

CAPSTEAD MORTGAGE CORP

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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
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Capstead Mortgage Corporation

(Name of Registrant as Specified In Its Charter)

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

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held April 22, 2004

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 22, 2004 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, a national public accounting firm, as our independent auditors for the fiscal year ending December 31, 2004;
- (iii) To approve the 2004 Flexible Long-Term Incentive Plan; and
- (iv) To transact any other business that may properly come before the annual meeting of stockholders or any adjournment of the annual meeting.

Stockholders of record at the close of business on February 17, 2004 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 by telephone, via the Internet, or by signing, dating and returning the enclosed proxy card as promptly as possible. A postage-paid envelope is enclosed if you wish to vote your shares by mail. If you hold shares in your own name as a holder of record and vote your shares by one of the three methods prior to the annual meeting of stockholders, you may revoke your proxy by any one of the methods described herein if you choose to vote in person at the annual meeting of stockholders. Voting by the Internet or telephone is fast and convenient, and it helps reduce postage and proxy tabulation costs. Also, voting promptly saves us the expense of a second mailing.

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 5, 2004

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

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
To Be Held April 22, 2004

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 22, 2004 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 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 5, 2004.

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, a national public accounting firm, as our independent auditors for the fiscal year ending December 31, 2004; (iii) to approve the 2004 Flexible Long-Term Incentive Plan; and (iv) 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. These factors may include, but are not limited to, changes in general economic conditions, the availability of suitable investments, 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.

Voting Securities

Our only outstanding voting equity securities are our Common shares. Each Common share entitles the holder to one vote. As of February 17, 2004 there were outstanding and entitled to vote 14,214,751 Common shares. Only stockholders of record at the close of business on February 17, 2004 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/ 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 21, 2004. In addition, 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, you will receive instructions from them that you must follow to have your Common shares voted at the annual meeting of stockholders.

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 on each issue is required to ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004 and to approve the 2004 Flexible Long-Term Incentive Plan. 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 auditors for the year ending December 31, 2004, approval of the 2004 Flexible Long-Term Incentive Plan 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, FOR the ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004 and FOR the approval of the 2004 Flexible Long-Term Incentive Plan.

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, ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004 and approval of the 2004 Flexible Long-Term Incentive Plan. Accordingly, broker non-votes 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 auditors for the year ending December 31, 2004 and approval of the 2004 Flexible Long-Term Incentive Plan.

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/ 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 instructions as to how you may revoke 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 need 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.

If you wish to request extra copies free of charge of any annual report, proxy statement or information statement, please send 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 or by calling our Stockholder Relations Department toll-free at (800) 358-2323.

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 17, 2004 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 that our board of directors does 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.

Nominees for Director

ANDREW F. JACOBS

President and Chief Executive Officer

Member: Executive Committee

Director since July 2003

Common shares beneficially owned 235,062

Age 44

Mr. Jacobs was elected to the board of directors in July 2003 and has served as our President and Chief Executive Officer (CEO) since that time. He served as our Executive Vice President Finance from August 1998 to July 2003 and as Secretary from April 2000 to July 2003. Mr. Jacobs has served in various other executive positions with us since July 1989.

GARY KEISER

Private Investments

Director since January 2004

Common shares beneficially owned -0-

Age 60

Until retiring in November 2000, Mr. Keiser served as a partner at Ernst & Young LLP with whom he had been since 1967.

PAUL M. LOW

Chairman of the Board

Chairman: Executive Committee

Member: Audit and Governance & Nomination Committees

Director since November 1990;

and April 1985 to March 1990

Common shares beneficially owned 54,736

Age 73

Mr. Low has served as our Chairman of the Board since July 2003. Mr. Low was chief executive officer of Laureate Inc., a privately-held software company, from March 1997 to his retirement in February 2001. From January 1992 to September 1994, Mr. Low was chairman of the board of New America Financial L.P., a mortgage banking firm which he founded. From July 1987 to December 1990, Mr. Low was president of Lomas Mortgage USA, a mortgage banking firm, serving in various other executive positions with Lomas Mortgage USA for more than five years prior to 1987. Mr. Low served as our Senior Executive Vice President from April 1985 to January 1988.

Nominees for Director

MICHAEL G. O NEIL

Private Investments

Chairman: Governance & Nomination Committee

Member: Audit Committee

Director since April 2000

Common shares beneficially owned 14,477

Age 61

Until retiring in May 2001, Mr. O Neil was a director in the Investment Banking Division of the Corporate and Institutional Client Group at Merrill Lynch, Pierce, Fenner & Smith Incorporated, an investment banking firm, with whom he had been since 1972. Mr. O Neil currently serves as a board member for Massively Parallel Technologies, Inc., a privately-held, software technology company specializing in high-speed computing, and he serves on the advisory board of MobilePro Corp., a publicly-held provider of wireless technologies and applications.

