

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.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(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

---

TABLE OF CONTENTS
-------------------

## TABLE OF CONTENTS

<u>Introduction</u>	1	<u>What We Pay and Why</u>	17
<u>Forward-Looking Statements</u>	1	<u>Our Philosophy</u>	17
<u>General Information About Voting Solicitation of Proxies</u>	2	<u>The Role of the Committee, Its Consultant, the CEO and Management in Making Compensation Decisions</u>	18
<u>Voting Securities</u>	2	<u>Our Use and the Role of Peer Companies</u>	18
<u>Voting</u>	2	<u>Objectives of Our Program</u>	19
<u>Counting of Votes</u>	2	<u>Review of 2018 Total Direct Compensation</u>	20
<u>Right to Revoke Proxy</u>	3	<u>Base Salary</u>	20
<u>Notice of Electronic Availability of Proxy Materials</u>	3	<u>Short-Term Incentives</u>	20
<u>Multiple Stockholder Sharing the Same Address</u>	3	<u>Long-Term Incentives</u>	22
<u>Voting Results</u>	3	<u>Other 2018 Compensation Elements</u>	24
<u>Proposal One — Election of Directors</u>	4	<u>Decisions Affecting Compensation for 2019</u>	24
<u>Board of Directors and Committee Information</u>	7	<u>Other Compensation Policies and Practices</u>	25
<u>Attendance at Annual Meeting</u>	7	<u>Compensation Committee Report</u>	26
<u>Board Member Independence</u>	7	<u>Summary Compensation Table</u>	27
<u>Charitable Contributions</u>	7	<u>Grants of Plan-Based Awards</u>	29
<u>Board Member Compensation</u>	8	<u>Outstanding Equity Awards at Fiscal Year-End</u>	31
<u>Leadership Structure</u>	9	<u>Option Exercises and Stock Vested</u>	32
<u>Our Board’s Role in Risk Oversight</u>	9	<u>Nonqualified Deferred Compensation</u>	32
<u>Stock Ownership Guidelines and Pledging Prohibition</u>	9	<u>Potential Payments Upon Termination or Change-in-Control</u>	33
<u>Derivatives Trading and Hedging Policy</u>	9	<u>Equity Compensation Plans</u>	34
<u>Board Committees and Meetings</u>	10	<u>Audit Committee</u>	35
<u>Compensation Committee Interlocks and Insider Participation</u>	11	<u>Audit Committee Report</u>	35
<u>Meetings of Non-Management Directors</u>	11	<u>Security Ownership of Management and Certain Beneficial Owners</u>	36
<u>Our Corporate Governance Principles</u>	12	<u>Security Ownership of Management</u>	36
<u>Considerations for Nomination</u>	12	<u>Security Ownership of Certain Beneficial Owners</u>	37
<u>Service on Other Boards</u>	12	<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	37
<u>Majority Vote Standard</u>	13		
<u>Mandatory Resignation</u>	13	<u>Proposal Two — Advisory (Non-Binding) Vote on Executive Compensation</u>	38
<u>Stockholder Procedures for Director Candidate</u>	14		39

<u>Recommendations</u>		<u>Proposal Three — Ratification of the Appointment of Ernst &amp; Young</u>	
<u>Interested Party and Stockholder</u>	14	<u>LLP as our Independent Registered Public Accounting Firm</u>	
<u>Communication with our Board</u>			
<u>Director Orientation and Continuing</u>		<u>Related Person Transactions</u>	
<u>Education</u>	14		40
<u>Annual Board Evaluation and Individual</u>		<u>Stockholder Proposals</u>	40
<u>Director Self-</u>			
<u>Evaluations</u>	14	<u>Other Matters</u>	40
<u>Executive Officers</u>	15	<u>Additional Information</u>	41
<u>Executive Compensation</u>	16		
<u>Compensation Discussion and Analysis</u>	16		
<u>Executive Summary</u>	16		
<u>Previous Say-on-Pay Votes</u>	17		

---

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](http://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.

2 | Capstead 2019 Proxy Statement

---

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](http://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](http://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
----------------------------	--	--

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
-----------------------------	--------	--------------------------	---

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](http://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](http://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](http://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](mailto: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. Phillips has served as our Senior Vice President, Chief Financial Officer and Secretary since October 2017. Prior to joining Capstead, Mr. Phillips was vice president, principal accounting officer and controller of Hunt Utility Services, the external manager for InfraREIT Inc. (NYSE: HIFR). Mr. Phillips had served in various executive capacities with the Ray L. Hunt family of companies since 2010. From 2006 to 2010, Mr. Phillips served as director of finance and controller at Interphase Corporation (NASD: INPH). Prior thereto, he held various accounting roles at Fujitsu from 1999 to 2006. He began his career at Arthur Andersen, LLP in Dallas as a member of the audit and advisory services group. He is a Certified Public Accountant in the state of Texas.

Mr. Spears has served as our executive vice president and chief investment officer (“CIO”) since July 2006. Prior thereto, Mr. Spears served in a similar capacity as a senior vice president since 1999 and has served in various other executive positions with us since 1994. Mr. Spears was employed by NationsBanc Mortgage Corporation from 1990 to 1994, last serving as vice president – secondary marketing manager.

Mr. Kim has served as our senior vice president since April 2015 and was appointed our treasurer in 2016. From 2014 to 2015 Mr. Kim was portfolio manager at Regan Capital, a registered investment advisor in Dallas, Texas, focusing on distressed private label (non-agency) residential mortgage-backed securities. Mr. Kim pursued personal

investments from 2013 to 2014. From 2004 to 2012 Mr. Kim was executive director at J.P. Morgan Securities in New York, New York where he was head of agency ARM residential mortgage-backed securities trading and from 1995 to 2004 Mr. Kim was employed by Bank of America in Charlotte, North Carolina, last serving as senior vice president and trading team leader.

EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis provides information regarding the 2018 compensation of our executive officers identified in the Summary Compensation Table, whom we refer to as our NEOs. In addition, we describe decisions taken thus far in 2019 affecting executive compensation for 2019. This discussion also contains

statements regarding individual and company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and are not statements of management's expectations or estimates of future results or other guidance. We caution investors not to apply these statements in other contexts.

Executive Summary

**Who We Are.** We operate as a self-managed REIT earning income from investing in a leveraged portfolio of residential mortgage pass through securities consisting of 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. These securities are referred to as "Agency securities" and are considered to have limited, if any, credit risk. Because the mortgages underlying our portfolio reset to more current rates within a relatively short period of time, we are positioned to benefit from a potential recovery in financing spreads that typically contract during periods of rising short-term interest rates and can 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 indicates less interest rate risk.

**Our Compensation Philosophy.** We strive to provide competitive, largely performance-based compensation programs to attract, motivate, and retain employees vital to our long-term financial success and the creation of stockholder value. The compensation committee of our board is responsible for establishing, implementing and monitoring our compensation programs and practices. At our 2018 annual meeting of stockholders, 97% of the votes cast supported the compensation paid or awarded our executive officers in 2017. We considered that support when making executive compensation decisions in 2018. As such, minimal changes were made to our pay programs in 2018 and thus far in 2019.

We believe a key measure of our financial performance is the economic return (change in book value plus dividends) we deliver to our stockholders over both short- and long-term time horizons. Economic return is also a common measure of performance used by the broader mortgage REIT investment community. Accordingly, we emphasize economic return in our compensation programs, in addition to other performance metrics.

**Recent Company Performance.** In 2018 we earned \$50.1 million or \$0.34 per diluted common share for a return on average common equity of 3.4%. However, our book value declined by \$0.86 per outstanding share, or 8.4% of beginning book value, as we absorbed the effects of five 25 basis point increases in the Fed Funds Rate since December

2017 and a general flattening of the yield curve. Included in this decline is capital returned to our stockholders in the form of dividends paid in excess of earnings totaling \$0.16 per share. Book value benefited in 2018 from \$0.29 per share in accretion generated by stock repurchases. Taken together, we reported a total economic return of a negative 3.6%.

While in absolute terms our 2018 performance was not indicative of how we expect to perform over the long-term, our relative performance exceeded that of many of our peers in the mortgage REIT industry. Our Agency peers reported book value declines averaging over 21% and economic returns averaging a negative 11%. Our broader peer grouping that includes peers focused on non-agency mortgage investments reported book value declines averaging 16% and average economic returns of a negative 4.4%.

In summary, during what was a very challenging year for our industry, our short-duration ARM strategy proved relatively resilient in a very difficult interest rate environment.

**2018 Compensation.** The primary elements of our compensation programs are base salaries, short-term incentives and long-term equity-based incentives. Actual performance-based amounts paid or awarded to our NEOs for 2018, as reflected in the Summary Compensation Table on page 27, totaled approximately 54%.



## EXECUTIVE COMPENSATION

Executive Compensation Practices. The following high-lights certain of our executive compensation and governance practices which we utilize to drive performance and serve our stockholders' long-term interests:

### Our Pay Practices Include

Performance-Based Pay – Our compensation programs have been structured to align the interests of our NEOs with the interests of our stockholders and, as a result, the majority of total direct compensation is tied to relative and absolute economic returns over both short- and long-term time horizons.

Meaningful Stock Ownership Requirements – All of our NEOs are subject to meaningful stock ownership requirements that require the retention of a dollar value of Capstead stock based on a multiple of base salary.

Prohibition on Pledging of Capstead Stock – We prohibit our NEOs and directors from pledging their holdings of Capstead stock.

Periodic Risk Assessment – Our compensation committee conducts a risk assessment of our compensation programs with the assistance of our independent compensation consultant.

Clawback Policy – Our clawback policy allows us to recover compensation paid to our NEOs under certain circumstances.

### Our Pay Practices Do Not Include

Tax Gross-Ups – We do not provide tax gross-ups.

“Single Trigger” Benefits – Awards do not vest solely as a result of a change in control (“CIC”); instead awards vest only in the event of not-for-cause termination within 24 months of a CIC.

Derivatives Trading and Hedging – We do not permit our employees or directors to engage in any derivatives trading or hedging transactions associated with their holdings of Capstead stock.

### Previous Say-on-Pay Votes

At our 2018 annual meeting of stockholders 97% of the votes cast supported the compensation paid or awarded to our NEOs in 2017. This level of support was in line with our expectations and was reflective of the important changes made to our compensation programs in prior years.

In order to remain proactive in managing our executive compensation programs and practices, during 2018 the compensation committee chair and other members of the committee continued outreach efforts begun in prior years by again contacting our largest stockholders and offering to discuss our compensation programs and philosophies. The

committee held discussions with several of our largest stockholders and explained the mechanics and rationale of various components of our programs. These stockholders expressed no concerns with the structure or amounts of our executives' compensation.

## What We Pay and Why

This section describes the various factors influencing the design of our compensation programs and decisions affecting 2018 compensation of our NEOs, including:

- our philosophy,
- the role of the committee, its consultant, the CEO and management in making compensation decisions,
- our use and the role of peer companies,
- objectives of our program,
- review of 2018 total direct compensation, and
- other 2018 compensation elements.

### Our Philosophy

Our compensation philosophy is to provide competitive performance-based compensation programs to attract, motivate and retain employees vital to our long-term financial success and creation of stockholder value. The committee (assisted by its compensation consultant) has designed and administered compensation programs it believes support this philosophy. In implementing its philosophy, the committee:

• Recognizes the complexities of managing a large portfolio of residential mortgage securities on a leveraged basis.

