, cash, cash items and government securities. Second, not more than 25% of its total assets may be represented by securities, other than those securities included in the 75% asset test. Third, the value of the securities Opteum owns in any taxable REIT subsidiaries, in the aggregate, may not exceed 20% of the value of its total assets. Fourth, of the investments included in the 25% asset class, the value of any one issuer's securities may not exceed 5% of the value of Opteum's total assets and Opteum generally may not own more than 10% by vote or value of any one issuer's outstanding securities, in each case except with respect to securities of qualified REIT subsidiaries or TRSs and in the case of the 10% value test except with respect to "straight debt" having specified characteristics and other excluded securities, as described in the Code, including, but not limited to, any loan to an individual or an estate, any obligation to pay rents from real property and any security issued by a REIT. In addition, (i) Opteum's interest as a partner in a partnership is not considered a security for purposes of applying the 10% value test; (ii) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership if at least 75% of the partnership's gross income is derived from sources that would qualify for the 75% gross income test, and (iii) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership to the extent of Opteum's interest as a partner in the partnership.

Qualified real estate assets include interests in mortgages on real property to the extent the principal balance of a mortgage does not exceed the fair market value of the associated real property, regular or residual interests in a REMIC (except that, if less than 95% of the assets of a REMIC consist of "real estate assets" (determined as if Opteum held such assets), Opteum will be treated as holding directly its proportionate share of the assets of such REMIC), and shares of other REITs. Non-REMIC CMOs, however, generally do not qualify as qualified real estate assets for this purpose.

Opteum believes that all or substantially all of the mortgage related securities that Opteum owns are and will be qualifying assets for purposes of the 75% asset test. However, to the extent that Opteum owns non-REMIC CMOs or other debt instruments secured by mortgage loans (rather than by real property) or debt securities issued by C corporations that are not secured by mortgages on real property, those securities may not be qualifying assets for purposes of the 75% asset test. Opteum will monitor the status of its assets for purposes of the various asset tests and will seek to manage its portfolio to comply at all times with such tests.

After initially meeting the asset tests at the close of any quarter, Opteum will not lose its qualification as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If Opteum fails to satisfy the asset tests because Opteum acquires securities during a quarter, Opteum can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. Commencing with its taxable year beginning on January 1, 2005, if Opteum fails to meet the 5% or 10% asset tests, after the 30 day cure period, Opteum may dispose of sufficient assets (generally within six months after the last day of the quarter in which Opteum's identification of the failure to satisfy these asset tests occurred) to cure such a violation that does not exceed a *de minimis* amount equal to the lesser of 1% of its assets at the end of the relevant quarter or $10,000,000. For violations of any of the REIT asset tests that are due to reasonable cause and that are larger than the *de minimis* amount described above, Opteum may avoid disqualification as a REIT after the 30 day cure period by taking steps including the disposition of sufficient assets to meet the asset test (generally within six months after the last day of the quarter in which Opteum's identification of the failure to satisfy the REIT asset test occurred) and paying a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets; provided that Opteum files a schedule for such quarter describing each asset that causes it to fail to satisfy the asset test in accordance with regulations prescribed by the Treasury.

Annual Distribution Requirements

To maintain its qualification as a REIT, Opteum is required to distribute dividends, other than capital gain dividends, to its stockholders in an amount at least equal to the sum of: (i) 90% of its REIT taxable income, and (ii) 90% of its after-tax net income, if any, from foreclosure property, less (iii) the excess of the sum of certain items of its non-cash income items over 5% of its REIT taxable income. In general, for this purpose, Opteum's REIT taxable income is ordinary net taxable income computed without regard to the dividends paid deduction and net capital gain.

Only distributions that qualify for the "dividends paid deduction" available to REITs under the Code are counted in determining whether the distribution requirements are satisfied. Opteum must make these distributions in the taxable year to which they relate, or in the following taxable year, if they are declared before Opteum timely files its tax return for that year, paid on or before the first regular dividend payment following the declaration and Opteum elects on its tax return to have a specified dollar amount of such distributions treated as if paid in the prior year. For these and other purposes, dividends declared by Opteum in October, November or December of one taxable year and payable to a stockholder of record on a specific date in any such month shall be treated as both paid by Opteum and received by the stockholder during such taxable year, provided that the dividend is actually paid by Opteum by January 31 of the following taxable year.

In addition, dividends distributed by Opteum must not be preferential. If a dividend is preferential, it will not qualify for the dividends paid deduction. To avoid being preferential, every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated other than according to its dividend rights as a class.

To the extent that Opteum does not distribute all of its net capital gain, or Opteum distributes at least 90%, but less than 100%, of its REIT taxable income, Opteum will be required to pay tax on this undistributed income at regular ordinary and capital gain corporate tax rates. Furthermore, if Opteum fails to distribute during each calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of the January immediately following such year) at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, Opteum will be subject to a 4% nondeductible excise tax on the excess of such required distribution over the amounts actually distributed. Opteum intends to make timely distributions sufficient to satisfy the annual distribution requirements.

Because Opteum may deduct capital losses only to the extent of its capital gains, Opteum may have taxable net income that exceeds its economic income. In addition, Opteum will recognize taxable net income in advance of the related cash flow if any of its subordinated mortgage related securities are deemed to have original issue discount. For federal income tax purposes, Opteum generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments. As a result of the foregoing, Opteum may have less cash than is necessary to distribute all of its taxable net income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, Opteum may need to borrow funds or issue additional common or preferred stock.

Under certain circumstances, Opteum may be able to rectify a failure to meet the distribution requirements for a year by paying "deficiency dividends" to its stockholders in a later year, which may be included in Opteum's deduction for dividends paid for the earlier year. Although Opteum may be able to avoid being taxed on amounts distributed as deficiency dividends, Opteum will be required to pay to the IRS interest based upon the amount of any deduction taken for deficiency dividends.

Excess Inclusion Income

If Opteum acquires a residual interest in a REMIC, Opteum may realize excess inclusion income. If Opteum is deemed to have issued debt obligations having two or more maturities, the payments on which correspond to payments on mortgage loans owned by it, such arrangement will be treated as a taxable mortgage pool for federal income tax purposes. If all or a portion of Opteum is treated as a taxable mortgage pool, its qualification as a REIT generally should not be impaired. However, a portion of Opteum's taxable net income may be characterized as excess inclusion income and allocated to its stockholders, generally in a manner set forth under the applicable Treasury regulations. The Treasury Department has not yet issued regulations governing the tax treatment of stockholders of a REIT that owns an interest in a taxable mortgage pool. Excess inclusion income is an amount, with respect to any calendar quarter, equal to the excess, if any, of (i) income tax allocable to the holder of a residual interest in a REMIC during such calendar quarter over (ii) the sum of amounts allocated to each day in the calendar quarter equal to its ratable portion of the product of (a) the adjusted issue price of the interest at the beginning of the quarter multiplied by (b) 120% of the long-term federal rate (determined on the basis of compounding at the close of each calendar quarter and properly adjusted for the length of such quarter). Opteum's excess inclusion income would be allocated among its stockholders. A stockholder's share of any excess inclusion income could not be offset by net operating losses of a stockholder; would be subject to tax as unrelated business taxable income to a tax-exempt holder; would be subject to the application of the federal income tax withholding (without reduction pursuant to any otherwise applicable income tax treaty) with respect to amounts allocable to non-U.S. stockholders; and would be taxable (at the highest corporate tax rates) to Opteum, rather than its stockholders, to the extent allocable to Opteum's stock held by disqualified organizations (generally, tax-exempt entities not subject to unrelated business income tax, including governmental organizations).

Hedging Transactions

From time to time the Company may enter into hedging transactions with respect to one or more of its assets or liabilities. The Company's hedging transactions could take a variety of forms, including interest rate cap agreements, options, futures contracts, forward rate agreements, or similar financial instruments. The Company may enter into other hedging transactions, including rate locks and guaranteed financial contracts. To the extent that the Company enters into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument prior to January 1, 2005 to reduce its interest rate risk on indebtedness incurred to acquire or carry real estate assets, any payment under or gain from the disposition of hedging transactions should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. To the extent the Company hedges with other types of financial instruments or for other purposes prior to January 1, 2005, any payment under or gain from such transactions would not be qualifying income for purposes of the 95% or 75% gross income tests. Commencing with the Company's taxable year beginning on January 1, 2005, except to the extent provided by Treasury regulations, any income from a hedging transaction entered into after December 31, 2004 to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the Company, which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into, including gain from the sale or disposition of such a transaction, will not constitute gross income for purposes of the 95% gross income test, to the extent that the transaction hedges any indebtedness incurred or to be incurred by the Company to acquire or carry real estate assets. Opteum will monitor the income generated by any such transactions in order to ensure that such gross income, together with any other nonqualifying income received by it, will not cause it to fail to satisfy the 95% or 75% gross income tests.

