

CAPSTEAD MORTGAGE CORP
Form DEF 14A
April 05, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Capstead Mortgage Corporation

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Notice of Annual Meeting of Stockholders

To Be Held May 15, 2019

To the stockholders of

CAPSTEAD MORTGAGE CORPORATION:

On behalf of our board of directors, I am pleased to invite you to attend the 2019 Annual Meeting of Stockholders of Capstead Mortgage Corporation, a Maryland corporation, to be held at 8401 North Central Expressway, Suite 220, Dallas, Texas 75225-4404 on Wednesday, May 15, 2019 beginning at 1:00 p.m., Central Time, for the following purposes:

- (1) To elect eight directors to hold office until our next annual meeting of stockholders and until their successors are elected and qualified (Proposal 1);
- (2) To approve on an advisory (non-binding) basis our 2018 executive compensation (Proposal 2); and
- (3) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019 (Proposal 3).

In the discretion of the proxies, our annual meeting may include the transacting of any other business that may properly come before the meeting or any adjournment of the meeting.

**** PLEASE VOTE NOW ** YOUR VOTE IS IMPORTANT ** PLEASE VOTE NOW ****

Stockholders of record at the close of business on March 22, 2019 will be entitled to notice of and to vote at our annual meeting of stockholders. It is important your shares are represented at our annual meeting regardless of the size of your holdings. Whether or not you plan to attend the meeting in person, please vote your shares as promptly as possible via the internet, by telephone, or by signing, dating and returning your proxy card. Voting promptly saves us the expense of a second mailing or telephone campaign and reduces the risk that the meeting is adjourned because of the lack of a quorum. Voting via the internet or by telephone helps reduce postage and proxy tabulation costs. See the "Voting" section of this proxy statement for a description of voting methods.

Stockholders please note that New York Stock Exchange regulations require you to vote this proxy in order for your shares to be counted. Your broker will not have any discretion to vote your shares on your behalf for Proposals 1 and 2 without direction from you.

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

By order of our board of directors,

Lance J. Phillips

Secretary

8401 North Central Expressway, Suite 800

Dallas, Texas 75225-4404

April 5, 2019

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CAPSTEAD MORTGAGE CORPORATION

8401 North Central Expressway, Suite 800

Dallas, Texas 75225-4404

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 15, 2019

This proxy statement, together with the proxy, is solicited by and on behalf of the board of directors of Capstead Mortgage Corporation, a Maryland corporation, for use at our annual meeting of stockholders to be held on May 15, 2019 at 8401 North Central Expressway, Suite 220, Dallas, Texas beginning at 1:00 p.m., Central Time. Our board is requesting you to allow your shares to be represented and voted at our annual meeting by the proxies named on the proxy card.

Electronic Availability of Proxy Materials” section of this proxy statement for more information. At our annual meeting, action will be taken to elect eight directors to hold office until the next annual meeting and until their successors are elected and qualified (proposal 1); to hold an advisory (non-binding) vote on executive compensation (proposal 2); and to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019 (proposal 3). In the discretion of the proxy holders, proxies may be voted on any other business that may properly come before the meeting or any adjournment of the meeting.

“We,” “our,” “us,” and “Capstead” each refers to Capstead Mortgage Corporation.

A notice regarding the internet availability of this proxy statement and our 2018 annual report will first be mailed to stockholders on or about April 5, 2019. This proxy statement will be available on our website at that time. See the “Notice of

FORWARD-LOOKING STATEMENTS

Certain statements in our proxy statement, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and assumptions of management that are subject to risks and uncertainties that may cause actual results to differ materially from our expectations. Please see “Forward-Looking Statements” in the 2018 Annual Report for more information.

GENERAL INFORMATION ABOUT VOTING

GENERAL INFORMATION ABOUT VOTING

Solicitation of Proxies

The enclosed proxy is solicited by and on behalf of our board. We will bear the expense of soliciting proxies for our annual meeting, including the mailing cost. In addition to solicitation by mail, our officers or a company of our designation may solicit proxies from our stockholders by telephone, e-mail, facsimile or personal interview. Our officers receive no additional compensation for such services.

We intend to request persons holding shares of our common stock in their name or custody, or in the name of a nominee, to send a notice of internet availability of proxy materials to their principals and request authority for the execution of the proxies. We will reimburse such persons for their expense in doing so. We will also use the proxy solicitation services of Georgeson Inc. For such services, we will pay a fee that is not expected to exceed \$6,500 plus out-of-pocket expenses.

Voting Securities

Our common stock is our only equity security entitled to general voting rights. Each share of common stock entitles the holder to one vote. As of March 22, 2019, there were 85,580,126 shares of common stock outstanding and all are entitled to vote for matters coming before our annual meeting. Only common stockholders of record at the close of business on March 22, 2019 are entitled to vote at the meeting or any adjournment of the meeting.

Voting

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

• via the internet by logging on to www.proxypush.com/cmo to gain access to the voting site and to authorize the proxies to vote your shares;

by calling our proxy tabulator at (866) 256-1193 and following the prompts; or
by signing, dating and mailing the proxy card in the postage-paid envelope provided.