Many of the challenges in managing such a portfolio are market driven and management's role is to position Capstead for strong risk-adjusted performance in varying market conditions. The creation of stockholder value ultimately rests with the NEOs and the successful execution of our business strategies through changing market environments. These factors influence the selection of our performance metrics, setting of performance goals, and evaluation of our performance.

• Considers enterprise risks within the design of our compensation programs to ensure these programs do not encourage excessive risk taking. This consideration influences the setting of performance goals, evaluation of our performance, and the establishment of governance policies (such as leverage, stock ownership, and hedging policies) designed to mitigate these risks.

• Recognizes that as a REIT we generally must distribute at least 90% of our taxable income to our stockholders annually and as such are constrained from growing our business through the retention of earnings. As such, traditional growth-oriented performance metrics applicable to non-REITs are not meaningful. Our business model is designed to provide attractive risk-adjusted returns through the payment of common stock dividends while better protecting our book value over the course of an interest rate cycle than longer duration strategies employed by other mortgage REITs. For these reasons, we emphasize economic return metrics in our pay practices. We believe this metric, measured over both short- and long-term time horizons, is the most relevant performance measure to our stockholders and the broader mortgage REIT industry.

## EXECUTIVE COMPENSATION

Evaluates performance and determines compensation levels after careful consideration of various inputs, including: (i) our performance measured against our stated business objectives, (ii) each of our executives' individual performances and contributions toward our business objectives, (iii) our relative economic return against our peers, (iv) our absolute economic return against pre-established performance thresholds, (v) our relative operating efficiency against our peers, (vi) the performance and compensation practices of our mortgage REIT peers and (vii) the amounts and form of prior compensation to our NEOs.

### The Role of the Committee, Its Consultant, the CEO and Management in Making Compensation Decisions

#### Committee

The committee has responsibility for determining and approving, on an annual basis, the compensation of our CEO and other NEOs. The committee's review of individual executive compensation includes, but is not limited to, a review of company and individual performance and the total value of past compensation, including long-term equity awards.

Members of the committee participate in the board's annual CEO performance review and setting of annual performance goals. The committee establishes compensation levels for our CEO in consultation with its independent compensation consultant. Our CEO neither recommends nor is involved in any discussions regarding his own compensation.

#### Independent Compensation Consultant

The committee has the sole authority to select, retain, and terminate compensation consultants. Pay Governance LLC ("Pay Governance") has been engaged by our committee since 2010 to serve as its consultant on executive and director compensation matters, including recommendations with respect to both overall guidelines and specific compensation elements. More specifically, Pay Governance provides advice and analysis to the committee on the design, structure and level of executive and director compensation, and, when requested by the committee, attends meetings of the committee and participates in executive sessions without members of management present. Pay Governance reports directly to the committee, and the committee reviews, on an annual basis, Pay Governance's performance and provides Pay Governance with direct feedback.

The committee recognizes that it is essential to receive objective advice from its compensation advisors. To that end, the committee has assessed the independence of Pay Governance pursuant to SEC rules and concluded that Pay Governance's work for the committee does not raise any conflicts of interest.

#### CEO and Management

While the committee has responsibility for our compensation programs and practices, management provides information requested by the committee and Pay Governance on our performance and that of our mortgage REIT peers. Our CEO assists the committee by providing a self-assessment of

his own performance, but neither recommends, nor is involved in any discussions regarding his own compensation. Our CEO also provides performance assessments for our other NEOs including recommendations regarding adjustments to their base salaries. These recommendations are considered by the committee when making compensation decisions.

#### Our Use and the Role of Peer Companies

Our investment strategy entails investing in a leveraged portfolio of Agency ARM securities with the goal of producing reasonable risk-adjusted economic returns over both short- and long-term time horizons. The investment community generally evaluates us in this context and monitors our performance relative to other mortgage REITs that minimize mortgage credit risk by investing primarily in Agency Securities (our “Agency REIT” peers), some of which have significantly larger market capitalizations. We view our Agency REIT peers, regardless of size, as our primary competitors for both investor capital and executive talent. As such, a significant portion of our NEOs’ short- and long-term incentives measure our economic returns against the economic returns of our Agency REIT peers.

Many of our investors and independent security analysts also evaluate our performance relative to a broader group of mortgage REITs. This broader group includes mortgage REITs with significant investments in both Agency and non-Agency residential mortgage securities as well as other mortgage-related assets. We consider these mortgage REITs to also be competitors for both investor capital and executive talent. As such, we also measure our economic returns against the economic returns of this broader REIT peer group (our “Broader REIT” peers). Additionally, we measure our operating cost efficiency (ratio of total operating costs to long-term investment capital), against this broader peer group.

Two of our important performance metrics, economic return and operating cost efficiency, are financial metrics that are independent of company size when used for performance comparison purposes. This allows us to focus our peer selections on residential mortgage REIT industry participants that we compete with for investor capital and executive talent, including important peers with significantly larger market capitalizations. We also believe it is appropriate to exclude potential peers with similar market capitalizations to ours but considerably different business models and investment strategies. This differs from the view of proxy advisory firms that focus more on firms with similar sized market capitalizations for comparisons, regardless of whether these firms have business models that are affected by economic conditions like us and our peers.

EXECUTIVE COMPENSATION

Based on the foregoing, the committee established the following companies as our 2018 peers for purposes of evaluating our relative performance and determining earned compensation (Agency REIT peers are in bold and in blue):

2018 Agency REIT and Broader REIT Peers

AG Mortgage Investment Trust, Inc.\*

AGNC Investment Corp.

Annaly Capital Management, Inc.\*

Anworth Mortgage Asset Corporation \*

Arlington Asset Investment

ARMOUR Residential REIT, Inc.\*

Chimera Investment Corporation

CYS Investments, Inc.

Dynex Capital Inc.

Ellington Residential Mortgage\*

Hunt Companies Finance Trust\*

Invesco Mortgage Capital Inc.\*

MFA Financial, Inc.

MTGE Investment Corp.\*

New York Mortgage Trust Inc.\*

Orchid Island Capital\*

Redwood Trust, Inc.

Two Harbors Investment Corp.\*

Western Asset Mortgage Capital Corporation\*

\* Externally-managed.

When available, the committee considers information regarding our peers' pay levels and practices to establish a point of reference when making compensation decisions. While we seek to establish pay levels that are consistent with market medians, we do not "benchmark" NEO compensation so that it must equal a specified level relative to other companies. Rather, the committee makes decisions regarding pay opportunities it considers appropriate in light of its philosophy and information available principally from our internally-managed peers. The committee believes pay opportunities consistent with market medians are often appropriate; however, the committee may choose to pay above or below market medians when it believes doing so would be appropriate to account for scope of position responsibilities, experience, skills and contribution.

Seven of our peers for 2018 were internally-managed. Executives of internally-managed peers are employees of their companies. As a result, detailed compensation information is fully disclosed in these companies' annual proxy statements, making compensation-related comparisons between our NEOs and the executives of these internally-managed companies relatively straightforward.

Our remaining twelve peers for 2018 were externally-managed by third-parties in exchange for management fees. An external manager uses a portion of management fees earned to compensate its employees that manage the REIT. Externally-managed REITs are not required to disclose salaries and incentive compensation paid to REIT executives who are also employees of the management company (other than any equity awards granted directly by the REIT to these individuals). Consequently, complete compensation data for executives of our externally-managed peers is generally unavailable and the committee is unable to make meaningful direct comparisons for executive compensation purposes.

Given that direct comparisons for executive compensation purposes cannot be made with externally-managed peers, the committee also compares our overall operating costs, including compensation, to the operating costs of our Broader REIT peers. Given our focus on operating cost efficiency, the committee incorporated a relative operating cost efficiency metric in our annual incentive compensation program. This metric is a ratio of aggregate management fees and other general and administrative costs (collectively “total operating costs”) to average long-term investment capital (stockholders’ equity plus long-term unsecured borrowings). We believe this is a transparent and consistent way to evaluate our efficiency and the relative reasonableness of our costs, including the costs of our compensation programs.

#### Objectives of Our Program

Our stockholders and the broader investment community evaluate our performance based primarily on changes in our book value per common share (a capital preservation performance measure) and dividends paid (a return on capital performance measure). Together, these two measures comprise the economic return we deliver to our stockholders. In addition, we seek to maintain an efficient operating platform as part of our business strategy. Finally, we believe achieving specific individual goals and objectives is an important factor to consider in awarding annual incentive compensation.

Our compensation arrangements are designed to prominently feature each of these aspects of our performance:

▲ A majority of short- and long-term incentive compensation is awarded based on economic return measured on a relative and absolute basis. We reinforce the importance of capital preservation by evaluating economic return over both one-year and three-year periods, ensuring that both short- and long-term implications of portfolio management decisions are considered.

◆ Dividend equivalent rights, referred to as DERs, directly link executive pay to the amount of dividends we pay to our stockholders each quarter. As such, DERs are a key absolute return performance metric delivering short-term incentives directly in proportion to dividends paid to our investors.

✦ Recognizing that decisions affecting our operating costs primarily have near-term implications, we evaluate our operating efficiency on an annual basis as a component of our annual incentive compensation program.

## EXECUTIVE COMPENSATION

Recognizing that individual goals and objectives are best set and measured on an annual basis, we evaluate individual performance as a component of our annual incentive compensation program.

Our long-term equity-based awards also include a relative total stockholder return performance metric based on share price changes assuming that all dividends are reinvested. We believe that use of this metric over a three-year period provides an additional performance measure reflecting management's long-term success in executing its investment strategy and enhancing Capstead's value for our stockholders.

We believe the structure of our compensation arrangements appropriately incorporates measures of performance that are of importance to our stockholders and the broader investment community, helping to ensure proper alignment of management's interests with those of our stockholders.

### Review of 2018 Total Direct Compensation

The committee seeks to provide competitive, performance-based compensation opportunities necessary to attract, motivate, and retain employees vital to our long-term financial success and creation of stockholder value. The committee believes this is best achieved through a combination of pay elements it refers to as total direct compensation, comprised of base salary, short-term incentives and long-term equity-based incentives.

### Base Salary

The committee increased base salaries for Messrs. Reinsch, Spears and Kim by 4%, 4% and 7%, respectively, in January 2018. Mr. Phillips' base salary was not increased at that time as he had only recently joined the company. Base salaries in effect for our NEOs in 2018 were as follows:

	2018
Officer	Base Salary
Phillip A. Reinsch	\$625,000
Lance J. Phillips	300,000
Robert R. Spears, Jr.	600,000
Roy S. Kim	400,000

### Short-Term Incentives

The committee believes short-term incentives are an important tool in motivating and rewarding management for delivering strong operational performance and achieving our strategic objectives. We provide short-term incentive opportunities through two programs:

Annual Incentive Compensation Program	<ul style="list-style-type: none"> <li>• Annual incentive compensation is awarded based on our economic return (measured on both a relative and absolute basis), our operating cost efficiency, and each NEO’s performance relative to stated goals and objectives.</li> <li>• Messrs. Reinsch, Spears and Kim had target opportunities equal to 125% of 2018 base salary. Mr. Phillips had a target opportunity equal to 75% of 2018 base salary.</li> </ul>
Dividend Equivalent Rights (DERs)	<ul style="list-style-type: none"> <li>• Our NEOs are awarded notional rights entitling them to receive payments equal to the dividends declared on a specified number of phantom shares of common stock. Common dividends declared by us for the benefit of our investors determine the award value. This absolute return program delivers incentives directly in proportion to dividends paid to our investors.</li> </ul>

Annual Incentive Compensation Program. The 2018 annual incentive compensation program adopted by the committee was unchanged from the 2017 annual incentive compensation program.

