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

FORM 10-K

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

For the fiscal year ended: December 31, 2019

OR

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

For the transition period from ____________to ______________

Commission File Number: 001-08896

CAPSTEAD MORTGAGE CORPORATION

(Exact name of Registrant as specified in its Charter)

Maryland	**75-2027937**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8401 North Central Expressway, Suite 800, Dallas, TX	**75225-4404**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(214) 874-2323**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock ($0.01 par value)	CMO	New York Stock Exchange
7.50% Series E Cumulative Redeemable Preferred Stock ($0.10 par value)	CMOPRE	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☑ NO ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that Registrant was required to submit such files). YES ☑ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☑

At June 28, 2019 the aggregate market value of the common stock held by nonaffiliates, based on the closing sale price of those shares on the New York Stock Exchange reported on June 28, 2019, was $699,445,950

Number of shares of Common Stock outstanding at February 21, 2020: 96,193,693

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement, to be issued in connection with the 2020 Annual Meeting of Stockholders of the Registrant, are incorporated by reference into Part III.

CAPSTEAD MORTGAGE CORPORATION
2019 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

Capstead Mortgage Corporation operates as a self-managed real estate investment trust ("REIT") for federal income tax purposes and is based in Dallas, Texas. Unless the context otherwise indicates, Capstead Mortgage Corporation, together with its subsidiaries, is referred to as "Capstead" or the "Company." Capstead was incorporated in the state of Maryland in 1985 and its common and Series E preferred stock are listed on the New York Stock Exchange under the symbols "CMO" and "CMOPRE," respectively.

Capstead's investment strategy involves managing a leveraged portfolio of residential mortgage pass-through securities consisting of relatively short-duration adjustable-rate mortgage ("ARM") securities issued and guaranteed by government-sponsored enterprises, either Fannie Mae or Freddie Mac, or by an agency of the federal government, Ginnie Mae. Together, these securities are referred to as "Agency Securities," and are considered to have limited, if any, credit risk. This strategy differentiates Capstead from its peers because ARM loans underlying its investment portfolio can reset to more current interest rates within a relatively short period of time. This positions the Company to benefit from a potential recovery in financing spreads that typically contract during periods of rising interest rates and can result in smaller fluctuations in portfolio values compared to portfolios containing a significant amount of longer-duration fixed-rate mortgage securities. Duration is a common measure of market price sensitivity to interest rate movements. A shorter duration generally indicates less interest rate risk.

For further discussion of the Company's business and financial condition, see Item 7 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated herein by reference.

Competition

As a residential mortgage REIT that focuses on investing in ARM Agency Securities, Capstead competes for the acquisition of suitable investments with other mortgage REITs, commercial banks, insurance companies, and institutional investors such as private equity funds, mutual funds, pension funds and sovereign wealth funds. Many of these entities have lower yield requirements as well as greater financial resources and access to capital than the Company. Increased competition for the acquisition of ARM Agency Securities can result in higher pricing levels for such assets. In addition, the availability of ARM Agency Securities for purchase in the secondary markets varies substantially with changes in market conditions and ARM origination levels, which have not kept pace with related runoff in recent years. Although higher pricing levels generally correspond to a higher book value per common share for the Company, higher prices paid for acquisitions can adversely affect portfolio yields and future profitability.

Regulation and Related Matters

Operating as an internally-managed REIT investing in Agency Securities subjects Capstead to various federal tax and regulatory requirements. For further discussion, see Item 1A of this report, "Risk Factors," under the captions "Risks Related to Our Status as a REIT and Other Tax Matters" and "Risk Factors Related to Our Corporate Structure," which is incorporated herein by reference.

Employees

As of December 31, 2019, Capstead had 14 employees.

Website Access to Company Reports and Other Company Information

Capstead makes available on its website at www.capstead.com, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, investor presentations and press releases, including any amendments to such documents as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission ("SEC") or otherwise publicly released.

The Company makes available on its website charters for the committees of its Board of Directors, its Board of Directors' Guidelines, its Amended and Restated Bylaws, its Code of Business Conduct and Ethics, its Financial Code of Professional Conduct and other information, including amendments to such documents and waivers, if any, to the codes. Such information will also be furnished, free of charge, upon written request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404.

Cautionary Statement Concerning Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "intend," "will be," "will likely continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements are based largely on the expectations of management and are subject to a number of risks and uncertainties including, but not limited to, the following:

- fluctuations in interest rates and levels of mortgage prepayments;
- changes in market conditions as a result of federal corporate and individual income tax reform, federal government fiscal challenges and Federal Reserve monetary policy, including policy regarding its holdings of Agency and U.S. Treasury Securities;
- the impact of differing levels of leverage employed;
- liquidity of secondary markets and credit markets, including the availability of financing at reasonable levels and terms to support investing on a leveraged basis;
- changes in legislation or regulation affecting Agency Securities and similar federal government agencies and related guarantees;
- the effectiveness of risk management strategies;
- the availability of suitable qualifying investments from both an investment return and regulatory perspective;
- the availability of new investment capital;
- the ability to maintain REIT status;
- changes in legislation or regulation affecting exemptions for mortgage REITs from regulation under the Investment Company Act of 1940;
- other changes in legislation or regulation affecting the mortgage and banking industries; and
- changes in general economic conditions, increases in costs and certain other factors.

In addition to the above considerations, actual results and liquidity are affected by other risks and uncertainties which could cause actual results to be significantly different from those expressed or implied by any forward-looking statements included herein. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed herein may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements speak only as of the date the statement is made and the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, readers of this document are cautioned not to place undue reliance on any forward-looking statements included herein.

ITEM 1A. RISK FACTORS

An investment in securities issued by us involves various risks. You should carefully consider the following risk factors in conjunction with the other information contained in this document before purchasing our securities. The risks discussed herein can adversely affect our business, liquidity, earnings, financial condition and future prospects, causing the market price of our securities to decline, which could cause you to lose all or part of an investment in our stock. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, liquidity, earnings and financial condition.

Risks Related to Our Business

Changes in interest rates, whether increases or decreases, may adversely affect our liquidity, financial condition and earnings. Our earnings depend primarily on the difference between the interest received on our residential mortgage investments and the interest paid on our secured borrowings, adjusted for the effects of derivative financial instruments held for hedging purposes. Our investments consist almost exclusively of ARM Agency Securities that generally earn interest at longer-term rates than our borrowings. Only a portion of coupon interest rates on the ARM loans underlying our securities reset each month and the terms of these ARM loans generally limit the amount of any increases during any single interest rate adjustment period and over the life of a loan. Interest rates on our secured borrowings, which are heavily influenced by federal reserve actions to raise or lower the Fed Funds Rate, that are not effectively fixed through the use of interest rate swap agreements or similar derivatives can rise to levels that may exceed yields on our investments, including in a rising short-term interest rate environment or in an inverted yield curve environment. This can contribute to lower, or in more extreme circumstances, negative financing spreads and, therefore, adversely affect earnings. During periods of relatively low short term interest rates, declines in the indices used to determine coupon interest rate resets for ARM loans may adversely affect yields on our ARM securities as the underlying ARM loans reset at lower rates. If declines in these indices exceed declines in our borrowing rates, earnings would be adversely affected.

An increase in prepayments may adversely affect our liquidity, financial condition and earnings. Prepayment expectations are an essential part of pricing ARM Agency Securities in the marketplace and the speed of prepayments can vary widely from month to month and across individual securities; however prolonged periods of high mortgage prepayments can significantly reduce the expected life of our portfolio. Therefore, actual yields we realize can be lower due to faster amortization of investment premiums, which can adversely affect earnings. High levels of mortgage prepayments can also lead to larger than anticipated demands on our liquidity from our lending counterparties. Additionally, periods of high prepayments can adversely affect pricing for ARM Agency Securities in general and, as a result, book value per common share can be adversely affected due to declines in the fair value of our remaining portfolio.

Monetary policy actions by the Federal Reserve could adversely affect our financial condition and earnings. The Federal Open Market Committee ("FOMC") assesses realized and expected economic conditions relative to its objectives in determining the timing and size of future adjustments to the target range of the Federal Funds Rate, to which our secured borrowings rates are closely related. We cannot predict with certainty when and to what extent the FOMC may adjust the Federal Funds Rate. These actions could adversely affect our earnings and book value per common share.

Our strategy involves significant leverage, which could adversely affect our liquidity, financial condition and earnings. We expect our leverage to vary with market conditions and our assessment of the risk and return on our investments. This leverage creates significant risks to our liquidity, financial condition and earnings.

Periods of illiquidity in the mortgage markets may reduce amounts available under secured borrowing arrangements due to declines in the perceived value of related collateral and may reduce the number of *counterparties willing to lend to us and/or the amounts individual counterparties are willing to lend, both of which could adversely impact our liquidity, financial condition and earnings.* We finance our portfolio by pledging individual securities as collateral under uncommitted secured borrowing arrangements. If the perceived market value of the pledged collateral as determined by our lenders declines, we may be subject to margin calls wherein the lender requires us to pledge additional collateral to reestablish the agreed-upon margin percentage. Because market illiquidity tends to put downward pressure on asset prices, we may be presented with substantial margin calls during such periods. If we are unable or unwilling to pledge additional collateral, lenders can liquidate the collateral or seek other remedies, potentially under adverse market conditions, resulting in losses. At such times we may determine that it is prudent to sell assets to improve our ability to pledge sufficient collateral to support our remaining secured borrowings, which could result in losses. In addition, lower pricing levels for remaining investments will lead to declines in book value per common share.

Our ability to achieve our investment objectives depends on our ability to re-establish or roll maturing secured borrowings on a continuous basis and none of our counterparties are obligated to enter into new borrowing transactions at the conclusion of existing transactions. During periods of market illiquidity or due to perceived credit deterioration of the collateral pledged or of us, a lender may require that less favorable asset pricing procedures be employed, margin requirements be increased and/or may choose to limit or completely curtail lending to us. If a counterparty chooses not to roll a maturing borrowing, we must pay off the borrowing, generally with cash available from another secured borrowing arrangement entered into with another counterparty. If we determine that we do not have sufficient borrowing capacity with our remaining counterparties, we could be forced to sell assets under potentially adverse market conditions, which could result in losses. An industry-wide reduction in the availability of secured borrowings could adversely affect pricing levels for Agency Securities leading to further declines in our liquidity and book value per common share. Under these conditions, we may determine that it is prudent to sell assets to improve our ability to pledge sufficient collateral to support our remaining borrowings, which could result in losses. In addition, lower pricing levels for remaining investments will lead to declines in book value per common share.

Legislative and additional regulatory actions could adversely affect the availability and/or terms and conditions of secured borrowings and consequently, our liquidity, financial condition and earnings. The financial system is subject to changes in regulatory capital requirements and other leverage constraints. Any such changes may have a significant impact on the financial markets in general and on our strategy of holding a leveraged portfolio of ARM Agency Securities. As a result, the availability and/or terms and conditions of secured borrowings could be adversely affected which could adversely affect our liquidity, earnings and book value per common share.

Potential changes in the relationship between the federal government and Fannie Mae and Freddie Mac could adversely affect our liquidity, financial condition and earnings. A significantly reduced or altered role by the federal government or other changes in the guarantees provided by Fannie Mae, Freddie Mac or Ginnie Mae, or their successors could adversely affect the credit profile and pricing of existing holdings and/or future issuances of ARM Agency Securities and whether our strategy of holding a leveraged portfolio of short-duration ARM Agency Securities remains viable, which could adversely affect earnings and book value per common share.

The replacement of LIBOR with an alternative reference rate may adversely affect our liquidity, financial condition and earnings. The Alternative Reference Rates Committee ("ARRC") selected the Secured Overnight Financing Rate ("SOFR"), an index calculated by reference to short-term repurchase agreements backed by U.S. Treasury securities, as its preferred replacement for LIBOR. SOFR is an observed overnight rate, which differs from LIBOR, which is an estimated forward-looking rate and relies, to some degree, on the expert judgement of submitting panel members. Since SOFR is a secured rate backed by government securities, it does not take into account bank credit risk (as LIBOR does). ARRC has published proposed fallback language for replacing LIBOR for new ARMs and other consumer products and requested for comment a newly-developed spread adjustment methodology to reflect and adjust for the historical differences between SOFR and LIBOR in order to make the spread-adjusted rates comparable in a fair and reasonable way. Most of our ARM portfolio, interest rate swap agreements and our unsecured borrowings use LIBOR as a benchmark interest rate and may need to transition to alternative rates. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions or significant changes in benchmark rates, which could adversely affect our liquidity, financial condition and earnings.

We are highly dependent on information and communication systems. System failures, security breaches or cyber-attacks of networks or systems could significantly disrupt our business and adversely affect our financial condition and earnings. Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, which could adversely affect our business, financial condition and earnings. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks, or security breaches. Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in the financial services industry and may occur on our systems in the future. We rely heavily on our financial, accounting and other data processing systems. Although we have not detected a breach to date, financial services institutions have reported breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we have experienced an undetected breach, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our technical infrastructure. However, such computer malware, viruses, computer hacking and phishing attacks could have a materially adverse effect on our business, financial condition and earnings.

The lack of availability of suitable investments at attractive pricing may adversely affect our earnings. The pricing of investments is determined by a number of factors including interest rate levels and expectations, market liquidity conditions, and competition among investors for these investments, many of whom have greater financial resources and lower return requirements than us. We cannot assure investors that we will be able to acquire suitable investments at attractive pricing and in a timely manner to replace portfolio runoff as it occurs or to deploy new capital as it is raised. Neither can we assure investors that we will maintain the current composition of our investments, consisting almost exclusively of ARM Agency Securities.

Our use of borrowings under repurchase arrangements may expose us to losses if a lending counterparty seeks bankruptcy protection, or otherwise defaults on its obligation to deliver pledged collateral back to us. Repurchase arrangements involve the sale and transfer of pledged collateral to the lending counterparty and a simultaneous agreement to repurchase the transferred assets at a future date. This may make it difficult for us to recover our pledged assets if a lender files for bankruptcy or otherwise fails to deliver pledged collateral back to us and subject us to losses to the extent of any margin amounts (pledged assets in excess of amounts borrowed) held by the lending counterparty.

We invest in derivative financial instruments such as interest rate swap agreements to mitigate or hedge our interest rate risk, which may adversely affect our liquidity, financial condition and earnings. We invest in such instruments from time to time with the goal of partially offsetting changes in value of our investments as a result of changes in interest rates and achieving more stable borrowing costs over an extended period. However, these activities may not have the desired beneficial impact on our liquidity, financial condition or earnings. In addition, counterparties could fail to honor their commitments under the terms of the derivatives or have their credit quality downgraded impairing the value of the derivatives. In the event of any defaults by counterparties, the Company may have difficulty recovering its cash collateral receivable from its counterparties and may not receive payments provided for under the terms of the derivatives and as a result, the Company may incur losses.

We are dependent on our executives and employees and the loss of one or more of our executive officers could harm our business and prospects. We are dependent on the efforts of our key officers and employees, most of whom have significant experience in the mortgage industry. We have not acquired key man life insurance policies on any of these individuals. The loss of any of their services could have an adverse effect on our operations.

Our securities are recorded at fair value and quoted prices or observable inputs may not be readily available to determine the fair value. We measure fair value in accordance with generally accepted accounting standards. Ultimately, the value of any individual security depends to a large extent on economic and other conditions beyond our control. Our determination of the fair value of our investments includes inputs provided by third-party dealers and pricing services, which may be difficult to obtain or be unreliable. Fair value is an estimate based on good faith judgement of the price at which an investment can be sold. If we were to liquidate a particular investment, the realized value may be more than or less than the amount at which such is valued.

Any future offerings of preferred stock or debt securities, which would rank senior to our common stock upon liquidation, and future offerings of equity securities, which could dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidation distributions, may adversely affect the price of our common stock. We may raise capital through the issuance of debt or equity securities. Upon liquidation, holders of our debt securities, preferred stock and lenders with respect to our other borrowings will be entitled to our available assets prior to the holders of our common stock. Our preferred stock has a preference on liquidating distributions and dividend payments that could limit our ability to pay dividends to the holders of our common stock. Sales of substantial amounts of our common stock could have a material adverse effect on the price of our common stock. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings.

Risks Related to Our Status as a REIT and Other Tax Matters

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our securities. Federal income tax laws or the administrative interpretations of those laws can change at any time. Any such changes in laws or interpretations thereof may apply retroactively and could adversely affect us or our stockholders. We cannot predict any impact on the value of our securities from adverse legislative or regulatory tax changes.

If we do not qualify as a REIT, we will be subject to tax as a corporation and face substantial tax liability. We have elected to be taxed as a REIT for federal income tax purposes and intend to continue to so qualify. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code (“IRC”) provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means that we would be unable to deduct dividends paid to our stockholders in computing taxable income and would be subject to federal income tax on our taxable income at corporate rates, reducing cash available for distribution;

- we would not be required to make income distributions; and
- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our earnings. We may be subject to certain federal, state and local taxes on our income and assets. For example, we:

- will be required to pay tax on any undistributed REIT taxable income; and
- may operate taxable REIT subsidiaries subject to tax on any taxable income earned.

Complying with REIT requirements may limit our ability to hedge effectively. The REIT provisions of the Code may limit our ability to hedge our investments and borrowings by limiting our income in each year from unqualified hedges, together with any other income not generated from qualified real estate assets, to no more than 25% of gross income. In addition, we must limit our aggregate income from nonqualified hedging transactions, from providing certain services, and from other non-qualifying sources to not more than 5% of annual gross income. As a result, we may have to limit our use of advantageous hedging techniques. This could result in greater risks associated with changes in interest rates than we would otherwise incur. If we were to fail to satisfy the REIT gross income tests we could lose our REIT status for federal income tax purposes unless the failure was due to reasonable cause and not due to willful neglect, in which case we may have to pay a penalty tax.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities. To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders, and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may force us to liquidate otherwise attractive investments. To qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, United States government securities and qualified REIT real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Complying with REIT requirements may force us to borrow to make distributions to our stockholders. As a REIT, we must distribute at least 90% of our annual taxable income (subject to certain adjustments) to our stockholders. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under the federal tax laws. From time to time, we may generate taxable income greater than our net income for financial reporting purposes or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax or the 4% excise tax in a particular year. These alternatives could increase our costs and reduce our long-term investment capital.

Distributions payable by us do not qualify for the reduced tax rates applicable to "qualified dividends." The maximum tax rate applicable to income from non-REIT corporate qualified dividends payable to domestic stockholders that are individuals, trusts or estates is currently 20%. Distributions of ordinary income payable by REITs, however, generally are not eligible for the reduced rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT stockholder that are not designated as returns of capital, capital gain or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of REIT stocks.

We may in the future choose to pay dividends in our own stock, in which case stockholders may be required to pay tax in excess of the cash they receive. A publicly traded REIT generally may treat a distribution of its own stock as fulfilling its REIT distribution requirement if each stockholder is permitted to elect to receive its distribution in either cash or stock of the REIT (even where there is a limitation on the percentage of the distribution payable in cash, provided that the limitation is at least 20%), subject to the satisfaction of certain guidelines. If the requirements are met, for U.S. federal income tax purposes, the amount of the distribution paid in stock generally will be a taxable distribution in an amount equal to the amount of cash that could have been received instead of stock. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. Furthermore, with respect to Non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including all or a portion of such dividend that is payable in stock. It is uncertain whether and to what extent we will pay dividends in cash and our stock.

Our ownership of and relationship with our TRS will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax. A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 20% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation, and in certain circumstances, the ability of our TRSs to deduct net business interest expenses generally may be limited. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Risk Factors Related to Our Corporate Structure

There are no assurances of our ability to pay dividends in the future. We intend to continue paying quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the IRC. However, our ability to pay dividends may be adversely affected by the risk factors described in this filing. All distributions will be made at the discretion of our Board of Directors and will depend upon our earnings, financial condition, maintenance of our REIT status and such other factors as the board may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

Failure to maintain an exemption from the Investment Company Act of 1940 would adversely affect our results of operations. The Investment Company Act of 1940 (the "40 Act") exempts from regulation as an investment company any entity that is primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. For over 30 years, the staff of the SEC has interpreted the provisions of the 40 Act to require, among other things, a REIT to maintain at least 55% of its assets directly in qualifying real estate interests and at least 80% of its assets in real estate-related assets in order to be exempt from regulation as an investment company. Critical to our exemption from regulation as an investment company is the long-standing SEC staff interpretation that so-called whole loan mortgage securities, in which an investor holds all issued certificates with respect to an underlying pool of mortgage loans, constitute qualifying real estate interests for purposes of the staff's 55% qualifying real estate interest requirement. Conversely, so-called partial pool mortgage securities presently do not qualify for purposes of meeting the 55% requirement, although they are considered by the staff to be real estate-related assets for purposes of meeting the staff's 80% real estate-related asset requirement.

If the SEC or its staff adopts contrary interpretations of the 40 Act and we and other similar REITs become subject to regulation as investment companies, the industry's use of leverage would be substantially reduced. Absent a restructuring of our business operations to avoid such regulation, this could require the sale of most of our investments under potentially adverse market conditions resulting in losses and significantly reduce future net interest margins and earnings.