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

The deadline for internet and telephone voting is 5:00 p.m., Eastern Time, on May 14, 2019. If you prefer, you may bring your proxy to our annual meeting to vote your shares in person.

If a broker, bank or other nominee holds shares of our common stock on your behalf, the voting instructions above do not apply to you. You will receive voting instructions from them.

Counting of Votes

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

We have hired Mediant Communications to count all votes cast at our annual meeting. The affirmative vote of a majority of all the votes cast at the annual meeting is required to elect each nominee to our board (proposal 1), approve on an advisory (non-binding) basis our 2018 executive compensation (proposal 2), and ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2019 (proposal 3). Unless otherwise required by Maryland or other applicable law, the affirmative vote of a majority of all votes cast is also required to approve any other matter brought to a vote at the meeting.

Brokers holding shares beneficially owned by their clients do not have the ability to cast votes with respect to any non-routine matter, including votes to elect our directors (proposal 1), or votes regarding executive compensation (proposal 2) unless the brokers have received instructions from the beneficial owners of the shares. It is therefore important that you provide instructions to your broker so that your shares will be counted in these matters.

Brokers may vote at their discretion on all routine matters (i.e. the ratification of the appointment of our independent registered public accounting firm (proposal 3)). Broker non-votes occur when a broker, bank or other nominee holding shares on your behalf votes the shares on some matters but not others. We will treat broker non-votes as shares present and voting for quorum purposes and votes not cast in any non-routine matter, including proposals 1 and 2.

Abstentions, broker non-votes and withheld votes will have no effect on the outcome of the votes on proposals 1 and 2 assuming that a quorum is obtained.

If you sign and return your proxy card without giving specific voting instructions, your shares will be voted as recommended by our board.

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GENERAL INFORMATION ABOUT VOTING

Right to Revoke Proxy

You must meet the same deadline when revoking your proxy as when voting your proxy. See the “Voting” section of this proxy statement for more information. If you hold shares of our common stock in your own name as a holder of record, you may revoke your proxy instructions through any of the following methods:

• by notifying our secretary in writing of your revocation before your shares have been voted;
• by signing, dating and mailing a new proxy card to our secretary;

• by calling our proxy tabulator at (866) 256-1193 and following the prompts;
• via the internet by logging on to www.proxypush.com/cmo and following the prompts; or
• by attending our annual meeting with your proxy and voting your shares in person.

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

Notice of Electronic Availability of Proxy Materials

On or about April 5, 2019, we mailed our stockholders a notice with instructions on accessing these materials and voting online as permitted by the Securities and Exchange Commission (“SEC”). If you received a notice, you will not receive a hard copy of the proxy materials unless you request them. If you would like to receive a hard copy of our proxy materials, follow the instructions on the notice.

Multiple Stockholders Sharing the Same Address

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

bank or other nominee. If you hold shares of our common stock in your own name as a holder of record and would like to request householding, please contact our transfer agent, EQ Shareowner Services, at (866) 870-3684.

Extra copies of our annual report and proxy statement may be obtained free of charge by sending a request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas, 75225-4404. You can also obtain copies on our website at www.capstead.com or by calling us toll-free at (800) 358-2323, extension 2339.

Voting Results

Voting results will be announced at our annual meeting and a detail of the voting results will be published in a Form 8-K filed with the SEC within four business days of the meeting.

PROPOSAL ONE – ELECTION OF DIRECTORS

PROPOSAL ONE – ELECTION OF DIRECTORS

One of the purposes of our annual meeting is to elect eight directors to hold office until the next annual meeting and until their successors have been elected and qualified. In order to understand each nominee’s qualifications to serve as a director, it is important to first review our investment strategy.

We operate as a self-managed mortgage REIT for federal income tax purposes and earn income from investing in a leveraged portfolio of residential adjustable-rate mortgage pass-through securities, referred to as 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.

Set forth below for each director nominee is the name, age, principal occupation, the date elected or appointed to our board, board committee memberships held, the number of

shares of common stock beneficially held, directorships held with other public companies and certain other biographical information necessary to provide you with a more complete understanding of the experiences, qualifications, attributes or skills of the nominees.

Also provided below is a brief discussion of our considerations for recommending each of the nominees for director. For discussion of beneficial ownership, see the “Security Ownership of Management and Certain Beneficial Owners” section of this proxy statement. If any nominee becomes unable to stand for election as a director, an event we do not presently expect, the proxy will be voted for a replacement nominee if our board designates one.

The board recommends a vote FOR all nominees.