Under the 2018 annual incentive compensation program and as illustrated in the table on the following page:

55% of the award opportunity was based on our performance relative to our peers. Consistent with the committee’s perspective on our peers, relative economic return performance was evaluated against both our Agency REIT peers and our Broader REIT peers and relative operating cost efficiency was evaluated against our Broader REIT peers, 30% of the award opportunity was based on our absolute economic return, and 15% of the award opportunity was based on the committee’s assessment of the performance of each of our NEOs relative to individual goals and objectives established by the committee.



## EXECUTIVE COMPENSATION

## 2018 Annual Incentive Compensation Program Performance Metrics

Performance Metric (Weighting)	Peer Group	Performance Level		
		Threshold	Target	Maximum
Relative Economic Return (30%)	Agency	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Relative Economic Return (15%)	Broader	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Absolute Economic Return (30%)	N/A	6%	9%	12%
		Payout: 50%	Payout: 100%	Payout: 200%
Relative Operating Cost Efficiency (10%)	Broader	85 <sup>th</sup> Percentile	90 <sup>th</sup> Percentile	95 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 150%
Individual Objectives (15%)	N/A	Payout Between 0% and 150%		

Actual performance and payouts are interpolated between threshold and maximum performance levels as necessary.

Measurement and Assessment of our Performance. Our 2018 economic return of a negative 3.6% exceeded that of all of our agency-focused peers. These peers reported economic returns ranging from a negative 4.8% to a negative 22.7% with an average economic return of a negative 11.0%. Our broader REIT peers reported economic returns ranging from 7.8% to a negative 22.7% with an average economic return of a negative 4.4%.

In January 2019, the committee approved its assessments of our NEOs 2018 performance against the individual goals and objectives established by the committee. On March 8, 2019, the committee approved calculations of our 2018 relative and absolute performance against the applicable performance levels presented above. Our performance under each of the above metrics was as follows:

**Relative Economic Return – Agency REIT Peers.** Our economic return of a negative 3.6% for 2018 positioned us at the 100<sup>th</sup> percentile relative to our Agency REIT peers. As a result, NEOs earned the maximum 200% payout for this portion of the program.

**Relative Economic Return – Broader REIT Peers.** Our economic return of a negative 3.6% for 2018 positioned us at the 60<sup>th</sup> percentile relative to our Broader REIT peers. As a result, NEOs earned 100% of their target payout opportunity for this portion of the program.

▲Absolute Economic Return. Our economic return of a negative 3.6% for 2018 fell below the minimum threshold return level of 6.0% required for payouts to commence under this metric. As a result, no incentive amounts were earned by our NEOs for this portion of the program.

## EXECUTIVE COMPENSATION

**Relative Operating Cost Ratio – Broader REIT Peers.** Our ratio of total operating costs to average long-term investment capital (total stockholders' equity plus long-term unsecured borrowings) was 0.98%, which ranked us at 98<sup>th</sup> percentile in efficiency among our Broader REIT peer group. This demonstrates that we operated one of the most efficient mortgage REIT investment platforms during 2018. As a result, our NEOs earned the maximum 150% payout for this portion of the program.

**Individual Goals and Objectives.** The committee assessed performance against individual goals and objectives established by the Committee for our NEOs. Messrs. Reinsch, Spears and Kim were awarded a payout of 100% and Mr. Phillips was awarded the maximum payout of 150%.

Our NEOs' target opportunities and payouts earned under the 2018 annual incentive compensation program were as follows:

	Target	Annual
Officer	Opportunities	Payout
Phillip A. Reinsch	\$781,250	\$820,128
Lance J. Phillips	225,000	253,072
Robert R. Spears, Jr.	750,000	787,323
Roy S. Kim	500,000	524,882

**Dividend Equivalent Rights (DERs).** DERs awarded by the committee provide our NEOs compensation directly in proportion to the common dividends paid during the year to our stockholders, which is a key component of our economic returns and varies depending upon our earnings. DERs represent notional rights entitling the holder to cash payments equal to the per share dividend amount declared on our common stock multiplied by the number of DERs awarded. DERs provide another component of our NEOs' short-term incentive compensation that is directly linked to our current year performance.

The table below provides information on the total number of DERs held by each of our NEOs and the total amount of dividend equivalents earned in 2018.

Officer	Number of Dividend	Dividend Equivalents
---------	--------------------	----------------------

	Equivalent Rights	Earned During 2018
Phillip A. Reinsch	200,000	\$98,000
Lance J. Phillips	75,000	36,750
Robert R. Spears, Jr.	200,000	98,000
Roy S. Kim	125,000	61,250

#### Long-Term Incentives

The committee believes our NEOs should have an ongoing stake in the long-term success of our business and should have a meaningful portion of their total compensation delivered in the form of performance- and service-based equity awards with performance measured over a period of years.

Consistent with prior years, on January 3, 2019 the committee approved 2018 long-term incentive compensation awards in two forms consisting of (a) restricted common stock and (b) performance units. The aggregate individual opportunity was maintained at 150% of 2019 base salaries for Messrs. Reinsch, Spears and Kim and increased to 100% of 2019 base salary for Mr. Phillips from 75% the prior year, in each case divided by the closing common stock price on January 2, 2019. Such aggregate dollar opportunity was then allocated 50% to restricted stock and 50% to performance unit awards compared to a 40%/60% split the prior year. The higher allocation to restricted stock reflects feedback received during the committee's 2018 investor outreach and is consistent with our philosophy to provide competitive compensation programs to attract, motivate and retain employees vital to our long-term financial success.

The restricted common stock awards are time-based and will vest three years from the date of grant (January 2, 2022). Upon vesting the awards will be entitled to receive dividends and any other distributions declared from the date of grant through the vesting date. The number of shares issued and the grant date fair value were as follows:

Officer	Restricted Common Stock Awards Issued	Fair Value *	Grant Date
Phillip A. Reinsch	69,341	\$468,745	
Lance J. Phillips	24,408	164,998	
Robert R. Spears, Jr.	66,568	450,000	
Roy S. Kim	46,597	314,996	

\*Based on the closing stock price on the date of grant of \$6.76.

## EXECUTIVE COMPENSATION

The performance unit awards may convert into shares of common stock only to the extent certain performance metrics are satisfied after a three-year performance period ending December 31, 2021, calculated independently for each metric. These metrics are relative and absolute economic returns, as well as relative total stockholder return. The economic return performance metrics used in these awards are the same as those used in our annual incentive compensation program, albeit with different weightings. We emphasize economic returns in these awards as we believe economic return is the most relevant performance measure to our stockholders over both the short and long term and that relative economic returns can differ significantly over different time horizons.

The performance metrics used for the January 3, 2019 performance unit awards are similar to the performance metrics used in the prior year; however, the committee believes greater emphasis should be placed on absolute versus relative returns. Accordingly, the weightings on relative economic return against our Agency REIT and Broader REIT peers were reduced by an aggregate of ten percentage points and the weighting on absolute economic return was increased by ten percentage points. Additionally, the absolute economic return levels required for payout at the target and maximum performance levels were reduced by one and two percentage points (from 9% and 12% to 8% and 10%) respectively, to reflect what the committee believes would be favorable risk-adjusted returns given current market conditions.

Consistent with prior years, the committee set the target for relative economic return performance against both our Agency REIT and Broader REIT peer groups, as well as relative total stockholder return against our Broader REIT peer group, at the 60<sup>th</sup> percentile thus insuring that the target payout will be awarded only for above average performance.

The performance units contain “double trigger” vesting provisions that provide for accelerated vesting only if (i) a change in control occurs and (ii) an involuntary termination without cause or a voluntary resignation for good reason occurs within 24 months following the change in control. At the end of the performance period, each NEO will be entitled to receive dividends and any other distributions declared from the grant date through the end of the performance period with respect to the number of shares earned, if any.

The number of units issued and the grant date fair value were as follows:

Officer	Performance Units Issued	Grant Date Fair Value *
Phillip A. Reinsch	69,341	\$476,373
Lance J. Phillips	24,408	167,683
Robert R. Spears, Jr.	66,568	457,322
Roy S. Kim	46,597	320,121

\*Based on grant date fair value assigned for accounting purposes as referenced in the Summary Compensation Table.

Edgar Filing: CAPSTEAD MORTGAGE CORP - Form DEF 14A

The number of shares ultimately accruing to our NEOs pursuant to these awards is dependent upon Capstead's performance calculated separately under each of the indicated performance metrics over the three-year period ending December 31, 2021 as illustrated below:

Long-term Performance Unit Award Metrics

Performance Metric (Weighting)	Peer Group	Performance Level		
		Threshold	Target	Maximum
Relative Economic Return (25%)	Agency	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Relative Economic Return (15%)	Broader	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Absolute Economic Return (40%)	N/A	6%	8%	10%
		Payout: 50%	Payout: 100%	Payout: 200%
Relative Total Stockholder Return (20%)	Broader	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%

Actual performance and payouts will be interpolated between threshold and maximum performance levels as necessary.

EXECUTIVE COMPENSATION

Other 2018 Compensation Elements

Our NEOs participate in our other benefit programs including life, accidental death, dismemberment, disability, and long-term care insurance, a charitable gift matching program, and a qualified defined contribution retirement plan, or 401(k) plan, each on the same terms offered to other employees.

In addition, we have a nonqualified deferred compensation plan for our NEOs and certain other employees. Our nonqualified deferred compensation plan extends the general matching provisions of the 401(k) plan to base salary and annual incentive compensation amounts in excess of \$275,000. The aggregate cost of these matching provisions related to our NEOs was \$163,476 for 2018.

Our NEOs may elect to defer up to 60% of base salary and 100% of annual incentive compensation (excluding DERs payments) into this plan. We contribute a matching amount

equal to 50% of an NEO's voluntary contribution up to a maximum of 6% of eligible compensation that exceeds the 401(k) maximum amount. We may, but are not required, to

make a supplemental matching of 3% of the eligible compensation, but only up to the same 6%. Vesting in the amounts contributed by us is determined on the same service-based vesting schedule used in our 401(k) plan, which provides for annual vesting ratably over a participant's initial five years of service. Amounts deferred by our NEOs, related company contributions and earnings are considered a part of our general assets and participants are considered unsecured creditors.

In February 2018, the board adopted change in control ("CIC")/severance agreements for our NEOs. A mortgage REIT industry survey by Pay Governance was used to establish the terms of these agreements. CIC payouts adopted in these agreements largely reflect the median payout levels of the surveyed companies and incorporate common industry practices, including double-trigger CIC provisions. For further information, see the table on page 33.

Decisions Affecting Compensation for 2019

In January 2019, the committee took the following actions related to base salaries, DERs and annual incentive compensation:

- [REDACTED]

Messrs. Phillips and Kim were awarded base salary increases effective January 1, 2019.