Pursuant to our charter, our Board of Directors has the ability to limit ownership of our capital stock, to the extent necessary to preserve our REIT qualification. For the purpose of preserving our REIT qualification, our charter gives the board the ability to repurchase outstanding shares of capital stock from existing stockholders if the board determines in good faith that the concentration of ownership by such individuals, directly or indirectly, would cause us to fail to qualify as a REIT. Constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed constructively owned by one individual or entity. As a result, the acquisition of outstanding stock by an individual or entity could cause that individual or entity to own constructively a greater concentration of our outstanding stock than is acceptable for REIT purposes, thereby giving the board the ability to repurchase any excess shares.

Because provisions contained in Maryland law and our charter may have an anti-takeover effect, investors may be prevented from receiving a "control premium" for their shares. Provisions contained in our charter and Maryland general corporation law can delay, defer or prevent a takeover attempt, which may prevent stockholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our stockholders to receive a premium over then-prevailing market prices. These provisions include the following:

- *Repurchase rights* – Repurchase rights granted to our board in our charter limit related investors, including, among other things, any voting group, from owning common stock if the concentration owned would jeopardize our REIT status.
- *Classification of preferred stock* – Our charter authorizes the board to issue preferred stock and establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval and could have the effect of delaying or preventing someone from taking control of us.
- *Statutory provisions* – We are subject to provisions of Maryland statutory law that restrict business combinations with interested stockholders and restrict voting rights of certain shares acquired in control share acquisitions. The board has not taken any action to exempt us from these provisions.
- *Other Maryland law elections* – A provision of Maryland law allows our board, without stockholder approval, to implement various provisions that may deter stockholder efforts to change the composition of our Board of Directors by, among other things, implementing a staggered board, providing that directors are removable only for cause, requiring that a majority

of the outstanding shares request a special meeting of stockholders, and providing directors the exclusive right to fill vacancies on the board. Our board has not taken any action to limit its ability to implement any of these provisions in the future, other than to provide, through an unrelated provision of Maryland law, that imposes a majority requirement for the calling of a special meeting of stockholders.

Maryland statutory law provides that an act of a director relating to or affecting an acquisition or a potential acquisition of control of a corporation may not be subject to a higher duty or greater scrutiny than is applied to any other act of a director. Hence, directors of Maryland corporations may not be required to act in takeover situations under the same standards as apply in Delaware and certain other corporate jurisdictions.

We may change our policies without stockholder approval. Our board and management determine all of our policies, including our investment, financing and distribution policies and may amend or revise these policies at any time without a vote of our stockholders. Policy changes could adversely affect our financial condition, results of operations, the market price of our common and preferred stock or our ability to pay dividends or distributions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Capstead's headquarters are located in Dallas, Texas in office space leased by the Company.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINING SAFETY DISCLOSURES

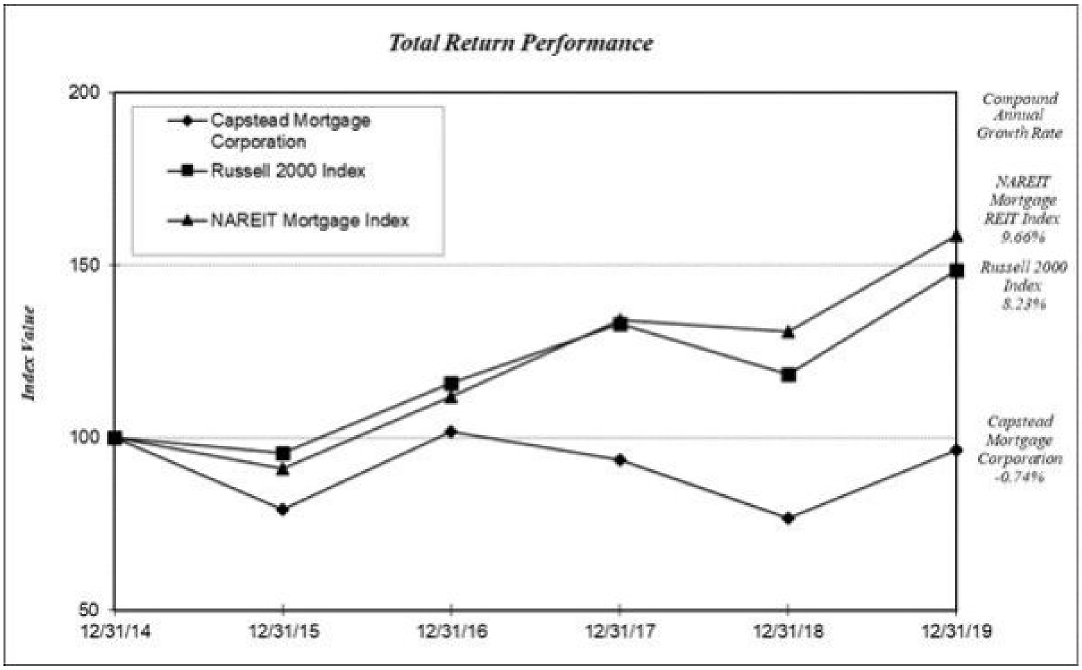
Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The New York Stock Exchange trading symbol for Capstead's common stock is CMO. As of February 13, 2020, the Company had 936 common stockholders of record and depository companies held shares of common stock for approximately 28,551 beneficial owners.

Set forth below is a graph comparing the yearly percentage change in the cumulative total return on Capstead's common stock, with the yearly percentage change in the cumulative total return on the Russell 2000 Index and the NAREIT Mortgage REIT Index for the five years ended December 31, 2019 assuming the investment of $100 on December 31, 2014 and the reinvestment of dividends. The stock price and dividend performance reflected in the graph is not necessarily indicative of future performance.



	Year ended December 31					
	2014	*2015*	*2016*	*2017*	*2018*	*2019*
Capstead Mortgage Corporation	$ 100.00	$ 79.23	$ 101.74	$ 93.54	$ 76.52	$ 96.35
Russell 2000 Index	100.00	95.59	115.95	132.94	118.30	148.49
NAREIT Mortgage REIT Index	100.00	91.12	111.95	134.10	130.71	158.60

The Company did not repurchase any shares during the fourth quarter of 2019. The timing, manner, price and amount of any future common and preferred issuances and any common stock repurchases will be made in the open market at the Company's discretion, subject to economic and market conditions, stock price, compliance with federal securities laws and tax regulations as well as blackout periods associated with the dissemination of important Company-specific news.

See Item 12 of this report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for information regarding securities authorized for issuance under equity compensation plans which is incorporated herein by reference. Capstead did not issue any unregistered securities during the past three fiscal years.

ITEM 6. SELECTED FINANCIAL DATA

This table summarizes selected financial information, including key operating data (in thousands, except percentages, ratios and per share data). For additional information, refer to the audited consolidated financial statements and notes thereto included under Item 8, "Financial Statements and Supplementary Data," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included under Item 7 of this report.

	As of or for the year ended December 31				
	2019	*2018*	*2017*	*2016*	*2015*
Selected statement of income data:					
Interest income on residential mortgage investments	$ 320,217	$ 274,891	$ 232,435	$ 212,694	$ 215,989
Related interest expense	(246,212)	(206,976)	(138,757)	(107,653)	(85,521)
	74,005	67,915	93,678	105,041	130,468
Other interest expense (net) *(a)*	(4,858)	(5,922)	(6,646)	(7,196)	(8,113)
	69,147	61,993	87,032	97,845	122,355
Other revenue (net) *(b)*	(104,485)	(11,921)	(7,443)	(14,972)	(14,030)
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589	$ 82,873	$ 108,325
Net (loss) income per diluted common share	$ (0.62)	$ 0.34	$ 0.65	$ 0.70	$ 0.97
Average number of diluted shares of common stock outstanding	88,722	91,230	95,843	95,819	95,701
Core earnings *(c)*	$ 64,158	$ 50,072	$ 79,589	$ 82,873	$ 108,325
Core earnings per diluted common share *(c)*	0.50	0.34	0.65	0.70	0.97
Cash dividends per share of common stock	0.47	0.49	0.80	0.95	1.14
Selected balance sheet data:					
Residential mortgage investments	$ 11,222,182	$ 11,965,381	$ 13,454,098	$ 13,316,282	$ 14,154,737
Total assets	11,520,001	12,186,525	13,733,449	13,576,876	14,446,366
Secured borrowings	10,275,413	10,979,362	12,331,060	12,145,346	12,958,394
Long-term investment capital ("LTIC"):					
Unsecured borrowings	98,392	98,292	98,191	98,090	97,986
Preferred stockholders' equity	250,946	250,946	250,946	199,059	197,172
Common stockholders' equity	822,787	808,117	987,930	1,048,628	1,101,152
	$ 1,172,125	$ 1,157,355	$ 1,337,067	$ 1,345,777	$ 1,396,310
Book value per common share *(unaudited)*	$ 8.62	$ 9.39	$ 10.25	$ 10.85	$ 11.42
Key operating data: *(unaudited)*					
Portfolio acquisitions *(principal amount)*	$ 3,239,372	$ 2,251,425	$ 4,103,006	$ 3,086,706	$ 3,761,789
Portfolio runoff *(principal amount)*	3,752,774	3,603,544	3,897,539	3,844,590	3,421,026
Common stock issuances	75,102	–	–	–	–
Common stock repurchases	–	84,594	3,460	–	–
Year-end portfolio leverage ratio *(d)*	8.77:1	9.49:1	9.22:1	9.02:1	9.28:1
Average total financing spreads	0.41%	0.33%	0.55%	0.64%	0.81%
Average financing spreads on residential mortgage investments *(c)*	0.53	0.38	0.61	0.72	0.89
Average mortgage prepayment rates, *(expressed as constant prepayment rates, or CPRs)*	26.62	22.89	23.97	23.20	20.37
Return on average LTIC	6.20	4.59	6.42	6.77	7.91
Return on average common equity capital	5.54	3.38	5.96	6.20	7.86

(a) *Consists principally of interest on unsecured borrowings, net of interest on overnight investments.*

(b) *Other revenue (net) in 2019 includes $91 million in losses on derivatives due to declining interest rates following the de-designation of secured borrowings-related derivatives as cash flow hedges for accounting purposes on March 1, 2019.*

(c) *See Item 7 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Reconciliation of GAAP and non-GAAP Financial Measures" for a reconciliation of these financial measures and the Company's rationale for using these non-GAAP financial measures.*

(d) *Year-end portfolio leverage ratios were calculated by dividing secured borrowings by LTIC.*

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of this Annual Report on Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Annual Report can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Overview

Capstead operates as a self-managed REIT earning income from investing in a leveraged portfolio of residential mortgage pass-through securities consisting of relatively short-duration ARM Agency Securities, which reset to more current interest rates within a relatively short period of time and are considered to have limited, if any, credit risk. By investing in ARM Agency Securities, the Company is positioned to benefit from future recoveries in financing spreads that typically contract during periods of rising interest rates and to experience smaller fluctuations in portfolio values compared to leveraged portfolios containing a significant amount of longer-duration fixed-rate mortgage securities. Duration is a common measure of market price sensitivity to interest rate movements. A shorter duration generally indicates less interest rate risk.

Capstead reported for GAAP purposes a net loss of $35 million or $(0.62) per diluted common share in 2019, compared to 2018 earnings of $50 million or $0.34 per diluted common share. The Company reported core earnings of $64 million or $0.50 per diluted common share for the year ended December 31, 2019. See "Reconciliation of GAAP and non-GAAP Financial Measures" for more information on core earnings. The GAAP net loss in 2019 includes $91 million in losses on hedging-related derivatives primarily related to declining interest rates. GAAP and core earnings in 2019 benefited from higher portfolio yields while being negatively impacted by higher borrowing costs and lower average portfolio balances. Book value per common share declined to $8.62 per share at December 31, 2019 primarily due to decreases in swap valuations and the initial dilution effects of issuing nine million shares of common stock, partially offset by increases in portfolio valuations.

Capstead finances its residential mortgage investments by leveraging its long-term investment capital with secured borrowings consisting primarily of borrowings under repurchase arrangements with commercial banks and other financial institutions. Long-term investment capital totaled $1.17 billion at December 31, 2019, consisting of $823 million of common and $251 million of preferred stockholders' equity together with $98 million of unsecured borrowings maturing in 2035 and 2036.

Capstead's residential mortgage investments decreased by $743 million to $11.22 billion at December 31, 2019 as the Company did not replace all of its portfolio runoff and sold $305 million (cost basis) in ARM securities largely in response to increases in market volatility and declining interest rates. Secured borrowings decreased $704 million to $10.28 billion. Portfolio leverage (secured borrowings divided by long-term investment capital) decreased to 8.77 to one at December 31, 2019 from 9.49 to one at December 31, 2018. Management continuously evaluates portfolio leverage levels in light of changes to market conditions.

Common Equity Issuances

On August 1, 2019 the Company completed a public offering for nine million shares of common stock raising $75 million for a net price of $8.34 after underwriting discounts and offering expenses. The proceeds were deployed into additional ARM Agency Securities and used for general corporate purposes.

Subsequent to year-end, Capstead issued 1.4 million shares of common stock through an at-the-market continuous offering program, net of placement fees and other costs, for net proceeds of $11 million. Additional amounts of equity capital may be raised in the future under continuous offering programs or by other means, subject to market conditions, compliance with federal securities laws and blackout periods associated with the dissemination of important Company-specific news.

Book Value per Common Share

Book value per common share (total stockholder's equity, less liquidation preferences for outstanding shares of preferred stock, divided by outstanding shares of common stock) as of December 31, 2019 was $8.62, a decrease of $0.77 or 8.2% from December 31, 2018 book value of $9.39, primarily reflecting $1.44 in derivative-related declines in value and $0.10 in initial dilution related to the issuance of additional common equity, partially offset by $0.75 in portfolio-related increases in unrealized gains.

All but $2 million of Capstead's residential mortgage investments portfolio and all of its derivatives are recorded at fair value on the Company's balance sheet and are therefore included in the calculation of book value per share of common stock. None of the Company's borrowings are recorded at fair value. Fair value is impacted by market conditions, including changes in interest rates, and the availability of financing at reasonable rates and leverage levels, among other factors. See NOTE 8 to the Consolidated Financial Statements for additional disclosures regarding fair values of financial instruments held or issued by the Company.

Residential Mortgage Investments

The following table illustrates the progression of Capstead's portfolio of residential mortgage investments for the indicated periods (in thousands):

	As of and for the year ended December 31		
	2019	***2018***	***2017***
Residential mortgage investments, beginning of year	$ 11,965,381	$ 13,454,098	$ 13,316,282
Portfolio acquisitions (principal amount)	3,239,372	2,251,425	4,103,006
Investment premiums on acquisitions	76,788	51,231	121,509
Portfolio runoff (principal amount)	(3,752,774)	(3,603,544)	(3,897,539)
Sales of investments (cost basis)	(305,356)	–	–
Investment premium amortization	(73,742)	(115,339)	(128,769)
Change in net unrealized gains on securities classified as available-for-sale	72,513	(72,490)	(60,391)
Residential mortgage investments, end of year	$ 11,222,182	$ 11,965,381	$ 13,454,098
(Decrease) increase in residential mortgage investments	$ (743,199)	$ (1,488,717)	$ 137,816

Capstead's investment strategy focuses on managing a portfolio of residential mortgage investments consisting almost exclusively of ARM Agency Securities. Agency Securities are considered to have limited, if any, credit risk because the timely payment of principal and interest is guaranteed by Fannie Mae and Freddie Mac, which are government-sponsored enterprises, or Ginnie Mae, which is an agency of the federal government. Federal government support for Fannie Mae and Freddie Mac has largely alleviated market concerns regarding the ability of Fannie Mae and Freddie Mac to fulfill their guarantee obligations.

By focusing on investing in ARM Agency Securities, changes in fair value caused by changes in interest rates are typically relatively modest compared to changes in fair value of longer-duration fixed-rate assets. Declines in fair value caused by increases in interest rates are generally recoverable in a relatively short period of time as coupon interest rates on the underlying mortgage loans reset to rates more reflective of the then-current interest rate environment. This investment strategy positions the Company to benefit from potential recoveries in financing spreads that typically contract during periods of rising interest rates.

Capstead classifies its ARM securities based on the average length of time until the loans underlying each security reset to more current rates ("months-to-roll") (less than 18 months for "current-reset" ARM securities, and 18 months or greater for "longer-to-reset" ARM securities). The Company's ARM holdings featured the following characteristics at December 31, 2019 (dollars in thousands):

ARM Type	*Amortized Cost Basis (a)*	*Net WAC (b)*	*Fully Indexed WAC (b)*	*Average Net Margins (b)*	*Average Periodic Caps (c)*	*Average Lifetime Caps (c)*	*Months To Roll*
Current-reset ARMs:							
Fannie Mae Agency Securities	$ 2,834,919	3.85%	3.61%	1.67%	2.70%	5.35%	6.3
Freddie Mac Agency Securities	1,344,964	3.89	3.70	1.75	2.08	5.04	7.4
Ginnie Mae Agency Securities	1,057,561	3.59	3.10	1.51	1.04	4.69	7.0
Residential mortgage loans	530	4.15	4.69	2.09	1.72	11.24	6.3
(47% of total)	5,237,974	3.81	3.53	1.66	2.21	5.14	6.7
Longer-to-reset ARMs:							
Fannie Mae Agency Securities	3,045,809	3.08	3.56	1.60	3.72	5.00	46.3
Freddie Mac Agency Securities	1,665,257	3.09	3.64	1.67	3.99	5.04	52.4
Ginnie Mae Agency Securities	1,226,770	3.49	3.09	1.50	1.01	5.01	43.6
(53% of total)	5,937,836	3.16	3.48	1.60	3.24	5.01	47.5
	$ 11,175,810	3.46	3.51	1.63	2.76	5.07	28.5
Gross WAC (rate paid by borrowers) *(d)*		4.06					

(a) Amortized cost basis represents the Company's investment (unpaid principal balance plus unamortized investment premiums) before unrealized gains and losses. At December 31, 2019, the ratio of amortized cost basis to unpaid principal balance for the Company's ARM holdings was 103.06. This table excludes $1 million in fixed-rate agency-guaranteed mortgage pass-through securities, residential mortgage loans and private residential mortgage pass-through securities held as collateral for structured financings.

(b) Net WAC, or weighted average coupon, is the weighted average interest rate of the mortgage loans underlying the indicated investments, net of servicing and other fees as of the indicated date. Net WAC is expressed as a percentage calculated on an annualized basis on the unpaid principal balances of the mortgage loans underlying these investments. As such, it is similar to the cash yield on the portfolio which is calculated using amortized cost basis. Fully indexed WAC represents the weighted average coupon upon one or more resets using interest rate indexes and net margins as of the indicated date. Average net margins represent the weighted average levels over the underlying indexes that the portfolio can adjust to upon reset, usually subject to initial, periodic and/or lifetime caps on the amount of such adjustments during any single interest rate adjustment period and over the contractual term of the underlying loans.

(c) ARM securities with initial fixed-rate periods of five years or longer typically have either 200 or 500 basis point initial caps with 200 basis point periodic caps. Additionally, certain ARM securities held by the Company are subject only to lifetime caps or are not subject to a cap. For presentation purposes, average periodic caps in the table above reflect initial caps until after an ARM security has reached its initial reset date and lifetime caps, less the current net WAC, for ARM securities subject only to lifetime caps. At year-end, 74% of current-reset ARM securities were subject to periodic caps averaging 1.77%; 19% were subject to initial caps averaging 2.60%; 6% were subject to lifetime caps averaging 6.40%; and less than 1% were uncapped. All longer-to-reset ARM securities at December 31, 2019 were subject to initial caps.

(d) Gross WAC is the weighted average interest rate of the mortgage loans underlying the indicated investments, including servicing and other fees paid by borrowers, as of the indicated date.

ARM securities held by Capstead are backed by 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. These coupon interest rate adjustments are usually subject to periodic and lifetime limits, or caps, on the amount of such adjustments during any single interest rate adjustment period and over the contractual term of the underlying loans. After the initial fixed-rate period, if applicable, the coupon interest rates of mortgage loans underlying the Company's ARM securities typically adjust either (a) annually based on specified margins over the one-year London interbank offered rate ("LIBOR") or the one-year Constant Maturity U.S. Treasury Note Rate ("CMT"), (b) semiannually based on specified margins over six-month LIBOR, or (c) monthly based on specified margins over indices such as one-month LIBOR, the Eleventh District Federal Reserve Bank Cost of Funds Index, or over a rolling twelve month average of the one-year CMT index. Fannie Mae and Freddie Mac have announced they will stop accepting LIBOR-based ARM loans after December 2020 due to the scheduled discontinuation of LIBOR in December 2021. They will begin accepting ARM loans based on the Secured Overnight Financing Rate ("SOFR") in the near future. The

Company will continue investing in Agency ARM Securities backed by a variety of indices including new SOFR-based ARM securities.

