

CAPSTEAD MORTGAGE CORP

Form 424B5

November 16, 2007

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Filed pursuant to Rule 424(b)(5)
Registration No. 333-143390

**Prospectus Supplement
(To prospectus dated August 10, 2007)**

8,000,000 Shares

Capstead Mortgage Corporation

Common Stock

We are offering 8,000,000 shares of our common stock to be sold in this offering.

Our common stock is subject to certain restrictions on ownership designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See **Description of Our Capital Stock** on page 3 of the accompanying prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol **CMO**. The last reported sale price of our common stock on the New York Stock Exchange on November 15, 2007 was \$10.73 per share.

Investing in our common stock involves risks that are described under the caption **Risk Factors beginning on page 28 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.**

	Per Share	Total
Public offering price	\$ 10.7300	\$ 85,840,000
Underwriting discounts and commissions	\$ 0.5365	\$ 4,292,000
Proceeds, before expenses, to us	\$ 10.1935	\$ 81,548,000

We have granted the underwriters a 30-day option to purchase up to 1,200,000 additional shares to cover any over-allotments.

The shares will be ready for delivery on or about November 21, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Bear, Stearns & Co. Inc.

JMP Securities

Keefe, Bruyette & Woods

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RBC Capital Markets

The date of this prospectus supplement is November 15, 2007.

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the base prospectus. The second part, the base prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. Unless otherwise indicated, all information presented in this prospectus supplement assumes that the underwriters' option to purchase up to 1,200,000 shares of common stock to cover over-allotments is not exercised.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in or incorporated by reference in this document is accurate only as of the date such information was issued, regardless of the time of delivery of this prospectus supplement or any sale of our common stock.

FORWARD-LOOKING STATEMENTS

In this document, we make 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 from both an investment return and regulatory perspective, the availability of new investment capital, 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. In addition to these considerations, actual results and liquidity related to investments in loans secured by commercial real estate are affected by borrower performance under operating or development plans, 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, among other factors.

For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the risks set forth under the caption "Risk Factors" in our quarterly report on Form 10-Q for the quarter ended September 30, 2007. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in our common stock, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the information set forth under the caption "Where You Can Find More Information" on page ii of the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, and the risks set forth under the caption "Risk Factors" in our quarterly report on Form 10-Q for the quarter ended September 30, 2007. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. All references to we, our and us in this prospectus supplement mean Capstead Mortgage Corporation and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor.

Our Company

We are a self-managed real estate investment trust, or REIT, formed in 1985 and based in Dallas, Texas. Our core strategy is managing a leveraged portfolio of residential mortgage securities consisting primarily of adjustable-rate mortgage, or ARM, securities issued and guaranteed by government-sponsored entities, either Fannie Mae or Freddie Mac, or by an agency of the federal government, Ginnie Mae, which we refer to collectively as agency securities. Agency securities carry an actual or implied AAA credit rating with limited, if any, credit risk. We may also augment our core portfolio with investments in credit-sensitive commercial real estate-related assets. We have elected to be treated as a REIT for federal income tax purposes.

Our Assets

As of September 30, 2007, our assets consisted of a core portfolio of approximately \$4.8 billion of residential mortgage securities, with ARM agency securities accounting for approximately 99% of our total portfolio. ARM agency securities that we hold are backed by residential mortgage loans that have coupon interest rates that adjust at least annually to more current interest rates or begin doing so after an initial fixed-rate period. Agency securities carry an actual or implied AAA credit rating with limited, if any, credit risk due to Freddie Mac, Fannie Mae or Ginnie Mae guaranteeing payment of the principal and interest related to these securities. We classify our ARM securities based on each security's average number of months until coupon reset, or months-to-roll. Current-reset ARM securities have months-to-roll of from one to 18 months while longer-to-reset ARM securities have months-to-roll of greater than 18 months, but less than 61 months. At September 30, 2007, we had approximately \$3.1 billion of current-reset ARM securities, with an average months-to-roll of approximately four months, and approximately \$1.6 billion of longer-to-reset ARM securities, with an average months-to-roll of approximately 46 months. Following the end of our third quarter, we used the proceeds of our common stock offering (as described in the Recent Developments section of this summary) that closed on October 2, 2007 to purchase an additional \$1.2 billion of ARM agency securities. The securities we acquired consist of approximately 40% current-reset and 60% longer-to-reset ARM agency securities.