Nominees for Director

John L. (Jack) Bernard*	Age 64 Director since September 2012	Shares of common stock beneficially owned: 81,113
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Executive Director, Renew Financial

Member: Audit and Governance & Nomination Committees

- Professional Experience: Mr. Bernard is an executive director and former member of the board of Renew Financial, a private company focused on the development of innovative finance and technology solutions to clean energy since 2008. From 2005 to 2007 Mr. Bernard was managing director of OceanTomo responsible for an intellectual property fund and from 2003 to 2004 was managing director for Coastal Capital responsible for an intellectual property sale/leaseback fund. From 1993 to 2002 Mr. Bernard held senior roles at Dresdner RCM Capital Management including managing mortgage, asset-backed and corporate investments held in domestic institutional portfolios, managing a closed-end fixed-income fund and other global credit investment responsibilities. Mr. Bernard worked at Merrill Lynch, Pierce, Fenner & Smith Incorporated from 1984 to 1993 in the mortgage securities trading division with responsibilities for originating, trading and hedging collateralized mortgage obligations, as well as managing a proprietary position in mortgage derivatives.
- Consideration for Recommendation: Mr. Bernard has extensive experience in capital markets and investment management activities having managed and traded mortgage securities and other fixed-income positions for major investment banking firms. He continues to be involved in these markets and various real estate-related activities on a personal and professional basis. Mr. Bernard serves as a member of our governance & nomination and audit committees.

Jack Biegler* Age 75 Director since June 2005 Shares of common stock beneficially owned: 94,613

Private Investor

Chairman of the Board

Chairman: Executive Committee

Member: Compensation Committee

- Professional Experience: Mr. Biegler has served as our chairman of the board since April 2009. Mr. Biegler served as president of Ellison Management LLC from 1996 until his retirement in 2009. From 1980 until its sale in 1996, Mr. Biegler served as chief financial officer (“CFO”) of Ray Ellison Industries, which was involved in the development and construction of single-family homes in San Antonio, Texas.
- Consideration for Recommendation: Mr. Biegler worked as a CFO in the single-family homebuilding business for a significant portion of his career and he continues to be involved in various real estate-related activities on a personal basis. Recognizing the depth of his accounting, financial and real estate-related experience, Mr. Biegler serves as our chairman of the board, chairman of our executive committee and as a member of our compensation committee.

PROPOSAL ONE – ELECTION OF DIRECTORS

Michelle P. Goolsby* Age 61 Director since June 2012 Shares of common stock beneficially owned: 48,203

Partner, Greenmont Capital Partners II

Chair: Compensation Committee

Member: Executive Committee

- **Professional Experience:** Ms. Goolsby has been a partner and investment committee member for Greenmont Capital Partners II, a private equity firm, since 2008. From 1998 to 2008, Ms. Goolsby served as an executive vice president of Dean Foods Company (NYSE: DF) where she was responsible for corporate development, legal, corporate governance, ethics and compliance, government relations and corporate affairs. Prior to 1998, Ms. Goolsby provided legal representation for public and privately-held entities, including real estate investment trusts, in connection with securities offerings, financings, mergers, acquisitions and divestitures. Ms. Goolsby previously served as a director of WhiteWave Foods Company (NYSE: WWAV), a consumer-packaged food and beverage company, and now serves as a member of the Advisory Board of the successor company DanoneWave. She also serves on the board of SACHEM, Inc., a privately-held chemical science company.
- **Consideration for Recommendation:** Ms. Goolsby brings a diverse background of executive leadership experience, and has worked extensively with management teams and boards on matters involving risk management, strategy, compensation and corporate governance. In addition, she has significant experience in corporate financing and other capital markets transactions, including transactions on behalf of public and privately-held real estate entities. Ms. Goolsby serves as chair of our compensation committee and as a member of our executive committee.

Gary Keiser* Age 75 Director since January 2004 Shares of common stock beneficially owned: 69,136

Private Investor

Chairman: Audit Committee

Member: Compensation Committee

- **Professional Experience:** Mr. Keiser served as an audit partner at Ernst & Young LLP from 1980 until his retirement in 2000. Mr. Keiser began his career with Ernst & Young LLP in 1967. He also serves on several governmental, non-profit and private company boards.
- **Consideration for Recommendation:** Mr. Keiser worked in the public accounting profession for his entire career, focusing a significant amount of his time on real estate and real estate finance clients. Recognizing the depth of his accounting, mortgage banking and real estate experience, Mr. Keiser serves as chairman of our audit committee and

as a member of our compensation committee.

Christopher W. Mahowald*	Age 57	Director since June 2005	Shares of common stock beneficially owned: 254,372
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Managing Partner, RSF Partners

Chairman: Governance & Nomination Committee

- **Professional Experience:** Mr. Mahowald is the managing partner of RSF Partners, a series of seven real estate-related private equity funds totaling over \$1 billion in equity since its formation in 1997. Prior to forming RSF, Mr. Mahowald was a partner with the Robert M. Bass Group where he was a founding principal in several real estate-related private equity funds, including the Brazos Fund, the Lone Star Opportunity Fund and Colony Capital. Prior to joining the Bass Group, he was a principal for the Trammell Crow Company. Mr. Mahowald serves or has served on the board for a number of private and public companies including American Security Products, IMPAC Commercial Holdings (NYSE: ICH) and Omega Healthcare (NYSE: OHI). He is a lecturer in finance at the Stanford Graduate School of Business and serves on several non-profit boards including Stanford University's DAPER Investment Fund and Teach for America (Dallas/Fort Worth region).
- **Consideration for Recommendation:** Mr. Mahowald has worked in or managed a number of different real estate finance and equity funds over his career and has public company board experience. Mr. Mahowald serves as chairman of our governance & nomination committee.