Approximately 19%, or $974 million of the Company's current-reset ARM securities with average net WACs of 2.82% and fully-indexed WACs of 3.49% will reset in rate for the first time in less than 18 months based on indices in effect at December 31, 2019. After consideration of any applicable initial fixed-rate periods, at December 31, 2019 approximately 92%, 4% and 3% of the Company's ARM securities were backed by mortgage loans that reset annually, semi-annually and monthly, respectively, while approximately 1% reset every five years. At December 31, 2019 approximately 4% of the Company's portfolio was backed by interest-only loans, with remaining interest-only payment periods averaging 15 months. All percentages are based on averages of the characteristics of mortgage loans underlying each security and calculated using unpaid principal balances as of the indicated date.

Secured Borrowings and Related Derivatives

Capstead finances its residential mortgage investments by leveraging its long-term investment capital primarily with borrowings under repurchase arrangements with commercial banks and other financial institutions. The Company maintains the beneficial interest in the specific securities pledged during the term of each repurchase arrangement and receives the related principal and interest payments.

The terms and conditions of secured borrowings are negotiated on a transaction-by-transaction basis when each such borrowing is initiated or renewed. None of the Company's counterparties are obligated to renew or otherwise enter into new borrowings at the conclusion of existing borrowings. Collateral requirements in excess of amounts borrowed (referred to as "haircuts") averaged 4.6 percent of the fair value of pledged residential mortgage pass-through securities at December 31, 2019. After considering haircuts and related interest receivable on the collateral, as well as interest payable on these borrowings, the Company had $574 million of capital at risk with its lending counterparties at December 31, 2019. The Company did not have capital at risk with any single counterparty exceeding 8% of total stockholders' equity at December 31, 2019.

Secured borrowing rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings. Interest may be paid monthly or at the termination of a borrowing at which time the Company may enter into a new borrowing at prevailing haircuts and rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. When the fair value of pledged securities declines due to changes in market conditions or the publishing of monthly security pay-down factors, lenders typically require the Company to post additional securities as collateral, pay down borrowings or fund cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. Conversely, if collateral fair values increase, lenders are required to release collateral back to the Company pursuant to Company-issued margin calls.

As of December 31, 2019, the Company's secured borrowings totaled $10.28 billion with 21 counter-parties at average rates of 2.10%, before the effects of currently-paying interest rate swap agreements. The Company typically uses two- and three-year term interest rate swap agreements with variable rate receipts primarily based on three-month LIBOR, SOFR or Fed Funds to help mitigate exposure to rising short-term interest rates. During 2019, the Company took advantage of declining market rates to replace $4.6 billion of longer-term swaps with new two-year contracts at significantly lower rates to the benefit of future earnings. At year-end the Company held $7.40 billion notional amount of portfolio financing-related interest rate swap agreements at fixed rates averaging 1.77%, with contract expirations occurring at various dates through the fourth quarter of 2022 and a weighted average expiration of 20 months. In addition, at year-end the Company held a series of $500 million notional amount three-month Eurodollar futures contracts with a weighted average rate of 1.62% with maturities through June 2020.

Including the effects of these derivatives, the Company's residential mortgage investments and secured borrowings had estimated durations at December 31, 2019 of 15 and 14¼ months, respectively, for a net duration gap of approximately ¾ months – see “Interest Rate Risk” for further information about the Company’s sensitivity to changes in market interest rates. The Company intends to continue to manage interest rate risk associated with holding and financing its residential mortgage investments by utilizing suitable derivative financial instruments such as interest rate swap agreements, Eurodollar futures and longer-maturity secured borrowings, if available at attractive rates and terms.

Off-Balance Sheet Arrangements and Contractual Obligations

As of December 31, 2019, Capstead did not have any off-balance sheet arrangements. The Company’s contractual obligations at December 31, 2019 were as follows (in thousands):

		*Payments Due by Period**			
	Total	***12 Months or Less***	***13 – 36 Months***	***37 – 60 Months***	***>Than 60 Months***
Secured borrowings	$ 10,298,072	$ 10,297,522	$ 401	$ 116	$ 33
Unsecured borrowings	186,620	5,106	9,971	10,279	161,264
Interest rate swap agreements designated as cash flow hedges of unsecured borrowings	33,552	2,298	4,904	4,595	21,755
Portfolio acquisitions settling subsequent to year-end	65,453	65,453	–	–	–
Corporate office lease	2,430	208	603	622	997
	$ 10,586,127	$ 10,370,587	$ 15,879	$ 15,612	$ 184,049

* *Secured borrowings include an interest component based on contractual rates in effect at year-end. Unsecured borrowings include an interest component based on market interest rate expectations as of year-end. Obligations under interest rate swap agreements are net of variable-rate payments owed to the Company under the agreements’ terms that are based on market interest rate expectations as of year-end.*

Utilization of Long-term Investment Capital and Potential Liquidity

Capstead’s investment strategy involves managing an appropriately leveraged portfolio of ARM Agency Securities that management believes can produce attractive risk-adjusted returns over the long term, while reducing, but not eliminating, sensitivity to changes in interest rates. The potential liquidity inherent in the Company’s unencumbered residential mortgage investments is as important as the actual level of cash and cash equivalents carried on the balance sheet because secured borrowings generally can be increased or decreased on a daily basis to meet cash flow requirements and otherwise manage capital resources efficiently. Potential liquidity is affected by, among other factors:

- current portfolio leverage levels,
- changes in market value of assets pledged and derivatives held for hedging purposes as determined by lending and derivative counterparties,
- mortgage prepayment levels,
- availability of borrowings under repurchase arrangements with lending counterparties,
- collateral requirements of lending and derivative counterparties, and
- general conditions in the commercial banking and mortgage finance industries.

As of December 31, 2019, the Company's utilization of its long-term investment capital and its estimated potential liquidity were as follows in comparison with December 31, 2018 (dollars in thousands):

	Investments [(a)]	*Secured Borrowings*	*Capital Employed*	*Potential Liquidity* [(b)]	*Portfolio Leverage*
Residential mortgage investments	$ 11,222,182	$ 10,275,413	$ 946,769	$ 431,737	
Cash collateral receivable from derivative counterparties, net [(c)]			37,792	–	
Other assets, net of other liabilities			187,564	105,397	
Balances as of December 31, 2019:	$ 11,222,182	$ 10,275,413	$ 1,172,125	$ 537,134	8.77:1
Balances as of December 31, 2018	$ 11,965,381	$ 10,979,362	$ 1,157,355	$ 501,854	9.49:1

(a) Investments are stated at balance sheet carrying amounts, which generally reflect estimated fair value as of the indicated dates.

(b) Potential liquidity is based on maximum amounts of borrowings available under existing uncommitted financing arrangements considering management's estimate of the fair value of residential mortgage investments held as of the indicated dates adjusted for other sources of liquidity such as cash and cash equivalents.

(c) Cash collateral receivable from derivative counterparties is presented net of cash collateral payable to derivative counterparties, if applicable, and the fair value of interest rate swap positions as of the indicated date.

In order to efficiently manage its liquidity and capital resources, Capstead attempts to maintain sufficient liquidity reserves to fund borrowing and derivative margin calls under stressed market conditions, including margin calls resulting from monthly principal payments (remitted to the Company 20 to 45 days after any given month-end), as well as reasonably possible declines in the market value of pledged assets and derivative positions. Should market conditions deteriorate, management may reduce portfolio leverage and increase liquidity by raising new equity capital, selling mortgage securities and/or curtailing the replacement of portfolio runoff. Additionally, the Company routinely does business with a large number of lending counterparties, which bolsters financial flexibility to address challenging market conditions and limits exposure to any individual counterparty.

In response to significant declines in longer-term interest rates experienced during the year, the Company reduced portfolio leverage by only replacing a portion of portfolio runoff, limited asset sales and by taking a measured approach to deploying new common equity capital raised during the third quarter. Future levels of portfolio leverage will be dependent on many factors, including the size and composition of the Company's investment portfolio (see "Liquidity and Capital Resources"). Management continuously evaluates portfolio leverage levels in light of changes in market conditions.

Reconciliation of GAAP and non-GAAP Financial Measures

Management believes the presentation of core earnings and core earnings per diluted common share, non-GAAP financial measures, when analyzed in conjunction with the Company's GAAP operating results, allows investors to more effectively evaluate the Company's performance and compare its performance to that of its peers. Prior to March 2019, the Company designated its secured borrowings-related interest rate swap agreements as cash flow hedges for accounting purposes, whereby changes in these derivatives' fair values were recorded in *Accumulated other comprehensive income (loss)*. The Company discontinued cash flow hedge accounting on March 1, 2019 for these derivatives and, for GAAP purposes, related changes in fair value are recorded in the Company's consolidated statements of operations. Also, for GAAP purposes, related net unrealized gains recorded in *Accumulated other comprehensive income (loss)* through February 28, 2019 are being recognized as a component of interest expense in the Company's consolidated statements of operations over the remaining contractual lives of these derivatives. Core earnings excludes these GAAP adjustments. The Company's presentation of core earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations.

The following reconciles GAAP net (loss) income to core earnings and core earnings per common share (dollars in thousands, except per share amounts):

	2019		2018		2017	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net (loss) income	$ (35,338)	$ (0.62)	$ 50,072	$ 0.34	$ 79,589	$ 0.65
Unrealized loss on non-designated derivative instruments	17,656	0.20	–	–	–	–
Realized loss on termination of non-designated derivative instruments	95,187	1.07	–	–	–	–
Amortization of unrealized gain, net of unrealized loss on de-designated derivative instruments	(14,712)	(0.17)	–	–	–	–
Realized loss on sale of investments	1,365	0.02	–	–	–	–
Core earnings	$ 64,158	$ 0.50	$ 50,072	$ 0.34	$ 79,589	$ 0.65

Management believes that presenting financing spreads on residential mortgage investments, a non-GAAP financial measure, provides useful information for evaluating the performance of the Company's portfolio as opposed to total financing spreads because the non-GAAP measure speaks specifically to the performance of the Company's investment portfolio. The following reconciles these measures for the indicated periods:

	2019	2018	2017	2016	2015
Total financing spreads	0.41%	0.33%	0.55%	0.64%	0.81%
Impact of yields on other interest-earning assets*	–	–	0.01	0.02	0.03
Impact of borrowing rates on other interest-paying liabilities*	0.05	0.05	0.05	0.06	0.05
Impact of amortization of unrealized gain, net of unrealized loss on de-designated derivative instruments	(0.14)	–	–	–	–
Impact of net cash flows received on non-designated derivative instruments	0.21	–	–	–	–
Financing spreads on residential mortgage investments	0.53	0.38	0.61	0.72	0.89

* *Other interest-earning assets consist of overnight investments and cash collateral receivable from derivative counterparties. Other interest-paying liabilities consist of unsecured borrowings (at an average borrowing rate of 7.74% for 2019) and cash collateral payable to derivative counterparties.*

Tax Considerations of Capstead Common and Preferred Stock Dividends

Capstead's common and preferred dividend distributions are generally characterized as ordinary income or nontaxable return of capital based on the relative amounts of the Company's earnings and profits (taxable income, after certain adjustments) to total distributions applicable for a given tax year. Total distributions are determined in accordance with the spillover distribution provisions of IRC 857(b)(9).

Under IRC 857(b)(9), REIT common dividends declared in the fourth quarter of a calendar year with a record date prior to year-end and a payable date in January of the following year will be included in total distributions in the year declared only to the extent of available earnings and profits. As a result, such fourth quarter common dividends may be pro-rated between tax years or may not be taxable until the following year. Capstead's common dividend declared in the fourth quarter of 2019 will be treated entirely as a 2020 distribution. Common dividends declared in the fourth quarters of 2018 and 2017 were treated entirely as 2019 and 2018 distributions, respectively. Characterization of common distributions allocable to 2019, 2018 and 2017 tax years were as follows:

	2019		*2018*		*2017*	
	Amount	***%***	***Amount***	***%***	***Amount***	***%***
Ordinary income	$ -	- %	$ 0.38262	63.8 %	$ 0.58703	69.9 %
Return of capital	0.40000	100.0	0.21738	36.2	0.25297	30.1
Total	$ 0.40000	100.0	$ 0.60000	100.0	$ 0.84000	100.0

Common distributions characterized as return on capital reduce the tax basis of related shares and are nontaxable to a recipient unless cumulative return of capital distributions received by a recipient exceed tax cost basis, in which case the excess is reportable as capital gain.

REIT preferred dividends are subject to the same spillover provisions under IRC 857(b)(9), although proration between tax years usually results in 100% of such dividends being included in total distributions in the year declared. All preferred dividends allocable to 2018 and 2017 were characterized as ordinary income. However, Capstead did not have earnings and profits to distribute in 2019. Accordingly, preferred dividends declared and paid in 2019 are characterized as a nontaxable return of capital. Further, preferred dividends declared in December of 2019 and payable in January of 2020 will be treated entirely as 2020 distributions.

If in future years the Company realizes gains on sales of assets, a portion of its dividends may be characterized as long-term capital gains, provided such gains exceed available capital loss carryforwards. Any such capital gain distributions would be reported as long-term capital gains and would generally be taxed at lower rates than distributions of ordinary income. Unutilized capital loss carryforwards totaling $17.5 million expired in 2019. At December 31, 2019 the Company had remaining net capital loss carryforwards of $1.3 million that expire after 2024.

At December 31, 2019, the Company had net operating loss (NOL) carryforwards totaling $31 million generated in 2019. Under the provisions of the Tax Cuts and Jobs Act of 2017, NOLs no longer expire, but a taxpayer can only offset up to 80% of its income in any given year with an NOL. The Company expects to fully utilize its NOL.

See the investor relations section of the Company's website at www.capstead.com for additional dividend characterization information. Due to the complex nature of applicable tax rules, it is recommended that stockholders consult their tax advisors to ensure proper tax treatment of dividends received.

RESULTS OF OPERATIONS

	Year ended December 31		
	2019	***2018***	***2017***
Income statement data (*in thousands, except per share data*)			
Interest income on residential mortgage investments	$ 320,217	$ 274,891	$ 232,435
Related interest expense	(246,212)	(206,976)	(138,757)
	74,005	67,915	93,678
Other interest income (expense)	(4,858)	(5,922)	(6,646)
	69,147	61,993	87,032
Other (expense) income:			
Loss on derivative instruments (net)	(90,578)	–	–
Loss on sale of investments (net)	(1,365)	–	–
Compensation-related expense	(8,197)	(7,759)	(4,915)
Other general and administrative expense	(4,494)	(4,527)	(4,689)
Miscellaneous other revenue	149	365	2,161
	(104,485)	(11,921)	(7,443)
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589
Net (loss) income per diluted common share	$ (0.62)	$ 0.34	$ 0.65
Average diluted common shares outstanding	88,722	91,230	95,843
Core earnings *(a)*	$ 64,158	$ 50,072	$ 79,589
Core earnings per diluted common share *(a)*	0.50	0.34	0.65
Key operating statistics (*dollars in millions*)			
Average yields:			
Residential mortgage investments	2.75%	2.12%	1.73%
Other interest-earning assets	2.10	1.76	0.83
Total average yields	2.75	2.12	1.73
Average borrowing rates:			
Secured borrowings *(a)(b)*	2.22	1.74	1.12
Unsecured borrowings	7.74	7.75	7.76
Total average borrowing rates	2.27	1.79	1.17
Average total financing spreads	0.41	0.33	0.55
Average financing spreads on residential mortgage investments*(a)*	0.53	0.38	0.61
Average CPR	26.62	22.89	23.97
Average balance information:			
Residential mortgage investments *(cost basis)*	$ 11,629	$ 12,947	$ 13,407
Other interest-earning assets	133	96	116
Secured borrowings	10,753	11,885	12,389
Unsecured borrowings *(included in long-term investment capital)*	98	98	98
Long-term investment capital ("LTIC")	1,158	1,258	1,359
Operating costs as a percentage of average LTIC	1.10%	0.98%	0.71%
Return on average common equity capital *(c)*	5.54	3.38	5.96

(a) *See "Reconciliation of GAAP and non-GAAP Financial Measures" for a reconciliation of these financial measures and the Company's rationale for using these non-GAAP financial measures.*

(b) *Secured borrowing rates exclude the effects of amortization of the net unrealized gains and losses included in Accumulated other comprehensive income (loss) upon de-designation on March 1, 2019 of related derivatives held for hedging purposes of (0.14)% and include net interest cash flows from that date on non-designated derivatives of 0.21% during 2019 to better compare the components of financing spreads on residential mortgage investments with prior periods.*

(c) *Calculated using core earnings less preferred dividends on an annualized basis over average common equity for the period.*

2019 Compared to 2018

Capstead reported for GAAP purposes a net loss of $35 million or $(0.62) per diluted common share during 2019. This compares to net income of $50 million or $0.34 per diluted common share for 2018. GAAP net income was negatively affected during 2019 primarily by losses on hedging-related derivatives of $91 million due largely to declining interest rates. Valuation adjustments for secured borrowings-related derivatives are recorded in results of operations beginning March 1, 2019 with the discontinuance of hedge accounting. Previously these amounts were recorded in *Accumulated other comprehensive income (loss)*.

Capstead's core earnings, a non-GAAP financial measure, totaled $64 million or $0.50 per diluted common share during 2019, compared to core earnings of $50 million or $0.34 per diluted common share for 2018. Core earnings in 2019 benefited from higher cash yields and lower investment premium amortization while being negatively impacted by higher borrowing rates.

Interest income on residential mortgage investments was higher by $45 million in 2019 compared to 2018. The increase is attributable to $75 million in increases related to higher average yields, net of $30 million in decreases related to lower average portfolio balances during 2019.

Yields on residential mortgage investments were 63 basis points higher, averaging 2.75% during 2019, compared to 2.12% reported for 2018, primarily due to higher cash yields. This was largely due to ARM loan coupon interest rates resetting higher to more current rates and higher coupon interest rates on acquisitions. Yields also benefited from smaller adjustments for investment premium amortization in 2019 compared to 2018 as a result of lower portfolio basis, lower premiums on acquisitions and changes in prepayment estimates.

Interest expense on secured borrowings was higher by $39 million in 2019 compared to 2018. The increase is attributable to $60 million in increases related to higher average borrowing rates, net of $21 million in decreases related to lower average borrowings during 2019.

Secured borrowing rates adjusted for currently-paying interest rate swap agreements held for hedging purposes were 48 basis points higher, averaging 2.22% in 2019, compared to 1.74% reported for 2018. Market conditions contributed to higher borrowing rates, including four 25 basis point increases in the Federal Funds Rate in 2018 that were partially offset by three 25 basis point decreases since July 2019. Hedging costs were impacted by the expiration of older, lower-rate swaps and the addition of new higher-rate swaps. Resulting higher rates were partially offset by higher variable rate swap receipts as a result of higher average short-term LIBOR rates and the use of more 3-month LIBOR-receive swap agreements. Average fixed-rate swap payments were 2.07% in 2019 compared to 1.56% in 2018. Efforts to reposition the swap portfolio to take advantage of declining market interest rates over the course of 2019 helped mitigate the increase in average fixed rates. Swap balances were higher, averaging $7.46 billion in 2019 compared to $6.75 billion reported for 2018. Future secured borrowing rates will be dependent on market conditions, including overall levels of market interest rates as well as the availability of longer-maturity borrowings and interest rate swap agreements at attractive rates.

Other interest expense (net) during 2019 benefited from a 34 basis point increase in rates on overnight investments and cash collateral receivable from derivative counterparties and $37 million in higher average balances. Borrowing costs on the Company's $100 million face amount of outstanding unsecured borrowings are effectively fixed utilizing $100 million in swap agreements with matching terms.

Operating costs were higher in 2019 compared to 2018 by $405,000, primarily due to adjustments made to finalize 2018 short-term incentive program results. Capstead remains a highly efficient investment platform, particularly compared to other mortgage REITs. Key components of the Company's operating efficiency include its internally-managed structure and agency-focused investment strategy.

LIQUIDITY AND CAPITAL RESOURCES

Capstead's primary sources of funds are secured borrowings and monthly principal and interest payments on its investments. Other sources of funds may include proceeds from debt and equity offerings and asset sales. The timing, manner, price and amount of any future common and preferred issuances and any common stock repurchases will be made in the open market at the Company's discretion, subject to economic and market conditions, stock price, compliance with federal securities laws and tax regulations as well as blackout periods associated with the dissemination of important Company-specific news.

The Company generally uses its liquidity to pay down secured borrowings to reduce borrowing costs and otherwise efficiently manage its long-term investment capital. Because the level of these borrowings can generally be adjusted on a daily basis, the Company's potential liquidity inherent in its unencumbered residential mortgage investments is as important as the level of cash and cash equivalents carried on the balance sheet. The table included under "Utilization of Long-term Investment Capital and Potential Liquidity" illustrates management's estimate of additional funds potentially available to the Company at December 31, 2019 and the accompanying discussion provides insight into the Company's perspective on what level of portfolio leverage to employ under current market conditions. The Company currently believes that it has sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on borrowings and the payment of cash dividends as required for the Company's continued qualification as a REIT.

Capstead finances its residential mortgage investments primarily by borrowing under repurchase arrangements, the terms and conditions of which are negotiated on a transaction-by-transaction basis, when each such borrowing is initiated or renewed.

