

CAPSTEAD MORTGAGE CORP

Form 10-K/A

January 12, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

**(Amendment No. 1)**

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

**For the fiscal year ended: December 31, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-08896**

**CAPSTEAD MORTGAGE CORPORATION**

**(Exact name of Registrant as specified in its Charter)**

**Maryland**

**(State or other jurisdiction of  
incorporation or organization)**

**75-2027937**

**(I.R.S. Employer  
Identification No.)**

**8401 North Central Expressway, Suite 800, Dallas,  
TX**

**(Address of principal executive offices)**

**75225**

**(Zip Code)**

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

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

| <b>Title of Each Class</b>                                                    | <b>Name of Exchange on Which Registered</b> |
|-------------------------------------------------------------------------------|---------------------------------------------|
| Common Stock (\$0.01 par value)                                               | New York Stock Exchange                     |
| \$1.60 Cumulative Preferred Stock, Series A (\$0.10 par value)                | New York Stock Exchange                     |
| \$1.26 Cumulative Convertible Preferred Stock, Series B (\$0.10<br>par value) | New York Stock Exchange                     |

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein,  
and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: ☒

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

|                                                  |                                                    |                                             |                                                    |
|--------------------------------------------------|----------------------------------------------------|---------------------------------------------|----------------------------------------------------|
| Large accelerated<br>filer <input type="radio"/> | Accelerated filer <input checked="" type="radio"/> | Non-accelerated filer <input type="radio"/> | Smaller reporting<br>company <input type="radio"/> |
| (Do not check if a smaller reporting company)    |                                                    |                                             |                                                    |

company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO p  
**At June 30, 2007 the aggregate market value of the voting common stock held by nonaffiliates was \$182,500,966.**

**Number of shares of Common Stock outstanding at March 3, 2008: 49,558,108**

**DOCUMENTS INCORPORATED BY REFERENCE:**

- (1) Portions of the Registrant's Annual Report to Stockholders for the year ended December 31, 2007 are incorporated by reference into Parts I, II and IV.**
  - (2) Portions of the Registrant's definitive Proxy Statement, issued in connection with the 2008 Annual Meeting of Stockholders of the Registrant, are incorporated by reference into Part III.**
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**CAPSTEAD MORTGAGE CORPORATION**  
**2007 FORM 10-K/A ANNUAL REPORT**  
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After receiving a request from the Securities and Exchange Commission (the Commission) in a comment letter dated December 18, 2008, management of Capstead Mortgage Corporation (the Company) concluded that the Company's previously filed consolidated statements of income for the three years ending December 31, 2007 should be reclassified and restated to include interest expense from unsecured borrowings with interest expense from repurchase arrangements and similar borrowings in arriving at net interest margin rather than including interest expense from unsecured borrowings as a component of other revenue (expense). Accordingly, the consolidated statements of income included in this Form 10-K/A have been restated to reflect interest income from all sources under the caption Interest income and interest expense from all sources under the caption Interest expense. The resulting net interest margin subtotal no longer provides readers of the Company's consolidated financial statements with solely the net interest margin earned on its portfolio of mortgage securities and similar investments after directly-related secured borrowings, but a more all-inclusive measure of net interest margin that includes interest income earned on overnight cash investments and cash margin balances and interest costs associated with the unsecured borrowings.

The reclassifications contained in this restatement do not change the Company's previously reported net income, earnings per share or stockholders' equity for any of the aforementioned periods. In addition, the restatement does not impact the Company's consolidated balance sheets, statements of stockholders' equity or cash flows for the indicated periods.

The impact of the reclassifications in the consolidated statements of income for the three years ending December 31, 2007 is summarized as follows:

|                                 | <i>Year Ended December 31</i> |              |              |
|---------------------------------|-------------------------------|--------------|--------------|
|                                 | <i>2007</i>                   | <i>2006</i>  | <i>2005</i>  |
| <b>Interest income:</b>         |                               |              |              |
| As previously reported          | \$ 310,698                    | \$ 242,859   | \$ 130,333   |
| Reclassification                | 945                           | 413          | 332          |
| As amended                      | \$ 311,643                    | \$ 243,272   | \$ 130,665   |
| <b>Interest expense:</b>        |                               |              |              |
| As previously reported          | \$ (266,901)                  | \$ (228,379) | \$ (105,937) |
| Reclassification                | (8,747)                       | (7,142)      | (972)        |
| As amended                      | \$ (275,648)                  | \$ (235,521) | \$ (106,909) |
| <b>Net interest income:</b>     |                               |              |              |
| As previously reported          | \$ 43,797                     | \$ 14,480    | \$ 24,396    |
| Reclassification                | (7,802)                       | (6,729)      | (640)        |
| As amended                      | \$ 35,995                     | \$ 7,751     | \$ 23,756    |
| <b>Other revenue (expense):</b> |                               |              |              |
| As previously reported          | \$ (20,867)                   | \$ (13,005)  | \$ (7,191)   |
| Reclassification                | 7,802                         | 6,729        | 640          |

|                                                     |             |            |            |
|-----------------------------------------------------|-------------|------------|------------|
| As amended                                          | \$ (13,065) | \$ (6,276) | \$ (6,551) |
| <b>Impact on net income from these restatements</b> | \$          | \$         | \$         |

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Management believes its previous presentation was based on a reasonable interpretation of the applicable rules of the Commission, and as such, management believes the restatement has had no impact on the conclusion reached at December 31, 2007 that the design and operation of the Company's disclosure controls and procedures were effective. This Form 10-K/A has been signed as of the current date and all certifications of the Company's Chief Executive Officer and Chief Financial Officer are given as of a current date. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings made with the Commission subsequent to the March 5, 2008 filing of the original Form 10-K for the year ended December 31, 2007.

