

CAPSTEAD MORTGAGE CORP

Form DEF 14A

March 11, 2005

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OMB APPROVAL

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Capstead Mortgage Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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SEC 1913 (11-01)

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held April 21, 2005

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To the stockholders of  
CAPSTEAD MORTGAGE CORPORATION:

The annual meeting of stockholders of Capstead Mortgage Corporation, a Maryland corporation, will be held at the DoubleTree Hotel, 8250 North Central Expressway, Dallas, Texas on Thursday, April 21, 2005 beginning at 9:00 a.m., Central time, for the following purposes:

- (i) To elect six directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified;
- (ii) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005; and
- (iii) To transact any other business that may properly come before the annual meeting of stockholders or any adjournment of the annual meeting.

**YOUR VOTE IS IMPORTANT**

Stockholders of record at the close of business on February 16, 2005 will be entitled to notice of and to vote at the annual meeting of stockholders. **It is important that your shares be represented at the annual meeting of stockholders regardless of the size of your holdings.** Whether or not you plan to attend the annual meeting of stockholders in person, please vote your shares as promptly as possible by telephone, via the Internet, or by signing, dating and returning the enclosed proxy card. Voting promptly saves us the expense of a second mailing, and voting by the Internet or telephone helps reduce postage and proxy tabulation costs. See the Voting section of this proxy statement for a description of voting methods.

PLEASE DO NOT MAIL YOUR PROXY CARD IF YOU VOTE BY INTERNET OR TELEPHONE.

By order of the board of directors,

Phillip A. Reinsch  
Secretary

8401 North Central Expressway, Suite 800  
Dallas, Texas 75225-4410  
March 11, 2005

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CAPSTEAD MORTGAGE CORPORATION  
8401 North Central Expressway, Suite 800  
Dallas, Texas 75225-4410

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**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held April 21, 2005**

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This proxy statement, together with the enclosed proxy, is solicited by and on behalf of the board of directors of Capstead Mortgage Corporation, a Maryland corporation, for use at the annual meeting of stockholders to be held on April 21, 2005 at the DoubleTree Hotel, 8250 North Central Expressway, Dallas, Texas beginning at 9:00 a.m., Central time. The board of directors is requesting you to allow your shares to be represented and voted at the annual meeting by the proxies named on the enclosed proxy card. We, our, us, and Capstead each refers to Capstead Mortgage Corporation. This proxy statement and accompanying proxy will first be mailed to stockholders on or about March 11, 2005.

At the annual meeting of stockholders, action will be taken (i) to elect six directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified; (ii) to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005; and (iii) to transact any other business that may properly come before the annual meeting of stockholders or any adjournment of the annual meeting.

**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that inherently involve risks and uncertainties. Our actual results and liquidity can differ materially from those anticipated in these forward-looking statements because of changes in the level and composition of our investments and unforeseen factors. Relative to our investments in financial assets, these factors may include, but are not limited to, changes in general economic conditions, the availability of suitable investments from both an investment return and regulatory perspective, fluctuations in, and market expectations for fluctuations in, interest rates and levels of mortgage prepayments, deterioration in credit quality and ratings, the effectiveness of risk management strategies, the impact of leverage, liquidity of secondary markets and credit markets, increases in costs and other general competitive factors. Relative to direct investments in real estate, these factors may include, but are not limited to, lessee performance under lease agreements, changes in general as well as local economic conditions and real estate markets, increases in competition and inflationary pressures, changes in the tax and regulatory environment including zoning and environmental laws, uninsured losses or losses in excess of insurance limits and the availability of adequate insurance coverage at reasonable costs.