Base salaries for 2019 are as follows:

	2018	2019
Officer	Base Salary	Base Salary
Phillip A. Reinsch	\$625,000	\$625,000
Lance J. Phillips	300,000	330,000
Robert R. Spears, Jr.	600,000	600,000
Roy S. Kim	400,000	420,000

- Messrs. Reinsch, Spears and Kim were awarded DERs for 2019 at levels consistent with 2018 awards while Mr. Phillips DERs award was increased to a level roughly equal to that of our other NEOs relative to their respective base salaries. All DERs expire December 31, 2019 and were awarded as follows:

	2018	2019
Officer	DERs	DERs
Phillip A. Reinsch	200,000	200,000
Lance J. Phillips	75,000	100,000
Robert R. Spears, Jr.	200,000	200,000
Roy S. Kim	125,000	125,000

The 2019 Annual Incentive Compensation Program adopted by the committee on January 3, 2019 is similar to the 2018 program. Target opportunities for Messrs. Reinsch, Spears and Kim were unchanged at 125% of 2019 base salary, while Mr. Phillips target opportunity was increased to 100% of his 2019 base salary. Because the committee believes greater emphasis should be placed on absolute versus relative returns, performance metrics were modified to reduce the weightings on relative economic return against Agency REIT and Broader REIT peers by an aggregate of ten percentage

points and increase the weighting on absolute economic return by ten percentage points. Additionally, the absolute economic return levels required for payout at the target and maximum performance levels were reduced by one and two percentage points (from 9% and 12% to 8% and 10%), respectively, to reflect what the committee believes would be favorable risk-adjusted returns given current market conditions. The 2019 Annual Incentive Plan metrics are illustrated in tabular format below:



2019 Annual Incentive Compensation Program Performance Metrics

Performance Metric (Weighting)	Peer Group	Performance Level		
		Threshold	Target	Maximum
Relative Economic Return (25%)	Agency	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Relative Economic Return (15%)	Broader	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%
Absolute Economic Return (40%)	N/A	6%	8%	10%
		Payout: 50%	Payout: 100%	Payout: 200%
Relative Total Stockholder Return (20%)	Broader	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	80 <sup>th</sup> Percentile
	REIT Peers	Payout: 50%	Payout: 100%	Payout: 200%

Actual performance and payouts will be interpolated between threshold and maximum performance levels as necessary.

## EXECUTIVE COMPENSATION

### Other Compensation Policies and Practices

**Common Stock Ownership Guidelines.** To assist with aligning interests of our NEOs and our stockholders, we have adopted common stock ownership guidelines requiring our NEOs to maintain minimum ownership interests in Capstead, based on percentages of their base salaries. The stock ownership requirements and effective ownership as of March 22, 2019 were as follows:

Covered Party	Ownership	
	Policy	Effective
	Threshold	Ownership
	(as % of base salary)	(as % of base salary)
Phillip A. Reinsch.	500	447*
Lance J. Phillips	300	96*
Robert R. Spears, Jr.	400	767
Roy S. Kim	300	195*

\* Phillip A. Reinsch was appointed President and Chief Executive Officer in July 2016 and has until July 2021 to reach his minimum ownership requirements.

Roy S. Kim was hired in April 2015 and has until April 2020 to reach his minimum ownership requirements.

Lance J. Phillips was hired in October 2017 and has until October 2022 to reach his minimum ownership requirements.

Effective ownership of our common stock considered for purposes of measuring our NEOs' ownership interests differs from the amounts reported to the SEC on Form 4 because the measurement adopted by the board includes only owned shares and 60% of unvested service-based stock awards, while excluding all unvested performance-based units. Our NEOs are required to reach their minimum ownership within five years from the date they became subject to the

guidelines. Any NEO not currently meeting their minimum ownership is required to retain all shares received in the future through our compensation programs until their minimum ownership is met, except that the NEO may surrender shares to satisfy tax withholding requirements.

**Prohibition on Pledging of Owned Shares.** We prohibit our NEOs and directors from pledging their holdings of Capstead stock.

**Derivatives Trading and Hedging.** All of our employees and directors are restricted from entering into transactions to hedge or otherwise offset any change in the market value of our common stock.

**Clawback Policy.** If we are required to prepare and file accounting restatements of certain financial documents, our NEOs are required to reimburse us for any short- and long-term incentive compensation received in the 12-month period following the first public issuance or filing with the SEC of any financial document subject to restatement if:

- The amount of incentive compensation was calculated based on the achievement of certain financial results that were the subject of the restatement;
- An NEO engaged in intentional misconduct that caused or partially caused the need for the restatement; and
- The amount of the incentive compensation that would have been awarded to an NEO if the financial results had been properly reported would have been lower than the amount actually awarded.

**Tax Considerations.** The Tax Cuts and Jobs Act of 2017 amended the Internal Revenue Code to generally eliminate the performance-based exception to the \$1 million deduction limit under Section 162(m) for years after 2017. As a result, executive compensation payments in excess of \$1 million paid in 2018 and subsequent years will likely not be fully tax deductible.

EXECUTIVE COMPENSATION

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy with our management. Based on this review and

discussion, the compensation committee recommends to our board that the above Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

Michelle P. Goolsby, Chair

Jack Biegler

Gary Keiser

Mark S. Whiting

## EXECUTIVE COMPENSATION

## Summary Compensation Table\*

The Summary Compensation Table below shows certain compensation information for our four executive officers, referred to as our NEOs, for services rendered during the

three years ended December 31, 2018. As of the date of this proxy, we had no other executive officers.

Name and Principal Position	Year	Non-Equity				Total
		Salary	Stock Awards	Incentive Plan Compensation	All Other Compensation	
		(\$)	(\$) <sup>(a)</sup>	(\$) <sup>(b)</sup>	(\$)	
Phillip A. Reinsch President and Chief Executive Officer	2018	625,000	945,118	918,128	97,243	(c) 2,585,489
	2017	600,000	944,680	385,000	59,862	1,989,542
	2016	495,625	906,326	539,888	66,979	2,008,818
Lance J. Phillips Senior Vice President, Chief Financial Officer and Secretary	2018	300,000	332,681	289,822	36,889	(c) 959,392
	2017	57,292	226,433	27,195	130,350	441,270
Robert R. Spears, Jr. Executive Vice President and Chief Investment Officer	2018	600,000	907,322	885,323	86,170	(c) 2,478,815
	2017	575,000	906,897	375,625	50,519	1,908,041
	2016	553,750	868,565	644,383	64,215	2,130,913
Roy S. Kim Senior Vice President, Treasurer	2018	400,000	635,117	586,132	40,582	(c) 1,661,831
	2017	375,000	604,593	240,625	43,094	1,263,312
	2016	345,000	566,457	367,408	45,858	1,324,723

\*Columns for “Bonus”, “Option Awards” and “Change in Pension Value and Nonqualified Deferred Compensation Earnings” have been omitted because they were not applicable.

(a) Amounts include the grant date fair value of performance units and restricted stock awarded for the indicated years as follows:

Year	Performance Restricted	Total
------	------------------------	-------

		Unit Awards	Stock Awards	Stock Awards
		(\$)	(\$)	(\$)
Phillip A. Reinsch	2018	476,373	468,745	945,118
	2017	569,686	374,994	944,680
	2016	606,331	299,995	906,326
Lance J. Phillips	2018	167,683	164,998	332,681
	2017	113,936	112,497	226,433
Robert R. Spears, Jr.	2018	457,322	450,000	907,322
	2017	546,901	359,996	906,897
	2016	581,072	287,493	868,565
Roy S. Kim	2018	320,121	314,996	635,117
	2017	364,601	239,992	604,593
	2016	378,962	187,495	566,457

For 2018, the aggregate number of performance unit and restricted stock awards granted on January 3, 2019 was based on 150% of 2019 base salaries for Messrs. Reinsch, Spears and Kim and 100% of 2019 base salary for Mr. Phillips, in each case, divided by the closing common stock price on January 2, 2019 of \$6.76. Such aggregate dollar opportunity was then allocated 50% to performance unit awards and 50% to restricted stock.

The performance units awarded for 2018 are similar to performance units granted for 2017 and 2016 and include specific metrics against which our performance is to be measured, including relative economic return, absolute economic return and relative total stockholder return and are potentially convertible into shares of our common stock following a three-year performance period commencing January 1, 2019 and ending December 31, 2021. The number of shares of our common stock into which the performance units are convertible is dependent on satisfaction of the performance metrics during the performance period, calculated independently for each metric and are subject to service conditions. Because the performance units awarded are subject to performance conditions, the grant date fair value was based on management's estimate of the probable outcome for each nonmarket-based performance metric, and a quantitative simulation for the relative total stockholder return performance metric, resulting in an aggregate fair value estimate of \$6.87 per unit. Assuming we meet or exceed maximum performance levels for all of the performance metrics, in which case the units will convert into shares of common stock equal to up to twice the number of units granted, Messrs. Reinsch, Phillips, Spears, and Kim would receive shares of common stock worth a maximum of \$937,500, \$330,000, \$900,000, and \$630,000, respectively, based on the \$6.76 January 2, 2019 grant date closing common stock price.

The restricted stock awarded for 2018 will vest three years from the date of grant or January 2, 2022, subject to service conditions. The fair value of these awards was based on the closing stock price on the date of grant.

For 2017, the aggregate number of the performance unit and restricted stock awards granted on January 3, 2018 was based on 150% of 2018 base salaries for Messrs. Reinsch, Spears and Kim and 75% of 2018 base salary for Mr. Phillips, in each case, divided by the closing common stock price on January 2, 2018 of \$8.60. Such aggregate dollar opportunity was then allocated 60% to performance units and 40% to restricted stock for Messrs. Reinsch, Spears and Kim and 50% to performance units and 50% to restricted stock for Mr. Phillips.



## EXECUTIVE COMPENSATION

The 2017 performance units are potentially convertible into our common stock after conclusion of a three-year performance period ending December 31, 2020. These units were valued at \$8.71 per unit based on management's estimate of the probable outcome for each nonmarket-based performance metric and a quantitative simulation for the relative total stockholder return performance metric. The 2017 restricted stock awards were valued at \$8.60 (the closing stock price on the date of grant) and will vest three years from the date of grant or January 3, 2021, subject to service conditions.

For 2016, the aggregate number of the performance unit and restricted stock awards was based on 150% of 2017 base salary for each executive divided by the closing common stock price on the January 3, 2017 date of grant of \$10.41. Such aggregate dollar opportunity was then allocated two-thirds to performance units and one-third to restricted stock.

The 2016 performance units are potentially convertible into our common stock after conclusion of a three-year performance period ending December 31, 2019. These units were valued at \$10.52 per unit based on management's estimate of the probable outcome for each nonmarket-based performance metric and a quantitative simulation for the relative total stockholder return performance metric. The 2016 restricted stock awards were valued at \$10.41 (the closing stock price on the date of grant) and will vest three years from the date of grant or January 3, 2020, subject to service conditions.

Our executives are entitled to receive all dividends and any other distributions declared from the date of grant with respect to the shares of our common stock into which the performance units are ultimately converted, if any, as if such shares had been issued on the date of grant. Similarly, upon vesting, holders of the restricted stock will be entitled to receive dividends and any other distributions declared from the date of grant through the vesting date.

(b) Amounts in the table below include aggregate cash payments pursuant to our 2018, 2017 and 2016 annual incentive compensation programs and dividends earned on dividend equivalent rights for all years presented.