Utilization of Long-Term Investment Capital and Borrowings under Repurchase Arrangements

We finance a majority of our holdings of residential mortgage securities with well-established lenders using repurchase arrangements. The balance of our portfolio is supported by our long-term investment capital, which totaled \$430 million as of September 30, 2007, consisting of \$330 million in preferred and common equity capital as well as

\$100 million in long-term unsecured borrowings, net of our investment in related statutory trusts accounted for as unconsolidated affiliates. Following the end of our third quarter, we increased our long-term investment capital by approximately \$106 million with the October 2, 2007 closing of a public offering of 11,500,000 shares of our common stock. We generally use our available liquidity to pay down

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borrowings under repurchase arrangements, which reduces our borrowing costs, and to otherwise efficiently manage our long-term investment capital.

We expect to maintain a ratio of secured borrowings-to-long-term investment capital, or leverage ratio, of between 8:1 and 12:1. The ratio may vary from time to time depending upon investment opportunities, market conditions and other factors such as the size and composition of our investment portfolio. For purposes of calculating this ratio, our long-term investment capital employed to support our investments is considered equal to the value of our investment portfolio on a mark-to-market basis, less the book value of our obligations under repurchase arrangements. At September 30, 2007, our leverage ratio was 10.3:1.

We pledge our interests in the mortgage securities we hold as collateral under uncommitted repurchase arrangements, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Borrowings under repurchase arrangements secured by residential mortgage securities totaled \$4.4 billion at September 30, 2007. Our borrowings supporting current-reset ARM securities typically have maturities of 30 days or less, although late in a calendar year we may extend maturities to as long as 90 days on a portion of our borrowings to lock in financing over year-end, which historically can be a less liquid market environment. Additionally, over the last several years we have routinely financed a significant portion of our investments in longer-to-reset ARM securities with longer-term repurchase arrangements, in order to effectively lock in financing spreads during a significant portion of these investment's fixed-rate terms. In the future we will likely make more use of interest rate swap agreements. Interest rates on our borrowings are generally based on a margin over the federal funds rate or on a corresponding benchmark rate for longer-term arrangements. Amounts available to be borrowed under these arrangements are dependent upon collateral requirements of our lenders and real or perceived changes in the fair value of the securities pledged as collateral, which is affected by, among other things, changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries.

During the contraction in market liquidity that began in August 2007, we experienced greater than anticipated margin calls due to declines in the market value of our pledged assets and the perception on the part of some lenders that these values would decline even further. While we met all margin calls during this period, we were also concerned that lenders could require higher margin requirements on future 30-day borrowings. In response, we reduced our balance sheet leverage in order to improve our liquidity position. Although the imposition of higher margin requirements largely has not materialized, we anticipate operating with less leverage in the coming quarters than we did earlier in 2007 to lessen our exposure to any potential market illiquidity that may occur in the future.

Our Business Strategy

Our principal business objective is to invest in a leveraged portfolio of ARM agency securities that can earn attractive returns over the long term, while reducing, but not eliminating, sensitivity to changes in interest rates. Agency securities carry an actual or implied AAA credit rating, with limited, if any, credit risk. To achieve this business objective, our strategies include:

Acquiring primarily ARM agency securities backed by mortgage loans with coupon interest rates that reset at least annually or begin doing so after an initial fixed-rate period of typically five years or less;

Financing our investments primarily with repurchase arrangements with well-established lenders, with the balance being supported by our long-term investment capital; and

Financing purchases of additional ARM agency securities with the proceeds of this offering and utilizing leverage to increase potential returns to stockholders using similar borrowing arrangements.

Over time we may opportunistically invest a portion of our investment capital in credit-sensitive commercial real estate-related assets, including subordinate commercial real estate loans with the business objective of earning attractive risk-adjusted returns and providing earnings support during periods of rising short-term interest rates.

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Recent Developments

On September 19, 2007, we announced a public offering of 8,500,000 shares of our common stock that was subsequently increased to 10,000,000 shares when the offering priced on September 26, 2007 at \$9.75 per share. The offering closed on October 2, 2007. After exercise of the underwriters' over-allotment option for an additional 1,500,000 shares, the issuance totaled 11,500,000 shares with net proceeds of approximately \$106 million after underwriting discounts, commissions and offering expenses. This issuance was accretive to book value by approximately \$0.60 per share of common stock on the date of closing. We used the proceeds from the offering to purchase approximately \$1.2 billion of additional ARM agency securities. Neither the selected financial information included in this prospectus supplement nor our financial statements and related disclosures, which are incorporated herein by reference, reflect the issuance of these shares unless otherwise noted.