**GENERAL INFORMATION ABOUT VOTING**

**Solicitation of Proxies**

The enclosed proxy is solicited by and on behalf of our board of directors. The expense of soliciting proxies for the annual meeting of stockholders, including the cost of mailing, will be borne by us. In addition to solicitation by mail, our officers may solicit proxies from stockholders by telephone, facsimile or personal interview. Such persons will receive no compensation for such services. We also intend to request persons holding Common shares in their name or

custody, or in the name of a nominee, to send proxy materials to their principals and request authority for the execution of the proxies, and we will reimburse such persons for their expense in doing so. We will also use the proxy solicitation services of Georgeson Shareholder Communications Inc. For such services, we will pay a fee that is not expected to exceed \$5,000 plus out-of-pocket expenses.

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### **Voting Securities**

Our only outstanding voting equity securities are our Common shares. Each Common share entitles the holder to one vote. As of February 16, 2005, there were 18,867,180 Common shares outstanding and entitled to vote. Only stockholders of record at the close of business on February 16, 2005 are entitled to vote at the annual meeting of stockholders or any adjournment of the annual meeting.

### **Voting**

If you hold your Common shares in your own name as a holder of record, you may instruct the proxies to vote your Common shares through any of the following methods:

sign, date and mail the proxy card in the postage-paid envelope provided;

using a touch-tone telephone, call Wells Fargo at 1-800-560-1965 and follow the prompts; or

using the Internet, log on to [www.eproxy.com/cmo/](http://www.eproxy.com/cmo/) to gain access to the voting site to authorize the proxies to vote your Common shares.

Our counsel has advised us that these three voting methods are permitted under the corporate law of Maryland, the state in which we are incorporated.

The deadline for Internet and telephone voting is 12:00 p.m. (noon), Central time, on April 20, 2005. If you so choose, you may vote your Common shares in person at the annual meeting of stockholders.

If your Common shares are held on your behalf by a broker, bank or other nominee, they will instruct you how to cast your vote.

### **Counting of Votes**

A quorum will be present if the holders of a majority of the outstanding shares entitled to vote are present, in person or by proxy, at the annual meeting of stockholders. If you have returned valid proxy instructions or if you hold your shares in your own name as a holder of record and attend the annual meeting of stockholders in person, your shares will be counted for the purpose of determining whether there is a quorum. If a quorum is not present, the annual meeting of stockholders may be adjourned by the vote of a majority of the shares represented at the annual meeting until a quorum has been obtained.

The affirmative vote of a plurality of the Common shares cast at the annual meeting of stockholders is required to elect each nominee to our board of directors. The affirmative vote of a majority of all the votes cast is required to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2005. For any other matter, unless otherwise required by Maryland or other applicable law, the affirmative vote of a majority of the Common shares cast at the annual meeting of stockholders is required to approve the matter.

Abstentions will have no effect on the outcome in the election of our board of directors, ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm or any other matter for which the required vote is a majority of the votes cast.

If you sign and return your proxy card without giving specific voting instructions, your shares will be voted FOR the nominees to our board of directors and FOR the ratification of the appointment of Ernst & Young LLP as our



independent registered public accounting firm.

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Broker non-votes occur when a broker, bank or other nominee holding Common shares in street name votes the Common shares on some matters but not others. We will treat broker non-votes as (i) Common shares that are present and entitled to vote for quorum purposes, and (ii) votes not cast in the election of directors and ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2005. Accordingly, broker non-votes will have no effect on the outcome in the election of our board of directors and ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm.

## **Right To Revoke Proxy**

If you hold Common shares in your own name as a holder of record, you may revoke your proxy instructions through any of the following methods:

notify our Secretary in writing before your Common shares have been voted at the annual meeting of stockholders that you are revoking your proxy;

sign, date and mail a new proxy card to Wells Fargo;

using a touch-tone telephone, call Wells Fargo at 1-800-560-1965 and follow the prompts;

using the Internet, log on to [www.eproxy.com/cmo/](http://www.eproxy.com/cmo/) and follow the prompts; or

attend the annual meeting of stockholders and vote your Common shares in person.

You must meet the same deadline when revoking your proxy as when voting your proxy. See the Voting section of this proxy statement for more information.