PROPOSAL ONE – ELECTION OF DIRECTORS

Michael G. O’Neil* Age 76 Director since April 2000 Shares of common stock beneficially owned: 73,217

Private Investor

Member: Audit, Executive and Governance & Nomination Committees

- Professional Experience: Until retiring in 2001, Mr. O’Neil was a director in the investment banking division of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an investment banking firm, where he had been employed since 1972.
- Consideration for Recommendation: Mr. O’Neil worked for a major investment banking firm his entire career, focusing on debt and equity transactions involving U.S. and foreign corporations and U.S. Treasury and mortgage-related securities and various real estate-related entities. He represented his firm as lead underwriter for our initial public offering in 1985. Recognizing the depth of his capital markets experience, and knowledge of a broad spectrum of security types, Mr. O’Neil serves as a member of our audit, executive and governance & nomination committees.

Phillip A. Reinsch Age 58 Director since July 2016 Shares of common stock beneficially owned: 344,773

President and Chief Executive Officer

Member: Executive Committee

- Professional Experience: Mr. Reinsch has served as president and chief executive officer (CEO) since July 2016. He also served as our CFO and secretary through October 2017 and held these positions since 2003. Mr. Reinsch served in various other executive positions with Capstead since 1993. Mr. Reinsch was previously employed by Ernst & Young LLP from 1984 to 1993. Mr. Reinsch is currently serving as Co-Chair of the NAREIT Mortgage REIT Council and is a member of the National Association of Corporate Directors - Dallas Chapter.
- Consideration for Recommendation: Mr. Reinsch has served in an executive capacity for us since 1993. Recognizing the depth of his experience in the mortgage REIT industry over an extended period of time, Mr. Reinsch serves as our president and CEO and as a member of our executive committee.

Mark S. Whiting* Age 62 Director since April 2000 Shares of common stock beneficially owned: 74,913

Chairman and Chief Executive Officer,

Drawbridge Realty Partners, LP

Member: Compensation Committee

- **Professional Experience:** Mr. Whiting has served as chairman and CEO of Drawbridge Realty Partners, LP, a private commercial property investment firm based in San Francisco, California since its formation in December 2014. Prior to that Mr. Whiting was the chairman and CEO of Drawbridge Realty Trust since January 2012. He served as the managing partner of Drawbridge Partners, LLC, the predecessor company, since 1999. Mr. Whiting served on the board and as CEO of TriNet Corporate Realty Trust, Inc., a NYSE-listed commercial property REIT, from 1996 through 1998 and served on the board and as president and chief operating officer of TriNet from 1993 to 1996. Mr. Whiting currently serves on the board of The Marcus & Millichap Company, a private real estate investment brokerage firm. Mr. Whiting is a member of the Stanford University Real Estate Council and previously served as a member of the Stanford University Athletic Board and the board of trustees of the Cate School.
- **Consideration for Recommendation:** Mr. Whiting is currently serving as the CEO of a private commercial property investment firm and previously served as the CEO of a publicly traded REIT. Recognizing the depth of his real estate-related experience and having served as a CEO of a public company, Mr. Whiting is a member of our compensation committee.

*Indicates an independent director in compliance with Section 303A.02 “Independence Tests” of the New York Stock Exchange (“NYSE”) Listed Company Manual and our Board of Directors’ Guidelines. See the “Board Member Independence” section of this proxy statement for more information.

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

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

Our board held four regular meetings and five special meetings during the year ended December 31, 2018. In accordance with our Board of Directors' Guidelines, directors are expected to attend all meetings of our board and meetings of committees on which they serve. Each director standing for election attended more than 75% of the meetings of our board and committees on which he or she served that were held during 2018.

Attendance at Annual Meeting

In keeping with our Board of Directors' Guidelines, directors are expected to attend our annual meeting in person. Should a director be unable to attend an annual meeting in person but is able to do so by telephonic or electronic conferencing,

we will arrange for the director's participation by means where the director can hear, and be heard, by those present at the meeting. All of our sitting directors were in attendance at our 2018 annual meeting held on May 16, 2018.

Board Member Independence

Section 303A.02 "Independence Tests" of the NYSE Listed Company Manual outlines the requirements for a director to be deemed independent by the NYSE, including the mandate that our board affirmatively determines that each of our

directors has no material relationship with us that would impair independence. To assist in ascertaining the independence of our directors, each director completed a qualification questionnaire in December 2018. They were also asked to affirm compliance with all of the independence standards set forth in the NYSE Listed Company Manual and our Board of Directors' Guidelines. Further, directors were asked to verify their interest in serving on our board in 2019 and their availability and capability to serve, as well as confirm they meet additional qualifications required for continued service as outlined in our Board of Directors' Guidelines.