Failure to Qualify as a REIT

If Opteum fails to qualify for taxation as a REIT in any taxable year, and the relief provisions of the Code do not apply, Opteum will be required to pay taxes, including any applicable alternative minimum tax, on its taxable income in that taxable year and all subsequent taxable years at regular corporate rates. Distributions to its stockholders in any year in which Opteum fails to qualify as a REIT will not be deductible by it and Opteum will not be required to distribute any amounts to its stockholders. As a result, Opteum anticipates that its failure to qualify as a REIT would reduce the cash available for distribution to its stockholders. In addition, if Opteum fails to qualify as a REIT, all distributions to its stockholders will be taxable as dividends from a C corporation to the extent of its current and accumulated earnings and profits, and U.S. individual stockholders may be taxable at preferential rates on such dividends, and U.S. corporate stockholders may be eligible for the dividends-received deduction. Unless entitled to relief under specific statutory provisions, Opteum would also be disqualified from taxation as a REIT for the four taxable years following the year in which Opteum loses its qualification. Commencing with its taxable year beginning on January 1, 2005, specified cure provisions may be available to Opteum in the event Opteum violates a provision of the Code that would result in its failure to qualify as a REIT. Opteum would be provided additional relief in the event that it violates a provision of the Code that would result in its failure to qualify as a REIT (other than violations of the REIT gross income or asset tests, as described above, for which other specified cure provisions are available) if (i) the violation is due to reasonable cause, and (ii) Opteum pays a penalty of $50,000 for each failure to satisfy the provision.

State, Local and Foreign Taxation

Opteum may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which Opteum transacts business or makes investments, and Opteum's stockholders may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which they reside. Opteum's state, local and foreign tax treatment may not conform to the federal income tax consequences summarized above. OFS has elected to be treated as a TRS, which is an entity that is subject to federal, state and local income taxation. In addition, the ability of OFS to deduct interest paid or accrued to Opteum for federal, state and local tax purposes is subject to certain limitations.

Possible Legislative or Other Action Affecting REITs

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in federal tax laws and interpretations thereof could affect the tax consequences of an investment in the Company.

Custodian Bank

Opteum has engaged J.P. Morgan Chase & Co. to serve as its custodian bank. J.P. Morgan Chase & Co. is entitled to fees for its services.

Competition

Opteum Inc.

When Opteum invests in mortgage related securities and other investment assets, it competes with a variety of institutional investors, including other REITs, insurance companies, mutual funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than Opteum does. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of mortgage related securities, resulting in higher prices and lower yields on assets.

Opteum Financial Services

OFS faces intense competition, primarily from commercial banks, savings and loans, and other independent mortgage lenders, including internet-based lending companies and other mortgage REITs. Competitors with lower costs of capital have a competitive advantage over OFS. In addition, establishing a mortgage lending operation such as OFS’s requires a relatively small commitment of capital and human resources, which permits new competitors to enter the markets quickly and to effectively compete with OFS. Furthermore, national banks, thrifts and their operating subsidiaries are generally exempt from complying with many of the state and local laws that affect our operations, such as the prohibition on prepayment penalties. Thus, they may be able to provide more competitive pricing and terms than OFS can offer. As mortgage products are offered more widely through alternative distribution channels, such as the internet, OFS may be required to make significant changes to its current wholesale and retail structures and information systems to compete effectively.

Available Information

The Internet address of the Company's corporate website is www.opteum.com. Opteum provides copies of its periodic reports (on Forms 10-K and 10-Q) and current reports (on Form 8-K), as well as the beneficial ownership reports filed by its directors, officers and 10% stockholders (on Forms 3, 4 and 5) available free of charge through its website as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (the “Commission”). The Company may from time to time provide important disclosures to investors by posting them in the investor relations section of its website, as allowed by securities rules.

Materials Opteum files with the Commission may be read and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission also maintains an Internet website at www.sec.gov that will contain the Opteum's reports, proxy information statements, and other information regarding Opteum that it will file electronically with the Commission.

Employees

As of December 31, 2005, Opteum had 11 full-time employees and OFS had 1,066 full time employees.

Financial Information about Segments

See Item 8 “Financial Statements” for information about segments required by this Item 1.

Seasonality

See Item 1A “Risk Factors—Risks related to OFS’s profitability—The mortgage banking business is seasonal and OFS’s operating results vary accordingly” for information regarding the seasonal nature of the mortgage banking business of OFS.

ITEM 1A. Risk Factors.

Risks Related to the REIT Investment Portfolio

Interest rate mismatches between Opteum's adjustable-rate securities and its borrowings used to fund purchases of the mortgage-related securities may reduce net income or result in a loss during periods of changing interest rates.

As of December 31, 2005, 57.4% of the fair value of the MBS in Opteum's portfolio was adjustable rate MBS and 20.2% were hybrid adjustable rate MBS, and these percentages may increase as Opteum modifies the mix of securities in the portfolio. This means that the interest rates of the securities may vary over time based on changes in a short-term interest rate index, of which there are many. Opteum finances its acquisitions of adjustable-rate securities in part with borrowings that have interest rates based on indices and repricing terms similar to, but perhaps with shorter maturities than, the interest rate indices and repricing terms of the adjustable-rate securities. Short-term interest rates are ordinarily lower than longer-term interest rates. During periods of changing interest rates, this interest rate mismatch between Opteum's assets and liabilities could reduce or eliminate net income and dividend yield and could cause Opteum to suffer a loss. In particular, in a period of rising interest rates, Opteum could experience a decrease in, or elimination of, net income or a net loss because the interest rates on Opteum's borrowings adjust faster than the interest rates on the adjustable-rate securities.

Interest rate fluctuations will also cause variances in the yield curve, which may reduce Opteum's net income. The relationship between short-term and longer-term interest rates is often referred to as the "yield curve." If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), Opteum's borrowing costs may increase more rapidly than the interest income earned on our assets. Because Opteum's assets may bear interest based on longer-term rates than its borrowings, a flattening of the yield curve would tend to decrease net income and the market value of mortgage loan assets. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested in mortgage loans, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease Opteum's net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event Opteum's borrowing costs may exceed its interest income and it could incur operating losses.

A significant portion of Opteum's portfolio consists of fixed-rate MBS, which may cause Opteum to experience reduced net income or a loss during periods of rising interest rates.

As of December 31, 2005, 17.5% of the fair value of MBS in Opteum's portfolio consisted of fixed-rate and balloon maturity MBS. Because the interest rate on a fixed-rate mortgage never changes, over time there can be a divergence between the interest rate on the loan and the current market interest rates. Opteum funds its acquisition of fixed-rate MBS with short-term repurchase agreements and term loans. During periods of rising interest rates, Opteum's costs associated with borrowings used to fund the acquisition of fixed-rate assets are subject to increases while the income it earns from these assets remains substantially fixed. This would reduce and could eliminate the net interest spread between the fixed-rate MBS that Opteum purchases and the borrowings used to purchase them, which would reduce net interest income and could cause Opteum to suffer a loss.

Increased levels of prepayments on the mortgages underlying Opteum's mortgage-related securities might decrease net interest income or result in a net loss.

Pools of mortgage loans underlie the mortgage-related securities that Opteum acquires. Opteum generally receives payments from the payments that are made on these underlying mortgage loans. When Opteum acquires mortgage-related securities, it anticipates that the underlying mortgages will prepay at a projected rate generating an expected yield. When borrowers prepay their mortgage loans faster than expected it results in corresponding prepayments on the mortgage-related securities that are faster than expected. Faster-than-expected prepayments could potentially harm the results of Opteum's operations in various ways, including the following:

- Opteum seeks to purchase some mortgage-related securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, Opteum will be required to pay a premium over the market value to acquire the security. In accordance with applicable accounting rules, Opteum will be required to amortize this premium over the term of the mortgage-related security. If the mortgage-related security is prepaid in whole or in part prior to its maturity date, however, Opteum must expense any unamortized premium that remained at the time of the prepayment.