If Common shares are held on your behalf by a broker, bank or other nominee, you must contact them to receive direction on revoking your proxy instructions.

## **Multiple Stockholders Sharing the Same Address**

The Securities and Exchange Commission (the SEC) rules allow for the delivery of a single copy of an annual report and proxy statement to any household at which two or more stockholders reside, if it is believed the stockholders are members of the same family. Duplicate account mailings will be eliminated by allowing stockholders to consent to such elimination, or through implied consent if a stockholder does not request continuation of duplicate mailings. Depending upon the practices of your broker, bank or other nominee, you may be required to contact them directly to discontinue duplicate mailings to your household. If you wish to revoke your consent to householding, you must contact your broker, bank or other nominee.

If you hold Common shares in your own name as a holder of record, householding will not apply to your shares.

Extra copies of any annual report, proxy statement or information statement may be obtained free of charge by sending your request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas, 75225-4410. You can also obtain copies from our website at [www.capstead.com](http://www.capstead.com) or by calling our Stockholder Relations Department toll-free at (800) 358-2323.

## **Voting Results**

Voting results will be announced at the annual meeting of stockholders, and a detail of the voting results will be published in our Form 10-Q for the quarter ended March 31, 2005.

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**PROPOSAL NUMBER ONE ELECTION OF DIRECTORS**

One of the purposes of the annual meeting of stockholders is to elect directors to hold office until the next annual meeting of stockholders and until their successors have been elected and qualified. Set forth below are the names, principal occupations, committee memberships, ages, directorships held with other companies, and other biographical data for the nominees for director, as well as the month and year each nominee was first elected as one of our directors. Also set forth below is the beneficial ownership of our Common shares as of February 16, 2005 for each nominee. This beneficial ownership figure does not necessarily demonstrate the nominee's individual ownership. For discussion of beneficial ownership, see the Security Ownership of Management and Certain Beneficial Owners section of this proxy statement. If any nominee becomes unable to stand for election as a director, an event we do not presently expect, the proxy will be voted for a replacement nominee if one is designated by our board of directors.

**The board of directors recommends a vote FOR all nominees.**

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Nominees for Director

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Nominees for Director

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\* Indicates an Independent Director, as defined in Section 303A.02 Independence Tests of the New York Stock Exchange (the NYSE ) Listed Company Manual.

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**BOARD OF DIRECTORS AND COMMITTEE MEMBERSHIP**

Our business and affairs are managed under the direction of our board of directors. Members of our board of directors are kept informed of our business through discussions with our Chairman of the Board, CEO and other officers, by reviewing materials provided to them and by participating in meetings of our board of directors and its committees.

During the year ended December 31, 2004, our board of directors held four regular meetings and five special meetings. According to our corporate governance principles, directors are expected to attend all meetings of our board of directors and meetings of committees on which they serve. All directors standing for re-election attended, in person or by telephone, more than 75 percent of all meetings of our board of directors and committees on which such director served.

**Attendance at Annual Meeting of Stockholders**

In keeping with our corporate governance principles, directors are expected to attend in person the annual meeting of stockholders. All directors standing for re-election attended the 2004 annual meeting of stockholders.

**Board Member Independence**

Section 303A.02 Independence Tests of the NYSE Listed Company Manual outlines the requirements for a director to be deemed independent by the NYSE, including the mandate that our board of directors affirmatively determine a director has no material relationship with us that would impair independence. Accordingly, our board of directors has affirmatively determined no director, with the exception of Mr. Jacobs who is our CEO, has a material relationship with us that would impair his independence and each director meets all of the NYSE independence requirements. Our board of directors' determination of director independence was made in accordance with the qualifications for membership as defined in our Board of Directors Guidelines adopted by our board of directors in 2004 and found on our website at [www.capstead.com](http://www.capstead.com) by clicking Investor Relations and then Corporate Governance. Consequently, our board of directors is comprised of a majority of independent directors, as required in Section 303A.01 of the NYSE Listed Company Manual. Any reference to an independent director herein infers compliance with the NYSE independence tests and our Board of Directors Guidelines.