After receipt of all completed qualification questionnaires, our governance & nomination committee members were given a copy of each questionnaire, along with information regarding each director's ownership in our equity securities. The

committee briefed our board on the results of their review, noting that the son of one of our directors currently works for our independent accounting firm in a non-partner position, and in a different city with no involvement with our audit. At the conclusion of this process, our board affirmatively determined no director, with the exception of Mr. Reinsch who is our CEO, has a material relationship with us that would impair his or her independence, and each director meets all of the independence requirements set forth in the NYSE Listed Company Manual and our Board of Directors' Guidelines. Therefore, our board is comprised of a majority of independent directors, as required in Section 303A.01 "Independent Directors" of the NYSE Listed Company Manual.

Our Board of Directors' Guidelines are found on our website at www.capstead.com by clicking "Investor Relations" and "Governance Documents." Any reference to an independent director herein infers compliance with the NYSE independence tests and our Board of Directors' Guidelines.

Charitable Contributions

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

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

Board Member Compensation

Compensation of our independent directors for the fiscal year ended December 31, 2018 is outlined in the following table.

Director Compensation*

Name	Fees Earned or	Stock	Option	All Other	Total
	Paid in Cash	Awards	Awards	Compensation	
	(\$)	(\$) ^{(a)(b)}	(\$) ^(c)	(\$)	(\$)
Jack Bernard	77,000	70,004	–	–	147,004
Jack Biegler	119,000	70,004	–	–	189,004
Michelle P. Goolsby	89,000	70,004	–	–	159,004
Gary Keiser	95,500	70,004	–	–	165,504
Christopher W. Mahowald	82,000	70,004	–	–	152,004
Michael G. O’Neil	78,000	70,004	–	–	148,004
Mark S. Whiting	73,000	70,004	–	–	143,004

*Columns for “Non-Equity Incentive Plan Compensation” and “Change in Pension Value and Nonqualified Deferred Compensation Earnings” have been omitted because they are not applicable.

(a) Amount represents the aggregate grant date fair value of stock awards granted on July 24, 2018, which is being recognized as expense on a straight-line basis over the related requisite service period and will vest in full on July 24, 2019. Each award represents the right to receive 8,159 shares of common stock calculated by dividing the value of the award by the closing price of a share of common stock on the grant date, which was \$8.58 on July 24, 2018.

(b) Excluded from this tabulation are dividends earned totaling \$3,342 on unvested stock awards by each of our directors for fiscal year 2018. Such dividend amounts are excluded because stock awards are valued for compensation cost purposes based on the closing market price of our common stock on the date of grant, which is assumed to factor future dividends into its valuation.

(c) As of December 31, 2018, three directors held exercisable option awards as follows: 5,000 shares each for Messrs. Biegler, Mahowald and Whiting. The Company ceased granting option awards to our directors in 2009.

Narrative Disclosure to Director Compensation Table

Independent directors currently receive base compensation for their representation on our board of \$70,000 and an annual stock award with a value equal to approximately \$70,000. The chairman of the board and each of the chairs of our committees receive an additional annual amount for serving in such capacity. The chairman of the board receives

\$45,000, while the chairs of the audit, compensation and governance & nomination committees receive \$17,500, \$15,000 and \$10,000, respectively. All committee members receive \$1,000 per committee meeting attended. All of our directors receive reimbursement for travel costs and expenses. Employee directors do not receive compensation for serving on our board.

The board believes a meaningful portion of our independent directors' total compensation should be paid in the form of equity awards in order to better align these directors' financial interests to those of our stockholders. Equity awards granted may include (i) stock awards, (ii) option awards or (iii) other incentive-based awards as defined in our Amended and Restated 2014 Flexible Incentive Plan. Our compensation committee routinely reviews our director compensation structure with the committee's compensation consultant and makes director compensation-related recommendations to our board for approval.

Stock awards granted to our independent directors provide for vesting over a requisite service period established by our board, typically one year. Directors are considered owners of the shares and entitled to vote and receive all dividends and any other distributions declared on the shares prior to vesting. Dividends or other distributions on these shares shall not exceed those available to our common stockholders. Unvested shares cannot be sold, transferred or otherwise disposed of for any purpose other than to us. Unvested shares will be forfeited in the event a director leaves us for any reason, including termination of directorship by reason of voluntary or involuntary discharge, disability or retirement, except in the event of a change in control, dissolution or liquidation of Capstead, or death of the grantee, in which case outstanding unvested shares will automatically vest in full.

Option awards granted to our independent directors in years prior to 2010 are fully vested and expire at the earliest of (i) ten years after date of grant, (ii) six months, or the remaining term of the option if earlier, after the optionee's termination of directorship by reason of death, resignation, retirement or disability or (iii) on the date of the optionee's termination of directorship for cause. Outstanding option awards do not receive dividends prior to exercise and are non-voting.

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

Leadership Structure

Our board currently separates the roles of chairman and CEO, with the chairmanship held by an independent director. Our board believes the separation of roles, while not required, enhances the board's oversight of and independence from management, as well as the ability of our board to carry out its roles and responsibilities on behalf of stockholders. This leadership structure also allows our CEO to focus more of his time and energy on operations while providing him more of an opportunity to learn from the experience and perspectives of our chairman and other independent directors.

