CAPSTEAD MORTGAGE CORP
Form 424B5
May 23, 2003

Filed Pursuant to Rule 424(b)(5)
Registration Number 333-63358

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 26, 2001)

(CAPSTEAD LOGO)

CAPSTEAD MORTGAGE CORPORATION

COMMON STOCK

You should carefully consider the risk factors beginning on page 5 of the accompanying prospectus.	This prospectus supplement relates to the offering and sale of 167,800 shares of our common stock held by the selling stockholder, Fortress CAP LLC. Our common stock is listed on the New York Stock Exchange under the symbol "CMO." On May 22, 2003, the last reported sale price of our common stock on the New York Stock Exchange was $10.85 per share.

This prospectus supplement may not be used to consummate any sales of our common stock without an accompanying prospectus.

References in this prospectus supplement to "we," "us," "our" and "the company" are to Capstead Mortgage Corporation. References in this prospectus supplement to "Fortress" are to Fortress CAP LLC and its affiliates.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATORS HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS SUPPLEMENT OR PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

On May 21, 2003, the selling stockholder sold 50,300 shares of our common stock to an unaffiliated third party in a privately-negotiated transaction at a price of $10.8010 per share, resulting in $543,290.30 in proceeds to the selling stockholder. In addition, on May 22, 2003, the selling stockholder sold 117,500 shares of our common stock to an unaffiliated third party in a privately-negotiated transaction at a price of $10.8026 per share, resulting in $1,269,305.50 in proceeds to the selling stockholder.

Prospectus Supplement dated May 23, 2003.

THE SELLING STOCKHOLDER

This prospectus relates to the offering and sale for the account of the selling stockholder of 167,800 shares of our common stock.

In December 1999, we issued $51.2 million of our Series C and D voting preferred shares to an affiliate of the selling stockholder, which then assigned its interest to the selling stockholder. The Series C and D voting preferred

shares were convertible into shares of our common stock at any time at Fortress's option. During the fourth quarter of 2000 and the second quarter of 2001, Fortress converted all of its Series C and D voting preferred shares into an aggregate of 2,689,000 shares of our common stock. In addition, during the year 2000, Fortress also acquired 1,960,359 shares of our common stock though open market purchases and a public tender offer for shares of our common stock. Fortress sold 1,000,000 of these shares in 2001 and has sold an additional 1,819,000 of these shares in the current year through May 20, 2003. As of May 20, 2003, Fortress beneficially owned 1,830,359 shares of our common stock, or approximately 13.06% of our voting shares. Wesley Edens, our chairman and chief executive officer, is also chairman and chief executive officer of the manager of Fortress Investment Fund LLC, which indirectly wholly owns Fortress CAP LLC.

The following table sets forth the number of shares of our common stock owned by Fortress prior to the offering pursuant to this prospectus supplement and the number of shares offered hereby. All of the shares of our common stock beneficially owned by Fortress have been registered to permit public secondary trading of the shares.

	SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING		SHARES BEING SOLD	SHARES AFT
NAME AND ADDRESS OF SELLING STOCKHOLDER	NUMBER	PERCENT		NUMB
Fortress CAP LLC 1251 Avenue of the Americas New York, New York 10020	1,830,359	13.06	167,800	1,662

USE OF PROCEEDS

We will not receive any proceeds from the sale by Fortress of any shares of our common stock.

PLAN OF DISTRIBUTION

We have been advised by the selling stockholder that the offering and sale by the selling stockholder of the common stock pursuant to this prospectus supplement was made in privately-negotiated transactions between the selling stockholder and the purchaser and was not subject to any underwriting agreement.

PROSPECTUS

(CAPSTEAD LOGO)

CAPSTEAD MORTGAGE CORPORATION

COMMON STOCK

Through this prospectus, Fortress Investment Group, LLC and its affiliates may offer and sell from time to time up to 4,649,359 shares of our common stock, which is listed on the New York Stock Exchange under the symbol "CMO." Fortress may sell the shares from time to time at market prices at the time of sale or at negotiated prices.

You should carefully consider the risk factors beginning on page 5 of the accompanying prospectus.