**Charitable Contributions**

At no time during 2004 and the preceding three years have we made a contribution to a charitable organization where one of our independent directors serves as an executive officer.

**Board Member Compensation**

Independent directors receive compensation for their representation on our board of directors at an annualized rate of \$30,000 paid in cash or options on our Common shares. Mr. Low also receives a monthly director fee of \$10,000 for serving as our non-executive Chairman of the Board. Independent directors other than Mr. Low receive fees, whether attended in person or by telephone, of \$1,500 per meeting of our board of directors and \$1,000 per committee meeting plus, if attended in-person, \$1,500 per day in which a meeting is held and reimbursement for travel costs and expenses. Any options granted in lieu of cash would have a fair value equal to the cash equivalent price of the representative fee determined using an option pricing model and a strike price equal to the market price of our Common shares on the date of grant. Employee directors do not receive compensation for their services on our board of directors.



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In light of the ratification on October 22, 2004 of the American Jobs Creation Act of 2004, the terms of our 1990 Directors' Stock Option Plan were amended whereby dividend equivalent rights ( DERs ) are no longer accrued and awarded to independent directors holding outstanding stock options granted from this plan. With the elimination of DERs, directors who hold options granted from the 1990 Directors' Stock Option Plan were granted Common shares on February 22, 2005 as follows: 542 shares for Mr. Low and 1,505 shares each for Messrs. O'Neil and Rubin. The value of the shares granted is equal to the value of DERs had they been granted on January 1, 2005. Directors who are not one of our employees or executive officers do not receive any other salaries, fees, commissions or bonuses from us, nor do they receive any separate compensation from any of our affiliates for their services on our board of directors or on our board committees.

**Board Committees and Meetings**

The current standing committees of our board of directors are the Audit Committee, the Compensation Committee, the Executive Committee, and the Governance & Nomination Committee. Each of these committees has a written charter approved by our board of directors. A copy of each charter can be found on our website at by clicking Investor Relations and then Corporate Governance. The members of the committees are identified in the table below, and a description of the principal responsibilities of each committee follows.

	Audit	Compensation	Executive	Governance & Nomination
Andrew F. Jacobs.			X	
Gary Keiser	Chair			X
Paul M. Low			Chair	
Michael G. O'Neil	X			Chair
Howard Rubin	X	X	X	
Mark S. Whiting		Chair		X
2004 Meetings	5	3	8	3

The *Audit Committee*, composed of three independent directors, met five times during 2004. The Audit Committee is responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm. The committee also provides assistance to our board of directors in fulfilling their oversight responsibilities to our stockholders, potential stockholders and the investment community relating to:

The integrity of our financial statements and the financial reporting process, including the systems of internal accounting and financial control and disclosure controls and procedures;

The performance of our newly constituted internal audit function (outsourced to a third party service provider other than the independent registered public accounting firm) and independent registered public accounting firm;



The independent registered public accounting firm's qualifications and independence; and

Our compliance with legal and regulatory requirements.

Our board of directors has determined that Messrs. Keiser and O Neil are audit committee financial experts, as defined in the applicable rules and regulations of the Securities Exchange Act of 1934, as amended. All of our Audit Committee members meet the NYSE listing standards for independence of audit committee members. At least one member of our Audit Committee has financial management experience and all members are financially literate as required by the NYSE corporate governance listing standards. The Audit Committee charter limits the number of audit committees on which its committee members may serve to no more than two other public companies, unless our board of directors has determined that such simultaneous service would not impair the ability of such member to effectively serve. No member of our Audit Committee currently serves on the audit committee of more than two other public companies.