Our chairman, together with our CEO and with input from our other directors, oversees the development of board and board committee calendars and meeting agendas. He also leads the discussion at board meetings, and acts as the primary liaison between our CEO and board. Our chairman is available to speak on behalf of our board under certain circumstances and performs other functions and responsibilities as required under our Board of Directors' Guidelines or as directed by the board from time to time.

Our Board's Role in Risk Oversight

Our board recognizes how critical effective risk oversight is in our success and believes that its current leadership structure and operating style, with a board composed of primarily independent directors, its chairmanship separated from our CEO, and experienced executive officers who participate regularly in board and committee meetings, enhances risk oversight. Enterprise risks are identified and prioritized by our management and reported to our full board on a quarterly basis or as otherwise appropriate, while compliance and

financial risks are overseen by our audit committee. Our compensation committee considers enterprise risks within the design of our compensation programs to ensure these programs do not encourage excessive risk taking. Our chairman and other independent directors, themselves all experienced business professionals, are experienced in identifying enterprise risk issues for board consideration and challenging our management to address their concerns and understand their perspective on these issues.

Stock Ownership Guidelines and Pledging Prohibition

We maintain guidelines for ownership of our common stock by our directors and named executive officers (“NEOs”) for purposes of improving the alignment of interests of these individuals and those of our stockholders. Each of our directors is expected to own shares of our common stock equal to three times their annual cash retainer and each of

our executive officers is expected to own shares ranging from three to five times their annual base salary.

Our board prohibits directors and executive officers from pledging our common stock.

Derivatives Trading and Hedging Policy

Our board prohibits our employees and directors from entering into transactions to hedge or offset any change in the market value of our common stock.

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

Board Committees and Meetings

The current standing committees of our board are listed in the table below. Each of these committees has a written charter approved by our board. A copy of the charters can be found on our website at www.capstead.com by clicking

“Investor Relations” and “Committee Charters.” The members of these committees and the number of meetings held during 2018 are identified in the table below, and a description of the principal responsibilities of each committee follows.

	Governance			
	Audit	Compensation	Executive	& Nomination
Jack Bernard	X			X
Jack Biegler		X	Chair	
Michelle P. Goolsby		Chair	X	
Gary Keiser		Chair	X	
Christopher W. Mahowald				Chair
Michael G. O’Neil	X		X	X
Phillip A. Reinsch			X	
Mark S. Whiting		X		
Number of Meetings	5	4	1	2

Our audit committee is comprised of three independent directors. This committee is responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm; and it provides assistance to our board in fulfilling their oversight responsibilities to our stockholders, potential stockholders and the investment community relating to:

- the integrity of our financial statements and financial reporting process, including our systems of internal accounting and financial control and disclosure controls and procedures;
- our independent registered public accounting firm’s qualifications and independence;
- our compliance with legal and regulatory requirements; and
- the performance of our independent registered public accounting firm and our internal audit function (outsourced to a third-party service provider).

Our board has determined that each member of our audit committee is an “audit committee financial expert” as defined in the applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Additionally, each member meets our Board of Directors’ Guidelines and the NYSE Listed Company Manual Guidelines for independence of audit committee members, have financial management experience and are financially literate as required by the NYSE Listed Company Manual. Our audit committee charter limits the number of audit committees on which committee members may serve to no more than two other public companies, unless our board determines such simultaneous service would not impair the ability of such member to effectively serve.

Our compensation committee is comprised of four independent directors that our board has determined are

independent in accordance with NYSE listing standards and Item 407(a) of the SEC Regulation S-K. In addition to routinely reviewing our director compensation structure with the committee’s compensation consultant and making director compensation-related recommendations to our board, all of our executive compensation programs are administered under the direction of this committee. This committee is responsible for overseeing our compensation programs including:

- reviewing and approving corporate goals and objectives relevant to our CEO’s compensation;
- evaluating our CEO’s performance in light of those goals and approving compensation consistent with such performance;
- approving base salaries, short- and long-term incentives, and other programs and benefits for certain of our executive officers other than our CEO;
- approving compensation programs and benefits for our other employees;
- reviewing and coordinating succession plans for our CEO and NEOs;
- reviewing and assessing the potential risks associated with our compensation programs;
- reviewing and discussing the CD&A with our NEOs, legal counsel and the committee’s compensation consultant, and recommending to our board the CD&A’s inclusion in our proxy statement and annual report on Form 10-K;
- reviewing and considering the results of non-binding advisory votes on executive compensation submitted to stockholders pursuant to Section 14A of the Securities Exchange Act; and
- reviewing and considering other regulatory matters related to executive compensation.

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

Our executive committee is comprised of four directors. During intervals between meetings of our board, this committee has all of the powers and authority of our board in managing our business and affairs, except those powers that by law cannot be delegated by our board.