		Annual Incentive Compensation Program	Dividend Equivalents Earned	Total Non-Equity Incentive Program Compensation
	Year (\$)		(\$)	(\$)
Phillip A. Reinsch	2018	820,128	98,000	918,128
	2017	225,000	160,000	385,000
	2016	404,988	134,900	539,888
Lance J. Phillips	2018	253,072	36,750	289,822
	2017	12,945	14,250	27,195
Robert R. Spears, Jr.	2018	787,323	98,000	885,323
	2017	215,625	160,000	375,625



	2016	452,483	191,900	644,383
Roy S. Kim	2018	524,882	61,250	586,132
	2017	140,625	100,000	240,625
	2016	281,908	85,500	367,408

Under the 2018 annual incentive compensation program, Messrs. Reinsch, Spears and Kim had target opportunities equal to 125% of their 2018 base salaries. Mr. Phillips had a target opportunity equal to 75% of his 2018 base salary.

Under the 2017 annual incentive compensation program, Messrs. Reinsch, Spears and Kim had target opportunities equal to 125% of their 2017 base salaries. Mr. Phillips had a target opportunity equal to 75% of his 2017 base salary prorated from his October 2017 hire date.

Under the 2016 annual incentive compensation program, each NEO had a target opportunity equal to 125% of their 2016 base salaries (prorated for August 15, 2016 salary adjustments for Messrs. Reinsch and Spears).

Dividend equivalent rights, referred to as DERs, represent notional common stock, which entitle the holder to cash payments equal to the per share dividend amounts declared on our common stock. DERs outstanding during 2018 were as follows: 200,000 for Mr. Reinsch, 75,000 for Mr. Phillips, 200,000 for Mr. Spears, and 125,000 for Mr. Kim.

(c) Amounts in the table below include expenses recognized for the year ended December 31, 2018 for (i) matching contributions made by us pursuant to our qualified defined contribution retirement plan, (ii) matching contributions made by us pursuant to our nonqualified deferred compensation plan, (iii) insurance premiums paid or reimbursed by us and (iv) Company matches under a charitable gift matching program.

	Reinsch	Phillips	Spears	Kim
	(\$)	(\$)	(\$)	(\$)
Qualified defined contribution retirement plan	16,500	16,500	16,500	16,500
Nonqualified deferred compensation plan	69,908	11,461	66,439	15,938
Insurance premiums	5,585	3,828	3,131	3,144
Charitable gift matching program	5,250	5,100	100	5,000
	97,243	36,889	86,170	40,582

## EXECUTIVE COMPENSATION

## Grants of Plan-Based Awards\*

Name	Grant Date (#)	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Grant Date	
		Threshold	Target	Maximum	Number of Shares of Stock or Units	Fair Value of Stock and Option Awards (\$)
Phillip A. Reinsch	1-3-18 <sup>(a)</sup>	32,703	65,406	130,812		569,686
	1-3-18 <sup>(a)</sup>				43,604	374,994
Lance J. Phillips	1-3-18 <sup>(a)</sup>	6,541	13,081	26,162		113,936
	1-3-18 <sup>(a)</sup>				13,081	112,497
Robert R. Spears, Jr.	1-3-18 <sup>(a)</sup>	31,395	62,790	125,580		546,901
	1-3-18 <sup>(a)</sup>				41,860	359,996
Roy S. Kim	1-3-18 <sup>(a)</sup>	20,930	41,860	83,720		364,601
	1-3-18 <sup>(a)</sup>				27,906	239,992

\*Columns for “Estimated Future Payouts Under Non-Equity Incentive Plan Awards,” “All Other Option Awards” and “Exercise or Base Price of Option Awards” have been omitted because they were not applicable.

(a) On January 3, 2018 the compensation committee awarded performance units and restricted stock for 2017 pursuant to our long-term incentive compensation program. The aggregate number of performance units and restricted stock awarded was based on 150% of Messrs. Reinsch, Spears and Kim’s 2018 base salaries and 75% of Mr. Phillips’ 2018 base salary divided by the closing common stock price on January 2, 2018 of \$8.60. Such aggregate dollar opportunity was then allocated 60% to performance units and 40% to restricted stock for Messrs. Reinsch, Spears and Kim and 50% to performance units and 50% to restricted stock for Mr. Phillips.

The performance units include specific metrics against which our performance is to be measured, including relative economic return, absolute economic return and relative total stockholder return and are potentially convertible into shares of our common stock following a three-year performance period that began on January 1, 2018 and ends December 31, 2020. The number of shares of our common stock into which the units are convertible is dependent on satisfaction of the performance metrics during the performance period, calculated independently for each metric. Because the awards are subject to these performance conditions, the grant date fair value was based on management’s estimate of the probable outcome for each nonmarket-based performance metric, and a quantitative simulation was used to value the portion of the award based on the relative total stockholder return performance metric, resulting in an aggregate fair value estimate of \$8.71 per unit.

If we meet the target performance levels for all of the performance metrics, the units will convert into shares of common stock equal to the number of units granted. If we meet or exceed the “Maximum” performance levels for all of the performance metrics, the units will convert into shares of common stock equal to twice the number of units granted. Conversely, if we only meet the Threshold performance levels for all of the performance metrics, the units will convert into shares of common stock equal to one-half the number of units granted, and below these threshold performance levels, the units will expire without converting into any shares of common stock. The actual shares issued will be based on straight-line interpolations between the indicated performance levels established separately for each performance metric, as necessary. Any such shares into which the units are convertible will be issued following the end of the three-year performance period. Our executives are entitled to receive all dividends and any other distributions declared from the date of grant with respect to the shares of our common stock into which the units are ultimately converted, if any, as if such shares had been issued on the date of grant.

The restricted stock will vest three years from the date of grant or January 2, 2021, subject to service conditions. On that date holders will be entitled to receive dividends and any other distributions declared from the date of grant through the vesting date.

EXECUTIVE COMPENSATION

Narrative to Our Summary Compensation and Grant of Plan-Based Awards Tables

**Short-term Incentive Compensation.** Short-term incentive compensation amounts in 2018 included (i) payouts on an annual incentive compensation program based on our economic returns, measured on a relative and absolute basis, relative operating cost efficiency as well as achievement of individual goals and objectives, and (ii) dividends paid on outstanding DERs. Under the 2018 annual incentive compensation program Messrs. Reinsch, Spears and Kim had a target opportunity equal to 125% of each executive's 2017 base salary. Mr. Phillips had a target opportunity equal to 75% of his base salary. Short-term incentive compensation paid out to our NEOs for 2018 equaled 125% of 2018 base salaries (106% of target opportunity) and accounted for 35% of total 2018 compensation, as measured for proxy compensation purposes.

On January 3, 2019 the compensation committee adopted an annual incentive compensation program for 2019. Target opportunities for Messrs. Reinsch, Spears and Kim were unchanged at 125% of 2019 base salary, while Mr. Phillips target opportunity was increased to 100% of his 2019 base salary. The performance metrics used for the 2019 annual incentive compensation program are similar to the performance metrics used in prior year; however, the committee believes greater emphasis should be placed on absolute versus relative returns. Accordingly, modifications were made to reduce the weightings on relative economic return against Agency REIT and Broader REIT peers by an aggregate of ten percentage points and increase the weighting on absolute economic return by ten percentage points. Additionally, the absolute economic return levels required for payout at the target and maximum performance levels were reduced by one and two percentage points (from 9% and 12% to 8% and 10%), respectively, to reflect what the committee believes would be favorable risk-adjusted returns given current market conditions.

**Long-term Incentive Compensation.** Consistent with the belief that our NEOs should have an ongoing stake in the long-term success of our business, long-term incentive compensation amounts for 2018 consisted of performance units and restricted stock awarded on January 3, 2019.

Under this long-term incentive compensation program, the aggregate individual opportunity, respectively, was 150% of 2019 base salaries for Messrs. Reinsch, Spears and Kim and 100% of 2019 base salary for Mr. Phillips, in each case, divided by the closing common stock price on January 2, 2019. Such aggregate dollar opportunity was then allocated 50% to restricted stock and 50% to performance unit awards.

The restricted stock will vest in three years on January 2, 2022 and our NEOs will be entitled to receive related dividends and any other distributions from the date of grant through the vesting date.

The performance units are convertible into shares of our common stock based on our economic returns measured on both a relative and absolute basis, as well as our relative total stockholder returns, following a three-year performance period ending December 31, 2021. At the end of the performance period, each NEO will be entitled to receive related dividends and any other distributions declared from the grant date through the end of the performance period with respect to the number of shares earned, if any.

The performance units awarded for 2018 have similar terms as the performance units awarded for 2017, retaining an emphasis on economic returns as we believe economic return is the most relevant performance measure to our stockholders. Consistent with modifications made to the 2019 annual incentive program, the weightings on relative economic return against Agency REIT and Broader REIT peers were reduced, the weighting on absolute economic return was increased and the absolute economic return levels required for payout at the target and maximum performance levels were reduced.

Long-term incentive compensation awarded our NEOs equaled 37% of 2018 compensation, as measured for proxy compensation purposes. Combining 2018 annual incentive compensation plan and DERs payouts with performance units awarded for 2018, 54% of 2018 compensation for our NEOs was performance-based.

CEO Pay Ratio. Our median employee's annual total compensation for 2018 was approximately \$250,000. As a result, we estimated that Mr. Reinsch's 2018 total compensation of approximately \$2.6 million, as reflected in the Summary Compensation Table on page 27, was approximately 10.5 times that of our median employee in 2018. We created a comprehensive population analysis based on total compensation at December 31, 2018 to determine our median employee.

## EXECUTIVE COMPENSATION

## Outstanding Equity Awards at Fiscal Year-End\*

Name	Grant Date	Stock Awards	
		Number of Unearned Shares, Units or Other Rights That Have Not Vested	Value of Unearned Shares, Units or Other Rights That Have Not Vested
		Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
		Market or Payout	Market or Payout
Phillip A. Reinsch	1-3-18 <sup>(a)</sup>	32,703 <sup>(a)</sup>	234,153 <sup>(a)</sup>
	1-3-18 <sup>(b)</sup>	43,604 <sup>(b)</sup>	312,205 <sup>(b)</sup>
	1-3-17 <sup>(c)</sup>	28,818 <sup>(c)</sup>	229,391 <sup>(c)</sup>
	1-3-17 <sup>(d)</sup>	28,818 <sup>(d)</sup>	229,391 <sup>(d)</sup>
	2-1-16 <sup>(e)</sup>	27,876 <sup>(e)</sup>	248,375 <sup>(e)</sup>
	2-1-16 <sup>(f)</sup>	13,937 <sup>(f)</sup>	124,179 <sup>(f)</sup>
Lance J. Phillips	1-3-18 <sup>(a)</sup>	6,541 <sup>(a)</sup>	46,830 <sup>(a)</sup>
	1-3-18 <sup>(b)</sup>	13,081 <sup>(b)</sup>	93,660 <sup>(b)</sup>
Robert R. Spears, Jr.	1-3-18 <sup>(a)</sup>	31,395 <sup>(a)</sup>	224,788 <sup>(a)</sup>
	1-3-18 <sup>(b)</sup>	41,860 <sup>(b)</sup>	299,718 <sup>(b)</sup>
	1-3-17 <sup>(c)</sup>	27,618 <sup>(c)</sup>	219,839 <sup>(c)</sup>
	1-3-17 <sup>(d)</sup>	27,617 <sup>(d)</sup>	219,831 <sup>(d)</sup>
	2-1-16 <sup>(e)</sup>	34,828 <sup>(e)</sup>	310,317 <sup>(e)</sup>
	2-1-16 <sup>(f)</sup>	17,414 <sup>(f)</sup>	155,159 <sup>(f)</sup>
Roy S. Kim	1-3-18 <sup>(a)</sup>	20,930 <sup>(a)</sup>	149,859 <sup>(a)</sup>
	1-3-18 <sup>(b)</sup>	27,906 <sup>(b)</sup>	199,807 <sup>(b)</sup>
	1-3-17 <sup>(c)</sup>	18,012 <sup>(c)</sup>	143,376 <sup>(c)</sup>
	1-3-17 <sup>(d)</sup>	18,011 <sup>(d)</sup>	143,368 <sup>(d)</sup>
	2-1-16 <sup>(e)</sup>	22,210 <sup>(e)</sup>	197,891 <sup>(e)</sup>
	2-1-16 <sup>(f)</sup>	11,105 <sup>(f)</sup>	98,946 <sup>(f)</sup>

\*Columns for “Option Awards” and non-equity incentive plan “Stock Awards” have been omitted because they were not applicable.