- A portion of Opteum's adjustable-rate MBS may bear interest at rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If an adjustable-rate mortgage-backed security is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, Opteum will have held that mortgage-related security while it was less profitable and lost the opportunity to receive interest at the fully indexed rate over the remainder of its expected life.

- If Opteum is unable to acquire new mortgage-related securities to replace the prepaid mortgage-related securities, Opteum's financial condition, results of operations and cash flow may suffer and it could incur losses.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by other factors, including, without limitation, conditions in the housing and financial markets, general economic conditions and the relative interest rates on adjustable-rate and fixed-rate mortgage loans. While Opteum seeks to minimize prepayment risk, it must balance prepayment risk against other risks and the potential returns of each investment when selecting investments. No strategy can completely insulate the Company from prepayment or other such risks.

Opteum may incur increased borrowing costs related to repurchase agreements that would harm Opteum's results of operations.

Opteum's borrowing costs under repurchase agreements are generally adjustable and correspond to short-term interest rates, such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of Opteum's mortgage-related securities.

Most of the Opteum's borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, Opteum's results of operations will be harmed and it may incur losses.

Interest rate caps on Opteum's adjustable-rate MBS may reduce its income or cause it to suffer a loss during periods of rising interest rates.

Adjustable-rate MBS are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of a mortgage-backed security. Opteum's borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on Opteum's borrowings could increase without limitation while caps could limit the interest rates on its adjustable-rate MBS. This problem is magnified for adjustable-rate MBS that are not fully indexed. Further, some adjustable-rate MBS may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the Company may receive less cash income on adjustable-rate MBS than it needs to pay interest on its related borrowings.

As of December 31, 2005, the adjustable-rate MBS in Opteum's portfolio were subject to a weighted average lifetime interest rate cap of 10.5% and a weighted average periodic interest rate cap of 1.8% and the hybrid adjustable-rate MBS in Opteum's portfolio were subject to a weighted average lifetime interest rate cap of 9.9% and a weighted average periodic interest rate cap of 1.7%. Interest rate caps on Opteum's MBS could reduce its net interest income or cause it to suffer a net loss if interest rates were to increase beyond the level of the caps.

Opteum may not be able to purchase interest rate caps at favorable prices, which could cause us to suffer a loss in the event of significant changes in interest rates.

Opteum's policies permit it to purchase interest rate caps to help it reduce Opteum's interest rate and prepayment risks associated with our investments in mortgage-related securities. This strategy potentially helps the Company reduce Opteum's exposure to significant changes in interest rates. A cap contract is ultimately no benefit to Opteum unless interest rates exceed the target rate. If Opteum purchases interest rate caps but does not experience a corresponding increase in interest rates, the costs of buying the caps would reduce Opteum's earnings. Alternatively, Opteum may decide not to enter into a cap transaction due to its expense, and it would suffer losses if interest rates later rise substantially. Opteum's ability to engage in interest rate hedging transactions is limited by the REIT gross income requirements. See "Legal and Tax Risks" below.

Opteum's leverage strategy increases the risks of Opteum's operations, which could reduce net income and the amount available for distributions to stockholders or cause Opteum to suffer a loss.

Opteum generally seeks to borrow between eight and 12 times the amount of Opteum's equity, although at times its borrowings may be above or below this amount. For purposes of this calculation, the Opteum treats trust preferred securities as an equity capital equivalent. The Company incurs this indebtedness by borrowing against a substantial portion of the market value of its mortgage-related securities. The Company's total indebtedness, however, is not expressly limited by its policies and will depend on its and its prospective lender's estimate of the stability of its portfolio's cash flow. As a result, there is no limit on the amount of leverage that Opteum may incur. Opteum faces the risk that it might not be able to meet its debt service obligations or a lender's margin requirements from its income and, to the extent Opteum cannot, it might be forced to liquidate some of its assets at unfavorable prices. Opteum's use of leverage amplifies the risks associated with other risk factors, which could reduce its net income and the amount available for distributions to stockholders or cause it to suffer a loss. For example:

- A majority of Opteum's borrowings are secured by its mortgage-related securities, generally under repurchase agreements. A decline in the market value of the mortgage-related securities used to secure these debt obligations could limit Opteum's ability to borrow or result in lenders requiring it to pledge additional collateral to secure its borrowings. In that situation, Opteum could be required to sell mortgage-related securities under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the mortgage-related securities, Opteum would experience losses.

- A default under a mortgage-related security that constitutes collateral for a loan could also result in an involuntary liquidation of the mortgage-related security, including any cross-collateralized mortgage-related securities. This would result in a loss to Opteum of the difference between the value of the mortgage-related security upon liquidation and the amount borrowed against the mortgage-related security.

- To the extent Opteum is compelled to liquidate qualified REIT assets to repay debts, Opteum's compliance with the REIT rules regarding its assets and its sources of income could be negatively affected, which would jeopardize its qualification as a REIT. Losing Opteum's REIT qualification would cause it to lose tax advantages applicable to REITs and would decrease profitability and distributions to stockholders.

- If Opteum experiences losses as a result of its leverage policy, such losses would reduce the amounts available for distribution to stockholders.

An increase in interest rates may adversely affect the Company's book value, which may harm the value of its Class A Common Stock.

Increases in interest rates may negatively affect the fair market value of the Company's mortgage-related securities. The Company's fixed-rate MBS will generally be more negatively affected by such increases. In accordance with GAAP, the Company will be required to reduce the carrying value of the Company's mortgage-related securities by the amount of any decrease in the fair value of our mortgage-related securities compared to amortized cost. If unrealized losses in fair value occur, the Company will have to either reduce current earnings or reduce stockholders' equity without immediately affecting current earnings, depending on how we classify the mortgage-related securities under GAAP. In either case, the Company's net book value will decrease to the extent of any realized or unrealized losses in fair value.

Changes in yields may harm the value of the Company's Class A Common Stock.

The Company's earnings will be derived primarily from the expected positive spread between the yield on the Company's assets and the cost of its borrowings. There is no assurance that there will be a positive spread in either high interest rate environments or low interest rate environments, or that the spread will not be negative. In addition, during periods of high interest rates, the Company’s net income, and therefore the dividend yield on its Class A Common Stock, may be less attractive compared to alternative investments of equal or lower risk. Each of these factors could harm the market value of the Company’s Class A Common Stock.

Opteum depends on borrowings to purchase mortgage-related securities and reach Opteum's desired amount of leverage. If Opteum fails to obtain or renew sufficient funding on favorable terms or at all, it will be limited in its ability to acquire mortgage-related securities, which will harm its results of operations.

Opteum depends on borrowings to fund acquisitions of mortgage-related securities and reach Opteum's desired amount of leverage. Accordingly, Opteum's ability to achieve its investment and leverage objectives depends on its ability to borrow money in sufficient amounts and on favorable terms. In addition, Opteum must be able to renew or replace Opteum's maturing borrowings on a continuous basis. Opteum depends on many lenders to provide the primary credit facilities for Opteum's purchases of mortgage-related securities. If Opteum cannot renew or replace maturing borrowings on favorable terms or at all, it may have to sell its mortgage-related securities under adverse market conditions, which would harm its results of operations and may result in permanent losses.

Possible market developments could cause Opteum's lenders to require it to pledge additional assets as collateral. If Opteum's assets were insufficient to meet the collateral requirements, it might be compelled to liquidate particular assets at inopportune times and at unfavorable prices.

Possible market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of mortgage-related securities in which Opteum's portfolio is concentrated, might reduce the market value of its portfolio, which might cause its lenders to require additional collateral. Any requirement for additional collateral might compel Opteum to liquidate its assets at inopportune times and at unfavorable prices, thereby harming its operating results. If Opteum sells mortgage-related securities at prices lower than the carrying value of the mortgage-related securities, it would experience losses.

Opteum's use of repurchase agreements to borrow funds may give Opteum's lenders greater rights in the event that either Opteum or any of its lenders file for bankruptcy, which may make it difficult for it to recover is collateral in the event of a bankruptcy filing.