Fortress may sell all or a portion of the common stock through agents, to or through underwriters or dealers, or directly to other purchasers. See "Plan of Distribution." The related prospectus supplement for each offering of securities will set forth the name of any agents, underwriters or dealers involved in the sale of those securities and any applicable fee, commission, discount or indemnification arrangement with any such party. We will not receive any of the proceeds from the sale of any common stock by Fortress. See "Use of Proceeds."

This prospectus may not be used to consummate sales of common stock without an accompanying prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement accompanying this prospectus and that we or Fortress have referred you to.

Neither we nor Fortress has authorized anyone to provide you with information that is different.

You should not assume that the information in this prospectus or in any prospectus supplement is accurate as of any date other than the date on the front of those documents.

References in this prospectus to "we," "us," "our" and "the company" are to Capstead Mortgage Corporation. References in this prospectus to "Fortress" are to Fortress Investment Group, LLC and its affiliates.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS NOVEMBER 26, 2001.

TABLE OF CONTENTS

WHERE YOU CAN FIND MORE INFORMATION 3

INCORPORATION OF INFORMATION WE FILE 3

RISK FACTORS 5

THE COMPANY 9

THE SELLING STOCKHOLDER 10

USE OF PROCEEDS 11

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND 11

DESCRIPTION OF SECURITIES 11

PLAN OF DISTRIBUTION 14

TAXATION 16

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public at the SEC's web site at http://www.sec.gov and at the public reference rooms of the New York Stock Exchange, 20 Broad Street, New York, New York and the Pacific Stock Exchange, 115 Sansome Street, San Francisco, California.

We have filed a registration statement with the SEC on Form S-3 relating to the securities offered by this prospectus. This prospectus does not contain all of the information included in the registration statement. You may refer to the registration statement and the related exhibits for more information about the securities offered by this prospectus. The statements we make in this prospectus regarding the content of any documents filed as exhibits to the registration statement are not necessarily complete, and you should refer to the filed copy for additional information. All our statements about these documents are qualified in their entirety by the exhibits to the registration statement.

INCORPORATION OF INFORMATION WE FILE WITH THE SEC BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until all the securities offered under this prospectus are sold. This prospectus is part of the registration statement we filed with the SEC.

1. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

2. Our definitive Proxy Statement dated March 9, 2001, issued in connection with our annual stockholders' meeting.

3. Our Quarterly Report on Form 10-Q for the fiscal quarter ended March

31, 2001.

4. Our definitive Proxy Statement dated May 17, 2001, issued in connection with a proposed one-for-two reverse split of our common stock.

5. Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001.

6. Our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.

You may view and obtain copies of these filings in the Investor Relations section of our website at www.capstead.com. You may also request a copy of these filings, at no cost, by writing or telephoning us at Capstead Mortgage Corporation, 8401 N. Central Expressway, Suite 800, Dallas, Texas 75225, telephone (214) 874-2323, Attention: Investor Relations.

RISK FACTORS

THE FOLLOWING INFORMATION, WHICH YOU SHOULD CAREFULLY CONSIDER, IDENTIFIES CERTAIN SIGNIFICANT SOURCES OF RISK ASSOCIATED WITH AN INVESTMENT IN OUR COMMON STOCK.

CHANGES IN INTEREST RATES MAY ADVERSELY AND MARKET LIQUIDITY AFFECT OUR EARNINGS .....

Our earnings currently depend, in part, on the differ "spread" between the interest we receive on our mortg securities and other investments, and the interest we our related borrowings, which are generally based on London Interbank Offered Rates. The resulting spread reduced or even turn negative in a rising short-term rate environment. Because a substantial portion of ou mortgage investments are adjustable-rate mortgage sec the risk of rising short-term interest rates is gener offset to some extent by increases in the rates of in earned on the underlying adjustable-rate mortgage loa reset periodically based on underlying indices (gener 1-year Constant Maturity U.S. Treasury Note Rates). S adjustable-rate mortgage loans generally limit the am these increases during any single interest rate adjus period and over the life of the loan, interest rates borrowings can rise to levels that may exceed the int rates on the underlying loans contributing to lower o negative financing spreads. At other times, as seen i and now in 2001, declines in these indices during per falling short-term interest rates will negatively aff yields on adjustable-rate mortgage securities as the underlying adjustable-rate loans reset at lower inter rates. If declines in these indices exceed declines i

borrowing rates, our earnings may be adversely affect
may invest in derivative financial instruments from t
time with the goal of achieving more stable financial
on a portion of our mortgage investment portfolio. We
own any derivative financial instruments for this pur
of the date of this prospectus supplement.