Management and the Audit Committee of the Board of Directors have discussed these matters with the Company's independent registered public accounting firm, Ernst & Young, LLP.

For the convenience of the reader, this Form 10-K/A only includes those portions of the Company's original Annual Report on Form 10-K for the year ended December 31, 2007 that have been affected by the restatement, with appropriate explanations of the changes made. Exhibit 13 includes the Company's consolidated financial statements, selected financial data, management's discussion and analysis of financial position and results of operations, and related reports and certifications, as restated for the reclassifications described above.

**ITEM 1. BUSINESS (updated for page references to Exhibit 13).**

Capstead Mortgage Corporation (together with its subsidiaries, Capstead or the Company) formed in 1985 and based in Dallas, Texas, is a self-managed real estate investment trust (REIT) for federal income tax purposes. Capstead's core strategy is managing a leveraged portfolio of residential mortgage securities consisting almost exclusively of ARM securities issued and guaranteed by government-sponsored entities, either Fannie Mae or Freddie Mac, or by an agency of the federal government, Ginnie Mae. Agency-guaranteed residential mortgage securities carry an implied AAA credit rating with limited, if any, credit risk. Capstead may also augment its core portfolio with investments in credit-sensitive commercial real estate-related assets.

For further discussion of the Company's business and financial condition, see the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 33 through 56, which is incorporated herein by reference.

**Regulation and Related Matters**

Operating as a REIT that primarily invests in financial assets subjects the Company to various federal regulatory requirements. For further discussion, see the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 50 through 54, which is incorporated herein by reference.

**Forward-looking Statements**

For information on forward-looking statements made in this report, see the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on page 56, which is incorporated herein by reference.

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**ITEM 1A. RISK FACTORS (updated for page references to Exhibit 13).**

Under the captions Risk Factors and Critical Accounting Policies on pages 46 through 56 of the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 which is incorporated herein by reference, are discussions of risk factors and critical accounting policies affecting Capstead's financial condition and results of operations that are an integral part of this discussion and analysis. Readers are strongly urged to consider the potential impact of these factors and accounting policies on the Company while reading this document.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

With the submission of this Amendment No. 1 on Form 10-K/A, management believes there are no unresolved staff comments relative to the Company's filings with the Commission.

**PART II**

**(updated for page references to Exhibit 13)**

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

The information required by this item regarding the market price of, dividends on, and number of holders of the Registrant's common shares is included in the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on page 28 under the caption Note 14 Market and Dividend Information, and is incorporated herein by reference. See ITEM 12 for information regarding equity compensation plans. Capstead did not sell any unregistered securities during the past three fiscal years.

**ITEM 6. SELECTED FINANCIAL DATA.**

The information required by this item is included in the Registrant's Amended Annual Report to Stockholders for the five years ended December 31, 2007 on page 32 under the caption Selected Financial Data, and is incorporated herein by reference.

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

The information required by this item is included in the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 33 through 56 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS.**

The information required by this item is included in the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 33 through 56 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations, and is incorporated herein by reference.



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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The information required by this item is included in the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 6 through 30 and page 60, and is incorporated herein by reference.

**ITEM 9A. CONTROLS AND PROCEDURES.**

The information required by this item is included in the Registrant's Amended Annual Report to Stockholders for the year ended December 31, 2007 on pages 58 and 59 and is incorporated herein by reference.

**PART III**

**(Omitted from this Amendment No. 1)**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) Documents filed as part of this report:

1. The following restated consolidated financial statements of the Company, included in the Amended 2007 Annual Report to Stockholders, are incorporated herein by reference:

|                                                                     | <b>Page</b> |
|---------------------------------------------------------------------|-------------|
| <u>Consolidated Statements of Income</u>                            |             |
| <u>Three Years Ended December 31, 2007 (as Restated)</u>            | 2           |
| <u>Consolidated Balance Sheets December 31, 2007 and 2006</u>       | 3           |
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| <u>Three Years Ended December 31, 2007</u>                          | 5           |
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2. Financial Statement Schedules All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

\* *Incorporated herein by reference from the Company's Amended Annual Report to Stockholders for the year ended December 31, 2007, filed herewith as Exhibit 13.*

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3. Exhibits:

Exhibits unaffected by this Amendment No. 1 have been omitted.

**Exhibit  
Number**

**DESCRIPTION**

|      |                                                                                                        |
|------|--------------------------------------------------------------------------------------------------------|
| 13   | Portions of the Company's Amended Annual Report to Stockholders for the year ended December 31, 2007.* |
| 23   | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.*                          |
| 31.1 | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.*                           |
| 31.2 | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.*                           |
| 32   | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*                              |

\* Filed herewith.

**SIGNATURES**

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

**CAPSTEAD MORTGAGE  
CORPORATION  
Registrant**

Date: January 12, 2009

By: /s/ ANDREW F. JACOBS  
Andrew F. Jacobs  
President and Chief Executive Officer

Date: January 12, 2009

By: /s/ PHILLIP A. REINSCH  
Phillip A. Reinsch  
Executive Vice President and Chief  
Financial  
Officer (Principal Financial and  
Accounting Officer)

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**INDEX TO EXHIBITS**

| <b>EXHIBIT<br/>NUMBER</b> | <b>DESCRIPTION</b>                                                                                     |
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| 23                        | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.*                          |
| 31.1                      | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.*                           |
| 31.2                      | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.*                           |
| 32                        | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*                              |

\* Filed herewith.