- (a) Amounts represent the number of performance units granted on January 3, 2018 and their related December 31, 2018 market value, including deferred dividends, assuming a closing stock price of \$6.67 and related Threshold performance levels as set out in each award are achieved. Such units are potentially convertible into shares of our common stock following a three-year performance period ending on December 31, 2020. Executives are entitled to receive all dividends and any other distributions declared from the date of grant with respect to the shares of common stock into which the units are ultimately converted, if any, as if such common stock had been issued on the date of grant. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$16,024 to Mr. Reinsch, \$3,205 to Mr. Phillips, \$15,384 to Mr. Spears and \$10,256 to Mr. Kim.
- (b) Amounts represent the number of shares of restricted stock granted on January 3, 2018 and their related market value, including deferred dividends, calculated using the December 31, 2018 closing stock price of \$6.67. Executives are entitled to receive all dividends and any other distributions declared from the date of grant upon vesting on January 2, 2021. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$21,366 to Mr. Reinsch, \$6,410 to Mr. Phillips, \$20,511 to Mr. Spears and \$13,674 to Mr. Kim.
- (c) Amounts represent the number of performance units granted on January 3, 2017 and their related December 31, 2018 market value, including deferred dividends, assuming a closing stock price of \$6.67 and related Threshold performance levels as set out in each award are achieved. Such units are potentially convertible into shares of our common stock following a three-year performance period ending on December 31, 2019. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$37,175 to Mr. Reinsch, \$35,627 to Mr. Spears and \$23,235 to Mr. Kim.
- (d) Amounts represent the number of shares of restricted stock granted on January 3, 2017 and their related market value, including deferred dividends, calculated using the December 31, 2018 closing stock price of \$6.67. Executives are entitled to receive all dividends and any other distributions declared from the date of grant upon vesting on January 3, 2020. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$37,175 to Mr. Reinsch, \$35,626 to Mr. Spears and \$23,234 to Mr. Kim.
- (e) Amounts represent the number of performance units granted on February 1, 2016 and their related December 31, 2018 market value, including deferred dividends, assuming a closing stock price of \$6.67 and related Threshold performance levels as set out in each award are achieved. Such units are potentially convertible into shares of our common stock following a three-year performance period ending on December 31, 2018. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$62,442 to Mr. Reinsch, \$78,015 to Mr. Spears and \$49,750 to Mr. Kim.
- (f) Amounts represent the number of shares of restricted stock granted on February 1, 2016 and their related market value, including deferred dividends, calculated using the December 31, 2018 closing stock price of \$6.67. Executives are entitled to receive all dividends and any other distributions declared from the date of grant upon vesting on February 1, 2019. As of December 31, 2018, related dividends deferred for each NEO were as follows: \$31,219 to Mr. Reinsch, \$39,007 to Mr. Spears and \$24,875 to Mr. Kim.

## EXECUTIVE COMPENSATION

## Option Exercises and Stock Vested\*

Name	Stock Awards	
	Number of Shares	Value Realized
	Acquired on Vesting	on Vesting
	(#)	(\$) <sup>(a)</sup>
Phillip A. Reinsch	–	–
Lance J. Phillips	–	–
Robert R. Spears, Jr.	–	–
Roy S. Kim	–	–

\*Columns for “Option Awards” have been omitted because they were not applicable.

(a) No restricted stock grants or performance units held by our NEOs vested in 2018.

Nonqualified Deferred Compensation\*

Name	Executive	Registrant	Aggregate	Aggregate
	Contributions in	Contributions in	Earnings in	Balance at
	Last FY	Last FY	Last FY	Last FYE
	(\$)	(\$) <sup>(a)</sup>	(\$) <sup>(b)</sup>	(\$) <sup>(a)(c)</sup>
Phillip A. Reinsch	80,458	69,908	(309,194)	2,837,515
Lance J. Phillips	24,961	11,461	(2,457)	33,965
Robert R. Spears, Jr.	83,239	66,439	(70,596)	3,508,853
Roy S. Kim	15,938	15,938	1,666	135,740

\*Column for “Aggregate Withdrawals/Distributions” was omitted because it was not applicable.

(a) Amounts included in the “Summary Compensation Table” of this proxy statement, as appropriate.

(b) Amounts are not included in the “Summary Compensation Table” of this proxy statement because plan earnings were not preferential or above market.

(c) Amounts include all employer contributions made since inception of our deferred compensation plan which were previously reported in the “Summary Compensation Table” in the proxy statements for prior years, as follows:

Name	Registrant	Previous Total
------	------------	----------------



	Contributions in Years (\$)		
	Last FY	(\$)	
	(\$)		
Phillip A. Reinsch	69,908	529,616	599,524
Lance J. Phillips	11,461	–	11,461
Robert R. Spears, Jr.	66,439	743,204	809,643
Roy S. Kim	15,938	40,464	56,402

## EXECUTIVE COMPENSATION

## Potential Payments Upon Termination or Change-in-Control

Name	Executive Benefits and Payments upon Termination	Termination				Change-in-Control with Involuntary Not-for-Cause Termination
		Voluntary or For-Cause Termination or Retirement	Involuntary Termination or Not-for-Cause	Involuntary Termination from Dissolution or	Death	
		(\$)	(\$)	(\$)	(\$)	(\$)
P. Reinsch	Severance/change in control/ agreement <sup>(a)</sup>	–	1,250,000	1,250,000	1,250,000	3,110,500
	Nonqualified deferred compensation <sup>(b)</sup>	2,837,515	2,837,515	2,837,515	2,837,515	2,837,515
	Acceleration of nonvested stock awards <sup>(c)</sup>	–	–	665,775	665,775	665,775
	Acceleration of nonvested performance units <sup>(d)</sup>	–	–	927,090	958,699	1,423,831
		2,837,515	4,087,515	5,680,380	5,711,989	8,037,621
L. Phillips.	Severance/change in control/ agreement <sup>(a)</sup>	–	450,000	450,000	450,000	878,500
	Nonqualified deferred compensation <sup>(b)</sup>	24,796	24,796	24,796	24,796	24,796
	Acceleration of nonvested stock awards <sup>(c)</sup>	–	–	93,660	93,660	93,660
	Acceleration of nonvested performance units <sup>(d)</sup>	–	–	93,660	31,220	93,660
		24,796	474,796	662,116	599,676	1,090,616
R. Spears, Jr.	Severance/change in control/ agreement <sup>(a)</sup>	–	1,200,000	1,200,000	1,200,000	2,998,000
	Nonqualified deferred compensation <sup>(b)</sup>	3,508,853	3,508,853	3,508,853	3,508,853	3,508,853
	Acceleration of nonvested stock awards <sup>(c)</sup>	–	–	674,708	674,708	674,708
	Acceleration of nonvested performance units <sup>(d)</sup>	–	–	889,247	1,063,607	1,509,882
		3,508,853	4,708,853	6,272,808	6,447,168	8,691,443
R. Kim	Severance/change in control/ agreement <sup>(a)</sup>	–	600,000	600,000	600,000	1,498,750
	Nonqualified deferred compensation <sup>(b)</sup>	113,180	113,180	113,180	113,180	113,180
	Acceleration of nonvested stock awards <sup>(c)</sup>	–	–	442,121	442,121	442,121
	Acceleration of nonvested performance units <sup>(d)</sup>	–	–	586,461	686,850	982,243
		113,180	713,180	1,741,762	1,842,151	3,036,294

(a) In February 2018, the board adopted severance/change in control (“CIC”) agreements for our NEOs. Our NEOs will not be entitled to a severance or CIC payment if (i) the executive voluntarily terminates his employment, other than because of a reduction in base salary or officer grade, or an office relocation which requires travel from his primary residence to such new location of an additional 50 or more miles each way; (ii) the executive fails to return to work following an approved leave of absence, or (iii) we terminate the executive for cause. A severance payment is triggered if an NEO is terminated either a) involuntarily without cause or b) voluntarily by the NEO for good reason. “Good Reason” shall include (i) a reduction in the executive’s base salary; (ii) a material diminution in the

executive's duties and job responsibilities; or (iii) a significant relocation of our executive offices. Severance payments are calculated as two times base salary for Messrs. Reinsch and Spears and one and one-half times base salary for Messrs. Kim and Phillips.

Our NEOs are entitled to CIC payments if their employment during the 24-month period following a CIC is terminated either a) involuntarily without cause or b) voluntarily by the NEO for good reason. Messrs. Reinsch and Spears are entitled to receive a CIC payment equal to two times annual base salary as of the date of the CIC, a bonus payment equal to two times the annual incentive compensation program targeted payout on that date, DERs payments received for each of the eight quarters preceding the CIC, and six quarters of group medical benefits continuation costs for the executive and any covered dependents. For Messrs. Kim and Phillips, CIC payments are calculated in a similar fashion based on one and one-half times base salary and targeted annual incentive compensation, together with six quarters of DERs payments and medical benefits. For purposes of this table, medical benefits are estimated at \$40,000 for each NEO.

- (b) Amount represents the vested account balance of each executive as shown in the "Aggregate Balance at Last FYE" column of the Nonqualified Deferred Compensation table on page 32. The amounts are shown as a single lump sum payment regardless of whether an election to receive such payments over time has been made.
- (c) Amounts represent the value of nonvested stock awards outstanding as of December 31, 2018 calculated using the closing stock price of \$6.67 on that date together with related deferred dividends, subject to applicable vesting provisions. These awards and rights to receive deferred dividends will expire in the event an executive leaves us by reason of voluntary or involuntary discharge, retirement, or the executive reduces his scheduled work hours per week (subject to management's discretion). In the event of a dissolution or liquidation of Capstead, a CIC or death of the executive, these awards will automatically vest in full, including rights to receive deferred dividends.
- (d) Amounts represent the aggregate value of shares of common stock associated with performance units outstanding as of December 31, 2018 calculated using the closing stock price of \$6.67 on that date together with related deferred dividends, subject to applicable vesting and conversion provisions. The units, including the right to related deferred dividends, expire in the event an executive leaves us by reason of voluntary or involuntary discharge, retirement, or the executive reduces his scheduled work hours per week (subject to compensation committee discretion).

In the event of a dissolution or liquidation of Capstead, outstanding performance units issued prior to 2017 will expire, while each unit issued beginning in 2017 will convert into one share of common stock and related deferred dividends will be paid.