Another effect of changes in interest rates is that,
long-term interest rates decrease, the rate of princi
prepayments on mortgage loans underlying our mortgage
investments generally increases. As seen in 1998, and

5

some extent 2001, prolonged periods of high prepaymen
significantly reduce the expected life of our mortgag
investments; therefore, the actual yields realized ca
lower due to faster amortization of premiums. Further
extent we do not reinvest or cannot reinvest the proc
prepayments on our mortgage investments at a rate of
at least equal to the rate previously earned on those
investments, our earnings may be adversely affected.
be no assurance that suitable investments at attracti
pricing will be available in a timely fashion to repl
runoff as it occurs or that the current composition o
investments (consisting primarily of adjustable-rate
securities issued by the government-sponsored entitie
Mae, Freddie Mac or Ginnie Mae) will be maintained.

A change in interest rates also impacts the results w
recognize in our earnings from our CMO investments, w
currently consist primarily of fixed-rate CMO residua
seen in 1998, if mortgage interest rates fall, prepay
the underlying mortgage loans generally will be highe
accelerating the amortization of collateral premiums
discounts. Conversely, if mortgage interest rates ris
significantly above interest rates on the collateral,
principal prepayments will typically diminish, improv
overall return on an investment in a fixed-rate CMO r
because of an increase in time over which we receive
net cash flows and can amortize remaining collateral
and bond discounts.

We periodically sell mortgage assets, which may incre
income volatility because of the recognition of trans
gains or losses. These sales may become attractive as
value of our mortgage assets fluctuates with changes
interest rates. At other times, such as in the second
of 2000, we may shift our investment focus, resulting
sales. Because we currently have significant capital
carryforwards for tax purposes, gains on the sale of
assets may not be distributed to stockholders as divi

During periods of rising interest rates or falling ma
liquidity, mortgage asset values can decline leading
increased margin calls, reducing our liquidity. A mar

means that a lender requires a borrower to pledge add
collateral to re-establish the agreed-upon ratio of t
of the collateral to the amount of the borrowing. If
unable or unwilling to pledge additional collateral,
can liquidate the collateral under adverse market con
likely resulting in losses.

SOME OF OUR MORTGAGE INVESTMENTS ARE MORE CREDIT SENSITIVE THAN OUR OTHER INVESTMENTS.....

In addition to its residential mortgage investments,
company invests from time to time in commercial mortg
assets including commercial mortgage-backed securitie
Commercial mortgage assets are generally viewed as ex
investor to greater risk of loss than residential
mortgage-backed securities because such assets are ty
secured by larger loans to fewer obligors than reside
mortgage-backed securities. Commercial property value
operating income are subject to volatility, and net o
income may be sufficient or insufficient to cover deb
on the related mortgage loan at any given time. The r
of loans secured by income-producing properties is ty
dependent upon the successful operation of the relate
estate project and the ability of the applicable prop
produce net operating income rather than upon the liq
value of the underlying real estate. Even when the cu
operating income is sufficient to cover debt service,
can be no assurance that this will continue to be the
the future.

Additionally, commercial properties may not readily b
convertible to alternative uses if such properties we
become unprofitable due to competition, age of improv
decreased demand, regulatory changes or other factors
conversion of commercial properties to alternate uses
generally requires substantial capital expenditures,
or may not be available.

The availability of credit for commercial mortgage lo
significantly dependent upon economic conditions in t
markets where such properties are located, as well as
willingness and ability of lenders to make such loans
availability of funds in the credit markets fluctuate
there can be no assurance that the availability of su
will increase above, or will not contract below curre

levels. In addition, the availability of similar comm

properties, and the competition for available credit,
affect the ability of potential purchasers to obtain
for the acquisition of properties. This could effect
repayment of commercial mortgages.