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The *Compensation Committee*, composed of two independent directors, met three times during 2004. This committee's purpose is to oversee our compensation programs including:

The review and approval of corporate goals and objectives relevant to the CEO's compensation;

The evaluation of the CEO's performance in light of those goals and the approval of compensation consistent with such performance;

The approval of base salaries, annual incentives and other programs and benefits for senior management other than the CEO; and

The approval of compensation programs and benefits for other employees and board members.

There were no Compensation Committee interlocks or other relationships during 2004 between our board of directors or Compensation Committee and the board of directors or compensation committee of any other company.

The *Executive Committee*, composed of three directors, met eight times during 2004. During the intervals between meetings of our board of directors, this committee has all of the powers and authority of our board of directors in the management of our business and affairs, except those powers that by law cannot be delegated by our board of directors.

The *Governance & Nomination Committee*, composed of three independent directors, met three times during 2004. This committee's purpose is:

To identify qualified individuals to serve on our board of directors, consistent with criteria approved by our board of directors;

To recommend nominees to our board of directors for the next annual meeting of stockholders;

To develop, recommend to our board of directors, and maintain our governance policies and guidelines; and

To oversee the evaluation of our board of directors and management.

**OUR CORPORATE GOVERNANCE PRINCIPLES**

Our policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of the NYSE and the corporate governance requirements of the Sarbanes-Oxley Act of 2002. We maintain a corporate governance section on our website which includes key information about our corporate governance initiatives including our Board of Director Guidelines, charters for the committees of our board of directors, our Code of Business Conduct and Ethics and our Financial Officer Code of Conduct. The corporate governance section can be found on our website at [www.capstead.com](http://www.capstead.com) by clicking [Investor Relations](#) and then [Corporate Governance](#).

Each director should, to the best of his or her ability, perform the duties of a director, including the duties as a member of a committee of our board of directors in good faith; in the best interests of us and our stockholders; and with the care that an ordinarily prudent person in a like position would use under similar circumstances. This duty of care includes the obligation to make, or cause to be made, an inquiry when, but only when, the circumstances would alert a reasonable director to the need thereof. Directors are expected to attend, either in person or telephonically, all meetings of our board of directors and meetings of committees on which they serve, as well as attend in person the annual meeting of stockholders.

Our Governance & Nomination Committee considers and makes recommendations to our board of directors concerning the appropriate size of the board and its candidates for election. In considering incumbent directors, the Governance & Nomination Committee reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation and quality of performance. In considering candidates to fill new positions created by expansion and/or vacancies that occur because of resignation, retirement or any other reason, the Governance & Nomination Committee uses its and management's network of contacts to compile a list of potential candidates, but may also

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engage, if it deems appropriate, a professional search firm. Candidates will be selected on the basis of talent and experience relevant to our business, without regard to race, religion, gender or national origin, and should possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility; have a genuine interest in our company and a recognition that as a member of our board of directors one is accountable to our stockholders, not to any particular interest group; and have a background that demonstrates an understanding of business and financial affairs and the complexities of a large business organization. The Governance & Nomination Committee will consider candidates recommended by stockholders provided stockholders follow, when submitting recommendations, the procedures set forth in the Stockholder Procedures for Recommending Candidate for Director section of this proxy statement. The Governance & Nomination Committee evaluates a candidate using the minimum criteria set forth above without regard to who nominated the candidate.

Our board of directors does not prohibit its members from serving on boards and/or committees of other organizations, and our board of directors has not adopted guidelines limiting such activities other than for Audit Committee membership which our board of directors recommends its audit committee members serve on the audit committee of no more than two other public companies. The Governance & Nomination Committee and our board of directors will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations for inclusion in the slate of directors to be submitted to stockholders for election at the annual meeting of stockholders.