In the event of death prior to the end of a performance period, the units will convert into the same number of shares of common stock with related deferred dividends that would have otherwise been applicable for the performance period multiplied by a fraction, the numerator of which is the number of years during the related performance period in which the executive was alive for any portion of such year and the denominator of which is three. For purposes of this table, it is assumed target performance levels set out in each award are achieved.

In the event of a CIC and the executive's employment is terminated at any time within 24 months of the CIC without cause or by the individual with good reason, each unit will be converted into one share of common stock and related deferred dividends will be paid. In such an event, the conversion date shall be the date of the occurrence of the CIC.



## EQUITY COMPENSATION PLANS

## EQUITY COMPENSATION PLANS

The following table summarizes the total number of outstanding securities in each of our equity compensation plans and the number of securities remaining for future

issuance, as well as the weighted-average exercise price of all outstanding equity awards as of December 31, 2018.

Plan Category	Number of	Weighted-	Number of
	Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (#)	Average Exercise Price of Outstanding Options, Warrants and Rights (\$)	Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column) (#)
Equity compensation plans approved by stockholders:			
Amended and Restated 2004 Flexible Long-Term Incentive Plan: <sup>(a)</sup>			–
Stock options	15,000	11.69	
Performance units <sup>(b)</sup>	–	–	
Amended and Restated 2014 Flexible Incentive Plan:			
Performance units <sup>(b)</sup>	1,003,716	n/a	3,312,051

1,018,716

3,312,051

- (a) We no longer issue awards from the Amended and Restated 2004 Flexible Long-Term Incentive Plan.
- (b) We reserved the maximum number of shares of common stock issuable under the terms of performance units awarded our NEOs. The actual shares issuable will be dependent on meeting or exceeding specified performance levels determined after the conclusion of three-year performance periods, as well as satisfying service conditions. To the extent any such shares of common stock reserved under the 2014 plan are not issued, the number of securities available for future issuance will be increased. Accordingly, 305,519 shares of common stock reserved under this plan pursuant to performance units issued to our NEOs in 2016 became available for future issuance subsequent to year-end.

## AUDIT COMMITTEE

Our audit committee is governed by a written charter adopted by our board that can be found on our website at [www.capstead.com](http://www.capstead.com) by clicking “Investor Relations” and “Committee Charters.” The committee is composed of three independent directors, each of whom has been determined by our board to be audit committee financial experts in addition to being financially literate and independent in accordance with the NYSE Listed Company Manual and our

Board of Directors’ Guidelines. Neither our charter nor this report shall be deemed to be soliciting material or to be filed with the SEC under the Securities Act of 1933 or the Securities Exchange Act of 1934 or incorporated by reference in any document so filed. The following is the committee’s report regarding the execution of its responsibilities during 2018.

## AUDIT COMMITTEE REPORT

## AUDIT COMMITTEE REPORT

The role of our audit committee is to assist our board in its oversight of the quality and integrity of our accounting, auditing and financial reporting practices and the independence and performance of Ernst & Young LLP, our independent registered public accounting firm. As set forth in our charter, the committee’s job is one of oversight. Our management is responsible for the preparation, presentation and integrity of our consolidated financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and practices and internal controls and procedures designated to assure compliance with accounting standards and applicable laws and regulations. Ernst & Young LLP is responsible for performing an independent audit of our consolidated financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles, as well as expressing an opinion on our internal control over financial reporting. In addition, Ernst & Young LLP is responsible for reviewing our quarterly financial statements prior to the filing of each quarterly report on Form 10-Q and discussing with us any issues they believe should be raised with the committee.

We met with Ernst & Young LLP to review and discuss the overall scope and plans for the audit of our consolidated financial statements and its internal control over financial reporting for the year ended December 31, 2018. We reviewed and discussed with management and Ernst & Young LLP (both alone and with management present) our audited consolidated financial statements and the overall quality of our financial reporting. We also reviewed the

report of management contained in our annual report on Form 10-K for the fiscal year ended December 31, 2018, as well as Ernst & Young LLP's Report of Independent Registered Public Accounting Firm included therein related to its audit. We also discussed other matters with Ernst & Young LLP and management including financial risk management, cybersecurity and other technology matters, and tax and legal matters.

In addition, we discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (as adopted by the Public Company Accounting Oversight Board in Rule 3200T). Ernst & Young LLP has provided us with the written disclosures required by the applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young LLP's communications with us concerning independence. We discussed with Ernst & Young LLP their independence and have concluded they are independent from us.

The members of the committee are not currently professionally engaged in the practice of auditing or accounting and as such, cannot be considered experts in the field of auditing or accounting, including with respect to auditor independence. Members of the committee rely, without independent verification, on the information provided to them and on the representations made by management and Ernst & Young LLP. Accordingly, our activities do not provide an independent basis to determine that management has maintained appropriate internal control and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, our considerations and discussions referred to above do not assure that (i) the audit of our consolidated financial statements has been carried out in accordance with generally accepted auditing standards, (ii) our consolidated financial statements are presented in accordance with generally accepted accounting principles or (iii) Ernst & Young LLP is in fact independent.

Based upon our receipt and review of the various materials and assurances described above and our discussions with management and Ernst & Young LLP, and subject to the limitations on the role and responsibilities of the committee referred to above and in the charter, we recommended to our board that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2018, to be filed with the SEC.

AUDIT COMMITTEE

Gary Keiser, Chairman

Jack Bernard

Michael G. O'Neil



SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

For purposes of this proxy statement, a “beneficial owner” means any person who, directly or indirectly through any contract, arrangement, understanding, relationship, or otherwise has or shares:

(i) voting power, which includes the power to vote, or to direct the voting of, our common stock; and/or

(ii) investment power, which includes the power to dispose, or to direct the disposition, of our common stock. A person is also deemed the beneficial owner of our common stock if that person has the right to acquire beneficial ownership of our common stock at any time within 60 days of the annual meeting record date.

Security Ownership of Management

Listed in the following table and footnotes is certain information regarding the beneficial ownership of our common stock as of March 22, 2019, by each of our directors and executive officers listed in the Summary Compensation Table and by all of our directors and executive officers as a group. Each beneficial owner has sole voting and investment power with respect to all shares of our common stock that he or she beneficially owns.

Name of Beneficial Owner	Number of Shares	
	Common Stock	Percent
	of our	
	Beneficially Owned	of Class
Jack Bernard	81,113 (a)	*
Jack Biegler	94,613 (a)(b)	0.1

Edgar Filing: CAPSTEAD MORTGAGE CORP - Form DEF 14A

Michelle P. Goolsby	48,203	(a)	*
Gary Keiser	69,136	(a)	*
Christopher W. Mahowald	254,372	(a)(b)	0.3
Michael G. O'Neil	73,217	(a)	*
Mark S. Whiting	74,913	(a)(b)	*
Roy S. Kim	122,547	(c)	0.1
Lance J. Phillips	47,489	(c)	*
Phillip A. Reinsch	344,773	(c)	0.4
Robert R. Spears, Jr.	528,363	(c)	0.6
All of our directors and executive officers as a group (11 persons)	1,738,739		2.0

\*Denotes less than one-tenth of one percent of our common stock outstanding.

(a)Includes 8,159 unvested stock awards granted on July 24, 2018 to our independent directors, all which vest in full on July 24, 2019.

(b)Ownership amounts include the right to acquire shares of our common stock pursuant to exercisable stock option awards as follows:

	Number of Shares of Common Stock
Jack Biegler	5,000
Christopher W. Mahowald	5,000
Mark S. Whiting	5,000
All of our directors and executive officers as a group	15,000

(c)Ownership amounts include unvested service-based and performance-based stock awards as follows:

Grant Date	Reinsch	Spears	Kim	Phillips
January 3, 2019	69,341	66,568	46,597	24,408
January 3, 2018	43,604	41,860	27,906	13,081
January 3, 2017	28,818	27,617	18,011	–
	141,763	136,045	92,514	37,489

In connection with our long-term incentive compensation awards for 2018, on January 3, 2019 our compensation committee granted service-based restricted stock awards to our NEOs that vest three years from the date of grant or January 2, 2022.

In connection with our long-term incentive compensation awards for 2017, on January 3, 2018 our compensation committee granted service-based restricted stock awards to our NEOs that vest three years from the date of grant or January 2, 2021.

In connection with our long-term incentive compensation awards for 2016, on January 3, 2017 our compensation committee granted service-based restricted stock awards to our NEOs that vest three years from the date of grant or January 3, 2020.

## SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

### Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of our common stock by the persons known by us to be beneficial owners of more than five percent of our outstanding common stock as of the close of business on March 22, 2019.

Name and Address of Beneficial Owner	Number of Shares of our Common Stock	Percent of Beneficially Owned Class
BlackRock, Inc 55 East 52nd Street New York, NY 10055	15,625,112 <sup>(a)</sup>	18.3 %
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	9,489,382 <sup>(b)</sup>	11.1 %
Paradice Investment Mgmt, LLC 257 Fillmore Street, Suite 200 Denver, CO 80206	6,586,578 <sup>(c)</sup>	7.7 %
Wolverine Asset Mgmt, LLC 175 W. Jackson Blvd., Suite 340 Chicago, IL 60604	5,376,268 <sup>(d)</sup>	6.3 %

(a) The number of shares of our common stock beneficially owned, for which BlackRock, Inc. has sole voting and investment power, as reported on Schedule 13G/A filed by BlackRock, Inc. with the SEC on January 24, 2019. The percent of class is based on 85,580,126 shares outstanding as of March 22, 2019.

(b) The number of shares of our common stock beneficially owned, for which The Vanguard Group has sole voting and investment power, as reported on Schedule 13G/A filed by The Vanguard Group with the SEC on February 11, 2019. The percent of class is based on 85,580,126 shares outstanding as of March 22, 2019.

(c)

The number of shares of our common stock beneficially owned, for which Paradice Investment Mgmt, LLC has sole voting and investment power, as reported on Schedule 13G/A filed by Paradice Investment Mgmt, LLC with the SEC on February 14, 2019. The percent of class is based on 85,580,126 shares outstanding as of March 22, 2019.

(d) The number of shares of our common stock beneficially owned, for which Wolverine Asset Management, LLC has sole voting and investment power, as reported on Schedule 13G filed by Wolverine Asset Management, LLC with the SEC on February 13, 2019. The percent of class is based on 85,580,126 shares outstanding as of March 22, 2019.

#### Section 16(a) Beneficial Ownership Reporting Compliance

To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the year ended December 31, 2018, all of our directors, executive officers and beneficial owners of more than ten percent of our outstanding common stock were in compliance with Section 16(a) filing requirements.



PROPOSAL TWO – ADVISORY VOTE ON EXECUTIVE COMPENSATION

PROPOSAL TWO – ADVISORY (NON-BINDING) VOTE ON EXECUTIVE COMPENSATION

In the Compensation Discussion and Analysis section of this Proxy Statement we state that our compensation philosophy is to provide “competitive, performance-based compensation programs to attract, motivate and retain employees vital to our long-term financial success and creation of stockholder value.” Accordingly, we emphasize a strong pay-for-performance alignment in the design of our compensation programs by linking key compensation elements directly to our relative and absolute performance. We believe this is reinforced by policies requiring our executive officers to own a meaningful amount of our common stock. Accordingly, a significant portion of compensation paid to our executive officers is in the form of shares of common stock, which together with share ownership requirements, provides a significant alignment of interest with our stockholders.