Credit sensitive residential mortgages differ from co
mortgages in several important ways, yet can still ca
substantial credit risk. Residential mortgage-backed
securities typically are secured by smaller loans to
obligors than commercial mortgage-backed securities,
spreading the risk of mortgagor default. However, mos
mortgages supporting credit sensitive residential
mortgage-backed securities are made to homeowners tha
qualify for agency loan programs for reasons includin
size, financial condition, or work or credit history
be indicative of higher risk of default than loans qu
for such programs. As with commercial mortgages, in i
of default we may incur losses if proceeds from sales
underlying collateral are less than the unpaid princi
balances of the mortgage loans and related foreclosur
However, with residential mortgages, this risk may be
mitigated by various forms of credit enhancements inc
but not limited to, primary mortgage insurance.

Through the process of securitizing both commercial a
residential mortgages, credit risk can be heightened
minimized. Senior classes in multi-class securitizati
generally have first priority over cash flows from a
mortgages and, as a result, carry the least risk, hig
investment ratings and the lowest yields. Typically a
securitization will also have mezzanine classes and
subordinated classes. Mezzanine classes will generall
somewhat lower credit ratings and may have average li
are longer than the senior classes. Subordinate class
junior in the right to receive cash flow from the und
mortgages, thus providing credit enhancement to the s
mezzanine classes. As a result, subordinated securiti
have lower credit ratings because of the elevated ris
credit loss inherent in these securities.

The availability of capital from external sources to
investments in credit-sensitive commercial and reside

mortgage assets that are not financed to maturity at
acquisition may be diminished during periods of mortg
finance market illiquidity, such as was experienced i
Additionally, if market conditions deteriorate result
substantial declines in value of these assets, suffic
capital may not be available to support the continued
of these assets, requiring them to be sold at a loss.

IF OUR EARNINGS OR THE VALUE OF OUR MORTGAGE ASSETS A
ADVERSELY AFFECTED BY A CHANGE IN INTEREST RATES, MAR
LIQUIDITY OR CHANGE IN THE CREDIT QUALITY OF THE INVE
PORTFOLIO, THE BOOK VALUE OF OUR COMMON STOCK AND THE

	DIVIDENDS ON OUR COMMON STOCK MAY DECLINE.
WE ARE CURRENTLY INVOLVED IN STOCKHOLDER LITIGATION.....	During 1998 twenty-four purported class action lawsui filed against us and certain of our officers alleging other things, that we violated federal securities law publicly issuing false and misleading statements and disclosure of material adverse information regarding business. The complaints seek monetary damages in an undetermined amount. In March 1999 these actions were consolidated and in July 2000 a lead plaintiff group appointed by the court. An amended complaint was file 20, 2000. The amended complaint claims that as a resu alleged improper actions, the market prices of our eq securities were artificially inflated during that per between April 17, 1997 and June 26, 1998. The amended complaint seeks monetary damages in an undetermined a responded to this amended complaint on February 20, 2 a motion to dismiss all allegations against us and ou officers. On April 20, 2001, the plaintiffs responded motion to dismiss. We filed our reply to the plaintif response on May 21, 2001. We believe that we have mer defenses to the claims and we intend to vigorously de against the actions. Based on available information, believe the resolution of these suits will not have a adverse effect on our financial position.

THE COMPANY

We were incorporated on April 15, 1985 in Maryland and commenced operations in September 1985. We operate as a real estate investment trust ("REIT") earning income from

investing in real estate-related assets on a leveraged basis and from other investment strategies. These investments currently include, but are not limited to, adjustable-rate single-family residential mortgage-backed securities issued by government-sponsored entities, either Fannie Mae, Freddie Mac or Ginnie Mae ("Agency Securities"). We are also evaluating other suitable investments, which may include credit-sensitive commercial and residential real estate-related assets.

We and our qualified REIT subsidiaries have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and intend to continue to do so. As a result of this election, we and our qualified REIT subsidiaries are not taxed at the corporate level on taxable income distributed to stockholders, provided that certain REIT qualification tests are met. Certain other affiliated entities which are consolidated with the company for financial reporting purposes, are not consolidated for federal income tax purposes because such entities were not established as REITs or qualified REIT subsidiaries. All taxable income of these affiliated entities are subject to federal and state income taxes, where applicable.

THE SELLING STOCKHOLDER

Fortress is a real estate investment firm with experience in investing in a variety of asset types across the credit spectrum.