Opteum's borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving its lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate its collateral under the repurchase agreements without delay if Opteum files for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for Opteum to recover its pledged assets in the event that its lender files for bankruptcy. Thus, the use of repurchase agreements exposes Opteum's pledged assets to risk in the event of a bankruptcy filing by either Opteum's lenders or Opteum.

Because the assets that Opteum acquires might experience periods of illiquidity, Opteum might be prevented from selling its mortgage-related securities at favorable times and prices, which could cause it to suffer a loss and/or reduce distributions to stockholders.

Although Opteum plans to hold its mortgage-related securities until maturity, there may be circumstances in which Opteum sells certain of these securities. Mortgage-related securities generally experience periods of illiquidity. As a result, Opteum may be unable to dispose of its mortgage-related securities at advantageous times and prices or in a timely manner. The lack of liquidity might result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. The illiquidity of mortgage-related securities may harm Opteum's results of operations and could cause it to suffer a loss and/or reduce distributions to stockholders.

The Company's board of directors may change its operating policies and strategies without prior notice or stockholder approval and such changes could harm its business and results of operations and the value of its Class A Common Stock.

Although the Company’s board of directors has no current plans to do so, it has the authority to modify or waive its current operating policies and its strategies (including its election to operate as a REIT) without prior notice to you and without your approval. Any such changes to the Company’s current operating policies and strategies may be unsuccessful and may have an adverse effect on its business, operating results and the market value of its Class A Common Stock.

Competition might prevent Opteum from acquiring mortgage-related securities at favorable yields, which could harm its results of operations.

Opteum’s net income largely depends on its ability to acquire mortgage-related securities at favorable spreads over its borrowing costs. In acquiring mortgage-related securities, Opteum competes with other REIT’s, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related securities, many of which have greater financial resources than Opteum does. Additionally, many of Opteum’s competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. As a result, Opteum may not be able to acquire sufficient mortgage-related securities at favorable spreads over its borrowing costs, which would harm its results of operations.

Opteum's investment strategy involves risk of default and delays in payments, which could harm its results of operations.

Opteum may incur losses if there are payment defaults under its mortgage-related securities. Opteum's mortgage-related securities will be government or agency certificates. Agency certificates are mortgage-related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. Payment of principal and interest underlying securities issued by Ginnie Mae are guaranteed by the U.S. Government. Fannie Mae and Freddie Mac mortgage-related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. It is possible that guarantees made by Freddie Mac or Fannie Mae would not be honored in the event of default on the underlying securities. Legislation may be proposed to change the relationship between certain agencies, such as Fannie Mae or Freddie Mac, and the federal government. This may have the effect of reducing the actual or perceived credit quality of mortgage-related securities issued by these agencies. As a result, such legislation could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac mortgage-related securities. Opteum currently intends to continue to invest in such securities, even if such agencies' relationships with the federal government changes.

Decreases in the value of the property underlying Opteum's mortgage-related securities might decrease the value of its assets.

The mortgage-related securities in which Opteum invests are secured by underlying real property interests. To the extent that the market value of the property underlying Opteum's mortgage-related securities decreases, its securities might be impaired, which might decrease the value of its assets.

If Opteum fails to maintain relationships with AVM, L.P. and its affiliate III Associates, or if it does not establish relationships with other repurchase agreement trading, clearing and administrative service providers, it may have to reduce or delay its operations and/or increase its expenditures.

Opteum has engaged AVM, L.P. and its affiliate III Associates, to provide it with certain repurchase agreement trading, clearing and administrative services. If Opteum is unable to maintain relationships with AVM and III Associates or is unable to establish successful relationships with other repurchase agreement trading, clearing and administrative service providers, it may have to reduce or delay Opteum's operations and/or increase its expenditures and undertake the repurchase agreement trading, clearing and administrative services on its own.

Hedging transactions may adversely affect the Company's earnings, which could adversely affect cash available for distribution to its stockholders.

The Company may enter into interest rate cap or swap agreements or pursue other hedging strategies, including the purchase of puts, calls or other options and futures contracts. The Company's hedging activity will vary in scope based on the level and volatility of interest rates and principal prepayments, the type of MBS it holds, and other changing market conditions. Hedging may fail to protect or could adversely affect the Company because, among other things:

- hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- certain types of hedges may expose the Company to risk of loss beyond the fee paid to initiate the hedge;
- the amount of income that a REIT may earn from hedging transactions is limited by federal income tax provisions governing REITs;

- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs the Company’s ability to sell or assign its side of the hedging transaction; and

- the party owing money in the hedging transaction may default on its obligation to pay.

The Company’s hedging activity may adversely affect the Company’s earnings, which could adversely affect cash available for distribution to stockholders.

Terrorist attacks and other acts of violence or war may affect any market for the Company's Class A Common Stock, the industry in which the Company conducts its operations, and its profitability.

Terrorist attacks may harm the Company's results of operations and your investment. The Company cannotassure you that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact the property underlying the Company's mortgage-related securities or the securities markets in general. Losses resulting from these types of events are uninsurable. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in economic uncertainty in the United States or abroad. Adverse economic conditions could harm the value of the property underlying the Company's mortgage-related securities or the securities markets in general, which could harm its operating results and revenues and may result in the volatility of the market value of its Class A Common Stock.

Current loan performance data may not be indicative of future results.

When making capital budgeting and other decisions, the Company uses projections, estimates and assumptions based on the Company's experience with mortgage loans. Actual results and the timing of certain events could differ materially in adverse ways from those projected, due to factors including changes in general economic conditions, fluctuations in interest rates, fluctuations in mortgage loan prepayment rates and fluctuations in losses due to defaults on mortgage loans. These differences and fluctuations could rise to levels that may adversely affect the Company's profitability.

Risks Related to the Company's Officers

The Company depends substantially on two individuals to operate its business, and the loss of such persons would severely and detrimentally affect its operations.

The Company depends substantially on two individuals, Mr. Zimmer, our Chairman, Chief Executive Officer and President, and Mr. Cauley, our Vice Chairman, Chief Investment Officer and Chief Financial Officer, to manage its business. The Company depends on the diligence, experience and skill of Mr. Zimmer and Mr. Cauley for the selection, acquisition, structuring and monitoring of our mortgage-related securities and associated borrowings. Although the Company has entered into employment contracts with Messrs. Zimmer and Cauley, those employment contracts may not prevent either Messrs. Zimmer or Cauley from leaving Opteum. The loss of either of them would likely have a severe negative effect on the Company's business, financial condition, cash flow and results of operations.

The Company's officers own shares of its Class B Common Stock and may take undue risks in managing Opteum in order to cause a conversion of these shares.

In connection with the Company's formation, its founders and officers, Messrs. Zimmer and Cauley, were issued an aggregate of 319,388 shares of the Company's Class B Common Stock. These shares of Class B Common Stock will begin to convert to shares of Class A Common Stock when stockholders' equity attributable to Class A Common Stock is no less than $15.00 per share. Accordingly, the Company's officers may take undue risks in managing Opteum in an attempt to increase stockholders' equity and cause a conversion of these shares. See "Description of Capital Stock—Common Stock—Conversion of the Class B Common Stock and Class C Common Stock Rights."

Legal and Tax Risks

If Opteum fails to qualify as a REIT, it will be subject to federal income tax as a regular corporation and may face a substantial tax liability.

Opteum intends to operate in a manner that allows it to qualify as a REIT for federal income tax purposes. However, REIT qualification involves the satisfaction of numerous requirements (some on an annual or quarterly basis) established under technical and complex provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, for which only a limited number of judicial or administrative interpretations exist. The determination that Opteum qualifies as a REIT requires an analysis of various factual matters and circumstances that may not be totally within its control. Accordingly, it is not certain Opteum will be able to qualify and remain qualified as a REIT for federal income tax purposes. Even a technical or inadvertent violation of the REIT requirements could jeopardize Opteum's REIT qualification. Furthermore, Congress or the Internal Revenue Service, or IRS, might change the tax laws or regulations and the courts might issue new rulings, in each case potentially having a retroactive effect that could make it more difficult or impossible for Opteum to qualify as a REIT. If Opteum fails to qualify as a REIT in any tax year, then:

- it would be taxed as a regular domestic corporation, which, among other things, means that it would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on its taxable income at regular corporate rates;

- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders, and could force Opteum to liquidate assets at inopportune times, causing lower income or higher losses than would result if these assets were not liquidated; and

- unless Opteum was entitled to relief under applicable statutory provisions, it would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which it lost its qualification, and its cash available for distribution to its stockholders therefore would be reduced for each of the years in which it does not qualify as a REIT.