Future borrowings are dependent upon the willingness of lenders to participate in the financing of Agency Securities, lender collateral requirements and the lenders' determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates and liquidity conditions within the commercial banking and mortgage finance industries. None of the Company's borrowing counterparties are obligated to renew or otherwise enter into new borrowings at the conclusion of existing borrowings. Secured borrowings began 2019 at $10.98 billion, averaged $10.75 billion during the year, and ended the year at $10.28 billion, all maturing within 90 days. Average secured borrowings can differ from period-end balances for a number of reasons including portfolio growth or contraction, as well as differences in the timing of portfolio acquisitions relative to portfolio runoff.

To help mitigate exposure to rising short-term interest rates, the Company uses derivatives supplemented with longer-maturity secured borrowings when available at attractive rates and terms. At year-end the Company held $7.40 billion notional amount of portfolio financing-related interest rate swap agreements with contract expirations occurring at various dates through the fourth quarter of 2022 and a weighted average expiration of 20 months. At year-end the Company also held a series of $500 million notional amount three-month Eurodollar futures contracts with a weighted average rate of 1.62% with maturities through June 2020. Additionally, the Company entered into swap agreements effectively locking in lower fixed rates of interest during the 20-year floating rate terms of the Company's $100 million face amount of unsecured borrowings that mature in 2035 and 2036. The Company intends to continue to utilize suitable derivative financial instruments such as interest rate swap agreements or other derivatives and longer-maturity secured borrowings to manage interest rate risk when available at attractive rates and terms.

On August 1, 2019 the Company completed a public offering of common stock raising $75 million. Subsequent to year-end the Company raised $11 million of common equity through an at-the-market continuous offering program.

Interest Rate Risk

Because Capstead's residential mortgage investments consist almost entirely of Agency Securities, which are considered to have limited, if any, credit risk, interest rate risk is the primary market risk faced by the Company. Interest rate risk is highly sensitive to a number of factors, including economic conditions, government fiscal policy, central bank monetary policy and banking regulation. By focusing on investing in relatively short-duration ARM Agency Securities, declines in fair value caused by increases in interest rates are typically relatively modest compared to investments in longer-duration ARM or fixed-rate assets. These declines can be recovered in a relatively short period of time as coupon interest rates on the underlying mortgage loans reset to rates more reflective of the then-current interest rate environment. This strategy also positions the Company to benefit from future recoveries in financing spreads that typically contract during periods of rising interest rates.

Derivatives and longer-maturity secured borrowings lengthen the effective duration of the Company's secured borrowings to more closely match the duration of its portfolio of residential mortgage investments. After consideration of derivative positions held to hedge changes in secured borrowing rates, at December 31, 2019 the Company's residential mortgage investments and secured borrowings had estimated durations of 15 and 14¼ months, for a net duration gap of approximately ¾ months. The Company intends to continue to manage interest rate risk associated with holding and financing its residential mortgage investments by utilizing suitable derivative financial instruments such as interest rate swap agreements or other derivatives and longer-maturity secured borrowings, if available at attractive rates and terms.

Capstead performs sensitivity analyses using a model to estimate the effects that specific interest rate changes can reasonably be expected to have on net interest margins and portfolio values. All investments, secured borrowings and related derivatives held are included in these analyses. For net interest margin modeling purposes, the model incorporates management's assumptions for mortgage prepayment levels for a given interest rate change using market-based estimates of prepayment speeds for the purpose of amortizing investment premiums and reinvesting portfolio runoff. These assumptions are developed through a combination of historical analysis and expectations for future pricing behavior under normal market conditions unaffected by changes in market liquidity. For portfolio valuation modeling purposes, a static portfolio is assumed.

This model is the primary tool used by management to assess the direction and magnitude of changes in net interest margins and portfolio values resulting solely from changes in interest rates. Key modeling assumptions include mortgage prepayment speeds, adequate levels of market liquidity, current market conditions, and portfolio leverage levels. These assumptions are inherently uncertain and, as a result, modeling cannot precisely estimate the impact of higher or lower interest rates. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, other changes in market conditions, changes in management strategies and other factors.

The table below reflects the estimated impact of instantaneous parallel shifts in the yield curve on net interest margins and the fair value of Capstead's portfolio of residential mortgage investments and related derivative financial instruments at December 31, 2019 and 2018, subject to the modeling parameters described above.

	Federal Funds Rate	*10-Year U.S. Treasury Rate*	*Down 1.00%*	*Down 0.50%*	*Up 0.50%*	*Up 1.00%*
Projected 12-month percentage change in net interest margins: *(a)*						
December 31, 2019	1.50-1.75%	1.92%	1.6%	1.2%	(0.6)%	(3.7)%
December 31, 2018	2.25-2.50 %	2.69	20.9	11.4	(12.7)	(34.4)
Projected percentage change in portfolio and related derivative values: *(a)*						
December 31, 2019	1.50-1.75	1.92	(0.1)	-	(0.2)	(0.4)
December 31, 2018	2.25-2.50	2.69	0.1	0.1	(0.3)	(0.7)

(a) *Sensitivity of net interest margins as well as portfolio and related derivative values to changes in interest rates is determined relative to the actual rates at the applicable date. Note that the projected 12-month net interest margin change is predicated on acquisitions of similar assets sufficient to replace runoff. There can be no assurance that suitable investments will be available for purchase at attractive prices, if investments made will behave in the same fashion as assets currently held or if management will choose to replace runoff with such assets.*

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon Capstead's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and judgments that can affect the reported amounts of assets, liabilities (including contingencies), revenues and expenses, as well as related disclosures. These estimates are based on available internal and market information and appropriate valuation methodologies believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the expected useful lives and carrying values of assets and liabilities which can materially affect the determination of net income and book value per common share. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following are critical accounting policies in the preparation of Capstead's consolidated financial statements that involve the use of estimates requiring considerable judgment:

- *Amortization of investment premiums on residential mortgage investments* – Investment premiums on residential mortgage investments are recognized in earnings as adjustments to interest income by the interest method over the estimated lives of the related assets. Amortization is affected by actual portfolio runoff (scheduled and unscheduled principal paydowns) and by estimates and judgments related to future levels of mortgage prepayments that may be necessary to achieve the required effective yield over the estimated life of the related investment.

  Mortgage prepayment expectations can change based on how current and projected changes in interest rates impact the economic attractiveness of mortgage refinance opportunities, if available, and other factors such as lending industry underwriting practices and capacity constraints, regulatory changes, borrower credit profiles and the health of the economy and housing markets. Management estimates future mortgage prepayments based on these factors and past experiences with specific investments within the portfolio. Should actual prepayment rates differ materially from these estimates, investment premiums would be expensed at a different pace.

- *Fair value and impairment accounting for residential mortgage investments* – Nearly all of Capstead's residential mortgage investments are held in the form of mortgage securities that are classified as available-for-sale and recorded at fair value on the balance sheet with unrealized gains and losses recorded in *Stockholders' equity* as a component of *Accumulated other comprehensive income (loss)*. Fair values fluctuate with current and projected changes in interest rates, prepayment expectations and other factors such as market liquidity conditions and the perceived credit quality of Agency Securities. Judgment is required to interpret market data and develop estimated fair values, particularly in circumstances of deteriorating credit quality and market liquidity. See NOTE 8 to the Consolidated Financial Statements for discussion of how Capstead values its residential mortgage investments.

  Generally, gains or losses are recognized in earnings only if securities are sold; however, if a decline in fair value of a mortgage security below its amortized cost occurs that is determined to be other-than-temporary, the difference between amortized cost and fair value would be recognized in earnings as a component of *Other (expense) income* if the decline was credit-related or it was determined to be more likely than not that the Company will incur a loss via an asset sale. Other-than-temporary impairment of a mortgage security due to other factors would be recognized in *Accumulated other comprehensive income (loss)*.

- *Accounting for derivative instruments* – Derivatives are recorded as assets or liabilities and carried at fair value. Fair values fluctuate with current and projected changes in interest rates and other factors such as the Company's and its counterparties' nonperformance risk. Judgment is required to develop estimated fair values.

  The accounting for changes in fair value of each derivative held depends on whether it has been designated as an accounting hedge, as well as the type of hedging relationship identified. To qualify as a cash flow hedge for accounting purposes, at the inception of the hedge relationship the Company must anticipate and document that the hedge relationship will be highly effective and must monitor ongoing effectiveness on at least a quarterly basis. As long as the hedge relationship remains highly effective, changes in fair value of the derivative are recorded in *Accumulated other comprehensive income (loss)*. Changes in fair value of derivatives not held as accounting hedges, or for which the hedge relationship is deemed to no longer be highly effective and as a result hedge accounting is terminated, are recorded in earnings as a component of *Other (expense) income.*

  The Company uses derivatives primarily in the form of interest rate swap agreements to hedge the variability in borrowing rates on its secured borrowings and unsecured borrowings. For derivatives designated as accounting hedges, fixed interest payments and variable interest receipts are recorded as an adjustment to interest expense on the related designated borrowings. For derivatives not designated as accounting hedges, fixed interest payments and variable interest receipts are recorded as a component of *Other (expense) income*. For derivatives initially designated as an accounting hedge and subsequently de-designated, any unrealized gain or loss included in *Accumulated other comprehensive income (loss)* at the time of de-designation is amortized as an adjustment to interest expense on the related borrowings over the remaining term of the derivatives. See "Financial Condition – Residential Mortgage Investments" and NOTE 6 to the Consolidated Financial Statements for additional information regarding the Company's current use of derivatives and its related risk management policies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

The information required by this item is included above in Item 7 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

All financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements and notes thereto.

Financial statements of subsidiaries have been omitted as such entities do not individually or in the aggregate exceed the 20% threshold under either the investment or income tests applicable under the appropriate regulations for inclusion. The Company owned 100% of each of its subsidiaries.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Capstead Mortgage Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capstead Mortgage Corporation (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Residential mortgage investments – Debt Securities

Description of the Matter	Residential mortgage investments totaled $11.22 billion at December 31, 2019, consisting of Agency Securities classified as available-for-sale. As explained in Note 2 and Note 8 of the consolidated financial statements, residential mortgage investments are carried at fair value at each reporting date with unrealized gains and losses reported as a separate component of Accumulated other comprehensive income (loss). Fair values are influenced by current and projected changes in interest rates, prepayment expectations, market liquidity conditions and other factors including consideration of recent trading activity for similar investments and pricing levels. Auditing the Company's accounting for certain securities within its residential mortgage investments portfolio was complex due to the estimation uncertainty in determining the fair value as these securities, which represent 1.8% of the portfolio of Residential mortgage investments, tend to have higher uncertainty in prepayment expectations, less recent trading activity or variability in pricing levels.
How We Addressed the Matter in Our Audit	We evaluated and tested the design and operating effectiveness of controls addressing the identified risks related to the Company's process used in determining the valuation of residential mortgage investments, including management's review of available third-party pricing data. We also tested management's controls over the completeness and accuracy of the data used in the valuation. Our audit procedures included, among others, independently pricing a sample of these securities which involved internally developing fair value estimates using independently derived data for significant assumptions (e.g. prepayment rate and portfolio yield) to compare with management's determined prices. We involved an internal valuation specialist and third-party data in our procedures. Additionally, we performed analytical procedures, which included a sensitivity analysis to understand the impact of a change in average fair value compared to management's mark-to-market adjustment for these securities.

/s/ ERNST & YOUNG, LLP

We have served as the Company's auditor since 1985
Dallas, Texas
February 21, 2020

Consolidated Balance Sheets

(In thousands, except pledged and per share amounts)

	December 31	
	2019	*2018*
Assets		
Residential mortgage investments ($10.83 and $11.57 billion pledged at December 31, 2019 and 2018, respectively)	$ 11,222,182	$ 11,965,381
Cash collateral receivable from derivative counterparties	65,477	31,797
Derivatives at fair value	1,471	–
Cash and cash equivalents	105,397	60,289
Receivables and other assets	125,474	129,058
	$ 11,520,001	$ 12,186,525
Liabilities		
Secured borrowings	$ 10,275,413	$ 10,979,362
Derivatives at fair value	29,156	17,834
Unsecured borrowings	98,392	98,292
Common stock dividend payable	14,605	7,132
Accounts payable and accrued expenses	28,702	24,842
	10,446,268	11,127,462
Stockholders' equity		
Preferred stock - $0.10 par value; 100,000 shares authorized: 7.50% Cumulative Redeemable Preferred Stock, Series E, 10,329 shares issued and outstanding ($258,226 aggregate liquidation preference) at December 31, 2019 and 2018	250,946	250,946
Common stock - $0.01 par value; 250,000 shares authorized: 94,606 and 85,277 shares issued and outstanding at December 31, 2019 and 2018, respectively	946	853
Paid-in capital	1,252,481	1,174,880
Accumulated deficit	(444,039)	(346,570)
Accumulated other comprehensive income (loss)	13,399	(21,046)
	1,073,733	1,059,063
	$ 11,520,001	$ 12,186,525

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year ended December 31		
	2019	2018	2017
Interest income			
Residential mortgage investments	$ 320,217	$ 274,891	$ 232,435
Other	2,753	1,689	964
	322,970	276,580	233,399
Interest expense			
Secured borrowings	(246,212)	(206,976)	(138,757)
Unsecured borrowings	(7,611)	(7,611)	(7,610)
	(253,823)	(214,587)	(146,367)
Net interest income	69,147	61,993	87,032
Other (expense) income:			
Loss on derivative instruments (net)	(90,578)	–	–
Loss on sale of investments (net)	(1,365)	–	–
Compensation-related expense	(8,197)	(7,759)	(4,915)
Other general and administrative expense	(4,494)	(4,527)	(4,689)
Miscellaneous other revenue	149	365	2,161
	(104,485)	(11,921)	(7,443)
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589
Less preferred stock dividends	(19,368)	(19,368)	(17,442)
Net (loss) income available to common stockholders	$ (54,706)	$ 30,704	$ 62,147
Basic and diluted net (loss) income per common share	$ (0.62)	$ 0.34	$ 0.65

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year ended December 31		
	2019	*2018*	*2017*
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589
Other comprehensive income (loss)			
Amounts related to available-for-sale securities:			
Change in net unrealized gain or loss	71,148	(72,490)	(60,391)
Reclassification adjustment for amounts included in net (loss) income	1,365	–	–
Amounts related to cash flow hedges:			
Change in net unrealized gain or loss	(17,080)	25,716	21,426
Reclassification adjustment for amounts included in net (loss) income	(20,988)	(36,390)	(4,808)
	34,445	(83,164)	(43,773)
Comprehensive (loss) income	$ (893)	$ (33,092)	$ 35,816

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

	Preferred Stock	*Common Stock*	*Paid-in Capital*	*Accumulated Deficit*	*Accumulated Other Comprehensive Income (Loss)*	*Total Stockholders' Equity*
Balance at December 31, 2016	$ 199,059	$ 960	$ 1,288,346	$ (346,464)	$ 105,786	$ 1,247,687
Cumulative effect adjustment - adoption of ASU 2017-12	–	–	–	(105)	105	–
Net income	–	–	–	79,589	–	79,589
Change in unrealized gain on mortgage securities, net	–	–	–	–	(60,391)	(60,391)
Amounts related to cash flow hedges, net	–	–	–	–	16,618	16,618
Cash dividends:						
Common – $0.80 per share	–	–	(14,584)	(62,148)	–	(76,732)
Preferred – $1.875 per share	–	–	–	(17,442)	–	(17,442)
Issuance of Series E preferred stock	51,887	–	–	–	–	51,887
Common stock repurchases		(4)	(3,456)			(3,460)
Other additions to capital	–	1	1,119	–	–	1,120
Balance at December 31, 2017	250,946	957	1,271,425	(346,570)	62,118	1,238,876
Net income	–	–	–	50,072	–	50,072
Change in unrealized gain on mortgage securities, net	–	–	–	–	(72,490)	(72,490)
Amounts related to cash flow hedges, net	–	–	–	–	(10,674)	(10,674)
Cash dividends:						
Common – $0.49 per share	–	–	(13,759)	(30,704)	–	(44,463)
Preferred – $1.875 per share	–	–	–	(19,368)	–	(19,368)
Common stock repurchases		(107)	(84,487)			(84,594)
Other additions to capital	–	3	1,701	–	–	1,704
Balance at December 31, 2018	250,946	853	1,174,880	(346,570)	(21,046)	1,059,063
Net loss	–	–	–	(35,338)	–	(35,338)
Change in unrealized gain on mortgage securities, net	–	–	–	–	72,513	72,513
Amounts related to cash flow hedges, net	–	–	–	–	(38,068)	(38,068)
Cash dividends:						
Common – $0.47 per share	–	–	–	(42,763)	–	(42,763)
Preferred – $1.875 per share	–	–	–	(19,368)	–	(19,368)
Issuance of common stock		90	75,012			75,102
Other additions to capital	–	3	2,589	–	–	2,592
Balance at December 31, 2019	$ 250,946	$ 946	$ 1,252,481	$ (444,039)	$ 13,399	$ 1,073,733

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year ended December 31		
	2019	*2018*	*2017*
Operating activities:			
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Amortization of investment premiums	73,742	115,339	128,769
Amortization of equity-based awards	2,724	1,783	1,404
Amortization of unrealized gain on de-designated hedges	(14,712)	–	–
Loss on sale of mortgage investments	1,365	–	–
Loss on derivative instruments (net)	112,834	–	–
Other depreciation and amortization	109	107	111
Change in measurable hedge ineffectiveness related to interest rate swap agreements designated as cash flow hedges	–	–	36
Net change in receivables, other assets, accounts payable and accrued expenses	13,543	(2,541)	2,167
Net cash provided by operating activities	154,267	164,760	212,076
Investing activities:			
Purchases of residential mortgage investments	(3,316,158)	(2,302,656)	(4,224,515)
Proceeds from sales of residential mortgage investments	303,991	–	–
Interest receivable acquired with the purchase of residential mortgage investments	(6,422)	(4,476)	(6,739)
Principal collections on residential mortgage investments, including changes in mortgage securities principal remittance receivable	3,752,449	3,608,325	3,914,865
Redemption of lending counterparty investment	5,000	–	–
Net cash provided by (used in) investing activities	738,860	1,301,193	(316,389)
Financing activities:			
Proceeds from repurchase arrangements and similar borrowings	138,721,910	173,854,358	177,916,331
Principal payments on repurchase arrangements and similar borrowings	(139,425,859)	(175,206,052)	(177,730,614)
(Increase) decrease in cash collateral receivable from derivative counterparties	(33,680)	10,709	(12,846)
Net (payments on) proceeds from derivative settlements	(130,802)	(8,734)	27,793
Issuance of preferred stock	–	–	52,051
Common stock repurchases	–	(84,594)	(3,460)
Issuance of common stock	75,195	–	–
Other capital stock transactions	(106)	(72)	(261)
Dividends paid	(54,677)	(75,186)	(97,506)
Net cash (used in) provided by financing activities	(848,019)	(1,509,571)	151,488
Net change in cash and cash equivalents	45,108	(43,618)	47,175
Cash and cash equivalents at beginning of year	60,289	103,907	56,732
Cash and cash equivalents at end of year	$ 105,397	$ 60,289	$ 103,907

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 — BUSINESS

Capstead Mortgage Corporation operates as a self-managed real estate investment trust for federal income tax purposes (a "REIT") and is based in Dallas, Texas. Unless the context otherwise indicates, Capstead Mortgage Corporation, together with its subsidiaries, is referred to as "Capstead" or the "Company." Capstead earns income from investing in a leveraged portfolio of residential mortgage pass-through securities consisting almost exclusively of adjustable-rate mortgage ("ARM") securities issued and guaranteed by government-sponsored enterprises, either Fannie Mae, Freddie Mac, or by an agency of the federal government, Ginnie Mae. These guaranteed residential mortgage pass-through securities are referred to as "Agency Securities" and are considered to have limited, if any, credit risk.

NOTE 2 — ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Capstead Mortgage Corporation and its wholly-owned and majority-owned subsidiaries over which it exercises control. Pursuant to variable interest entity ("VIE") accounting principles, Capstead considers for consolidation any VIE in which it holds an interest. Intercompany balances and transactions are eliminated.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases ("ASU 2016-02") which requires entities who are lessees to recognize a right-of-use asset and a lease liability arising from those leases on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company adopted ASU 2016-02 on January 1, 2019, which had no material effect on the Company's results of operations, financial condition and cash flows.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses ("ASU 2016-13") which replaces the incurred loss impairment methodology in current GAAP to a methodology that better reflects expected credit losses. For financial instruments carried at amortized cost, impairment will be measured as a current estimate of expected lifetime credit losses. For available-for-sale debt securities in which changes in fair value are recorded in accumulated other comprehensive income, the FASB made targeted improvements eliminating the write-down of available-for-sale securities under the "other-than-temporarily" impaired model with an allowance for credit losses model. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company adopted ASU 2016-13 on January 1, 2020 which, primarily due to the limited credit risk on Agency Securities as discussed in NOTE 1, had no material effect on the Company's results of operations, financial condition and cash flows.

Use of Estimates

Fair values of nearly all financial instruments held by the Company are estimated based on a market approach using available market information and appropriate valuation methodologies (Level Two Inputs); however, judgment is required in interpreting market data to develop these estimates. Fair values fluctuate on a daily basis and are influenced by changes in, and market expectations for changes in, interest rates, market liquidity conditions and levels of mortgage prepayments, as well as other factors. Accordingly, estimates of fair value are as of the balance sheet dates and are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on estimated fair values. Judgment is also exercised in making impairment conclusions and estimating impairment charges.