In December 1999, we issued $51.2 million of our Series C and D voting preferred shares to Fortress. The Series C and D voting preferred shares were convertible into shares of our common stock at any time at Fortress's option. During the fourth quarter of 2000 and the second quarter of 2001, Fortress converted all of its Series C and D voting preferred shares into an aggregate of 5,378,000 shares of our common stock. In addition, during the year 2000, Fortress also acquired 3,920,717 shares of our common stock though open market purchases and a public tender offer for shares of our common stock. On June 29, 2001, we effected a 1-for-2 reverse stock split of our common stock. After giving effect to the 1-for-2 reverse stock split of our common stock, Fortress beneficially owned 4,649,358 shares of our common stock (the "Fortress Shares") or approximately 34% of our voting shares, as of November 23, 2001.

Through this prospectus, Fortress may sell all of the Fortress Shares from time to time at market prices at the time of sale or at negotiated prices. Fortress and/or the purchasers of its shares may pay broker-dealers compensation in the form of discounts, concessions or commissions. Fortress and any agents or broker-dealers that participate with Fortress in the distribution of these shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"). Any commissions received by them and any profit on the resale of these shares may be deemed to be underwriting commissions or discounts under the Securities Act.

Since Fortress may sell all, some or none of the Fortress Shares, no estimate can be made of the actual aggregate number of shares that will be sold pursuant to this prospectus. See "Plan of Distribution" for more information concerning sales of the Fortress Shares. If all of the Fortress Shares offered hereby are sold, Fortress would no longer own any of our outstanding

common stock, assuming Fortress does not purchase or acquire any additional shares of our common stock after the date of this prospectus.

Any prospectus supplement relating to the offering of any Fortress Shares under this prospectus will set forth the number of Fortress Shares being offered for the account of Fortress, as well as the number of Fortress Shares owned by Fortress upon completion of such offering.

In the event that any offering by Fortress is underwritten, we will have the right to select the managing underwriter or underwriters. Additionally, if Fortress makes an offering of Fortress Shares in conjunction with an offering by us of our securities, Fortress must sell its Fortress Shares to the underwriter selected by us on the same terms and conditions as apply to us. Fortress may also elect to sell all or a portion of the Fortress Shares pursuant to an exemption from registration, provided that we have determined to our satisfaction that registration of the Fortress Shares is not required as a result of the availability of such an exemption from registration under the Securities Act.

USE OF PROCEEDS

We will not receive any proceeds from the sale by Fortress of any Fortress Shares.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth the historical ratios of earnings to combined fixed charges and our preferred stock dividends for the periods indicated:

	QUARTER ENDED SEPTEMBER 30, 2001	YEAR ENDED DECEMBER 31, 2000	1999	1998	1997
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends(a)	1.20:1	0.87:1	1.07:1	0.63:1	1.20:1

(a) Includes fixed charges relating to CMO's issued by the company's finance subsidiaries. Excluding interest expense on CMO debt, the ratio of earnings to combined fixed charges and preferred stock dividends would have been 1.39:1, 0.77:1, 1.14:1, 0.28:1, 1.36:1, and 1.28:1, respectively, for the periods indicated.

DESCRIPTION OF SECURITIES

GENERAL

Our authorized capital stock currently consists of 100,000,000 shares of common stock, par value $0.01 per share, and 100,000,000 shares of preferred stock, par value $0.10 per share. As of November 23, 2001, there were 13,853,787 shares of our common stock, 282,105 shares of our $1.60 Cumulative Preferred Stock designated as "Series A Preferred Stock" and 15,842,279 shares of our $1.26 Cumulative Convertible Preferred Stock designated as "Series B

Preferred Stock" issued and outstanding. The common stock, Series A Preferred Stock and Series B Preferred Stock are listed on the New York Stock Exchange.

COMMON STOCK

Each share of common stock is entitled to one vote. The outstanding shares of common stock are fully paid and non-assessable. Holders of shares of common stock do not have cumulative voting rights or preference, conversion, exchange, subscription or preemptive rights. Subject to our obligations to pay dividends on all shares of our outstanding preferred stock, each share of common stock is entitled to participate equally in dividends on the common stock when and as declared by our board of directors and in the distribution of our assets upon liquidation after payment of our liabilities and liquidation preferences with regard to our preferred stock. The foregoing summary does not purport to be a complete description of our common stock and is subject to, and qualified in its entirety by reference to, our charter and bylaws, in each case as amended and supplemented to date and filed as exhibits to the registration statement.