HOWARD RUBIN

Private Investments

Chairman: Audit Committee

Member: Compensation and Executive Committees

Director since April 2000

Common shares beneficially owned 68,376

Age 48

Until retiring in September 1999, Mr. Rubin was a senior managing director at Bear, Stearns & Co., Inc., an investment banking firm, for more than 5 years.

MARK S. WHITING

Managing Partner,

Drawbridge Partners, LLC

Chairman: Compensation Committee

Member: Governance & Nomination Committee

Director since April 2000

Common shares beneficially owned 2,800

Age 47

Mr. Whiting has been the managing partner of Drawbridge Partners, LLC, a real estate investment firm, since September 1998. Mr. Whiting served as chief executive officer and a director of TriNet Corporate Realty Trust, Inc., a commercial real estate investment trust, from May 1996 through September 1998. From May 1993 to May 1996, Mr. Whiting served as president and a director of TriNet.

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.

The composition of our board of directors changed on July 22, 2003 with the resignation of Wesley R. Edens, Chairman of the Board, CEO and President, and Robert I. Kauffman, Director, both affiliates of Fortress Investment Group, LLC. Fortress Investment Group, LLC (together with its affiliates, Fortress) was our largest stockholder, holding approximately 26% of our outstanding Common shares as recently as December 31, 2002. By July 2003, Fortress sold all its holdings in our Common shares. Mr. Low, one of our founders and a long-time member of our board of directors, succeeded Mr. Edens as Chairman of the Board and Mr. Jacobs, formerly Executive Vice President and Chief Financial Officer, was promoted to President and CEO and elected to serve on our board of directors, filling the vacancy created by Mr. Edens' resignation. The vacancy created by the resignation of Mr. Kauffman was filled by Mr. Keiser on January 1, 2004. Mr. Keiser was recommended for membership on our board of directors by Mr. Jacobs, our CEO, and was endorsed by our Governance & Nomination Committee based on Mr. Keiser's long career as a public accountant during which he specialized in real estate and financial services entities. While a partner at Ernst & Young LLP, Mr. Keiser from time to time was on the audit engagement team that served Capstead. His last role, until his retirement in November 2000, was as coordinating partner supervising the audit engagement partner and tax partner providing services to us.

During the year ended December 31, 2003, our board of directors held four regular meetings, five special meetings and one meeting consisting solely of independent directors. All directors standing for re-election attended, in person or by telephone, 100 percent of all meetings of our board of directors and committees on which such director served, except for Mr. Keiser who was not elected to our board of directors until January 1, 2004. Also, with the exception of Mr. Keiser, all directors standing for re-election attended the 2003 annual meeting of stockholders.

Board Member Independence

Section 303A.02 Independence Tests of the New York Stock Exchange (the NYSE) Listed Company Manual describes the requirements for a director to be deemed independent by the NYSE, including the requirement of an affirmative determination by our board of directors that the director has no material relationship with us that would impair independence. Our board of directors has affirmatively determined that, with the exception of Mr. Jacobs who is our CEO, no director has a material relationship with us that would impair their independence and that each director meets the NYSE independence requirements. Therefore, 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.

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 www.capstead.com 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.

	<u>Audit</u>	<u>Compensation</u>	<u>Executive</u>	<u>Governance & Nomination</u>
Andrew F. Jacobs			X	
Gary Keiser ^(a)				
Paul M. Low ^(a)	X		Chair	X
Michael G. O Neil	X			Chair
Howard Rubin	Chair	X	X	
Mark S. Whiting		Chair		X

^(a) Mr. Keiser was elected to the board of directors on January 1, 2004 and will, upon re-election to our board of directors, replace Mr. Low on both the Audit Committee and Governance & Nomination Committee at the annual meeting of our board of directors in April 2004.

The *Audit Committee*, composed of three independent directors, met five times during 2003. This committee's purpose is to provide 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 auditor) and independent auditors;

The independent auditors' qualifications and independence; and

Our compliance with legal and regulatory requirements.

Our board of directors has determined that Mr. O Neil is an audit committee financial expert, as defined in the applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Mr. Keiser also meets the definition of an audit committee financial expert and upon re-election to our board of directors and appointment to our Audit Committee in April 2004 will be so designated by our board of directors. All of our Audit Committee members meet the NYSE listing standards for independence of audit committee members.

The *Compensation Committee*, composed of two independent directors, met four times during 2003. 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.

The *Executive Committee*, composed of three directors, did not meet during 2003. 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 twice during 2003. 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.

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. Through December 2003 directors also received fees of \$2,500 per meeting of our board of directors or of a committee meeting attended in person (subject to a \$2,500 per day of meetings maximum), plus reimbursement for travel costs, and \$1,000 for participation in meetings by telephone. Beginning January 2004 meeting fees for independent directors, whether attended in person or by telephone, changed to \$1,500 per meeting of our board of directors and \$1,000 per committee meeting. Independent directors will also receive an additional \$1,500 per day in which a meeting is held, if attended in-person, plus reimbursement for travel costs. 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. In addition, independent directors are reimbursed for their expenses related to attending meetings of our board of directors or of a committee. Upon appointment as our non-executive Chairman of the Board in July 2003, Mr. Low's director fees were modified such that in lieu of meeting fees he receives a monthly director fee of \$10,000 for serving in such capacity.