Section 14A of the Securities Exchange Act of 1934 requires that we submit to our stockholders an advisory (non-binding) resolution to approve the compensation of our executive officers at least once every three years (sometimes referred to as “say-on-pay”). Following the recommendation of our stockholders, our board has chosen to hold this vote every year and accordingly submits the following advisory (non-binding) resolution on executive compensation. This advisory (non-binding) vote allows you to express your opinion regarding the decisions of the compensation committee with respect to executive compensation. Your opinion, although

non-binding, will serve as a tool to guide the committee in continuing to improve the alignment of our executive compensation programs with the interests of our stockholders. At our 2018 annual meeting of stockholders, almost 97% of the votes cast supported the compensation paid or awarded to our NEOs in 2017.

The Board unanimously recommends that our stockholders indicate their support of our executive compensation by voting FOR the following non-binding resolution:

RESOLVED, that stockholders approve, on an advisory (non-binding) basis, the compensation of our executive officers in 2018, as such compensation is disclosed pursuant to the compensation rules of the SEC, included in the Compensation Discussion and Analysis of this proxy statement, accompanying compensation tables and the other narrative executive compensation disclosures required by such rules (proposal 2).

Because your vote is advisory in nature, it will not have any effect on compensation already paid or awarded to any of our executive officers and will not be binding on our compensation committee or our board. However, the committee will take into account the outcome of the vote when considering future executive compensation decisions.

38 | Capstead 2019 Proxy Statement

---



**PROPOSAL THREE – RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP**

**PROPOSAL THREE – RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We are asking our stockholders to ratify our audit committee’s appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019. Ernst & Young LLP has audited our financial statements since we commenced operations in 1985. Stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. However, our board is submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, the committee will reconsider whether or not to retain them. Even if the selection is ratified, the committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines such a change would be in the best interests of our stockholders.

Our audit committee is responsible for appointing, setting compensation, retaining and overseeing the work of our independent registered public accounting firm. The committee pre-approves all audit and non-audit services provided to us by our independent registered public accounting firm. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. The committee has delegated pre-approval authority to its chair to expedite the delivery of services as necessary. Our independent registered public accounting firm and management are required to periodically report to the committee regarding the extent of services provided in accordance with this pre-approval and the fees for the services performed to date. The committee approved all fees paid to Ernst & Young LLP during the past three years with

no reliance on the de minimis exception established by the SEC for approving such services. Services provided by Ernst & Young LLP during 2018 included the audit of our annual financial statements and our internal control over financial reporting. Services also included the limited review of unaudited quarterly financial information, review and consultation regarding filings with the SEC and the Internal Revenue Service, procedures performed on behalf of our underwriters in connection with public offerings of our common and preferred stock, assistance with management’s evaluation of internal accounting controls, and consultation on financial and tax accounting and reporting matters. The committee has considered all fees provided by Ernst & Young LLP to us and concluded their involvement is compatible with maintaining their independence.

Fees for fiscal years ended December 31, 2018 and 2017 were as follows:

Fiscal Year	Fiscal Year
2018	2017

Edgar Filing: CAPSTEAD MORTGAGE CORP - Form DEF 14A

Audit fees	\$755,000	\$727,500
Audit-related fees	–	–
Tax fees	9,000	8,900
All other fees	–	–
	\$764,000	\$736,450

Representatives of Ernst & Young LLP will be present at the annual meeting of stockholders, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

The board recommends a vote FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019.

## RELATED PERSON TRANSACTIONS

### RELATED PERSON TRANSACTIONS

We recognize that transactions involving significant relationships between us and our directors, executives or employees can present conflicts of interest and create the appearance that our decisions are based on considerations outside of our best interests and those of our stockholders. Therefore, it is our preference to avoid transactions involving such relationships. Nevertheless, we recognize there are situations where such transactions may be inconsistent with our best interests and those of our stockholders. Therefore, we have implemented certain policies and procedures intended to allow us to assess the propriety of such transactions.

Pursuant to our Board of Directors' Guidelines, each of our directors must discuss with our governance & nomination committee any significant transaction that may affect his or her independence so that the committee can report any such transaction to our board, which has the authority to reject or ratify the transaction based upon our best interests and those of our stockholders. Also pursuant to our Board of Directors'

Guidelines, if a proposed transaction involves a director potentially diverting a corporate opportunity from us, the director pursuing such transaction must first present the transaction to our CEO who has the authority to determine our best interests and those of our stockholders with respect to such opportunity. In addition, our Code of Business Conduct and Ethics provides that a related person transaction involving an executive officer must be promptly reported to our board, and such transactions involving an employee or non-executive officer must similarly be reported to our CEO. Our Code of Business Conduct and Ethics also provides that our officers and employees must get our CEO's authorization before they can divert a business opportunity away from us. In each of these situations our board and our CEO have the authority to determine our best interests and those of our stockholders in relation to any such transaction.

For the year ended December 31, 2018 there were no related person transactions required to be reported pursuant to Item 404(a) of Regulation S-K.

## STOCKHOLDER PROPOSALS

### STOCKHOLDER PROPOSALS

Any stockholder proposal to be presented at our 2020 annual meeting of stockholders must be received by our stockholder relations department at 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404 no later than December 6, 2019 in order to be included in our proxy statement and form of proxy for such meeting. The proposal must comply with SEC regulations under Rule 14a-8 of the Securities Exchange Act of 1934, as amended, regarding the inclusion of stockholder proposals in company-sponsored proxy materials. As to any proposal a stockholder intends to present to our stockholders other than by inclusion in our proxy statement for the 2020 annual meeting, the proxies named in management's proxy for that meeting will be

entitled to exercise their discretionary authority on that proposal unless we receive notice of the matter to be proposed not later than February 19, 2020. Even if proper notice is received on or prior to February 19, 2020, the proxies named in management's proxy for that meeting may nevertheless exercise their discretionary authority with respect to such matter by advising our stockholders of such proposal and how they intend to exercise their discretion to vote on such matter, unless the stockholder(s) making the proposal solicits proxies with respect to the proposal to the extent required by Rule 14a-4(c)(2) under the Securities Exchange Act of 1934, as amended.

#### OTHER MATTERS

#### OTHER MATTERS

Our board does not intend to bring any other business before our annual meeting of stockholders, and our board is not aware of any matters to be brought before the meeting other than those described in this proxy statement. As to any other

business that may properly come before the meeting, our proxies intend to exercise their discretionary authority to vote on those matters.

## ADDITIONAL INFORMATION

The SEC allows us to “incorporate by reference” information into this proxy statement. That means we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this proxy statement, except to the extent that the information is superseded by information in this proxy statement.

This proxy statement incorporates by reference the information contained in our Annual Report on Form 10-K for the year ended December 31, 2018. We also incorporate by reference the information contained in all other documents we file with the SEC after the date of this proxy statement and prior to the annual meeting. The information contained in any of these documents will be considered part of this proxy statement from the date these documents are filed.

Any statement contained in this proxy statement or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public on the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). We make available on our website at [www.capstead.com](http://www.capstead.com), free of charge, our 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 SEC or otherwise publicly released. We also make available on our website free of charge charters for the committees of our board, our Board of Directors’ Guidelines, our Code of Business Conduct and Ethics, our Financial Code of Professional Conduct and other company information, including amendments to such documents and waivers, if any, to the codes. Hard copies will be furnished upon written request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404.

You should rely only on the information contained in this proxy statement to vote on the matters presented herein. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated April 5, 2019. You should not assume the information contained in this proxy statement is accurate as of any date other than such date, and neither the mailing of this proxy statement to stockholders nor the approval of the proposals contained herein will create any implication to the contrary.

By order of the board of directors,

Lance J. Phillips

Secretary

April 5, 2019

Capstead 2019 Proxy Statement | 41

---

ANNUAL MEETING OF STOCKHOLDERS OF CAPSTEAD MORTGAGE CORPORATION Date: Wednesday, May 15, 2019 Time: 1:00 P.M. (Central Daylight Time) Place: 8401 North Central Expressway, Suite 220, Dallas, Texas 75225-4404 See Voting Instruction on Reverse Side. Please make your marks like this: Use dark black pencil or pen only Board of Directors Recommends a Vote FOR proposals 1, 2 and 3. 1: Election of Directors For Against Abstain Directors Recommend 01 John L. (Jack) Bernard 02 Jack Biegler 03 Michelle P. Goolsby 04 Gary Keiser 05 Christopher W. Mahowald 06 Michael G. O'Neil 07 Phillip A. Reinsch 08 Mark S. Whiting For For For For For For For For 2: To approve on an advisory (non-binding) basis our 2018 executive compensation. For Against Abstain For 3: To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019. For Against Abstain For To attend the meeting and vote your shares in person, please mark this box. Authorized Signatures - This section must be completed for your instructions to be executed. Please Sign Here Please Date Above Please Sign Here Please Date Above Please sign exactly as your name(s) appears on your stock certificate. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy. Annual Meeting of Stockholders of Capstead Mortgage Corporation to be held on Wednesday, May 15, 2019 for holders as of March 22, 2019 This proxy is being solicited on behalf of the Board of Directors INTERNET VOTE BY: Call TELEPHONE Go To [www.proxypush.com/CMO](http://www.proxypush.com/CMO) Cast your vote online. View Meeting Documents. 866-256-1193 Use any touch-tone telephone. Have Your Proxy Card/Voting Instruction Form Ready. Follow the simple recorded instructions. OR MAIL OR Mark, sign and date your Proxy Card/Voting Instruction Form. Detach your Proxy Card/Voting Instruction Form. Return your Proxy Card/Voting Instruction Form in the postage-paid envelope provided. The undersigned hereby appoints Phillip A. Reinsch and Lance J. Phillips, as proxies, with full power of substitution and revocation, and authorizes each of them to vote all the shares of capital stock of Capstead Mortgage Corporation that the undersigned is entitled to vote at said meeting and any adjournment thereof upon the matters specified and upon such other matters as may be properly brought before the meeting or any adjournment thereof, conferring authority upon such true and lawful attorneys to vote in their discretion on such other matters as may properly come before the meeting and revoking any proxy heretofore given. THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, SHARES WILL BE VOTED FOR THE ELECTION OF THE DIRECTOR NOMINEES IN ITEM 1 and FOR THE PROPOSALS IN ITEMS 2 AND 3. PROXY TABULATOR FOR CAPSTEAD MORTGAGE CORPORATION P.O. BOX 8016 CARY, NC 27512-9903 Please separate carefully at the perforation and return just this portion in the envelope provided.

---

Revocable Proxy — Capstead Mortgage Corporation Annual Meeting of Stockholders May 15, 2019 1:00 p.m. (Central Daylight Time) This Proxy is solicited on behalf of the Board of Directors The undersigned appoints Phillip A. Reinsch and Lance J. Phillips with full power of substitution, to act as proxies for the undersigned, and to vote all shares of common stock of Capstead Mortgage Corporation that the undersigned is entitled to vote at the Annual Meeting of Stockholders on Wednesday, May 15, 2019 at 1:00 p.m. on the second floor of Capstead's office tower at 8401 North Central Expressway, Suite 220, Dallas, Texas 75225-4404, and any and all adjournments thereof, as set forth below. This proxy is revocable and will be voted as directed. However, if no instructions are specified, the proxy will be voted FOR the election of the director nominees specified in item 1 and FOR the proposals in items 2 and 3. (CONTINUED AND TO BE SIGNED ON REVERSE SIDE) Please separate carefully at the perforation and return just this portion in the envelope provided.