Our governance & nomination committee is comprised of three independent directors. This committee is responsible for:

- recommending nominees to our board for the next annual meeting of stockholders;
- overseeing the evaluation of the performance of our board and executive officers from a corporate governance perspective;
- identifying qualified individuals to serve on our board consistent with criteria approved by our board; and
- developing, recommending to our board, and maintaining our governance policies and guidelines.

Compensation Committee Interlocks and Insider Participation

During 2018, Ms. Goolsby and Messrs. Biegler, Keiser and Whiting served on our compensation committee. No member of our compensation committee was at any time during 2018 or at any other time an officer or employee of ours, and no member had any relationship with us requiring disclosure in the “Related Person Transactions” section of this proxy

statement. None of our executive officers has served on the board or compensation committee of any other entity that has or had one or more executive officers who served as a member of our board or compensation committee during 2018.

Meetings of Non-Management Directors

Periodically our non-management directors meet without management in connection with our quarterly board meetings. Accordingly, such directors met four times in 2018. At these meetings, the non-management directors reviewed strategic issues for consideration by our board, including future agendas, the flow of information to directors, management progression and succession, and our corporate governance guidelines. The non-management

directors have determined that our chairman will preside at such meetings. The chairman is generally responsible for advising our CEO of decisions reached and suggestions made at these sessions. If our non-management directors include a director

who is not an independent director, our Board of Directors' Guidelines requires that at least one of the scheduled executive sessions include only independent directors. Presently, all of our non-management directors are independent.

Stockholders and interested parties may communicate with our chairman or non-management directors as a group by utilizing the communication process identified in the "Interested Party and Stockholder Communication with our Board" section of this proxy statement.

OUR CORPORATE GOVERNANCE PRINCIPLES

OUR CORPORATE GOVERNANCE PRINCIPLES

Our policies and practices reflect corporate governance initiatives that are compliant with the NYSE listing standards and the corporate governance requirements of the Sarbanes-Oxley Act of 2002. We maintain a corporate governance section on our website which includes key information about our corporate governance initiatives including our Board of Directors' Guidelines, charters for our board committees, our Code of Business Conduct and Ethics (applicable to all of our employees, officers and directors) and our Financial Code of Professional Conduct. The corporate governance section can be found on our website at www.capstead.com by clicking "Investor Relations" and "Governance Documents."

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

Considerations for Nomination

Our governance & nomination committee considers and makes recommendations to our board concerning candidates for election and the appropriate size of our board. In considering incumbent directors, the committee reviews the directors' overall service during their terms, including the number of meetings attended, level of participation and quality of performance. Other considerations include the directors' level of ownership of our equity securities and, when applicable, the nature of and time involved in the directors' service on other boards. The committee reviews the completed qualification questionnaires submitted by incumbent directors (as previously described in the "Board Member Independence" section of this proxy statement) prior to making its recommendation to our board regarding the slate of directors for election at the following year's annual meeting of stockholders. Additionally, the board concluded that all current directors continue to possess the talent, knowledge and experience relevant to our business deemed necessary to stand for re-election to our board.

In considering candidates to fill new positions created by expansion and/or vacancies that occur because of resignation, retirement or any other reason, the committee uses its and our management's network of contacts to compile a list of potential candidates. The committee may also engage, if it deems appropriate, a professional search firm. Candidates are selected on the basis of talent, knowledge and experience relevant to our business without

regard to race, religion, gender or national origin as described in our Board of Directors' Guidelines. Accordingly, our board does not consider diversity in identifying nominees for director in the sense that it is agnostic as to a potential nominee's characteristics in this regard and does not have any diversity goals or guidelines relative to the overall make-up of our board. Candidates should possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility. Each candidate should also have a genuine interest in Capstead, recognize that he or she is accountable to our stockholders and have a background that demonstrates an understanding of business and financial affairs, the complexities of a large business organization and the related capital markets in which the Company operates.

No person shall be eligible to serve as a director who has been convicted of a felony criminal offense or any criminal offense involving moral turpitude, dishonesty or a breach of trust. The committee will consider candidates recommended by stockholders provided stockholders follow the procedures set forth in the "Stockholder Procedures for Director Candidate Recommendations" section of this proxy statement. The committee evaluates a candidate using the criteria set forth above regardless of who nominated the candidate.

Service on Other Boards

Our Board of Directors' Guidelines prohibit our directors from serving on more than four boards of other public companies and recommends its audit committee members serve on audit committees of no more than two other public companies. In addition, our CEO's service is limited to two other public company boards. None of our directors presently serve on other public company boards.

OUR CORPORATE GOVERNANCE PRINCIPLES

Majority Vote Standard

A nominee for director in an uncontested election shall be elected to our board if the votes cast for such nominee's election exceed the votes cast against such nominee's election. In the case of a contested election, directors shall be elected by a plurality of the votes.