Amortization of investment premiums on financial assets is based in part on estimates of future levels of mortgage prepayments. Estimates are influenced by changes in, and market expectations for changes in, interest rates, market liquidity conditions, actual levels of mortgage prepayments and other factors. Judgment is required in developing these estimates, however the actual level of mortgage prepayments for a given accounting period is the single largest determinant in amortizing investment premiums.

Cash and Cash Equivalents

Cash and cash equivalents include unrestricted cash on hand and highly liquid investments with original maturities of three months or less when purchased.

Financial Assets

Capstead's financial assets consist almost exclusively of Agency Securities classified as available-for-sale and carried at fair value with net unrealized gains and losses reported as a separate component of *Accumulated other comprehensive income (loss)*. Loans classified as held for investment or mortgage securities classified as held-to-maturity are recorded at amortized cost (unpaid principal balance, adjusted for unamortized investment premiums and discounts). Interest is recorded as income when earned. Investment premiums and discounts are recognized as adjustments to interest income by the interest method over the expected life of the related financial assets. Realized gains and losses from any financial asset sales are recorded as a component of *Other (expense) income*. The specific identification method is used to determine the cost of financial assets sold. Financial assets are reviewed for potential impairment at each balance sheet date. Other-than-temporary impairments of investments in mortgage securities can occur with changes in the Company's intent or ability to hold the mortgage securities until any declines in fair value are recovered and as a result of adverse changes in the financial condition of the issuer(s) such that a full recovery of cost basis is no longer expected. The amount of any such other-than-temporary impairment for an investment in a mortgage security is measured by comparing the recorded amount of the security to its fair value. Other-than-temporary impairment charges would be recorded as a component of *Other (expense) income* if the impairment results from changes in the Company's intent or ability to hold the securities. Should other-than-temporary impairment arise as a result of adverse changes in the financial condition of the issuer(s) without changing the Company's intent and ability to hold the securities, the credit component of the impairment would be recorded as a component of *Other (expense) income* with any remainder recorded as a component of *Other comprehensive income (loss)*.

Borrowings

Secured borrowings in the form of repurchase arrangements create exposure to the potential for failure on the part of counterparties to honor their commitment to return pledged collateral. In the event of a default by a repurchase arrangement counterparty, the Company may have difficulty recovering its collateral. To mitigate this risk, the Company monitors the creditworthiness of its counterparties and manages its exposure to any single counterparty.

Capstead's borrowings are carried at their principal balances outstanding net of related debt issuance costs and debt discounts, if applicable. Debt issuance costs associated with *Unsecured borrowings* are recognized as adjustments to interest expense by the interest method over the term of these borrowings.

Derivative Financial Instruments ("Derivatives")

Derivatives used by Capstead for risk management purposes are carried at fair value as assets or liabilities. The accounting for changes in fair value of Derivatives held depends on whether it has been designated as a hedge for accounting purposes, as well as the type of hedging relationship identified. Capstead may designate any Derivatives held as cash flow hedges related to a designated portion of its current and anticipated future borrowings. To qualify as a cash flow hedge, at the inception of the hedge relationship the Company must document that the hedge relationship is anticipated to be highly effective and monitor ongoing effectiveness on at least a quarterly basis. As long as the hedge relationship remains effective, the change in fair value of the Derivatives are recorded in *Accumulated other comprehensive income (loss)*. Changes in fair value of Derivatives not held as accounting hedges, if any, or for which the hedge relationship is no longer considered highly effective, are recorded in earnings as a component of *Other (expense) income.* On March 1, 2019 the Company discontinued its use of hedge accounting on its interest rate swaps related to *Secured borrowings*, while retaining hedge accounting for swaps related to *Unsecured borrowings*.

The Company uses Derivatives primarily in the form of interest rate swap agreements to hedge the variability in borrowing rates on its secured and unsecured borrowings. If designated as accounting hedges, related fixed interest payments and variable interest receipts are recorded as an adjustment to interest expense on the related designated borrowings. If not designated as accounting hedges, fixed interest payments and variable interest receipts are recorded as a component of *Other (expense) income*. For Derivatives initially designated as accounting hedges and subsequently de-designated, unrealized gain or loss included in *Accumulated other comprehensive income (loss)* at the time of de-designation is amortized as an adjustment to interest expense on the related borrowings over the remaining term of the Derivatives.

Derivatives create exposure to credit risk related to the potential for failure on the part of counterparties to honor their commitments. In addition, the Company is required to post collateral based on any declines in the market value of the Derivatives. In the event of default by a counterparty, the Company may have difficulty recovering its collateral and may not receive payments provided for under the terms of the Derivatives. To mitigate this risk, the Company uses only well-established commercial banks as counterparties and, pursuant to regulatory changes implemented in 2013, most Derivatives held at December 31, 2019 were entered into through Derivative exchanges established in part to mitigate credit risk.

Cash collateral receivable from derivative counterparties, when present, represents cash remitted to swap counterparties to meet initial and ongoing margin requirements that are based on the fair value of these Derivatives, including related interest receivable or payable under the terms of the agreements. The Company may also remit mortgage securities to certain of its swap counterparties to meet ongoing margin requirements. Such mortgage securities, if any, are included in *Residential mortgage investments.* Similarly, *Cash collateral payable to derivative counterparties*, when present, represents cash received from counterparties to meet margin call requirements. For presentation purposes, the Company does not offset individual counterparty collateral receivables (or payables) with the recorded fair value of related interest rate swap agreements pursuant to master netting arrangements. In addition, gross unrealized gains on Derivatives (recorded as assets) are stated separately from gross unrealized losses (recorded as liabilities) without regard to counterparty. Certain cash margin amounts are presented on a net basis against the fair value of related Derivatives.

Long-term Incentive Compensation

Capstead provides its employees and its directors with long-term incentive compensation in the form of equity-based awards. Equity-based compensation costs are initially measured at the estimated fair value of the awards on the grant date developed using appropriate valuation methodologies. Valuation methodologies used and subsequent expense recognition is dependent upon each award's service and performance conditions, the latter also referred to as performance metrics. Capstead has elected not to estimate future award forfeitures when valuing equity-based awards and will adjust compensation costs as actual forfeitures occur.

Compensation costs for equity-based awards subject only to service conditions are measured at the closing stock price on the dates of grant and are recognized as expense on a straight-line basis over the requisite service periods for the awards, as adjusted for any forfeitures. Compensation costs for components of equity-based awards subject to nonmarket-based performance metrics (i.e. metrics not predicated on changes in the Company's stock price), are measured at the closing stock price on the dates of grant, adjusted for the probability of achieving benchmarks included in the performance metrics. These initial cost estimates are recognized as expense over the requisite performance periods, adjusted for subsequent changes in performance estimates. Compensation costs for components of equity-based awards subject to market-based performance metrics are measured at the dates of grant using Monte Carlo simulations which incorporate into the valuations the inherent uncertainty regarding achieving the market-based performance metrics. These initial valuation amounts are recognized as expense over the requisite performance periods, subject to adjustments only for actual forfeitures.

Income Taxes

Capstead Mortgage Corporation and its qualified REIT subsidiaries ("Capstead REIT") have elected to be taxed as a REIT. As a result, Capstead REIT is not taxed on taxable income distributed to stockholders if certain REIT qualification tests are met. Capstead's policy is to distribute 100% of its taxable income, after application of available tax attributes, within the time limits prescribed by the Internal Revenue Code (the "Code"), which may extend into the subsequent taxable year. The Company may find it advantageous from time to time to elect taxable REIT subsidiary status for certain of its subsidiaries in which case taxable income of any such subsidiary would be subject to federal and, where applicable, state or local income taxes. Any such income taxes are accounted for using the liability method. Related deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company has not recognized any liabilities for unrecognized tax benefits using a "more likely than not" threshold for the recognition and measurement of the financial statement effects of tax positions taken on a tax return filing. Should any such liabilities be recognized in future periods, the Company will record related interest and penalties in *Other general and administrative expense*.

Dividend Classification

The tax and financial reporting classification of dividends can differ primarily as a result of differences between taxable income attributable to a particular tax year and that year's *Net income (loss)*, the amount and timing of dividends paid relative to taxable income and how such taxable income is allocated to dividends paid.

NOTE 3 — NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net (loss) income, after deducting dividends paid or accrued on preferred stock and allocating earnings to equity awards deemed to be participating securities pursuant to the two-class method, by the average number of shares of common stock outstanding, calculated excluding unvested stock awards. Participating securities include unvested equity awards that contain non-forfeitable rights to dividends prior to vesting.

Diluted net income (loss) per common share is computed by dividing the numerator used to compute basic net income (loss) per common share by the denominator used to compute basic net income (loss) per common share, further adjusted for the dilutive effect, if any, of equity awards and shares of preferred stock when and if convertible into shares of common stock. Shares of the Company's 7.50% Series E Cumulative Redeemable Preferred Stock are contingently convertible into shares of common stock only upon the occurrence of a change in control and therefore are not considered dilutive securities absent such an occurrence. Any unvested equity awards that are deemed participating securities are included in the calculation of diluted net income (loss) per common share, if dilutive, under either the two-class method or the treasury stock method, depending upon which method produces the more dilutive result. Components of the computation of basic and diluted net income (loss) per common share were as follows for the indicated periods (dollars in thousands, except per share amounts):

	Year ended December 31		
	2019	***2018***	***2017***
Basic net income (loss) per common share			
Numerator for basic net income (loss) per common share:			
Net (loss) income	$ (35,338)	$ 50,072	$ 79,589
Preferred stock dividends	(19,368)	(19,368)	(17,442)
Earnings participation of unvested equity awards	(100)	(102)	(150)
	$ (54,806)	$ 30,602	$ 61,997
Denominator for basic net income (loss) per common share:			
Average number of shares of common stock outstanding	89,349	91,565	96,023
Average unvested stock awards outstanding	(627)	(451)	(305)
	88,722	91,114	95,718
	$ (0.62)	$ 0.34	$ 0.65
Diluted net income (loss) per common share			
Numerator for diluted net income (loss) per common share:			
Numerator for basic net income (loss) per common share	$ (54,806)	$ 30,602	$ 61,997
Denominator for diluted net income (loss) per common share:			
Denominator for basic net income (loss) per common share	88,722	91,114	95,718
Net effect of dilutive equity awards	-	116	125
	88,722	91,230	95,843
	$ (0.62)	$ 0.34	$ 0.65

Anti-dilutive securities that could be potentially dilutive in the future that were not included in the computation of diluted net income (loss) per common share include 947,000 equity awards excludable under the treasury stock method for year ended December 31, 2019. There were no potentially dilutive securities excluded from the computation of years ended December 31, 2018 and 2017.

NOTE 4 — RESIDENTIAL MORTGAGE INVESTMENTS

Residential mortgage investments classified by collateral type and interest rate characteristics were as follows as of the indicated dates (dollars in thousands):

	Unpaid Principal Balance	*Investment Premiums*	*Amortized Cost Basis*	*Carrying Amount (a)*	*Net WAC (b)*	*Average Yield (b)*
December 31, 2019						
Agency Securities:						
Fannie Mae/Freddie Mac:						
Fixed-rate	$ 83	$ -	$ 83	$ 83	6.50%	6.02%
ARMs	8,628,656	262,293	8,890,949	8,931,789	3.45	2.72
Ginnie Mae ARMs	2,214,447	69,884	2,284,331	2,288,758	3.53	2.85
	10,843,186	332,177	11,175,363	11,220,630	3.46	2.75
Residential mortgage loans:						
Fixed-rate	106	1	107	107	4.84	2.42
ARMs	527	3	530	530	4.15	4.02
	633	4	637	637	4.26	3.63
Collateral for structured financings	900	15	915	915	7.99	7.58
	$ 10,844,719	$ 332,196	$ 11,176,915	$ 11,222,182	3.46	2.75
December 31, 2018						
Agency Securities:						
Fannie Mae/Freddie Mac:						
Fixed-rate	$ 126	$ -	$ 126	$ 126	6.50%	6.01%
ARMs	8,691,794	257,999	8,949,793	8,931,558	3.42	2.09
Ginnie Mae ARMs	2,964,531	75,744	3,040,275	3,031,264	3.30	2.23
	11,656,451	333,743	11,990,194	11,962,948	3.39	2.12
Residential mortgage loans:						
Fixed-rate	552	1	553	553	6.80	4.24
ARMs	868	4	872	872	3.91	3.22
	1,420	5	1,425	1,425	5.03	3.58
Collateral for structured financings	991	17	1,008	1,008	7.99	8.55
	$ 11,658,862	$ 333,765	$ 11,992,627	$ 11,965,381	3.39	2.12

(a) Includes unrealized gains and losses for residential mortgage investments classified as available-for-sale.

(b) Net WAC, or weighted average coupon, is the weighted average interest rate of the mortgage loans underlying the indicated investments net of servicing and other fees as of the indicated balance sheet date. Net WAC is expressed as a percentage calculated on an annualized basis on the unpaid principal balances of the mortgage loans underlying these investments.

(c) Average yield is presented for the year then ended, and is based on the cash component of interest income expressed as a percentage calculated on an annualized basis on average amortized cost basis (the "cash yield") less the effects of amortizing investment premiums. Investment premium amortization is determined using the interest method and incorporates actual and anticipated future mortgage prepayments.

Agency Securities are considered to have limited, if any, credit risk because the timely payment of principal and interest is guaranteed. Residential mortgage loans held by Capstead were originated prior to 1995 when the Company operated a mortgage conduit and the related credit risk is borne by the Company. Collateral for structured financings consists of private residential mortgage securities that are backed by loans obtained through this mortgage conduit and are pledged to secure repayment of related structured financings. Credit risk for these securities is borne by the related bondholders. The maturity of *Residential mortgage investments* is directly affected by prepayments of principal on the underlying mortgage loans. Consequently, actual maturities will be significantly shorter than the portfolio's weighted average contractual maturity of 287 months.

Fixed-rate investments consist of residential mortgage loans and Agency Securities backed by residential mortgage loans with fixed rates of interest. Adjustable-rate investments generally are ARM Agency Securities 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. After the initial fixed-rate period, if applicable, mortgage loans underlying ARM securities typically either (i) adjust annually based on specified margins over the one-year London interbank offered rate ("LIBOR") or the one-year Constant Maturity U.S. Treasury Note Rate ("CMT"), (ii) adjust semiannually based on specified margins over six-month LIBOR, or (iii) adjust monthly based on specified margins over indices such as one-month LIBOR, the Eleventh District Federal Reserve Bank Cost of Funds Index, or over a rolling twelve month average of the one-year CMT index, usually subject to periodic and lifetime limits, or caps, on the amount of such adjustments during any single interest rate adjustment period and over the contractual term of the underlying loans.

Capstead classifies its ARM investments based on average number of months until coupon reset ("months to roll"). Months to roll is an indicator of asset duration which is a measure of market price sensitivity to interest rate movements. A shorter duration generally indicates less interest rate risk. Current-reset ARM investments have months to roll of less than 18 months while longer-to-reset ARM investments have months to roll of 18 months or greater. As of December 31, 2019, the average months to roll for the Company's $5.2 billion (amortized cost basis) in current-reset ARM investments was 6.7 months while the average months to roll for the Company's $5.9 billion (amortized cost basis) in longer-to-reset ARM investments was 47.5 months.

During 2019, the Company sold available-for-sale securities using the specific identification method for proceeds totaling $304.7 million recognizing gross realized gains of $405,000 and gross realized losses of $1.8 million. The Company did not sell any securities during 2018 or 2017.

NOTE 5 — SECURED BORROWINGS

Capstead pledges its *Residential mortgage investments* as collateral for secured borrowings primarily in the form of repurchase arrangements with commercial banks and other financial institutions. Repurchase arrangements entered into by the Company involve the sale and a simultaneous agreement to repurchase the transferred assets at a future date and are accounted for as financings. The Company maintains the beneficial interest in the specific securities pledged during the term of each repurchase arrangement and receives the related principal and interest payments.

The terms and conditions of secured borrowings are negotiated on a transaction-by-transaction basis when each such borrowing is initiated or renewed. The amount borrowed is generally equal to the fair value of the securities pledged, as determined by the lending counterparty, less an agreed-upon discount, referred to as a "haircut." Interest rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings. Interest may be paid monthly or at the termination of a borrowing at which time the Company may enter into a new borrowing at prevailing haircuts and rates with the same lending counterparty or repay that counterparty and negotiate financing with a different lending counterparty. None of the Company's lending counterparties are obligated to renew or otherwise enter into new borrowings at the conclusion of existing borrowings. In response to declines in fair value of pledged securities due to changes in market conditions or the publishing of monthly security pay-down factors, lending counterparties typically require the Company to post additional securities as collateral, pay down borrowings or fund cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements. These actions are referred to as margin calls. Conversely, in response to increases in fair value of pledged securities, the Company routinely margin calls its lending counterparties in order to have previously pledged collateral returned.

Secured borrowings (and related pledged collateral, including accrued interest receivable), classified by collateral type and remaining maturities, and related weighted average borrowing rates as of the indicated dates were as follows (dollars in thousands):

Collateral Type	*Collateral Carrying Amount*	*Accrued Interest Receivable*	*Borrowings Outstanding*	*Average Borrowing Rates*
December 31, 2019				
Borrowings under repurchase arrangements secured by Agency securities with maturities of 30 days or less	$ 9,484,275	$ 27,826	$ 9,002,527	2.12%
Borrowings under repurchase arrangements secured by Agency securities with maturities of 31 to 90 days	1,344,437	3,742	1,271,971	1.98
Similar borrowings secured by collateral for structured financings	915	–	915	7.99
	$ 10,829,627	$ 31,568	$ 10,275,413	2.10
December 31, 2018				
Borrowings under repurchase arrangements secured by Agency securities with maturities of 30 days or less	$ 4,424,311	$ 12,287	$ 4,204,988	2.73%
Borrowings under repurchase arrangements secured by Agency securities with maturities of 31 to 90 days	7,143,129	19,621	6,773,366	2.68
Similar borrowings secured by collateral for structured financings	1,008	–	1,008	7.99
	$ 11,568,448	$ 31,908	$ 10,979,362	2.70

Average secured borrowings outstanding were $10.8 billion and $11.9 billion during 2019 and 2018, respectively. Average secured borrowings outstanding differed from respective year-end balances during the indicated periods primarily due to changes in portfolio levels and differences in the timing of portfolio acquisitions relative to portfolio runoff. Interest paid on *Secured borrowings*, including related Derivative cash flows, totaled $232.3 million, $213.8 million, $136.1 million and million during 2019, 2018, and 2017, respectively.

NOTE 6 — USE OF DERIVATIVES, OFFSETTING DISCLOSURES AND CHANGES IN OTHER COMPREHENSIVE INCOME BY COMPONENT

Capstead's portfolio of Derivatives hedge the variability of the underlying benchmark interest rate of current and forecasted 30- to 90-day secured borrowings. The Company attempts to mitigate exposure to higher interest rates primarily by entering into one- and three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements for terms of two and three years. From an economic perspective, this hedge relationship establishes a relatively stable fixed rate on related borrowings because the variable-rate payments received on the swap agreements offset a significant portion of the interest accruing on the borrowings, leaving the fixed-rate swap payments as the Company's effective borrowing rate, subject to certain adjustments. Additionally, changes in fair value of these Derivatives tend to offset opposing changes in fair value of the Company's residential mortgage investments that can occur in response to changes in market interest rates.

Historically, the Company designated its interest rate swaps related to secured borrowings as hedges for accounting purposes, whereby changes in the swaps' fair values were recorded in *Accumulated other comprehensive income (loss)*. The Company discontinued hedge accounting on March 1, 2019 for these swaps and, for GAAP purposes, related changes in fair value are recorded in the Company's consolidated statements of operations beginning on that date. Also, for GAAP purposes, related net unrealized gains recorded in *Accumulated other comprehensive income (loss)* through February 28, 2019 are being recognized as a component of interest expense in the Company's consolidated statements of operations over the remaining lives of these swaps.

During 2019 Capstead entered into swap agreements with notional amounts totaling $9.30 billion requiring fixed-rate interest payments averaging 1.98% for two- and three-year periods commencing on various dates between January 2019 and December 2019. During 2019, $3.85 billion notional amount of swaps requiring fixed-rate interest payments averaging 1.47% matured. The Company also terminated $4.60 billion notional amount of swaps requiring fixed-rate interest payments averaging 2.61% during 2019. At December 31, 2019, the Company's portfolio financing-related swap positions had the following characteristics (dollars in thousands):

Period of Contract Expiration	*Swap Notional Amounts*	*Average Fixed Rates*
First quarter 2020	$ 600,000	2.07 %
Second quarter 2020	200,000	2.56
Third quarter 2020	200,000	1.64
Fourth quarter 2020	200,000	2.04
Second quarter 2021	800,000	1.95
Third quarter 2021	1,700,000	1.60
Fourth quarter 2021	2,400,000	1.60
Second quarter 2022	800,000	2.25
Fourth quarter 2022	500,000	1.39
	$ 7,400,000	

In August 2019 the Company entered into a series of $500 million notional amount three-month Eurodollar futures contracts with a weighted average rate of 1.62% with maturities through June 2020.