Even if Opteum remains qualified as a REIT, it may face other tax liabilities that reduce its cash flow. Opteum may also be subject to certain federal, state and local taxes on its income and property, and its OFS subsidiary is treated as a "taxable REIT subsidiary," which is a fully taxable corporation for federal income tax purposes. Any of these taxes would decrease cash available for distribution to the Company’s stockholders.

Complying with REIT requirements may cause Opteum to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, Opteum must continually satisfy tests concerning, among other things, its sources of income, the nature and diversification of its assets, the amounts it distributes to its stockholders and the ownership of its stock. Opteum may also be required to make distributions to its stockholders at unfavorable times or when it does not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder Opteum’s ability to operate solely with the goal of maximizing profits.

In addition, the REIT provisions of the Internal Revenue Code impose a 100% tax on income from "prohibited transactions." Prohibited transactions generally include sales of assets that constitute inventory or other property held for sale to customers in the ordinary course of business, other than foreclosure property. This 100% tax could impact Opteum’s ability to sell mortgage-related securities at otherwise opportune times if it believes such sales could result in Opteum being treated as engaging in prohibited transactions. However, Opteum would not be subject to this tax if it were to sell assets through a TRS. Opteum will also be subject to a 100% tax on certain amounts if the economic arrangements between it and its TRS are not comparable to similar arrangements among unrelated parties. See "Certain Federal Income Tax Considerations."

Complying with REIT requirements may limit Opteum’s ability to hedge effectively, which could in turn leave it more exposed to the effects of adverse changes in interest rates.

The REIT provisions of the Internal Revenue Code may substantially limit Opteum’s ability to hedge mortgage-related securities and related borrowings by generally requiring it to limit its income in each year from qualified hedges, together with any other income not generated from qualified REIT real estate assets, to less than 25% of its gross income. In addition, Opteum must limit its aggregate gross income from non-qualified hedges, fees, and certain other non-qualifying sources, to less than 5% of its annual gross income. As a result, Opteum may in the future have to limit the use of hedges or implement hedges through a TRS. This could result in greater risks associated with changes in interest rates than Opteum would otherwise want to incur. If Opteum fails to satisfy the 25% or 5% limitations, unless its failure was due to reasonable cause and not due to willful neglect and it meets certain other technical requirements, it could lose its REIT qualification. Even if Opteum’s failure was due to reasonable cause, it may have to pay a penalty tax equal to the amount of income in excess of certain thresholds, multiplied by a fraction intended to reflect its profitability.

Dividends paid by REITs generally do not qualify for reduced tax rates.

In general, the maximum federal income tax rate for dividends paid to individual U.S. stockholders is 15% (through 2008). Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including the Company's Class A Common Stock.

To maintain Opteum's REIT qualification, Opteum may be forced to borrow funds on unfavorable terms or sell its securities at unfavorable prices to make distributions to stockholders.

As a REIT, Opteum must distribute at least 90% of its annual net taxable income (excluding net capital gains) to stockholders. To the extent that Opteum satisfies this distribution requirement, but distributes less than 100% of its net taxable income, it will be subject to federal corporate income tax. In addition, Opteum will be subject to a 4% nondeductible excise tax if the actual amount that it pays to its stockholders in a calendar year is less than a minimum amount specified under The Internal Revenue Code. From time to time, Opteum may generate taxable income greater than its income for financial reporting purposes from, among other things, amortization of capitalized purchase premiums, or its net taxable income may be greater than its cash flow available for distribution to its stockholders. If Opteum does not have other funds available in these situations, it could be required to borrow funds, sell a portion of its mortgage-related securities at unfavorable prices or find other sources of funds in order to meet the REIT distribution requirements and to avoid corporate income tax and the 4% excise tax. These other sources could increase Opteum's costs or reduce equity and reduce amounts available to invest in mortgage-related securities.

Reliance on legal opinions or statements by issuers of mortgage-related securities could result in a failure to comply with REIT gross income or asset tests.

When purchasing mortgage-related securities, Opteum may rely on opinions of counsel for the issuer or sponsor of such securities, or statements made in related offering documents, for purposes of determining whether and to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the REIT gross income tests. The inaccuracy of any such opinions or statements may adversely affect Opteum’s REIT qualification and result in significant corporate-level tax.

Possible legislative or other actions affecting REIT's could adversely affect the Company and its stockholders.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. The Company’s business may be harmed by changes to the laws and regulations affecting it, including changes to securities laws and changes to the Internal Revenue Code provisions applicable to the taxation of REITs. New legislation may be enacted into law, or new interpretations, rulings or regulations could be adopted, any of which could adversely affect the Company and the Company’s stockholders, potentially with retroactive effect.

Opteum may recognize excess inclusion income that would increase the tax liability of our stockholders.

If Opteum recognizes excess inclusion income and allocates it to stockholders, this income cannot be offset by net operating losses of the stockholders. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is a foreign person, such income would be subject to federal income tax withholding without reduction or exemption pursuant to any otherwise applicable income tax treaty. In addition, to the extent the Company’s stock is owned by tax-exempt "disqualified organizations," such as government-related entities that are not subject to tax on unrelated business taxable income, although Treasury regulations have not yet been drafted to clarify the law, it may incur a corporate level tax at the highest applicable corporate tax rate on the portion of Opteum’s excess inclusion income that is allocable to such disqualified organizations.

Excess inclusion income could result if Opteum holds a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also could be generated if Opteum were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage-related securities securing those debt obligations (i.e., if Opteum was to own an interest in a taxable mortgage pool). However, Treasury regulations have not been issued regarding the allocation of excess inclusion income to stockholders of a REIT that owns an interest in a taxable mortgage pool. Opteum does not expect to acquire significant amounts of residual interests in REMICs, other than interests owned by OFS, which is treated as a separate taxable entity for these purposes. Opteum intends to structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. Opteum does, however, expect to enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgaged securities if we default on its obligations.

A portion of the Company’s distributions may be deemed a return of capital for U.S. federal income tax purposes.

The amount of the Company’s distributions to the holders of our Class A Common Stock in a given quarter may not correspond to our net taxable income for such quarter. To the extent the Company’s distributions exceed the Company’s net taxable income, the distribution will be treated as a return of capital for federal income tax purposes. A return of capital distribution will not be taxable to the extent of a stockholder's tax basis in its shares but will reduce a stockholder's basis in its shares of Class A Common Stock.

The Company’s reported GAAP financial results differ from the taxable income results that drive its dividend distributions, and its consolidated balance sheet, income statement, and statement of cash flows as reported for GAAP purposes may be difficult to interpret.

The Company’s dividend distributions are driven by its dividend distribution requirements under the REIT tax laws and our profits as calculated for tax purposes pursuant to the Internal Revenue Code. The Company’s reported results for GAAP purposes differ materially, however, from both its cash flows and its taxable income. OFS transfers mortgage loans or mortgage securities held as available-for-sale into securitization trusts to obtain long-term non-recourse funding for these assets. When OFS surrenders control over the transferred mortgage loans or mortgage securities held as available-for-sale, the transaction is accounted for as a sale. In the future, if OFS retains control over the transferred mortgage loans or mortgage securities available-for-sale, the transaction will be accounted for as a secured borrowing. These securitization transactions do not differ materially in their structure or cash flow generation characteristics, yet under GAAP accounting these transactions are recorded differently. In securitization transactions that OFS accounts for as sales, OFS typically records a gain or loss on the assets transferred in its income statement and records the retained interests at fair value on its balance sheet. In securitization transactions that OFS accounts for as secured borrowings, which OFS may do in the future, they consolidate all the assets and liabilities of the trust on their financial statements. As a result of this and other accounting issues, stockholders and analysts must undertake a complex analysis to understand the Company’s economic cash flows, actual financial leverage, and dividend distribution requirements. This complexity may hinder the trading of the Company’s stock or may lead observers to misinterpret its results.

Recent legislation related to corporate governance may increase the Company’s costs of compliance and its liability.