REDEMPTION OR REPURCHASE OF CAPITAL STOCK TO MAINTAIN OUR STATUS AS A REIT

Our charter provides that if our board of directors determines in good faith that the direct or indirect ownership of our stock has or may become concentrated to an extent which would cause us to fail to qualify or be qualified as a REIT under Sections 856(a)(5) or (6) of the Code, or similar provisions of successor statutes, we may redeem or repurchase any number of

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

Our board of directors has elected to exclude purchases of our common stock by Fortress from the operation of the charter provisions described above.

SPECIAL STATUTORY REQUIREMENTS FOR CERTAIN TRANSACTIONS

The following summary of certain provisions of the Maryland General Corporations Law (the "MGCL") and of the company's charter and the bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and to the company's charter and the bylaws, copies of which are filed with the Commission.

Business Combination Statute. Under the MGCL, certain "business combinations" (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any person who beneficially owns 10% or more of the voting power of the corporation's shares or an affiliate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation (an "Interested Stockholder") or an affiliate of such an Interested Stockholder are prohibited for five years after the most recent date on which the Interested Stockholder becomes an Interested Stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the Interested Stockholder with whom (or with whose affiliate) the business combination is to be effected, unless, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Stockholder for its

shares. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by the board of directors of the corporation prior to the time that the Interested Stockholder becomes an Interested Stockholder.

Pursuant to the statute, our board of directors has elected to exclude purchases of our common stock by Fortress from the operation of the statute. Consequently, the five-year prohibition and the super-majority vote requirements of the statute will not in any event apply to business combinations between Fortress and us. As a result, Fortress may be able to enter into business combinations with us without compliance by Fortress with the super-majority vote requirements and the other provisions of the statute.

Control Share Acquisition Statute. The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock owned by the acquiror, by officers or by directors who are employees of the corporation. "Control shares" are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy),

would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (1) one-fifth or more but less than one-third, (2) one-third or more but less than a majority, or (3) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting. If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of such shares are considered and not approved.

If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition. The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation and adopted at any time before the acquisition of shares.

Our bylaws have been amended to include a provision exempting from the

control share acquisition statute any and all acquisitions by Fortress and its affiliates of up to 40% of the voting power of our common stock. This provision is irrevocable and may only be amended to increase the aggregate percentage of our common stock that Fortress may acquire.

Possible Anti-takeover Effect of Certain Provisions of Maryland Law and of the Company's Charter and Bylaws. The business combination provisions and, if the applicable provision in the company's bylaws is rescinded, the control share acquisition provisions of the MGCL, the provisions of the company's charter on ownership and transfer of stock could delay, defer or prevent a transaction or a change in control of the company or other transaction that might involve a premium price for holders of common stock or otherwise be in their best interest.

PLAN OF DISTRIBUTION

We are registering shares of common stock for Fortress, who may sell or distribute these shares from time to time after the registration statement relating to this prospectus becomes effective. These shares may also be sold by third parties to whom Fortress transfers its stock, or

by its successors in interest. Fortress may sell stock to one or more purchasers or through brokers, dealers or underwriters acting as agents or acquiring the stock as principals. Fortress may sell the stock at prices prevailing at the time of sale, at prices related to prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. Fortress may sell its stock in one or more of the following methods, which may include block transactions:

- ordinary brokers' transactions;
- purchases by brokers, dealers or underwriters as principal and resale by such purchasers for their own accounts pursuant to this prospectus;
- "at the market" to or through market makers or into an existing market for the common stock;
- in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents;
- through transactions in options, swaps or other derivatives (whether exchange-listed or otherwise);
- in privately negotiated transactions;
- to cover short sales; or
- any combination of the foregoing.

From time to time, Fortress may pledge, hypothecate or grant a security interest in some or all of the shares it owns. If Fortress does so, and if there is a foreclosure or default on those obligations the pledgees, secured parties or persons to whom Fortress hypothecated its shares will be considered the relevant selling shareholders under this prospectus.