On October 4, 2007 and November 2, 2007, we declared our fixed monthly dividend of \$0.105 per Series B preferred share. The October dividend was paid on October 31, 2007, and the November dividend will be paid on November 30, 2007. On October 19, 2007, we paid our third quarter dividend of \$0.04 per share on our common stock held of record as of September 28, 2007. We plan on declaring our fourth quarter dividend on or about December 13, 2007, and the shares issued in this offering will be entitled to that dividend.

With the reduction in the federal funds rate to 4.75% on September 18, 2007 and to 4.50% on October 31, 2007, financing spreads and net interest margins on our existing portfolio, including the \$1.2 billion of additional ARM agency securities acquired in October with the proceeds of our recent public offering of our common stock, are improving significantly. This improvement is occurring even as the margin over the federal funds rate we pay on our 30-day borrowings remains higher than historical levels. Additionally, we anticipate taking further advantage of the current weak pricing environment for agency securities by using the proceeds from this offering over the next two months to purchase a mixture of current-reset and longer-to-reset ARM agency securities at attractive prices and favorable financing spreads.

Compliance with REIT Requirements and Investment Company Act of 1940

We have elected to be treated as a REIT for U.S. federal income tax purposes. In order to maintain our qualification as a REIT, we must comply with a number of requirements under U.S. federal income tax law that are discussed under "Federal Income Tax Consequences of Our Status as a REIT" in the accompanying prospectus. If we fail to maintain our qualification as a REIT, we would be subject to U.S. federal income tax, which could have an adverse impact on our business. In addition, we at all times intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of, the Investment Company Act of 1940, as amended, or the Investment Company Act. If we fail to maintain our exempt status under the Investment Company Act, we would be unable to conduct our business as described in this prospectus supplement and the accompanying prospectus.

Corporate Information

Our principal executive offices are located at 8401 North Central Expressway, Suite 800, Dallas, Texas 75225. Our telephone number is (214) 874-2323. Our website is <http://www.capstead.com>. The contents of our website are not a part of this prospectus supplement or the accompanying prospectus. Our shares of common stock are traded on the New York Stock Exchange, or NYSE, under the symbol CMO.

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The Offering

Issuer	Capstead Mortgage Corporation
Common stock offered by us	8,000,000 shares
Common stock to be outstanding after this offering	38,921,593 shares, based upon 30,921,593 shares of common stock outstanding as of November 15, 2007.
NYSE symbol	CMO
Use of proceeds	We intend to use the net proceeds of this offering to finance purchases of additional ARM agency securities, on a leveraged basis, and for general corporate purposes.
Risk factors	An investment in our common stock involves various risks. Prior to making an investment in us, you should carefully consider these and other matters discussed under the heading Risk Factors in our quarterly report on Form 10-Q for the quarter ended September 30, 2007.

Unless otherwise indicated, all offering information in this prospectus supplement is based on the number of shares of common stock and number of options to purchase shares of common stock outstanding as of November 9, 2007.

Unless otherwise indicated, that number of shares of common stock does not include (i) 1,200,000 shares of common stock that may be issued if the underwriters over-allotment option is exercised in full, (ii) 991,600 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to our long-term incentive plan or (iii) 9,817,812 shares of our common stock issuable upon the conversion of our Series A and Series B Preferred Stock.

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We expect that the net proceeds to us from this offering of our common stock (after deducting underwriting discounts and commissions and estimated offering expenses) will be approximately \$81 million (\$93 million if the underwriters over-allotment option is exercised in full) calculated at the offering price of \$10.73 per share. We intend to use the net proceeds from this offering to purchase additional ARM agency securities, on a leveraged basis, and for general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization (in thousands) as of September 30, 2007:

on an actual basis;

on an as adjusted basis giving effect to the sale of 11,500,000 shares of our common stock in a public offering that was completed on October 2, 2007 at \$9.75 per share; and

on an as further adjusted basis giving effect to the sale of 8,000,000 shares of our common stock at an offering price of \$10.73 per share .

This presentation should be read in conjunction with the more detailed information contained in our consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus.

	As of September 30, 2007		
		As Adjusted for the October 2, 2007 Offering	As Further Adjusted for this Offering
	Actual		
Stockholders Equity:			
Preferred stock \$0.10 par value; 100,000 shares authorized:			
\$1.60 Cumulative Preferred Stock, Series A, 202 shares issued and outstanding	\$ 2,828	\$ 2,828	\$ 2,828
\$1.26 Cumulative Convertible Preferred Stock, Series B, 15,819 shares issued and outstanding	176,705	176,705	176,705
Common stock \$0.01 par value; 100,000 shares authorized:			