Recently enacted and proposed laws, regulations and standards relating to corporate governance and disclosure requirements applicable to public companies, including the Sarbanes-Oxley Act of 2002, new Commission regulations and NYSE rules have increased the costs of corporate governance, reporting and disclosure practices. These costs may increase in the future due to the Company’s continuing implementation of compliance programs mandated by these requirements. In addition, these new laws, rules and regulations create new legal bases for administrative enforcement, civil and criminal proceedings against us in case of non-compliance, thereby increasing the Company’s risks of liability and potential sanctions.

Failure to maintain an exemption from the Investment Company Act would harm the Company’s results of operations.

The Company intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act. If the Company fails to qualify for this exemption, its ability to use leverage would be substantially reduced and it would be unable to conduct its business. The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. Under the current interpretation of the SEC staff, in order to qualify for this exemption, the Company must maintain at least 55% of our assets directly in these qualifying real estate interests, with at least 25% of our remaining assets invested in real estate-related securities. Mortgage-related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may be treated as separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Therefore, the Company’s ownership of these mortgage-related securities is limited by the provisions of the Investment Company Act.

As of December 31, 2005, 58.1% of the Company’s portfolio constituted qualifying interests in mortgage-related securities for purposes of the Investment Company Act. In satisfying the 55% requirement under the Investment Company Act, the Company treats as qualifying interests mortgage-related securities issued with respect to an underlying pool as to which it holds all issued certificates. If the SEC or its staff adopts a contrary interpretation of such treatment, the Company could be required to sell a substantial amount of its mortgage-related securities under potentially adverse market conditions. Further, in order to ensure that the Company at all times qualify for the exemption under the Investment Company Act, it may be precluded from acquiring mortgage-related securities whose yield is higher than the yield on mortgage-related securities that could be purchased in a manner consistent with the exemption. These factors may lower or eliminate the Company's net income.

Risks Related to OFS's Origination Business

If OFS does not obtain the necessary state licenses and approvals, OFS will not be allowed to acquire, fund or originate mortgage loans in some states, which would adversely affect OFS's operations.

Certain states in which OFS does business require that OFS be licensed to conduct business. As part of the Company's acquisition of OFS, OFS will be required to reapply for new licenses and approvals under existing licenses. The Company cannot assure you that all the necessary licenses and approvals can be obtained in a timely manner or at all.

OFS's failure to comply with federal, state or local regulation of, or licensing requirements with respect to, mortgage lending, loan servicing, broker compensation programs, local branch operations or other aspects of OFS's business could harm OFS's operations and profitability.

As a mortgage lender, loan servicer and broker, OFS is subject to an extensive body of both state and federal law. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan origination and servicing activities. As a result, it may be more difficult to comprehensively identify and accurately interpret all of these laws and regulations and to properly program OFS's technology systems and effectively train OFS's personnel with respect to all of these laws and regulations, thereby potentially increasing their exposure to the risks of noncompliance with these laws and regulations. OFS's failure to comply with these laws can lead to:

- civil and criminal liability;
- loss of licensure;
- damage to OFS's reputation in the industry;
- inability to sell or securitize OFS's loans;
- demands for indemnification or loan repurchases from purchasers of OFS's loans;
- fines and penalties and litigation, including class action lawsuits; or
- administrative enforcement actions.

Any of these results could harm OFS's retained residual interests in securitizations and thus their results of operations, financial condition and business prospects.

New legislation could restrict OFS's ability to originate mortgage loans, which could harm OFS's earnings.

Several states, cities or other government entities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing thresholds for defining a "high-cost" loan and establish enhanced protections and remedies for borrowers who receive such loans. Passage of these laws and rules could reduce OFS's loan origination volume. In addition, many whole loan buyers may elect not to purchase any loan labeled as a "high cost" loan under any local, state or federal law or regulation. Rating agencies likewise may refuse to rate securities backed by such loans. Accordingly, these laws and rules could severely restrict the secondary market for a portion (typically less than 15.0%) of OFS's loan production. This would effectively preclude OFS from continuing to originate loans either in jurisdictions unacceptable to the rating agencies or that exceed the newly defined thresholds which could harm OFS's business prospects, earnings and results of operations.

OFS relies on key personnel with long-standing business relationships, the loss of any of whom would impair OFS's ability to operate successfully.

OFS's continued future success depends, to a significant extent, on the continued services of Peter R. Norden, OFS's President and Chief Executive Officer, and other key members of its senior management team. In particular, the extent and nature of the relationships that these individuals have developed with financial institutions and existing and prospective mortgage loan origination channels is critically important to the success of its business. Although OFS has entered into employment agreements with Mr. Norden and certain of its other senior executives, these executives may not remain employed by OFS. Nevertheless, the loss of services of one or more members of OFS's senior management team could harm OFS's business and OFS's prospects.

Failure to attract and retain qualified loan originators could harm OFS's business.

OFS depends on its loan originators to generate customers by, among other things, developing relationships with consumers, real estate agents and brokers, builders, corporations and others, which OFS believes leads to repeat and referral business. Accordingly, OFS must be able to attract, motivate and retain skilled loan originators. In addition, OFS's growth strategy contemplates hiring additional loan originators. The market for such persons is highly competitive and historically has experienced a high rate of turnover. Competition for qualified loan originators may lead to increased costs to hire and retain them. OFS cannot guarantee that it will be able to attract or retain qualified loan originators. If OFS cannot attract or retain a sufficient number of skilled loan originators, or even if OFS can retain them but at higher costs, OFS's business and results of operations could be harmed.

To the extent OFS is unable to adapt to and implement technological changes involving the loan origination process, OFS may have difficulty remaining competitive and OFS's loan origination business may be adversely affected.

OFS's mortgage loan origination business is dependent upon its ability to interface effectively with borrowers and other third parties and to process loan applications efficiently. The origination process is becoming more dependent upon technological advancements, such as the ability to process applications over the Internet, interface with borrowers and other third parties through electronic means and underwrite loan applications using specialized software. Implementing new technology and maintaining the efficiency of the current technology used in its operations may require significant capital expenditures. As these requirements increase in the future, OFS will have to develop these technological capabilities fully to remain competitive or its loan origination business may be significantly harmed.

If OFS does not manage its growth effectively, its financial performance could be harmed.

In recent years, OFS has experienced growth at rates that have applied pressure to OFS's management, administrative, operational and financial infrastructure. OFS expects to continue to experience those and other pressures on the Company's organization, including the need for us and for OFS to hire additional experienced personnel to meet their growth and OFS's needs related to its ability to originate quality loans in accordance with its current mortgage loan origination focus and strategies. OFS expects to need to attract and hire additional experienced managers and loan officers in a competitive hiring environment and, at the same time, continue to upgrade and expand our financial, operational and managerial systems and controls. The Company cannot assure you that OFS will be able to meet its capital needs, expand its systems effectively or hire and retain qualified employees in sufficient numbers to meet its requirements. Any failure by OFS to manage its current level of business or its growth effectively may result in increased costs and decreased loan production, and could negatively affect the Company's business, financial condition, liquidity, profitability, cash flows, and the Company's ability to make distributions to its stockholders.

OFS is subject to the risk that provisions of its loan agreements may be unenforceable.

OFS's rights and obligations with respect to its loans are governed by written loan agreements and related documentation. It is possible that a court could determine that one or more provisions of a loan agreement are unenforceable, such as a loan prepayment provision or the provisions governing OFS's security interest in the underlying collateral. If this were to happen with respect to a material asset or group of assets, OFS could be required to repurchase these loans and may not be able to sell or liquidate the loans.

Risks Related to OFS's Profitability

An increase in interest rates could reduce the value of OFS's loan inventory and commitments and OFS's hedging strategy may not protect it from interest rate risk and may lead to losses.

The value of OFS's loan inventory is based, in part, on market interest rates. Accordingly, OFS may experience losses on loan sales if interest rates change rapidly or unexpectedly. If interest rates rise after OFS fixes a price for a loan or commitment but before OFS closes or sells such loan, the value of the loan will decrease. If the amount OFS receives from selling the loan is less than its cost of originating the loan, OFS may incur net losses, and its business and operating results could be harmed. While OFS will enter into hedging transactions with respect to one or more of its assets or liabilities and will use other strategies to minimize its exposure to interest rate risks, no hedging or other strategy can completely protect OFS. Its hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items, and futures and forward contracts. Additionally, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase OFS's risk and losses. In addition, hedging strategies involve transaction and other costs. The Company cannot assure you that OFS's hedging strategy and the hedges that OFS makes will adequately offset the risks of interest rate volatility or that OFS hedges will not result in losses.