A director who is also one of our officers shall, unless a majority of our board of directors determines otherwise, resign from our board of directors at any time he or she ceases to be employed by us, whether due to retirement or otherwise. A director shall notify the Governance & Nomination Committee which will in turn report to our board of directors when a director (a) changes substantially his or her principal occupation or business association, (b) declares or is otherwise involved in a personal bankruptcy or bankruptcy of a business in which he or she is a principal or (c) is named as a party in a material legal proceeding, becomes the target of a material state or federal investigation, or receives a request of a material nature for the production of records or testimony from any state or federal agency during his or her tenure as a director. Our board of directors in its sole judgment shall decide whether such event requires our board of directors to request the resignation of the director in the best interests of us and our stockholders. If a decision is made to request a resignation, the director shall submit his or her resignation as a director promptly. No person shall be eligible to serve as a director who has been convicted of any felony criminal offense or any criminal offense involving moral turpitude, dishonesty or a breach of trust. Any person who is so convicted after becoming a director shall immediately resign from our board of directors.

**OTHER GOVERNANCE INFORMATION**

**Stockholder Procedures for Recommending Candidate for Director**

Stockholders who wish to recommend individuals for consideration by our Governance & Nomination Committee to become nominees for election to our board of directors may do so by submitting a written recommendation to our Secretary at 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4410. Electronic or facsimile submissions will not be accepted. For the Governance & Nomination Committee to consider a candidate, submissions must include sufficient biographical information concerning the recommended individual including age, employment history, a description of each employer's business that includes employer names and phone numbers, affirmation of whether such individual can read and understand basic financial statements and a list of board memberships the individual holds, if any. The submission must be accompanied by a written consent of the individual to stand for election if nominated by our board of directors and to serve if elected by our stockholders. Once a reasonably complete recommendation is received by our Governance & Nomination Committee, a questionnaire will be delivered

to the recommended candidate which will request additional information regarding the recommended candidate's independence, qualifications and other information that would assist our Governance & Nomination Committee in evaluating the recommended candidate, as well as certain information that must be disclosed about the candidate in our proxy statement, if nominated. Further, the questionnaire provides that the individual must grant consent to us to conduct a confidential background search of the individual to the extent allowable under federal, state and local legislation. The

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recommended candidate must return the questionnaire within the time frame provided to be considered for nomination by our Governance & Nomination Committee. Recommendations for which we have received completed questionnaires by November 5, 2005, will be considered for candidacy for the 2006 annual meeting of stockholders. Recommendations or completed questionnaires received after November 5, 2005 will be considered for candidacy for the 2007 annual meeting of stockholders, if not earlier withdrawn.

## **Stockholder Communication with our Board of Directors**

Stockholders who wish to contact any of our directors either individually or as a group may do so by calling our toll-free third-party hotline at (866) 639-5856, by writing to them c/o Capstead Mortgage Corporation, 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4410 or via e-mail at [directors@capstead.com](mailto:directors@capstead.com). Stockholder calls to the hotline, letters and e-mail are screened by company personnel based on criteria established and maintained by our Governance & Nomination Committee, which includes filtering out improper or irrelevant communications such as solicitations.

## **Meetings of Non-Management Directors**

Non-management directors regularly meet immediately following each of our quarterly meetings of the board of directors, without management present. Accordingly, such directors met four times in 2004. At these meetings, the non-management directors reviewed strategic issues for consideration by our board of directors, including future agendas, the flow of information to directors, management progression and succession, and our corporate governance guidelines. The non-management directors have determined that the chairman of the Governance & Nomination Committee, currently Mr. O Neil, will preside at such meetings. The presiding director is responsible for advising the CEO of decisions reached and suggestions made at these sessions. The presiding director may have other duties as determined by our board of directors. Stockholders may communicate with the presiding director or non-management directors as a group by utilizing the communication process identified in the Stockholder Communication with our Board of Directors section of this proxy statement. If non-management directors include a director who is not an independent director, at least one of the scheduled executive sessions will include only independent directors. Presently, all of our non-management directors are independent.