In accordance with the terms of our 1990 Directors' Stock Option Plan, each independent director holding outstanding stock options granted from the 1990 Directors' Stock Option Plan was automatically awarded dividend equivalent rights on January 1, 2004, which were earned in 2003, entitling them to receive additional Common shares at no cost upon exercise of outstanding options. 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 one of the committees of our board of directors.

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 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 all meetings of our board of directors and meetings of committees on which they serve. Directors are also expected to attend 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 engage, if it deems appropriate, a professional search firm. Candidates will be selected 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 members limit representation to two other audit committees. 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. 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, that director shall notify the Governance & Nomination Committee which will in turn report to our board of directors. Our board of directors in its sole judgment shall decide whether such event requires our board of directors to request that the director resign in the best interests of us and our stockholders. If a decision is made to request 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. For the 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 candidate 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. The 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 11, 2004, will be considered for candidacy for the 2005 annual meeting of stockholders. Recommendations or completed questionnaires received after November 11, 2004 will be considered for candidacy for the 2006 annual meeting of stockholders.

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. 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 topics such as solicitations.

Executive Sessions of Non-Management Directors

Our board of directors will have four regularly scheduled meetings per year for the non-management directors without management present. At these sessions, the non-management directors will review 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 that is not an independent director, then at least one of the scheduled executive sessions will include only independent directors.

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 both our board of directors and its committees performance. Senior management will assist in identifying and advising our directors about opportunities for continuing education, including conferences provided by independent third parties.

EXECUTIVE OFFICERS

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.

	<u>Age</u>	<u>Title</u>
Andrew F. Jacobs	44	President and Chief Executive Officer
Robert R. Spears, Jr.	42	Senior Vice President Asset and Liability Management
Amar R. Patel	32	Senior Vice President Asset and Liability Management
Phillip A. Reinsch	43	Senior Vice President, Chief Financial Officer and Secretary
Michael W. Brown	37	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.

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, 2003, 2002 and 2001. For information regarding our former CEO, Mr. Edens, see the Certain Relationships and Related Transactions section of this proxy statement.

SUMMARY COMPENSATION TABLE

	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(c)	Total Annual Compensation (\$)	Restricted Stock Awards (\$)(d)	Options (#)	All Other Compensation (\$)(e)
Wesley R. Edens	2003							
Former Chairman, CEO and President ^(a)	2002							
	2001							
Andrew F. Jacobs	2003	300,000	555,308 ^(b)	15,029	870,337			24,458
President and CEO	2002	300,000	235,000	80,516	615,516			26,200
	2001	300,000	300,000	169,587	769,587			15,450
Robert R. Spears, Jr.	2003	187,000	358,765 ^(b)	8,918	554,683			20,041
Senior Vice President	2002	187,000	220,000	47,774	454,774			21,439
Asset and Liability Management	2001	187,000	275,000	100,619	562,619			11,551
Amar R. Patel	2003	173,000	278,765 ^(b)	7,512	459,277			14,154
Senior Vice President	2002	173,000	150,000	40,252	363,252			17,063
Asset and Liability Management	2001	173,000	200,000	84,789	457,789			10,463
Phillip A. Reinsch	2003	183,000	258,765 ^(b)	8,215	449,980			16,281
Senior Vice President, Chief Financial Officer and Secretary	2002	183,000	115,000	44,013	342,013			16,126
	2001	183,000	125,000	92,712	400,712			11,413
Michael W. Brown	2003	106,050	156,173 ^(b)	5,056	267,279			11,163
Vice President	2002	106,050	80,000	27,094	213,144			11,500
Asset and Liability Management and Treasurer	2001	106,050	100,000	15,701	221,751			6,363

- (a) Mr. Edens resigned as our Chairman, CEO and President on July 22, 2003. Mr. Edens did not receive any compensation from us. Instead, Mr. Edens' services were provided pursuant to a management contract with Fortress, which was terminated on July 22, 2003. See the Certain Relationships and Related Transactions section of this proxy statement.
- (b) 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.
- (c) Amount includes dividends paid on unvested shares of our restricted stock. None of the dividends were preferential.
- (d) As of December 31, 2003 the number and value of unvested restricted stock holdings of our Common shares by each of our executive officers, which were originally granted April 20, 2000, were as follows:

Number	Value
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Andrew F. Jacobs	4,210	\$70,644
Robert R. Spears, Jr.	2,498	41,916
Amar R. Patel	2,104	35,305
Phillip A. Reinsch	2,301	38,611
Michael W. Brown	1,416	23,760

- (e) 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.