OFS's mortgage origination business may be harmed by rising interest rates.

A significant percentage of OFS's mortgage originations have been to customers refinancing an existing loan to obtain a lower interest rate. Rising interest rates would reduce the number of potential customers that can achieve a lower interest rate from refinancing, and to a lesser extent the number of potential customers that can afford to buy homes, and consequently would substantially reduce the amount of loans originated by OFS's loan origination business and the revenue there from. If short-term interest rates exceed long-term interest rates, there is a higher risk of increased loan prepayments, as borrowers may seek to refinance their fixed and adjustable rate mortgages at lower long-term fixed interest rates. In addition, rising interest rates are likely to reduce the margins achieved by OFS. While the prospect of rising interest rates has been incorporated into OFS's projections, if interest rates rose to the point where mortgage originations slowed more than expected or if margins decreased more than expected, OFS would not earn the income it projects from its mortgage origination business, and could suffer losses. While rising interest rates generally have a beneficial impact on OFS's mortgage servicing business, the negative impact from rising interest rates on OFS's mortgage origination business is generally greater than the offsetting beneficial impact, and consequently, in a period of rising interest rates, OFS's earnings are projected to decline.

OFS may be harmed by falling interest rates.

OFS could suffer losses from its mortgage servicing business if interest rates remain low enough to cause a large number of borrowers whose loans are being serviced by OFS's servicing business to refinance. In such instance OFS would experience high amortization and possibly impairment of its servicing assets, and would likely experience a loss from its servicing business.

Adverse economic conditions or declining real estate values would likely result in a reduction of OFS's mortgage origination activity, which would adversely affect its ability to grow its mortgage loan portfolio.

An economic downturn or a recession may have a significant adverse impact on OFS's operations and financial condition, particularly if accompanied by declining real estate values. Declining real estate values will likely reduce OFS's level of new mortgage loan originations, since borrowers often use increases in the value of their existing homes to support the refinancing of their existing mortgage loans or the purchase of new homes at higher levels of borrowings. To the extent that the market value of the property underlying OFS's mortgage loans decreases, OFS's loans might be impaired, which might decrease the value of its assets. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect OFS's ability to sell and securitize loans, which would significantly harm OFS's revenues, results of operations, financial condition and business prospects, which in turn would harm the Company's revenues, results of operations, financial condition and the Company's ability to make distributions to its stockholders.

Retaining subordinated interests exposes OFS to increased credit risk.

OFS has maintained and may continue to maintain an interest in loans that it originates and securitizes by retaining subordinated interests in MBS that evidence interests in such loans. Subordinated interests are classes of MBS that may incur losses experienced on the related loans prior to the more senior MBS issued in the related transaction. If the actual rate and severity of losses on the related loans are higher than those assumed by OFS, the actual return on OFS's investment in those subordinated interests may be lower than anticipated.

The mortgage banking business is seasonal and OFS's operating results vary accordingly.

The mortgage banking industry generally is subject to seasonal variations, especially in states with adverse winter weather. Purchase money mortgage loan originations generally experience greater seasonal fluctuations than refinancings, which tend to be less seasonal and more closely related to changes in interest rates. Sales and resales of homes in OFS's markets, and accordingly purchase money mortgage originations, typically peak during the spring and summer seasons and decline to lower levels from mid-November through February. In addition, delinquency rates typically rise in the winter months, which results in higher servicing costs in OFS's mortgage banking operations. The magnitude of seasonal variations is beyond OFS's control and could adversely affect OFS's business, especially if OFS is unable to take advantage of increased mortgage volume during peak periods, or if peak periods do not produce anticipated mortgage volume. These variations may affect OFS's revenues, results of operations, financial condition and business prospectus, which in turn may affect our revenues, results of operations, financial condition, business prospectus and our ability to make distributions to our stockholders.

OFS may be subject to losses due to misrepresented or falsified information or if OFS obtains less than full documentation with respect to its mortgage loans.

When OFS originates mortgage loans, it relies upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and employment and income documentation. If any of this information is misrepresented or falsified and if OFS does not discover it before funding a loan, the actual value of the loan may be significantly lower than anticipated. As a practical matter, OFS generally would bear the risk of loss associated with a misrepresentation, whether made by the loan applicant, the mortgage broker, another third party or one of OFS's employees. A loan subject to a material misrepresentation typically cannot be sold or is subject to repurchase or substitution if it is sold or securitized prior to detection of the misrepresentation. Although OFS may have rights against persons and entities who made or knew about the misrepresentation, those persons and entities may be difficult to locate, and it is often difficult to collect from them any monetary losses that OFS may have suffered.

In the case of certain loan products, OFS does not receive full documentation of the borrower's income and/or assets. Instead, OFS bases its credit decision on the borrower's credit score and credit history, the value of the property securing the loan and the effect of the loan on the borrower's debt service requirements. During the years ended 2004 and December 31, 2005, OFS received less than full documentation of the borrower's income and/or assets on approximately 62.6% and 64.6%, respectively, of mortgage loans, as measured by principal balance, that OFS originated. The Company believes that there is a higher risk of default on loans where there is less than full documentation of the borrower's income and/or assets.

Some of the loans that OFS originates are subprime, rather than prime, and generally have delinquency and default rates higher than prime loans, which could result in higher loan losses.

OFS currently originates subprime loans, although all subprime loans are sold in the secondary market and none are retained in its portfolio. Subprime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan, and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. In whole loan sales, OFS's risk of delinquency typically only extends to the first payment. OFS also assumes the risks of delinquency and default for loans that it is obligated to repurchase. OFS attempts to manage these risks with risk-based loan pricing and appropriate underwriting policies. However, the Company cannot assure you that such management policies will prevent delinquencies or defaults and, if such policies and methods are insufficient to control OFS's delinquency and default risks and do not result in appropriate loan pricing, its business, financial condition, liquidity and results of operations could be harmed. During the fiscal year ended November 30, 2004 and the calendar year ended December 31, 2005, OFS originated approximately $493.0 million and $790.8 million, respectively, of subprime mortgage loans, which constituted 10.2% and 12.2%, respectively, of its total originations.

OFS faces intense competition that could harm its market share and its revenues.

OFS faces intense competition from commercial banks, savings and loan associations and other finance and mortgage banking companies, as well as from Internet-based lending companies and other lenders participating on the Internet. Entry barriers in the mortgage industry are relatively low and increased competition is likely. As OFS seeks to expand its business, it will face a greater number of competitors, many of whom will be well-established in the markets OFS seeks to penetrate. Many of its competitors are much larger than OFS, have better name recognition than OFS and have far greater financial and other resources. OFS cannot assure you that it will be able to effectively compete against them or any future competitors.

In addition, competition may lower the rates OFS is able to charge borrowers, thereby potentially lowering the amount of income on future loan sales and sales of servicing rights. Increased competition also may reduce the volume of OFS's loan originations and loan sales. OFS cannot assure you that it will be able to compete successfully in this evolving market.

Risks Related to OFS's Ability to Sell Loans it Originates or Purchases

OFS's business would suffer if it was unable to sell the mortgage loans that it originates.

OFS sells all of the mortgage loans that it originates and that are not securitized in the secondary market. OFS's ability to sell mortgage loans depends on the availability of an active secondary market for residential mortgage loans. Additionally, OFS sells substantially all of the mortgages to institutional buyers. If these financial institutions cease to buy its loans and equivalent purchasers cannot be found on a timely basis, then OFS's business and results of operations could be harmed. OFS's results of operations could also be harmed if these financial institutions or other purchasers lower the price they pay to OFS or adversely change the material terms of their loan purchases from OFS. The prices at which OFS sells its loans vary over time. A number of factors determine the price OFS receives for its loans. These factors include:

• the number of institutions that are willing to buy OFS's loans;

• the amount of comparable loans available for sale;

• the levels of prepayments of, or defaults on, loans;

• the types and volume of loans OFS sells;

• the level and volatility of interest rates; and

• the quality of OFS's loans.