In 2010 the Company entered into forward-starting, three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements with notional amounts totaling $100 million and average fixed rates of 4.09% with 20-year payment terms coinciding with the floating-rate terms of the Company's *Unsecured borrowings*. These Derivatives remain designated as cash flow hedges of the variability of the underlying benchmark interest rate associated with the floating-rate terms of these long-term borrowings which began on various dates between October 2015 and September 2016.

Interest rate swap agreements are measured at fair value on a recurring basis primarily using Level Two Inputs in accordance with ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820)*. In determining fair value estimates for swaps, Capstead utilizes the standard methodology of netting the discounted future fixed cash payments and the discounted future variable cash receipts which are based on expected future interest rates derived from observable market interest rate curves. Eurodollar futures are measured at fair value using Level 1 inputs based on quoted exchange prices on these contracts. The Company also incorporates both its own nonperformance risk and its counterparties' nonperformance risk in determining fair value. In considering the effect of nonperformance risk, the Company considered the impact of netting and credit enhancements, such as collateral postings and guarantees, and has concluded that counterparty risk is not significant to the overall valuation.

The fair value of exchange-traded swap agreements hedging *Secured borrowings* is calculated including accrued interest and net of variation margin amounts received or paid through the exchange, resulting in separately presenting on the balance sheet a fair value amount representing the unsettled fair value of these Derivatives. Non-exchange traded swap agreements held as cash flow hedges of *Unsecured borrowings* are reported at fair value calculated excluding accrued interest. At December 31, 2019, *Cash collateral receivable from derivative counterparties* includes initial margin for all Derivatives and variation margin for non-exchange traded Derivatives. Accrued interest for non-exchange traded swap agreements is included in *Accounts payable and accrued expenses*.

The following tables include fair value and other related disclosures regarding all Derivatives held as of and for the indicated periods (in thousands):

	Balance Sheet Location	***December 31 2019***	***December 31 2018***
Balance sheet-related			
Swap agreements in a gain position (an asset) related to secured borrowings		$ 733	$ –
Eurodollar futures contracts in a gain position		738	–
Swap agreements in a loss position (a liability) related to unsecured borrowings	*(a)*	(29,156)	(17,834)
Related net interest payable	*(b)*	(437)	(372)
		$ (28,122)	$ (18,206)

(a) *The fair value of Derivatives with unrealized gains are aggregated and recorded as an asset on the face of the Balance Sheets separately from the fair value of Derivatives with unrealized losses that are recorded as a liability.*

(b) *Included in "Accounts payable and accrued expenses" on the face of the Balance Sheets.*

	Location of Gain or (Loss) Recognized in Net (Loss) Income	Year ended December 31 2019	2018	2017
Income statement-related				
Components of Secured borrowings-related effects on interest expense:				
Amount of gain reclassified from *Accumulated other comprehensive income (loss)*		$ 7,891	$ 38,292	$ 7,686
Amount of unrealized gain, net of unrealized loss on de-designated Derivatives		14,712	–	–
Amount of loss recognized in income		–	–	(360)
	(a)	22,603	38,292	7,326
Component of Unsecured borrowings-related effects on interest expense:				
Amount of loss reclassified from *Accumulated other comprehensive income (loss)*	*(b)*	(1,616)	(1,902)	(2,878)
Decrease in interest expense as a result of the use of Derivatives		$ 20,987	$ 36,390	$ 4,448
Realized and unrealized (loss) gain on non-designated Derivatives (net) related to:				
Interest rate swap agreements		$ (91,791)	$ –	$ –
Eurodollar futures		1,213	–	–
	(c)	$ (90,578)	$ –	$ –
Other comprehensive income-related				
Amount of (loss) gain recognized in *Other comprehensive income (loss)*		$ (17,080)	$ 25,716	$ 21,531

(a) *Included in "Interest expense: Secured borrowings" on the face of the Statements of Operations.*
(b) *Included in "Interest expense: Unsecured borrowings" on the face of the Statements of Operations.*
(c) *Included in "Loss on derivative instruments (net)" on the face of the Statement of Operations.*

Capstead's swap agreements and borrowings under repurchase arrangements are subject to master netting arrangements in the event of default on, or termination of, any one contract. See NOTE 5 for more information on the Company's use of secured borrowings. The following tables provide further details concerning offsetting of financial liabilities and Derivatives as of the indicated dates (in thousands):

	Offsetting of Derivative Assets					
	Gross Amounts of Recognized Assets (a)	Gross Amounts Offset in the Balance Sheet (a)	Net Amounts of Assets Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet (b): Financial Instruments	Cash Collateral Received	Net Amount
December 31, 2019						
Counterparty 4	$ 6,517	$ (5,046)	$ 1,471	$ –	$ –	$ 1,471
December 31, 2018						
Counterparty 4	$ 26,787	$ (26,787)	$ –	$ –	$ –	$ –

(a) *Included in gross amounts of recognized assets at December 31, 2019 is the fair value of exchange-traded swap agreements, calculated including accrued interest and the fair value of Eurodollar futures contracts. Included in gross amounts offset in the balance sheet are variation margin amounts associated with these swaps at December 31, 2019.*

(b) *Amounts presented are limited to recognized liabilities and cash collateral received associated with the indicated counterparty sufficient to reduce the related Net Amount to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01.*

	Offsetting of Financial Liabilities and Derivative Liabilities					
				Gross Amounts Not Offset in the Balance Sheet (c)		
	Gross Amounts of Recognized Liabilities(a)	*Gross Amounts Offset in the Balance Sheet* (a)	*Net Amounts of Liabilities Presented in the Balance Sheet* (b)	*Financial Instruments*	*Cash Collateral Pledged*	*Net Amount*
December 31, 2019						
Derivatives by counterparty:						
Counterparty 1	$ 29,593	$ –	$ 29,593	$ –	$ (29,593)	$ –
Counterparty 4	21,601	(21,601)	–	–	–	–
	51,194	(21,601)	29,593	–	(29,593)	–
Borrowings under repurchase arrangements (d)	10,286,011	–	10,286,011	(10,286,011)	–	–
	$ 10,337,205	$ (21,601)	$ 10,315,604	$ (10,286,011)	$ (29,593)	$ –
December 31, 2018						
Derivatives by counterparty:						
Counterparty 1	$ 18,205	$ –	$ 18,205	$ –	$ (18,205)	$ –
Counterparty 4	9,718	(9,718)	—	—	–	–
	27,923	(9,718)	18,205	—	(18,205)	–
Borrowings under repurchase arrangements (d)	10,987,329	–	10,987,329	(10,987,329)	–	–
	$ 11,015,252	$ (9,718)	$ 11,005,534	$ (10,987,329)	$ (18,205)	$ –

(a) *Included in gross amounts of recognized liabilities at December 31, 2019 is the fair value of non-exchange traded swap agreements (Counterparty 1) and exchange-traded swap agreements (Counterparty 4), calculated including accrued interest. Included in gross amounts offset in the balance sheet are variation margin amounts associated with exchange-traded swap agreements at December 31, 2019.*

(b) *Amounts presented are limited to recognized liabilities and cash collateral received associated with the indicated counterparty sufficient to reduce the related Net Amount to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01.*

(c) *Amounts presented are limited to recognized assets and collateral pledged associated with the indicated counterparty sufficient to reduce the related Net Amount to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01.*

(d) *Amounts include accrued interest payable of $11.5 million and $9.0 million on borrowings under repurchases arrangements as of December 31, 2019 and December 31, 2018, respectively.*

The amount of unrealized losses, net of unrealized gains, included in *Accumulated other comprehensive income (loss)* scheduled to be recognized in the Statements of Operations over the next twelve months primarily in the form of fixed-rate swap payments in excess of current market rates on swaps related to unsecured borrowings and amortization of net unrealized losses on de-designated interest rate swaps totaled \$2.8 million at December 31, 2019. Changes in *Accumulated other comprehensive income (loss)* by component for the three years ended December 31, 2019 were as follows (in thousands):

	Unrealized Gains and Losses on Cash Flow Hedges	*Unrealized Gains and Losses on Available-for-Sale Securities*	*Total*
Balance at December 31, 2016	$ 151	$ 105,635	$ 105,786
Activity for the year ended December 31, 2017:			
Other comprehensive income (loss) before reclassifications	21,426	(60,391)	(38,965)
Amounts reclassified from accumulated other comprehensive income	(4,808)	–	(4,808)
Cumulative effect adjustment	105	–	105
Other comprehensive income (loss)	16,723	(60,391)	(43,668)
Balance at December 31, 2017	16,874	45,244	62,118
Activity for the year ended December 31, 2018:			
Other comprehensive income (loss) before reclassifications	25,716	(72,490)	(46,774)
Amounts reclassified from accumulated other comprehensive income	(36,390)	–	(36,390)
Other comprehensive loss	(10,674)	(72,490)	(83,164)
Balance at December 31, 2018	6,200	(27,246)	(21,046)
Activity for the year ended December 31, 2019:			
Other comprehensive income (loss) before reclassifications	(17,080)	71,148	54,068
Amounts reclassified from accumulated other comprehensive income	(20,988)	1,365	(19,623)
Other comprehensive (loss) income	(38,068)	72,513	34,445
Balance at December 31, 2019	$ (31,868)	$ 45,267	$ 13,399

NOTE 7 — UNSECURED BORROWINGS

Unsecured borrowings consist of 30-year junior subordinated notes issued in 2005 and 2006 and maturing in 2035 and 2036, for a total face amount of \$100 million. Note balances net of deferred issuance costs, and related weighted average interest rates as of the indicated dates (calculated including issuance cost amortization and adjusted for the effects of related Derivatives held as cash flow hedges) were as follows (dollars in thousands):

	December 31, 2019		*December 31, 2018*	
	Borrowings Outstanding	*Average Rate*	*Borrowings Outstanding*	*Average Rate*
Junior subordinated notes maturing in:				
October 2035 (\$35,000 face amount)	$ 34,392	7.88%	$ 34,354	7.89%
December 2035 (\$40,000 face amount)	39,397	7.64	39,359	7.65
September 2036 (\$25,000 face amount)	24,603	7.68	24,579	7.69
	$ 98,392	7.73	$ 98,292	7.74

The notes are currently redeemable, in whole or in part, without penalty, at the Company's option. Interest paid on *Unsecured borrowings*, including related Derivative cash flows, totaled \$7.5 million during 2019, 2018 and 2017, respectively.

NOTE 8 — FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of Capstead's financial assets and liabilities are influenced by changes in, and market expectations for changes in, interest rates and market liquidity conditions, as well as other factors beyond the control of management. With the exception of the fair value of Eurodollar futures and lending counterparty investments, all fair values were determined using Level 2 Inputs in accordance with ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820). Eurodollar futures are Derivatives for which Level 1 inputs are used to determine fair value. Lending counterparty investments were nonmarketable securities classified as assets for which Level 3 Inputs were used to determine fair value.

Residential mortgage investments, nearly all of which are mortgage securities classified as available-for-sale, are measured at fair value on a recurring basis. In determining fair value estimates the Company considers recent trading activity for similar investments and pricing levels indicated by lenders in connection with designating collateral for secured borrowings, provided such pricing levels are considered indicative of actual market clearing transactions. The Company currently bases fair value for *Unsecured borrowings* on discounted cash flows using Company estimates for market yields. Excluded from these disclosures are financial instruments for which cost basis is deemed to approximate fair value due primarily to the short duration of these instruments, which are valued using primarily Level 1 measurements, including *Cash and cash equivalents*, *Cash collateral receivable from derivative counterparties*, receivables, payables and *Secured borrowings* with initial terms of 120 days or less. See NOTE 6 for information relative to the valuation of interest rate swap agreements.

The following table presents the fair value for the Company's financial instruments as of the indicated dates (in thousands):

		December 31, 2019		*December 31, 2018*	
	Fair Value Hierarchy	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets:					
Residential mortgage loans	Level 2	\$ 637	\$ 650	\$ 1,425	\$ 1,400
Lending counterparty investments	Level 3	–	–	5,002	5,002
Secured borrowings-related interest rate swap agreements	Level 2	733	733	–	–
Eurodollar futures	Level 1	738	738	–	–
Financial liabilities:					
Unsecured borrowings	Level 2	98,392	68,100	98,292	76,600
Unsecured borrowings-related interest rate swap agreements	Level 2	29,156	29,156	17,834	17,834

Fair value-related disclosures for debt securities were as follows as of the indicated dates (in thousands):

	Amortized Cost Basis	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
December 31, 2019				
Agency Securities classified as available-for-sale:				
Fannie Mae/Freddie Mac	$ 8,890,949	$ 64,593	$ 23,753	$ 8,931,789
Ginnie Mae	2,284,331	11,560	7,133	2,288,758
Residential mortgage securities classified as held-to-maturity	998	2	–	1,000
December 31, 2018				
Agency Securities classified as available-for-sale:				
Fannie Mae/Freddie Mac	$ 8,949,793	$ 56,041	$ 74,276	$ 8,931,558
Ginnie Mae	3,040,275	8,681	17,692	3,031,264
Residential mortgage securities classified as held-to-maturity	1,134	3	–	1,137

	December 31, 2019		*December 31, 2018*	
	Fair Value	*Unrealized Loss*	*Fair Value*	*Unrealized Loss*
Securities in an unrealized loss position:				
One year or greater	$ 2,590,214	$ 22,844	$ 4,736,171	$ 83,407
Less than one year	1,890,032	8,042	1,475,120	8,561
	$ 4,480,246	$ 30,886	$ 6,211,291	$ 91,968

Declines in fair value caused by increases in interest rates are typically relatively modest for investments in ARM Agency Securities compared to investments in longer-duration fixed-rate assets. These declines are generally recoverable in a relatively short period of time as coupon interest rates on the underlying mortgage loans reset to rates more reflective of the then-current interest rate environment.

From a credit risk perspective, federal government support for Fannie Mae and Freddie Mac helps ensure that fluctuations in value due to credit risk associated with these securities will be limited. Given that (a) any existing unrealized losses on mortgage securities held by the Company are not attributable to credit risk and declines in fair value of ARM securities due to changes in interest rates are generally recoverable in a relatively short period of time, (b) the Company typically holds its investments to maturity, and (c) it is more likely than not that the Company will not be required to sell any of its investments, none of these investments were considered other-than-temporarily impaired at December 31, 2019.

NOTE 9 — INCOME TAXES

Capstead REIT and a subsidiary for which the Company has elected taxable REIT subsidiary status file separate tax returns in U.S. federal and state jurisdictions, where applicable. Provided Capstead REIT remains qualified as a REIT and all its taxable income is distributed to stockholders within allowable time limits, no income taxes are due on this income. Accordingly, no provision has been made for income taxes for Capstead REIT. Taxable income, if any, of the Company's largely dormant taxable REIT subsidiary is fully taxable and provision is made for any resulting income taxes. The Company is no longer subject to examination and the related assessment of tax by federal, state, or local tax authorities for years before 2016.

In 2017 the Tax Cuts and Jobs Act ("Tax Act") was enacted. Among the significant changes to the Internal Revenue Code, the Tax Act reduces the maximum federal corporate tax rate from 35% to 21% for the tax years after 2017. Accordingly, the Company's taxable REIT subsidiary has adjusted the balance of its net deferred tax assets and the corresponding valuation allowance.

For tax years after 2017, the Tax Act repealed the corporate Alternative Minimum Tax ("AMT"). AMT credit carryforwards became fully utilizable without limitation or, in the absence of regular tax liability, fully refundable over the next four years. Accordingly, in 2017 the Company's taxable REIT subsidiary recognized a refund of AMT under the Tax Act in *Miscellaneous other revenue (expense)* on the Company's Statements of Operations and recorded a receivable in *Receivables and other assets* on the Company's Balance Sheets. In 2018 the Company finalized the recording of the 2017 AMT refund with no change to the 2017 estimated amount.

Additionally, the Tax Act modified the rules for REIT net operating losses (NOL). A REIT NOL carryover can now only offset 80 percent of taxable income for losses arising in years beginning after December 31, 2017. The 80 percent limitation is calculated by multiplying current-year REIT taxable income before the dividends paid deduction by 80 percent. Although there is now an annual NOL limitation, the new rules allow post-2017 NOLs to be carried forward indefinitely.

At December 31, 2019 Capstead REIT has an NOL of $31 million generated in 2019 through the early termination of Derivatives held for hedging purposes. As the NOL was generated after December 31, 2017, it will be subject to the NOL modifications of the Tax Act.

The Company's effective tax rate differs substantially from statutory federal income tax rates primarily due to the benefit of Capstead REIT's status as a REIT, along with other items affecting the Company's effective tax rate as illustrated below for the indicated periods (in thousands):

	Year ended December 31		
	2019	*2018*	*2017*
Income taxes computed at the federal statutory rate	$ 6	$ 10,515	$ 27,856
Benefit of REIT status	–	(10,512)	(27,854)
Income taxes computed on income of the Company's taxable REIT subsidiary	6	3	2
Alternative minimum tax credit refund receivable	–	–	(1,941)
Change in deferred asset balance due to change in corporate tax rate	–	–	29
Other change in net deferred income tax assets	(6)	(3)	(31)
Income tax (benefit) provision recorded in miscellaneous other revenue (expense)	$ –	$ –	$ (1,941)

No income taxes were paid during 2019, 2018 or 2017. Capstead REIT had $17.5 million in net capital loss carryforwards that expired at the end of 2019. At December 31, 2019 Capstead has $1.3 million in net capital loss carryforwards. Significant components of the Company's taxable REIT subsidiary's deferred income tax assets and liabilities were as follows as of the indicated dates (in thousands):

	December 31	
	2019	*2018*
Deferred income tax assets:		
Alternative minimum tax credit	$ –	$ –
Net operating loss carryforwards (a)	24	29
Other	10	11
	34	40
Deferred income tax liabilities	–	–
Net deferred tax assets	$ 34	$ 40
Valuation allowance (b)	$ 34	$ 40

(a) *Excludes $3.5 million in remaining net operating loss carryforwards which expire beginning after 2019. Should these carryforwards be utilized, they will be excluded for purposes of calculating the Company's provision for income taxes. Any such utilization will, however, reduce actual taxes payable. $3.2 million in remaining net operating loss carryforwards expired December 31, 2019.*

(b) *Because this subsidiary is not expected to earn significant amounts of taxable income, related net deferred tax assets are fully reserved at December 31, 2019.*

NOTE 10 — STOCKHOLDERS' EQUITY

On August 1, 2019 the Company completed a public offering for nine million shares of common stock raising $75.1 million for a net price of $8.34 per share after underwriting discounts and offering expenses. The proceeds were deployed into additional ARM Agency Securities and used for general corporate purposes.

In January 2019, Capstead's Board of Directors increased its 2017 common stock repurchase program authorization to $125 million, leaving a remaining repurchase program authorization of approximately $37 million. No shares were repurchased during 2019. Shares repurchased under this program, repurchase price and capital deployed, both presented including program costs were as follows for the indicated periods:

Year Ended December 31,	*Shares*	*Net Repurchase Price*	*Total Capital Deployed*
2018	10,653,000	$ 7.94	$ 84,594,000
2017	397,000	8.71	3,460,000

During 2019, 2018 and 2017, additions to common equity capital related to equity-based awards to directors and employees totaled $2.6 million, $1.7 million and $1.1 million, respectively. See NOTE 11 for further information pertaining to long-term equity-based awards.

In 2013 Capstead completed a public offering of 6.8 million shares ($170.0 million face amount) of its 7.50% Series E Cumulative Redeemable Preferred Stock, liquidation preference of $25.00 per share. Shares of the Series E preferred stock are redeemable at the Company's option for $25.00 per share, plus any accumulated and unpaid dividends. The Company issued no Series E preferred stock in 2019 or 2018. During 2017 the Company issued 2.1 million shares through an at-the-market continuous offering program for approximately $51.9 million (an average price, after expenses, of $24.77).

NOTE 11 — EQUITY INCENTIVE PLAN

All equity-based awards and other long-term incentive awards are made pursuant to the Company's Amended and Restated 2014 Flexible Incentive Plan that was approved by stockholders in May 2014. At December 31, 2019, this plan had 2,861,645 shares of common stock remaining available for future issuances.

Long-term equity-based Awards – Performance-based Restricted Stock Units ("RSUs")

A summary of the Company's restricted stock unit activity and related information for the year ended December 31, 2019 is summarized below:

	Number of Shares	*Weighted Average Grant Date Fair Value*
Unvested RSU awards outstanding at December 31, 2018	501,858	$ 9.02
Grants	206,914	6.87
Vestings	(34,135)	8.03
Forfeitures	(135,692)	8.03
Unvested RSU awards outstanding at December 31, 2019	538,945	8.50

Dividends accrue from the date of grant and will be paid in cash to the extent the units convert into shares of common stock following completion of related performance periods. Unrecognized estimated compensation expense for these awards totaled $915,000 at December 31, 2019, to be expensed over a weighted average period of 1.4 years (assumes estimated attainment levels for the related performance metrics will be met).