Concurrent with adoption of the majority vote standard in uncontested elections, our board modified our Board of Directors' Guidelines to require an incumbent director who does not receive a majority of the votes cast and therefore is not re-elected to promptly submit a letter of resignation to our

governance & nomination committee. The committee will consider the resignation and make its recommendation to our board on whether to accept or reject the resignation. Our board, excluding the resigning director, will make a decision regarding the resignation within 90 days after the date on which the certification of the stockholder vote on the election of directors is made, and our board will publicly disclose its decision and related rationale. If a decision is made to accept the resignation, the director's resignation shall be effective immediately.

Mandatory Resignation

Our Board of Directors' Guidelines require a director to promptly submit a letter of resignation to our governance & nomination committee if the director (i) changes substantially his or her principal occupation or business association for any reason other than retirement or retirement planning, (ii) declares or is otherwise involved in a personal bankruptcy or the bankruptcy of a business in which he or she is a principal, (iii) fails to receive a majority of the votes cast in an uncontested election or (iv) is named as a party in a material legal proceeding, becomes the target of a material state or federal investigation, or receives a request of a material nature for the production of records or testimony from any state or federal agency. The committee will in turn consider

the resignation and make its recommendation to our board on whether to accept or reject the resignation. Our board, in its sole judgment, shall then decide whether such event requires the board to accept such resignation in the best interests of the company and its stockholders.

A director who has been convicted of a felony criminal offense or any criminal offense involving moral turpitude, dishonesty or a breach of trust shall resign effective immediately. An employee director must resign from our board, unless a majority of our board determines otherwise, once he or she ceases to be employed by us whether due to retirement or otherwise.

OTHER GOVERNANCE INFORMATION

OTHER GOVERNANCE INFORMATION

Stockholder Procedures for Director Candidate Recommendations

Our governance & nomination committee will consider written director candidate recommendations made by stockholders to our secretary at 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404. Electronic or facsimile submissions will not be accepted.

For the committee to consider a candidate, submissions must include sufficient information concerning the recommended individual including biographical data such as age; employment history; a description of all businesses that employ or employed the candidate, including the name and phone number of the businesses; a list of board memberships the candidate holds, if any; and additional information that would provide a more complete understanding of the experiences, qualifications, attributes or skills of each director nominee in light of Capstead's business and structure. In addition, the candidate should affirm he or she can read and understand basic financial statements and consent to stand for election, if nominated by our board, and serve, if elected by our stockholders.

Once a fully complete recommendation is received by the committee and if deemed appropriate by the committee chair, the candidate will be sent a questionnaire that requests additional information regarding independence, qualifications and other information to assist the committee in evaluating him or her, as well as certain information that must be disclosed about the candidate in our proxy statement, if nominated. Further, the questionnaire provides that the individual must grant consent to us to conduct a confidential background search of the individual to the extent allowable under federal, state and local legislation. The recommended candidate must return the questionnaire within the time frame outlined below to be considered for nomination by the committee. Recommendations for which we have received completed questionnaires by December 6, 2019 will be considered for candidacy for the 2020 annual meeting of stockholders. Completed questionnaires received after December 6, 2019 will be considered for candidacy for the 2021 annual meeting, if not earlier withdrawn.

Interested Party and Stockholder Communication with our Board

Interested parties and stockholders who wish to contact any of our directors either individually or as a group may do so by calling toll-free (800) 358-2323, by writing to them care of Capstead Mortgage Corporation, 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404 or via e-mail at directors@capstead.com. Interested party and

stockholder calls, letters and e-mails are screened by our employees based on criteria established and maintained by our governance & nomination committee, which includes filtering out improper or irrelevant communications such as solicitations, advertisements, spam, surveys, junk mail, mass mailings, resumes and other forms of job inquiries.

Director Orientation and Continuing Education

Our board and NEOs conduct a comprehensive orientation through a review of background material and meetings with our personnel to familiarize new directors with our vision, strategic direction, core values, ethics, financial matters, corporate governance practices and other key policies and practices. Our board recognizes the importance of continuing education for our directors and is committed to providing

such education to improve the performance of our board and its committees. Our executive officers assist in identifying and advising our directors about opportunities for continuing education including conferences provided by independent third parties.

Annual Board Evaluation and Individual Director Self-Evaluations

Section 303A.09 “Corporate Governance Guidelines” of the NYSE Listed Company Manual requires listed company boards to conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. On an annual basis, we provide each of our directors a self-evaluation questionnaire regarding the performance of our board and one for each of our

committees on which he or she serves. The completed committee questionnaires are given to the respective committee chair to review and discuss during the next scheduled committee meeting. The director who presides at our non-management director meetings leads a review of the board self-evaluation questionnaires with directors at our annual board meeting.

EXECUTIVE OFFICERS

EXECUTIVE OFFICERS

The following table shows the names and ages of our executive officers and the positions held by each individual.

A description of the business experience of each for at least the past five years follows the table.

Current Officers	Age	Title
Phillip A. Reinsch	58	President, Chief Executive Officer
Lance J. Phillips	45	Senior Vice President, Chief Financial Officer, Secretary
Robert R. Spears, Jr.	57	Executive Vice President, Chief Investment Officer
Roy S. Kim	49	Senior Vice President, Treasurer

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

Mr. Phi