OFS's ability to sell mortgage loans to third parties also depends on its ability to remain eligible for the programs offered by Fannie Mae and Freddie Mac. If the criteria for mortgage loans to be accepted under these programs changes or if OFS loses its eligibility for any reason, or if its eligibility is impaired, then our mortgage banking business would be harmed. Changes in laws in the states where OFS operates could adversely affect its ability to sell loans. OFS's profitability from participating in any of these programs may vary depending on a number of factors, including administrative costs of originating and selling qualifying mortgage loans, and the costs imposed upon OFS by the purchasers' programs. Any decline in profitability from participating in these programs would harm OFS's mortgage banking business.

OFS has credit exposure with respect to loans it sells to the whole loan market and loans it sells to securitization entities.

OFS has potential credit and liquidity exposure for loans that are the subject of fraud, irregularities in its loan files or process, or that result in OFS breaching the representations and warranties in the contract of sale. In addition, when OFS sells loans to the whole loan market it has exposure for loans that default. In these cases, OFS may be obligated to repurchase loans at principal value, which could result in a significant decline in its available cash. When OFS purchases loans from a third party that it sells into the whole loan market or to a securitization trust, OFS obtains representations and warranties from the counter-parties that sold the loans to it that generally parallel the representations and warranties it provided to its purchasers. As a result, the Company believes that OFS has the potential for recourse against the seller of the loans. However, if OFS does hot have recourse against the seller, or if the original seller is not in a financial position to be able to repurchase the loan, OFS may have to use cash resources to repurchase loans which could adversely affect its liquidity.

Risks Related to OFS's Funding

The terms of OFS's warehouse credit facilities contain restrictive financial and other covenants, which may restrict OFS's ability to pay dividends to the Company in situations where OFS is not in compliance with such covenants.

The terms of OFS's warehouse credit facilities contain restrictive financial and other covenants that, among other things, will require OFS to maintain a minimum ratio of total liabilities to tangible net worth, minimum levels of tangible net worth, liquidity and stockholders' equity, maximum leverage ratios, as well as to comply with applicable regulatory and other requirements. If OFS is not in compliance with these financial and other covenants in the warehouse credit facilities, its ability to pay dividends the Company may be restricted, which could reduce the earnings available for distribution to the Company's stockholders.

Possible market developments could cause OFS's lenders to require OFS to pledge additional assets as collateral; if OFS's assets are insufficient to meet such collateral requirements, then OFS may be compelled to

liquidate particular assets at an inopportune time, which may cause OFS to incur losses.

Possible market developments, including a sharp rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of the types of mortgage assets in OFS's portfolio, may reduce the market value of OFS's portfolio, which may cause OFS's lenders to require additional collateral or otherwise limit its ability to borrow. This requirement for additional collateral may compel OFS to liquidate its assets at a disadvantageous time. If the sales are made at prices lower than the amortized cost of such investments, OFS would incur losses.

Failure to renew or obtain adequate funding under warehouse repurchase agreements may harm OFS’s lending operations.

OFS is currently dependent upon a number of credit facilities for funding its mortgage loan originations and its acquisitions. Any failure to renew or obtain adequate funding under these financing arrangements for any reason, including OFS’s inability to meet the covenants contained in such arrangements, could harm OFS’s lending operations and its overall performance. An increase in the cost of financing in excess of any change in the income derived from OFS’s mortgage assets could harm OFS’s earnings, which in turn would harm the Company’s earnings and the Company’s ability to make distributions to its stockholders.

Risks Related to OFS’s Securitization Activities

An interruption or reduction in the securitization market or change in terms offered by this market would hurt OFS’s financial position.

OFS is dependent on the securitization market for the sale of its loans because it securitizes loans directly and many of its whole loan buyers purchase its loans with the intention to securitize. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and in the asset-backed securities market specifically. Similarly, poor performance of OFS’s previously securitized loans could harm its access to the securitization market. A decline in OFS’s ability to obtain long-term funding for its mortgage loans in the securitization market in general, or in OFS’s ability to obtain attractive terms or in the market's demand for its loans could harm its results of operations, financial condition and business prospects, which in turn could harm the Company’s results of operations, financial condition and the Company’s ability to make distributions to its stockholders.

Competition in the securitization market may negatively affect OFS’s net income.

Competition in the business of sponsoring securitizations of the type OFS focuses on is increasing as Wall Street broker-dealers, mortgage REITs, investment management companies, and other financial institutions expand their activities or enter this field. Increased competition could reduce OFS’s securitization margins if OFS has to pay a higher price for the long-term funding of these assets. To the extent that OFS’s securitization margins erode, OFS’s results of operations will be negatively impacted.

Geographic concentration of mortgage loans that OFS originates and Opteum purchases increases the Company’s exposure to risks in those areas, especially in California and Florida.

Over-concentration of loans that OFS originates and Opteum purchases in any one geographic area increases the Company’s exposure to the economic and natural hazard risks associated with that area. Declines in the residential real estate markets in which the Company is concentrated may reduce the values of the properties collateralizing mortgages which in turn may increase the risk of delinquency, foreclosure, bankruptcy, or losses from those loans. To the extent that a large number of loans are impaired, OFS’s retained residual interests in securitizations and thus its financial condition and results of operations may be adversely affected.

To the extent that OFS has a large number of loans in an area affected by a natural disaster, OFS may suffer losses.

Standard homeowner insurance policies generally do not provide coverage for natural disasters, such as hurricane Katrina and the ensuing flooding. Furthermore, nonconforming borrowers are not likely to have special hazard insurance. To the extent that borrowers do not have insurance coverage for natural disasters, they may not be able to repair the property or may stop paying their mortgages if the property is damaged. A natural disaster that results in a significant number of delinquencies could cause increased foreclosures and decrease OFS's ability to recover losses on properties affected by such disasters and could harm OFS's retained residual interests in securitizations and thus OFS's financial condition and results of operations.

Differences in OFS's actual experience compared to the assumptions that OFS uses to determine the value of its mortgage securities held as available-for-sale could adversely affect OFS's financial position.

Currently, OFS's securitization of mortgage loans are structured to be treated as sales for financial reporting purposes and, therefore, result in gain recognition at closing. Delinquency, loss, prepayment and discount rate assumptions have a material impact on the amount of gain recognized and on the carrying value of the retained mortgage securities held as available-for-sale (where applicable). The gain on sale method of accounting may create volatile earnings in certain environments, including when loan securitizations are not completed on a consistent schedule. If OFS's actual experience differs materially from the assumptions that it uses to determine the value of its mortgage securities held as available-for-sale, future cash flows, and results of operations could be negatively affected.

Changes in accounting standards might cause OFS to alter the way it structures or accounts for securitizations.

Changes could be made to the current accounting standards which could affect the way OFS structures or accounts for securitizations. For example, if changes were made in the types of transactions eligible for gain on sale treatment, OFS may have to change the way it accounts for securitizations, which may harm OFS's results of operations or financial condition.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

The Company's executive offices and principal administrative offices are located at 3305 Flamingo Drive, Vero Beach, Florida 32963, an office building that Opteum purchased in December 2004.

In addition, OFS's primary office space is leased at W115 Century Road, Paramus, NJ 07652. This lease expires May 31, 2009. The annual rent for this location is approximately $0.8 million.

As of December 31, 2005, OFS leased offices in an additional 33 locations in eight states, with remaining lease terms expiring at various dates through August 2012. The aggregate annual rent for these locations is approximately $0.9 million.
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ITEM 3. Legal Proceedings.

OFS is involved in ordinary routine litigation incidental to the 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 the Company's consolidated financial position or results of operations.

Opteum is not involved in any legal proceedings.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company's Class A Common Stock is listed on the NYSE under the symbol "OPX". The Company's trading symbol on the NYSE was previously "BMM" and traded as "BMM" from September 16, 2004 through February 9, 2006. The Company changed its name from Bimini Mortgage Management, Inc. to Opteum Inc. and its NYSE symbol to "OPX" effective February 10, 2006. On March 9, 2006, the last sales price of the Class A Common Stock on the NYSE was $7.78 per share. The following table sets forth the high and low closing sale prices for the Company's Class A Common Stock as reported on the NYSE since the Company's initial listing on September 16, 2004.

Class A Common Stock

2004		High		Low
Third Quarter	$	16.26	$	14.50
Fourth Quarter	$	16.30	$	15.31

39

2005	Class A Common Stock High		Low	
First Quarter	$	15.91	$	13.80
Second Quarter	$	15.10	$	13.23
Third Quarter				