Recognized in *Compensation-related expense* are $771,000, $104,000 and $149,000 related to this program during 2019, 2018 and 2017, respectively. Included in *Common stock dividends payable* at December 31, 2019 and 2018 are estimated dividends payable pertaining to these awards of $125,000 and $76,000, respectively.

Long-term equity-based Awards – Stock Awards

Stock award activity for the year ended December 31, 2019 is summarized below:

	Number of Shares	*Weighted Average Grant Date Fair Value*
Unvested stock awards outstanding at December 31, 2018	461,091	$ 9.01
Grants	342,097	7.16
Vestings	(157,030)	8.52
Forfeitures	(31,113)	8.29
Unvested stock awards outstanding at December 31, 2019	615,045	8.14

During 2019, 2018 and 2017, the Company recognized in *Compensation-related expense* $1.4 million, $1.2 million and $834,000, respectively, related to amortization of the grant date fair value of employee stock awards. Included in *Common stock dividend payable* at December 31, 2019 and 2018 are estimated dividends payable pertaining to these awards totaling $350,000 and $253,000, respectively. In addition, the Company recognized in *Other general and administrative expense* $505,000, $450,000 and $421,000 related to amortization of the grant date fair value of director stock awards during 2019, 2018 and 2017, respectively. Unrecognized compensation expense for unvested stock awards for all employees and directors totaled $2.0 million as of December 31, 2019, to be expensed over a weighted average period of 1.3 years.

Service-based stock awards issued to directors and to non-executive employees receive dividends on a current basis without risk of forfeiture if the related awards do not vest. Stock awards issued to executives defer the payment of dividends accruing between the grant dates and the end of related performance or service periods. If these awards do not vest, the related accrued dividends will be forfeited.

NOTE 12 — QUARTERLY RESULTS (UNAUDITED)

Summarized quarterly results of operations were as follows (in thousands, except per share amounts):

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Year Ended December 31, 2019				
Interest income on residential mortgage investments	$ 83,807	$ 85,100	$ 77,693	$ 73,617
Related interest expense	(63,779)	(67,945)	(62,800)	(51,688)
	20,028	17,155	14,893	21,929
Other interest income (expense) *(a)*	(1,469)	(1,300)	(845)	(1,244)
Other (expense) income*(b)*	(26,305)	(79,315)	(10,852)	11,987
Net (loss) income	$ (7,746)	$ (63,460)	$ 3,196	$ 32,672
Basic net (loss) income per common share	$ (0.15)	$ (0.80)	$ (0.02)	$ 0.30
Diluted net (loss) income per common share	(0.15)	(0.80)	(0.02)	0.29
Year Ended December 31, 2018				
Interest income on residential mortgage investments	$ 69,138	$ 65,202	$ 67,649	$ 72,902
Related interest expense	(45,021)	(48,241)	(54,393)	(59,321)
	24,117	16,961	13,256	13,581
Other interest income (expense) *(a)*	(1,483)	(1,595)	(1,560)	(1,284)
Other (expense) income*(b)*	(3,214)	(2,378)	(3,016)	(3,313)
Net income	$ 19,420	$ 12,988	$ 8,680	$ 8,984
Basic and diluted net income per common share	$ 0.16	$ 0.09	$ 0.04	$ 0.05

(a) *Consists principally of interest on unsecured borrowings, overnight investments and cash collateral receivable with interest rate swap counterparties.*

(b) *Consists of losses on derivative instruments (net), losses on sales of investments, general and administrative expenses, including compensation-related costs, and miscellaneous other revenue (expense).*

NOTE 13 — SUBSEQUENT EVENTS

Subsequent to year-end, Capstead issued 1.4 million shares of common stock through an at-the-market continuous offering program, net of fees and other costs, for net proceeds of $11.3 million. Additional amounts of equity capital may be raised in the future under continuous offering programs or by other means, subject to market conditions, compliance with federal securities laws and blackout periods.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Reports on Corporate Governance and

Report of Independent Registered Public Accounting Firm

Report of Management on Effectiveness of Internal Control Over Financial Reporting

Management of Capstead is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a – 15(f) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("COSO"). Based on our evaluation under the COSO framework, it is management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2019.

Capstead's independent registered public accounting firm, Ernst & Young, LLP, has issued a report on the Company's effectiveness of internal control over financial reporting as of December 31, 2019, which is included in this Annual Report.

Report of Management on Evaluation of Disclosure Controls and Procedures

Management of Capstead, with participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as of December 31, 2019. Based on this evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

Changes in Internal Control Over Financial Reporting

There has been no change in Capstead's internal control over financial reporting as of December 31, 2019, that has materially affected, or is reasonably likely to materially affect, Capstead's internal control over financial reporting.

Related Certifications by Management

Certifications by the CEO and CFO pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 pertaining to the completeness and fairness of the information contained in Capstead's annual report on Form 10-K for the year ended December 31, 2019 and the Company's system of internal controls over financial reporting and disclosure controls and procedures are included as exhibits to the annual report on Form 10-K. This report, as well as the Company's other filings with the Securities and Exchange Commission, are available free of charge on the Company's website at www.capstead.com.

Report of Independent Registered Public Accounting Firm on Audit of Internal Control Over Financial Reporting

To the Shareholders and the Board of Directors of Capstead Mortgage Corporation

Opinion on Internal Control over Financial Reporting

We have audited Capstead Mortgage Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Capstead Mortgage Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Capstead Mortgage Corporation as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ ERNST & YOUNG, LLP

Dallas, Texas
February 21, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to Capstead's 2020 definitive Proxy Statement under the captions "Proposal One – Election of Directors," "Board of Directors and Committee Information," "Stockholder Procedures for Director Candidate Recommendations," "Executive Officers," "Audit Committee" and "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed with the SEC within 120 days of year-end.

Capstead has adopted its Code of Business Conduct and Ethics that applies to all directors, officers and employees, and its Financial Officer Code of Conduct that applies to its chief executive officer, chief financial officer and other officers with a role in the Company's financial accounting and reporting process. These codes and waivers thereto, if any, are available on the Company's website at www.capstead.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to Capstead's 2020 definitive Proxy Statement under the captions "Board of Directors and Committee Information" and "Executive Compensation," to be filed with the SEC within 120 days of year-end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to Capstead's 2020 definitive Proxy Statement under the captions "Equity Compensation Plans" and "Security Ownership of Management and Certain Beneficial Owners," to be filed with the SEC within 120 days of year-end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to Capstead's 2020 definitive Proxy Statement under the caption "Related Person Transactions," to be filed with the SEC within 120 days of year-end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to Capstead's 2020 definitive Proxy Statement under the caption "Proposal Three – Ratification of the Appointment of Ernst & Young LLP as Our Independent Registered Public Accounting Firm," to be filed with the SEC within 120 days of year-end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. The consolidated financial statements of Capstead, together with the independent registered public accounting firm's report thereon, are set forth in this report under Item 8, "Financial Statements and Supplementary Data."
2. Financial Statement Schedules – All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are either not required under the related instructions, are inapplicable or have been omitted because the required information has been disclosed elsewhere in the consolidated financial statements and related notes thereto.
3. Exhibits:

EXHIBIT NUMBER	DESCRIPTION
3.1	Charter, including Articles of Incorporation, Articles Supplementary for each series of preferred shares no longer outstanding and all other amendments to such Articles of Incorporation.(1)
3.2	Articles Supplementary classifying and designating the Registrant's 7.50% Series E Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, par value $0.10 per share.(2)
3.3	Amended and Restated Bylaws.(3)
4.1	Specimen of Common Stock Certificate.(4)
4.2	Specimen of stock certificate evidencing the 7.50% Series E Cumulative Redeemable Preferred Stock of the Registrant, liquidation preference $25.00 per share, par value $0.10 per share.(2)
4.3	Junior Subordinated Indenture dated September 26, 2005.(5)
4.4	Indenture dated December 15, 2005.(5)
4.5	Indenture dated September 11, 2006.(5)
4.6	Description of Securities.*
10.01	Amended and Restated Deferred Compensation Plan.(6)
10.02	Amended and Restated 2014 Flexible Incentive Plan.(7)
10.03	Amendment No. 1 to the Amended and Restated 2014 Flexible Incentive Plan.(8)
10.04	Third Amended and Restated Incentive Bonus Plan.(6)
10.05	Form of nonqualified stock option and stock award agreements for non-employee directors.(5)
10.06	2018 Annual Incentive Compensation Program. (9)
10.07	Form of restricted stock agreement for executive employees. (9)
10.08	2018 Long-Term Performance Unit Award Criteria. (9)
10.09	Form of performance unit agreement for executive employees. (9)
10.10	2019 Annual Incentive Compensation Program. (10)
10.11	Form of restricted stock agreement for executive employees. (10)
10.12	2019 Long-Term Performance Unit Award Criteria. (10)
10.13	Form of performance unit agreement for executive employees. (10)
10.14	2020 Annual Incentive Compensation Program. (11)
10.15	Form of restricted stock agreement for executive employees. (11)
10.16	2020 Long-Term Performance Unit Award Criteria. (11)
10.17	Form of performance unit agreement for executive employees. (11)

EXHIBIT NUMBER	DESCRIPTION
10.18	Form of Change in Control/Severance Agreement for executive officers. (12)
10.19	Sales Agreement, dated October 23, 2019, by and between the Company and the Sales Manager. (13)
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm*
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002*
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002*
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.*
101.SCH	Inline XBRL Taxonomy Extension Schema*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	Inline XBRL Additional Taxonomy Extension Definition Linkbase*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)*

(1) Incorporated by reference to the Registrant's Annual Report on Form 10-K/A (No. 001-08896) for the year ended December 31, 2012.
(2) Incorporated by reference to the Registrant's Registration of Certain Classes of Securities on Form 8-A (No. 001-08896) dated May 13, 2013.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K (No. 001-08896), filed on February 3, 2014, for the event dated January 29, 2014.
(4) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (No. 333-63358) dated June 19, 2001.
(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K (No. 001-08896) for the year ended December 31, 2011.
(6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (No. 001-08896) for the quarter ended June 30, 2019.
(7) Incorporated by reference to the Registrant's Current Report on Form 8-K (No. 001-08896), filed on May 30, 2014, for the event dated May 28, 2014.
(8) Incorporated by reference to the Registrant's Current Report on Form 8-K (No. 001-08896), filed on February 20, 2015, for the event dated February 20, 2015.
(9) Incorporated by reference to the Registrant's Current Report on Form 8-K (No. 001-08896), filed on January 4, 2018, for the event dated January 3, 2018.
(10) Incorporated by reference to the Registrant's Current Report on Form 8-K (No. 001-08896), filed on January 7, 2019, for the event dated January 3, 2019.
(11) Incorporated by reference to the Registrant's Current Report on Form 8-K (No.001-08896), filed on January 3, 2020, for the event dated January 2, 2020.
(12) Incorporated by reference to the Registrant's Annual Report on Form 10-K (No. 001-08896) for the year ended December 31, 2017.
(13) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (No. 001-08896) for the quarter ended September 30, 2019.
* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Capstead has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPSTEAD MORTGAGE CORPORATION
Registrant

Date: February 21, 2020

By: /s/ PHILLIP A. REINSCH
Phillip A. Reinsch
President and Chief Executive Officer

Date: February 21, 2020

By: /s/ LANCE J. PHILLIPS
Lance J. Phillips
Senior Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ JACK BIEGLER Jack Biegler	Chairman and Director	February 19, 2020
/s/ JOHN L. BERNARD John L. (Jack) Bernard	Director	February 18, 2020
/s/ MICHELLE P. GOOLSBY Michelle P. Goolsby	Director	February 18, 2020
/s/ GARY KEISER Gary Keiser	Director	February 18, 2020
/s/ CHRISTOPHER W. MAHOWALD Christopher W. Mahowald	Director	February 19, 2020
/s/ MICHAEL G. O’NEIL Michael G. O’Neil	Director	February 18, 2020
/s/ PHILLIP A. REINSCH Phillip A. Reinsch	President, Chief Executive Officer and Director	February 19, 2020
/s/ MARK S. WHITING Mark S. Whiting	Director	February 19, 2020

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2019, Capstead Mortgage Corporation had two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our common stock, par value $0.01 per share; and (2) our 7.50% Series E Cumulative Redeemable Preferred Stock, par value $0.10 per share (the "Series E Preferred Stock").

Description of Capital Stock

The following description of the terms of our capital stock is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, which have been filed with the U.S. Securities and Exchange Commission (the "SEC") and incorporated by reference herein, and the Maryland General Corporation Law (the "MGCL").

Authorized Stock

Our charter provides that we may issue up to 250 million shares of voting common stock, par value $0.01 per share, and 100 million shares of preferred stock, par value $0.10 per share, of which 16,329,039 shares have been classified as Series E Preferred Stock. As of December 31, 2019, 94,606,455 shares of our common stock, and 10,329,039 shares of Series E Preferred Stock were issued and outstanding.

Power to Issue Additional Shares of Our Common Stock and Preferred Stock

We believe that the power of our board of directors, without stockholder approval, to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock provides us with flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as the common stock, will be available for issuance without further action by our stockholders, unless stockholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not intend to do so, it could authorize us to issue an additional class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for our stockholders or otherwise be in their best interest.

Power to Redeem Shares and Restrict Transfers to Protect REIT Status

Our charter provides that if our board of directors determines in good faith that the direct or indirect ownership of our stock has or may become concentrated to an extent which would cause us to fail to qualify or be qualified as a real estate investment trust ("REIT") under Sections 856(a)(5) or (6) of the Internal Revenue Code of 1986, as amended (the "Code"), or similar provisions of successor statutes, we may redeem or repurchase any number of shares of common stock and/or preferred stock sufficient to maintain or bring such ownership into conformity with the Code and may refuse to transfer or issue shares of common stock and/or preferred stock to any person whose acquisition would result in our being unable to conform with the requirements of the Code. In general, Code Sections 856(a)(5) and (6) provide that, as a REIT, we must have at least 100 beneficial owners for 335 days of each taxable year and that we cannot qualify as a REIT if, at any time during the last half of our taxable year, more than 50% in value of our outstanding stock is owned, directly or indirectly, by or for not more than five individuals. In addition, our charter provides that we may redeem or refuse to transfer any shares of our capital stock to the extent necessary to prevent the imposition of a penalty tax as a result of ownership of those shares by certain disqualified organizations, including governmental bodies and tax-exempt entities that are not subject to tax on unrelated business taxable income. The redemption or purchase price for those shares shall be equal to the fair market value of those shares as reflected in the closing sales price for those shares if then listed on a national securities exchange, or the average of the closing sales prices for those shares if then listed on more than one national securities exchange, or if those shares are not then listed on a national securities exchange, the latest bid quotation for the shares if then traded over-the-counter on the last business day for which closing prices are available immediately preceding the day on which notices of such acquisitions are sent or, if no such closing sales prices or quotations are available, then the net asset value of those shares as determined by our board of directors in accordance with the provisions of applicable law.

Material Provisions of Maryland Law and of Our Charter and Bylaws

The following is a summary of certain provisions of Maryland law and of our charter and bylaws.

The Board of Directors

Our bylaws provide that the number of directors of our company may be established by our board of directors but may not be fewer than the minimum number permitted under the MGCL nor more than 25. Any vacancy will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors.

Pursuant to our charter, each member of our board of directors will serve one year terms and until their successors are elected and qualified. Holders of shares of our common stock will have no right to cumulative voting in the election of directors.

Consequently, at each annual meeting of stockholders at which our board of directors is elected, the holders of a plurality of the shares of our common stock will be able to elect all of the members of our board of directors.

Business Combinations

Maryland law prohibits “business combinations” between a corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, statutory share exchange, or, in circumstances specified in the statute, certain transfers of assets, certain stock issuances and transfers, liquidation plans and reclassifications, and the receipt from the corporation of certain financial benefits, in each case involving interested stockholders or their affiliates. Maryland law defines an interested stockholder as:

- any person who beneficially owns 10% or more of the voting power of our voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of the corporation.

A person is not an interested stockholder if the board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving the transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board of directors.

After the five year prohibition, any business combination between a corporation and an interested stockholder generally must be recommended by the board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of common stock, voting together as a single group; and
- two-thirds of the votes entitled to be cast by holders of the common stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or shares held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if certain fair price requirements set forth in the MGCL are satisfied.

The statute permits various exemptions from its provisions, including business combinations that are approved by the board of directors before the time that the interested stockholder becomes an interested stockholder. Under the statute, a board of directors may adopt a resolution opting generally or partially out of this statute. Our Board of Directors has not taken any action to opt out of this statute.

Control Share Acquisitions

The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved at a special meeting by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock in a corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of shares of stock of the corporation in the election of directors: (i) a person who makes or proposes to make a control share acquisition, (ii) an officer of the corporation or (iii) an employee of the corporation who is also a director of the corporation. "Control shares" are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-tenth or more but less than one-third, (ii) one-third or more but less than a majority, or (iii) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (ii) to acquisitions approved or exempted by the charter or bylaws of the corporation. Under this statute, our charter or by-laws may provide for a general or partial opt-out from this statute, but our charter and by-laws do not so provide.

MGCL Title 3, Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, notwithstanding any contrary provision in the charter or bylaws, to any or all of the following five provisions:

- a classified board;
- a two-thirds stockholder vote requirement for removal of a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board of directors be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a requirement that the holders of at least a majority of all votes entitled to be cast request a special meeting of stockholders.

Through an unrelated provision of Maryland law, our by-laws impose a majority requirement for the calling of a special meeting of stockholders. Under Subtitle 8, the charter may contain a provision or the board of directors may adopt a provision that prohibits the corporation from electing to be subject to any or all of these provisions. We are not subject to any prohibition with respect to Subtitle 8.

Amendment to Our Charter

Our charter may be amended only if declared advisable by the board of directors and approved by the affirmative vote of the holders of at least a majority of all of the votes entitled to be cast on the matter.

Dissolution of Our Company

The dissolution of our company must be declared advisable by the board of directors and approved by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter.

Advance Notice of Director Nominations and New Business

Our bylaws provide that:

- with respect to an annual meeting of stockholders, the only business to be considered and the only proposals to be acted upon will be those properly brought before the annual meeting:
  - pursuant to our notice of the meeting;
  - by, or at the direction of, a majority of our board of directors; or
  - by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws;
  - with respect to special meetings of stockholders, only the business specified in our company’s notice of meeting may be brought before the meeting of stockholders unless

otherwise provided by law; and nominations of persons for election to our board of directors at any annual or special meeting of stockholders may be made only:

  - by, or at the direction of, our board of directors; or
  - by a stockholder who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

The provisions of Maryland law that apply to us, the ability of our board to make certain elections under Maryland law, and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Indemnification and Limitation of Directors' and Officers' Liability

Our charter provide for indemnification of our officers and directors against liabilities, and to pay or reimburse reasonable expenses in advance of the final disposition of a proceeding, to the fullest extent permitted by the MGCL, as amended from time to time.

The MGCL permits a corporation to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that:

- an act or omission of the director or officer was material to the matter giving rise to the proceeding and:
  - was committed in bad faith; or
  - was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation (other than for expenses incurred in a successful defense of such an action) or for a judgment of liability on the basis that personal benefit was improperly received.

In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or on the director's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director did not meet the standard of conduct.

Our bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer who is made a party to the proceeding by reason of his or her service in that capacity; or
- any individual who, while a director or officer of our company and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee and who is made a party to the proceeding by reason of his or her service in that capacity.

Our bylaws also obligate us to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described in second and third bullet points above and to any employee or agent of our company or a predecessor of our company.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act of 1933, as amended (the "Securities Act"), we have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Description of Common Stock

The following description of the terms of our common stock is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, which have been filed with the SEC and incorporated by reference herein, and the MGCL.

General

All shares of our common stock issued are duly authorized, fully paid and nonassessable. Subject to the preferential rights of any other class or series of stock and to the provisions of the charter regarding the restrictions on transfer of stock, holders of shares of our common stock are entitled to receive dividends on such stock when, as and if authorized by our board of directors out of funds legally available therefor and declared by us and to share ratably in the assets of our company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all known debts and liabilities of our company, including the preferential rights on dissolution of any class or classes of preferred stock.

Subject to the provisions of our charter regarding the restrictions on transfer of stock, each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our board of directors, which means that the holders of a plurality of the outstanding shares of our common stock can elect all of the directors then standing for election and the holders of the remaining shares will not be able to elect any directors.

Holders of shares of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of our company. Subject to the provisions of the charter regarding the restrictions on transfer of stock, shares of our common stock will have equal dividend, liquidation and other rights.

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, consolidate, transfer all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation’s charter. Our charter generally reduces the stockholder vote required for these matters to a majority of the total number of shares of all classes outstanding and entitled to vote thereon. Additionally, Maryland law permits a corporation to transfer all or substantially all of its assets without the approval of the stockholders of the corporation to one or more persons if all of the equity interests of the person or persons are owned, directly or indirectly, by the corporation. Because operating assets may be held by a corporation’s subsidiaries, as in our situation, this may mean that a subsidiary of a corporation can transfer all of its assets without a vote of the corporation’s stockholders.