## **Director Orientation and Continuing Education**

Our board of directors and senior management conduct a comprehensive orientation process for new directors to become familiar with our vision, strategic direction, core values including ethics, financial matters, corporate governance practices and other key policies and practices through a review of background material and meetings with senior management. Our board of directors also recognizes the importance of continuing education for directors and is committed to provide such education in order to improve the performance of both our board of directors and our board committees. Senior management will assist in identifying and advising our directors about opportunities for continuing education, including conferences provided by independent third parties.

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The following table shows the names and ages of our current executive officers and the positions held by each individual. A description of the business experience of each for at least the past five years follows the table.

	Age	Title
Andrew F. Jacobs.	44	President and Chief Executive Officer
Robert R. Spears, Jr.	43	Senior Vice President Asset and Liability Management
Amar R. Patel.	33	Senior Vice President Asset and Liability Management
Phillip A. Reinsch.	44	Senior Vice President, Chief Financial Officer and Secretary
Michael W. Brown.	38	Vice President Asset and Liability Management and Treasurer

For a description of Mr. Jacobs' business experience, see the Election of Directors section of this proxy statement.

Mr. Spears has served as our Senior Vice President Asset and Liability Management since February 1999. From April 1994 to February 1999, he served as our Vice President Asset and Liability Management. Prior thereto, he was employed by NationsBanc Mortgage Corporation from 1990 to April 1994, last serving as Vice President Secondary Marketing Manager.

Mr. Patel has served as our Senior Vice President Asset and Liability Management since April 2000. From December 1997 to April 2000, he served as our Vice President Asset and Liability Management. Mr. Patel has been associated with us since June 1993.

Mr. Reinsch has served as our Senior Vice President, Chief Financial Officer and Secretary since July 2003. He served as our Senior Vice President Financial Accounting and Reporting from July 1998 to July 2003. From March 1993 to June 1998, he served as our Vice President Financial Accounting and Reporting. Prior thereto, Mr. Reinsch was employed by Ernst & Young LLP from July 1984 to March 1993, last serving as Audit Senior Manager.

Mr. Brown has served as our Vice President Asset and Liability Management and Treasurer since June 1999. Mr. Brown has been associated with us since July 1994.

**Table of Contents****EXECUTIVE COMPENSATION**

Our direction and policies are established by our board of directors and implemented by our CEO. The Summary Compensation Table below shows certain compensation information for our CEO and four other most highly compensated executive officers for services rendered in all capacities during the years ended December 31, 2004, 2003 and 2002.

**SUMMARY COMPENSATION TABLE**

	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) <sup>(b)</sup>	Total Annual Compensation (\$)	Restricted Stock Award Options # <sup>(c)</sup>	All Other Compensation (\$) <sup>(d)</sup>
Andrew F. Jacobs President and CEO	2004	400,000	375,000	6,631	781,631		33,750
	2003	300,000	555,308 <sup>(a)</sup>	15,029	870,337		24,458
	2002	300,000	235,000	80,516	615,516		26,200
Robert R. Spears, Jr. Senior Vice President Asset and Liability Management	2004	215,000	300,000	3,934	518,934		23,917
	2003	187,000	358,765 <sup>(a)</sup>	8,918	554,683		20,041
	2002	187,000	220,000	47,774	454,774		21,439
Amar R. Patel Senior Vice President Asset and Liability Management	2004	200,000	220,000	3,314	423,314		19,170
	2003	173,000	278,765 <sup>(a)</sup>	7,512	459,277		14,154
	2002	173,000	150,000	40,252	363,252		17,063
Phillip A. Reinsch Senior Vice President, Chief Financial Officer and Secretary	2004	210,000	200,000	3,624	413,624		20,295
	2003	183,000	258,765 <sup>(a)</sup>	8,215	449,980		16,281
	2002	183,000	115,000	44,013	342,013		16,126
Michael W. Brown Vice President Asset and Liability Management and Treasurer	2004	125,000	120,000	2,230	247,230		12,300
	2003	106,050	156,173 <sup>(a)</sup>	5,056	267,279		11,163
	2002	106,050	80,000	27,094	213,144		11,500

(a) Represents amount paid from the 2003 incentive compensation program of which a portion was paid through the issuance of fully-vested Common shares. The Common shares were issued on January 16, 2004 pursuant to our 1994 Flexible Long-Term Incentive Plan and carry a three-year restriction on sale, pledge or transfer. Based on the closing price of the Common shares on the date of issue, the market value of the shares issued to each executive was as follows: \$155,308 for Mr. Jacobs; \$58,765 each for Messrs. Spears, Patel and Reinsch; and \$46,173 for Mr. Brown.