Our charter authorizes our board of directors to reclassify any unissued shares of our common stock into other classes or series of classes of stock and to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption for each such class or series.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol “CMO”.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EQ Shareowner Services.

Description of Preferred Stock

General

Our charter authorizes our board of directors to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series. Prior to issuance of shares of each series, our board of directors is required by the MGCL and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

The power of our Board to set the terms of any future series of preferred stock may include the following, to the extent set forth in the Articles Supplementary creating such series and the prospectus supplement relating to the series:

- the title and stated value of that preferred stock;
- the number of shares of that preferred stock offered, the liquidation preference per share and the offering price of that preferred stock;
- the dividend rate(s), period(s) and payment date(s) or method(s) of calculation thereof applicable to that preferred stock;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends on that preferred stock will accumulate;
- the voting rights applicable to that preferred stock;
- the procedures for any auction and remarketing, if any, for that preferred stock;
- the provisions for a sinking fund, if any, for that preferred stock;
- the provisions for redemption including any restriction thereon, if applicable, of that preferred stock;
- any listing of that preferred stock on any securities exchange;
- the terms and conditions, if applicable, upon which that preferred stock will be convertible into shares of our common stock, including the conversion price (or manner of calculation of the conversion price) and conversion period;
- a discussion of federal income tax considerations applicable to that preferred stock;
- any limitations on issuance of any series of preferred stock ranking senior to or on a parity with that series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;
- in addition to those limitations described above under “Description of Capital Stock — Restrictions on Ownership and Transfer,” any other limitations on actual and constructive ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT; and
- any other specific terms, preferences, rights, limitations or restrictions of that preferred stock.

Rank Within Our Capital Structure

Unless otherwise specified in the applicable prospectus supplement, the preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our affairs rank:

- senior to all classes or series of common stock and to all equity securities ranking junior to the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs;
- on a parity with all equity securities issued by us the terms of which specifically provide that those equity securities rank on a parity with the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs; and
- junior to all equity securities issued by us the terms of which specifically provide that those equity securities rank senior to the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs.

The term “equity securities” does not include convertible debt securities.

Dividends

Subject to the preferential rights of any other class or series of stock and to the provisions of the charter regarding the restrictions on transfer of stock, holders of shares of our preferred stock will be entitled to receive dividends on such stock when, as and if authorized by our board of directors out of funds legally available therefor and declared by us, at rates and on dates as will be set forth in the applicable prospectus supplement.

Dividends on any series or class of our preferred stock may be cumulative or noncumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. If our board of directors fails to authorize a dividend payable on a dividend payment date on any series or class of preferred stock for which dividends are noncumulative, then the holders of that series or class of preferred stock will have no right to receive a dividend in respect of the dividend period ending on that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on such series or class are declared or paid for any future period.

If any shares of preferred stock of any series or class are outstanding, no dividends may be authorized or paid or set apart for payment on the preferred stock of any other series or class ranking, as to dividends, on a parity with or junior to the preferred stock of that series or class for any period unless:

- the series or class of preferred stock has a cumulative dividend, and full cumulative dividends have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment of those dividends is set apart for payment on the preferred stock of that series or class for all past dividend periods and the then current dividend period; or
- the series or class of preferred stock does not have a cumulative dividend, and full dividends for the then current dividend period have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment of those dividends is set apart for the payment on the preferred stock of that series or class.

When dividends are not paid in full (or a sum sufficient for the full payment is not set apart) upon the shares of preferred stock of any series or class and the shares of any other series or class of preferred stock ranking on a parity as to dividends with the preferred stock of that series or class, then all dividends authorized on shares of preferred stock of that series or class and any other series or class of preferred stock ranking on a parity as to dividends with that preferred stock shall be authorized pro rata so that the amount of dividends authorized per share on the preferred stock of that series or class and other series or class of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share on the shares of preferred stock of that series or class (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if the preferred stock does not have a cumulative dividend) and that other series or class of preferred stock bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on preferred stock of that series or class that may be in arrears.

Redemption

We may have the right or may be required to redeem one or more series of preferred stock, in whole or in part, in each case upon the terms, if any, and at the time and at the redemption prices set forth in the applicable prospectus supplement.

If a series of preferred stock is subject to mandatory redemption, we will specify in the applicable prospectus supplement the number of shares we are required to redeem, when those redemptions start, the redemption price, and any other terms and conditions affecting the redemption. The redemption price will include all accrued and unpaid dividends, except in the case of noncumulative preferred stock. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement. If the redemption price for preferred stock of any series or class is payable only from the net proceeds of the issuance of our stock, the terms of that preferred stock may provide that, if no such stock shall have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, that preferred stock shall automatically and mandatorily be converted into shares of our applicable stock pursuant to conversion provisions specified in the applicable prospectus supplement.

Liquidation Preference

Upon any voluntary or involuntary liquidation or dissolution of us or winding up of our affairs, then, before any distribution or payment will be made to the holders of common stock or any other series or class of stock ranking junior to any series or class of the preferred stock in the distribution of assets upon any liquidation, dissolution or winding up of our affairs, the holders of that series or class of preferred stock will be entitled to receive out of our assets legally available for distribution to shareholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount equal to all dividends accrued and unpaid on the preferred stock (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if the preferred stock does not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of preferred stock will have no right or claim to any of our remaining assets.

If, upon any voluntary or involuntary liquidation, dissolution or winding up, the legally available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of any series or class of preferred stock and the corresponding amounts payable on all shares of other classes or series of our stock of ranking on a parity with that series or class of preferred stock in the distribution of assets upon liquidation, dissolution or winding up, then the holders of that series or class of preferred stock and all other classes or series of capital stock will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions have been made in full to all holders of any series or class of preferred stock, our remaining assets will be distributed among the holders of any other classes or series of stock ranking junior to that series or class of preferred stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For these purposes, the consolidation or merger of us with or into any other entity, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our affairs.

Voting Rights

Holders of preferred stock will not have any voting rights, except as provided for in the Articles Supplementary establishing a series or class of preferred stock and as described in the applicable prospectus supplement.

Conversion Rights

The terms and conditions, if any, upon which shares of any series or class of preferred stock are convertible into shares of common stock will be set forth in the applicable prospectus supplement. The terms will include:

- the number of shares of common stock into which the preferred stock is convertible;
- the conversion price (or manner of calculation of the conversion price);
- the conversion period;
- provisions as to whether conversion will be at the option of the holders of the preferred stock or us,
- the events requiring an adjustment of the conversion price; and
- provisions affecting conversion in the event of the redemption of the preferred stock.

Description of Series E Preferred Stock

Our board of directors has classified 16,329,039 shares of our Preferred Stock as Series E Preferred Stock, of which 10,329,039 were outstanding as of December 31, 2019. The Series E Preferred Stock generally provides for the following rights, preferences and obligations.

Maturity

The Series E Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series E Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under "—Change of Control Conversion Right." We are not required to set apart for payment the funds to redeem the Series E Preferred Stock.

Ranking

The Series E Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

(1) senior to all classes or series of our common stock and to all other equity securities issued by us other than equity securities referred to in clauses (2) and (3) below;
(2) on a parity with all equity securities issued by us with terms specifically providing that those equity securities rank on a parity with the Series E Preferred Stock, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up;
(3) junior to all equity securities issued by us with terms specifically providing that those equity securities rank senior to the Series E Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (please see the section entitled "—Limited Voting Rights" below); and

(4) effectively junior to all of our existing and future indebtedness (including indebtedness convertible to our common stock or preferred stock, if any) and to the indebtedness of our existing subsidiaries and any future subsidiaries.

Dividends

Holders of shares of the Series E Preferred Stock are entitled to receive, when, as and if authorized by our board of directors and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.50% of the $25.00 per share liquidation preference per annum (equivalent to $1.875 per annum per share). Dividends on the Series E Preferred Stock shall accumulate daily and be cumulative from, and including, the date of original issue and shall be payable quarterly in arrears on the 15th day of each January, April, July and October (each, a "dividend payment date") with respect to the immediately preceding dividend period; provided that if any dividend payment date is not a business day, as defined in the Articles Supplementary, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accumulate on the amount so payable for the period from and after that dividend payment date to that next succeeding business day. Any dividend payable on the Series E Preferred Stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records for the Series E Preferred Stock at the close of business on the applicable record date, which shall be the last day of the calendar quarter, whether or not a business day, immediately preceding the applicable dividend payment date (each, a "dividend record date").

No dividends on shares of Series E Preferred Stock shall be authorized by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series E Preferred Stock will accumulate whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series E Preferred Stock which may be in arrears, and holders of the Series E Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series E Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Unless full cumulative dividends on the Series E Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, no dividends (other than in shares of common stock or in shares of any series of preferred stock that we may issue ranking junior to the Series E Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set apart for payment upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series E Preferred Stock as to dividends or upon liquidation. Nor shall any other distribution be declared or made upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series E Preferred Stock as to dividends or upon liquidation. In addition, any shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series E Preferred Stock as to dividends or upon liquidation shall not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for our other capital stock that we may issue ranking junior to the Series E Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of our charter relating to restrictions on transfer and ownership of our capital stock). The foregoing shall not, however, prevent the purchase or acquisition by us of shares of any class or series of stock pursuant to the provision of Article VIII of our charter relating to restrictions on transfer and ownership or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series E Preferred Stock and any preferred stock that we may issue ranking on parity with the Series E Preferred Stock as to dividends or upon liquidation.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series E Preferred Stock and the shares of any other series of preferred stock that we may issue ranking on a parity as to dividends with the Series E Preferred Stock, all dividends declared upon the Series E Preferred Stock and such other series of preferred stock shall be declared pro rata so that the amount of dividends declared per share of Series E Preferred Stock and such other series of preferred stock shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series E Preferred Stock and such other series of preferred stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series E Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Series E Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any class or series of our stock we may issue ranking senior to the Series E Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of $25.00 per share, plus an amount equal to any accumulated and unpaid dividends to, but not including, the date of payment, before any distribution of assets is made to holders of our common stock or any other class or series of our stock we may issue that ranks junior to the Series E Preferred Stock as to liquidation rights.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series E Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our capital stock that we may issue ranking on a parity with the Series E Preferred Stock in the distribution of assets, then the holders of the Series E Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of Series E Preferred Stock will be entitled to written notice of any such liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series E Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, shall not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

Redemption

The Series E Preferred Stock is not redeemable by us prior to May 13, 2018, except as described below under "—Special Optional Redemption Upon Change of Control" and except that, as provided in our charter, we may purchase or redeem shares of the Series E Preferred Stock prior to that date in order to preserve our qualification as a REIT. Please see the section entitled "Description of Our Capital Stock—Restrictions on Ownership and Transfer" in this exhibit.

Optional Redemption. On and after May 13, 2018, we may, at our option, upon not less than 30 nor more than 60 days' written notice, redeem the Series E Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption.

Special Optional Redemption Upon Change of Control. Upon the occurrence of a Change of Control, we may, at our option, upon not less than 30 nor more than 60 days' written notice, redeem the Series E Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of $25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series E Preferred Stock (whether pursuant to our optional redemption right described above under "—Optional Redemption" or this special optional redemption right), the holders of Series E Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under "—Change of Control Conversion Right" with respect to the shares called for redemption.

A "Change of Control" is deemed to occur when, after the original issuance of the Series E Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American or the Nasdaq, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American or Nasdaq.

Redemption Procedures. In the event we elect to redeem Series E Preferred Stock, the notice of redemption will be mailed to each holder of record of Series E Preferred Stock called for redemption at such holder's address as it appears on our stock transfer records and will state the following:

- the redemption date;
- the number of shares of Series E Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series E Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;

- whether such redemption is being made pursuant to the provisions described above under "—Optional Redemption" or "—Special Optional Redemption Upon Change of Control";
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series E Preferred Stock being so called for redemption will not be able to tender such shares of Series E Preferred Stock for conversion in connection with the Change of Control and that each share of Series E Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date (as defined below), for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series E Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series E Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series E Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series E Preferred Stock to be redeemed shall surrender the Series E Preferred Stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Series E Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption in trust for the benefit of the holders of the shares of Series E Preferred Stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series E Preferred Stock, those shares of Series E Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Series E Preferred Stock is to be redeemed, the Series E Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method we determine but that will not result in the automatic transfer of any shares of Series E Preferred Stock to a trust as described below under "—Restrictions on Transfer and Ownership."

Immediately prior to any redemption of Series E Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends to, but not including, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series E Preferred Stock at the close of business on such dividend record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series E Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series E Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past dividend periods, no shares of Series E Preferred Stock shall be redeemed unless all outstanding shares of Series E Preferred Stock are simultaneously redeemed, and we shall not purchase or otherwise acquire directly or indirectly any shares of Series E Preferred Stock (except by exchanging it for our capital stock ranking junior to the Series E Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of Series E Preferred Stock to preserve our REIT status or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series E Preferred Stock.

Subject to applicable law, we may purchase shares of Series E Preferred Stock in the open market, by tender or by private agreement. Any shares of Series E Preferred Stock that we acquire may be retired and re-classified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be reissued as any class or series of preferred stock.

Change of Control Conversion Right

Upon the occurrence of a Change of Control, each holder of Series E Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series E Preferred Stock held by such holder as described above under "—Redemption—Optional Redemption" or "—Redemption—Special Optional Redemption Upon Change of Control," in which case such holder will have the right only with respect to shares of Series E Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series E Preferred Stock held by such holder (the "Change of Control Conversion Right") on the Change of Control Conversion Date into a number of shares of our common stock per share of Series E Preferred Stock (the "Common Stock Conversion Consideration") equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the $25.00 liquidation preference per share of Series E Preferred Stock plus the amount of any accumulated and unpaid dividends thereon to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series E Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the "Conversion Rate"); and
- 3.81388 (the "Share Cap"), subject to certain adjustments as described below.

Anything in the Articles Supplementary to the contrary notwithstanding and except as otherwise required by law, the persons who are the holders of record of shares of Series E Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend shall be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series E Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a "Share Split") with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by

(ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series E Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series E Preferred Stock will receive upon conversion of such shares of the Series E Preferred Stock, the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”); the Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration”).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series E Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not then exercised our right to redeem all shares of Series E Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series E Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series E Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;

- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series E Preferred Stock, holders will not be able to convert the shares of Series E Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series E Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series E Preferred Stock;
- the procedures that the holders of Series E Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series E Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series E Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series E Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series E Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series E Preferred Stock held in book-entry form through a Depositary, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series E Preferred Stock to be converted through the facilities of such Depositary), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series E Preferred Stock to be converted; and
- that the shares of the Series E Preferred Stock are to be converted pursuant to the applicable provisions of the Series E Preferred Stock.

The “Change of Control Conversion Date” is the date the Series E Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series E Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of

Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of Series E Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series E Preferred Stock;
- if certificated Series E Preferred Stock has been surrendered for conversion, the certificate numbers of the withdrawn shares of Series E Preferred Stock; and
- the number of shares of Series E Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of Series E Preferred Stock are held in book-entry form through The Depository Trust Company (“DTC”) or a similar depositary (each, a “Depositary”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depositary.

Series E Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series E Preferred Stock, as described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption Upon Change of Control,” in which case only the shares of Series E Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series E Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series E Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption Upon Change of Control,” as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series E Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series E Preferred Stock, no holder of Series E Preferred Stock will be entitled to convert such shares of the Series E Preferred Stock into shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to exceed the applicable share ownership limitations contained in our charter. Please see the section entitled “—Restrictions on Ownership and Transfer.”

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series E Preferred Stock is not convertible into or exchangeable for any other securities or property.

Limited Voting Rights

Holders of the Series E Preferred Stock do not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series E Preferred Stock are in arrears for six or more quarterly dividend periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of our preferred stock we have issued or may issue upon which like voting rights have been conferred and are exercisable and with which the Series E Preferred Stock is entitled to vote as a class with respect to the election of those two directors), and the holders of Series E Preferred Stock, voting as a single class with all other classes or series of preferred stock we have issued or may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series E Preferred Stock in the election of those two directors will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series E Preferred Stock or by the holders of any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series E Preferred Stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Series E Preferred Stock for all past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment. In that case, the right of holders of the Series E Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of the Series E Preferred Stock shall immediately terminate and the number of directors constituting the board of directors shall be reduced accordingly. For the avoidance of doubt, in no event shall the total number of directors elected by holders of the Series E Preferred Stock (voting together as a separate class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series E Preferred Stock in the election of such directors) pursuant to these voting rights exceed two.

If a special meeting is not called by us within 30 days after request from the holders of Series E Preferred Stock as described above, then the holders of record of at least 25% of the outstanding Series E Preferred Stock may designate a holder to call the meeting at our expense.

On each matter on which holders of Series E Preferred Stock are entitled to vote, each share of Series E Preferred Stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to vote with the Series E Preferred Stock as a single class on any matter, the Series E Preferred Stock and the shares of each such other class or series will have one vote for each $25.00 of liquidation preference (excluding accumulated dividends).

So long as any shares of Series E Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series E Preferred Stock outstanding at the time, voting together as a single class with all series of Preferred Stock ranking on a parity with the Series E Preferred Stock that we may issue and upon which like voting rights have been conferred and are exercisable, given in person or by proxy, either in writing or at a meeting, (a) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking senior to the Series E Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series E Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series E Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that, upon an occurrence of an Event, we may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series E Preferred Stock and, provided further, that any increase in the amount of the authorized common stock or preferred stock, including the Series E Preferred Stock, or the creation or issuance of any additional Series E Preferred Stock or other series of preferred stock that we may issue, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series E Preferred Stock that we may issue with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. Notwithstanding the foregoing, holders of any parity preferred stock shall not be entitled to vote together as a class with the holders of Series E Preferred Stock on any amendment, alteration or repeal of our charter unless such action affects the holders of the Series E Preferred Stock and such parity preferred stock equally.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series E Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Except as expressly stated in the articles supplementary, the Series E Preferred Stock does not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series E Preferred Stock are outstanding, we will use our best efforts to (i) transmit by mail (or other permissible means under the Exchange Act) to all holders of Series E Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders or prospective holder of Series E Preferred Stock. We will use our best effort to mail (or otherwise provide) the information to the holders of the Series E Preferred Stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a "non-accelerated filer" within the meaning of the Exchange Act.

Preemptive Rights

No holders of the Series E Preferred Stock, as holders of Series E Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depositary for the Series E Preferred Stock. We issued one or more fully registered global securities certificates in the name of DTC's nominee, Cede & Co. These certificates represent the total aggregate number of shares of Series E Preferred Stock. We deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to holders of the Series E Preferred Stock for shares of Series E Preferred Stock, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series E Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series E Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series E Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When shares of Series E Preferred Stock are purchased within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series E Preferred Stock on DTC's records. Holders of Series E Preferred Stock will be considered to be the "beneficial owner" of the Series E Preferred Stock. Such beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts shares of Series E Preferred Stock are credited.

Holders of Series E Preferred Stock will not receive written confirmation from DTC of the purchase of Series E Preferred Stock. The Direct or Indirect Participants through whom the Series E Preferred Stock were purchased should send such holders written confirmations providing details of the transactions, as well as periodic statements of the holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as a holder of the Series E Preferred Stock, desires to take any action which a holder is entitled to take under our charter (including the Articles Supplementary), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series E Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series E Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of Series E Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series E Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of Series E Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series E Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depositary with respect to the Series E Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series E Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series E Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depositary, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depositary is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series E Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Global Clearance and Settlement Procedures

Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Listing

Our Series E Preferred Stock is listed on the New York Stock Exchange under the symbol "CMOPRE".

Transfer Agent and Registrar

The transfer agent and registrar for our Series E Preferred Stock is EQ Shareowner Services.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- Form S-8 (No. 333-197302); and
- Form S-3ASR (No. 333-221908)

of Capstead Mortgage Corporation of our reports dated February 21, 2020 with respect to the consolidated financial statements of Capstead Mortgage Corporation and the effectiveness of internal control over financial reporting of Capstead Mortgage Corporation included in this Annual Report (Form 10-K) of Capstead Mortgage Corporation for the year ended December 31, 2019.

/s/ ERNST & YOUNG LLP

Dallas, Texas
February 21, 2020

EXHIBIT 31.1

CAPSTEAD MORTGAGE CORPORATION
CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Phillip A. Reinsch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Capstead Mortgage Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

By: /s/ PHILLIP A. REINSCH
Phillip A. Reinsch
President and Chief Executive Officer

EXHIBIT 31.2

CAPSTEAD MORTGAGE CORPORATION
CERTIFICATION PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002

I, Lance J. Phillips, certify that:

1. I have reviewed this Annual Report on Form 10-K of Capstead Mortgage Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

By: /s/ LANCE J. PHILLIPS
Lance J. Phillips
Senior Vice President, Chief
Financial Officer and Secretary

EXHIBIT 32.1

CAPSTEAD MORTGAGE CORPORATION
CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Capstead Mortgage Corporation (the "Company") for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip A. Reinsch, President and Chief Executive Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2020

By: /s/ PHILLIP A. REINSCH
Phillip A. Reinsch
President and Chief Executive Officer

EXHIBIT 32.2

CAPSTEAD MORTGAGE CORPORATION
CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Capstead Mortgage Corporation (the "Company") for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lance J. Phillips, Senior Vice President, Chief Financial Officer and Secretary of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2020

By: /s/ LANCE J. PHILLIPS
Lance J. Phillips
Senior Vice President, Chief
Financial Officer and Secretary