(b) Amount includes dividends paid on nonvested Common shares. None of the dividends were preferential.

(c) As of December 31, 2004 the number and value of nonvested Common shares held by each of our executive officers, which were originally granted April 20, 2000, were as follows:



	Number	Value
Andrew F. Jacobs	2,105	\$ 22,187
Robert R. Spears, Jr.	1,249	13,164
Amar R. Patel	1,052	11,088
Phillip A. Reinsch	1,150	12,121
Michael W. Brown	708	7,462

All of these nonvested shares will vest on April 20, 2005 in accordance with their original terms.

- (d) Amount includes matching contribution by us of 50 percent of a participant's voluntary contribution of up to a maximum of 6 percent of a participant's compensation pursuant to the 401(k) plan adopted October 1993. Amount also includes matching contribution by us of a portion of the participant's voluntary contribution to a nonqualified deferred compensation plan adopted July 1994. Additionally, the amount includes a discretionary contribution made to all employees into the qualified and nonqualified plans of 3 percent of a participant's compensation regardless of participation in the above-noted plans.

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There were no stock option grants made to the executive officers named herein during the year ended December 31, 2004.

**Option Exercises and Fiscal Year End Option Values**

The following table summarizes the total number of securities underlying stock options, both exercisable and unexercisable, held by our executive officers as of December 31, 2004.

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
	Exercisable	Unexercisable	Exercisable (\$)	Unexercisable (\$)
Andrew F. Jacobs	162,800			
Robert R. Spears, Jr.	38,538			
Phillip A. Reinsch	33,221			
Amar R. Patel	6,644			
Michael W. Brown				

\* The columns for Number of Shares Acquired on Exercise and Value Realized have been omitted because there were no options exercised during the year ended December 31, 2004 by our executive officers. In-the-money options are those where the fair market value of the underlying securities at December 31, 2004 exceeds the exercise price of the option.

**Severance Payment Agreements**

In December 1999, we entered into a severance payment agreement with each person employed by us at that time, and we entered into an amended severance payment agreement with Mr. Jacobs, our CEO, on February 23, 2004 (together, the covered employees). Pursuant to these agreements, in the event a covered employee's employment with us is terminated by us for any reason other than those described below, that employee will receive a severance payment based upon his or her title and the number of years of service with us at the time of termination. The severance payment will be calculated as set forth below:

Title	Years of Service	Severance Pay
President and CEO	Five or more	Three years base annual salary
Executive Vice President	Five or more	Two years base annual salary
Senior Vice President and Vice President	Five or more	One and one-half years base annual salary
Assistant Vice President and all other employees	Five or more	One years base annual salary
All officers and employees	Fewer than five years	Six-months base annual salary

A covered employee will not be entitled to a severance payment under the severance payment agreement if:

the employee voluntarily terminates his or her employment, other than because of a reduction in that employee's base salary or a relocation of that employee which requires travel from his or her primary residence to such new location an additional 50 or more miles each way;

the employee fails to return to work following an approved leave of absence; or

we terminate the employee for cause.

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**EQUITY COMPENSATION PLANS**

The following table summarizes the total number of outstanding securities in each of our equity compensation plans and the number of securities remaining for future issuance, as well as the weighted-average exercise price of all outstanding securities as of December 31, 2004.

	Number of Securities Remaining Available for
Number of Securities to	