The number of shares Fortress beneficially owns will decrease if it transfers, pledges, donates or assigns its shares. The plan of distribution

under this prospectus will otherwise remain unchanged, except that the transferees, pledgees, donees or other successors will be considered additional selling shareholders. Also, Fortress may sell short its common stock from time to time. Fortress may deliver this prospectus in connection with short sales, and it may use shares it sells under this prospectus to cover those short sales.

Fortress may enter into hedging transactions with broker- dealers, and the broker-dealers may engage in short sales of the common stock in the course of hedging the positions they assume with Fortress. This may involve distributions of the common stock by those broker-dealers. Fortress may also enter into option or other transactions with broker-dealers that involve the delivery of shares to the broker-dealers, who may then resell them or otherwise transfer them. Fortress may also pledge its shares to a broker-dealer to secure a loan or other agreement, and the

broker-dealer may sell them or otherwise transfer them if Fortress defaults on the underlying loan or agreement.

Brokers, dealers, underwriters or agents participating in the distribution of shares as agents may receive compensation in the form of commissions, discounts or concessions from Fortress and/or purchasers of common stock for whom such broker-dealers may act as agent, or to whom they may sell as principal, or both. This compensation as to a particular broker-dealer may be less than or in excess of customary commissions. Regulators may deem selling shareholders and any broker-dealers who act in connection with the sale of shares under this prospectus "underwriters" within the meaning of the Securities Act. Also, any commission they receive and proceeds of any sale of shares may be deemed to be underwriting discounts and commissions under the Securities Act. We cannot presently estimate the amount of such compensation. In addition, we do not know of existing arrangements between Fortress and any other shareholder, broker, dealer, underwriter or agent relating to the sale or distribution of shares included in this prospectus.

We will pay all of the expenses required to be paid by us under the terms of our registration rights agreement with Fortress in connection with the registration, offering and sale of shares included in this prospectus, other than commissions or discounts of underwriters, broker-dealers or agents.

We advised Fortress that while it seeks to sell shares under this prospectus it is required to comply with Regulation M under the Securities Exchange Act. With certain exceptions, Regulation M precludes it or any affiliated purchasers, and any broker-dealer or other person who participates in a distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares sold under this prospectus.

TAXATION

The applicable provisions of the Code are highly technical and complex. This summary is not intended as a detailed discussion of all applicable provisions of the Code, the rules and regulations promulgated thereunder, or the administrative and judicial interpretations thereof. For the particular provisions that govern the federal income tax treatment of the company and its stockholders, reference is made generally to Sections 856 and 860 of the Code

and the treasury regulations promulgated thereunder. We have not obtained rulings from the Internal Revenue Service with respect to any tax considerations relevant to our organization or operations or to an investment in our common stock. This summary is not intended to substitute for prudent tax planning and stockholders are urged to consult their own tax advisors with respect to these and other federal, state and local tax consequences of the ownership and disposition of any of our common stock and any potential changes in applicable law. Nonresident aliens, non-U.S. persons and entities, tax-exempt organizations, life insurance companies, cooperatives and certain other

categories of investors may be subject to special tax rules that are not discussed below and that could affect an investment in our common stock.

FEDERAL INCOME TAXATION OF CAPSTEAD MORTGAGE CORPORATION

As used herein, "Capstead REIT" refers to Capstead Mortgage Corporation and the entities that are effectively consolidated with Capstead Mortgage Corporation for federal income tax purposes. Certain of the our subsidiaries (the "Non-REIT subsidiaries") are consolidated with Capstead Mortgage Company for financial reporting purposes but are not consolidated for federal income tax purposes. All of the Non-REIT subsidiaries' taxable income is subject to federal and state income taxes. We may form additional Non-REIT subsidiaries.

So long as a corporation such as Capstead REIT qualifies as a REIT and distributes at least 90% of its REIT taxable income to stockholders, it will not be subject to federal corporate income taxes on such income distributed to stockholders, with limited exceptions discussed below. Under certain circumstances, a REIT may be subject to the corporate minimum tax or certain other special taxes. However, Capstead REIT does not anticipate generating material items of income or deductions that would cause it to be subject to the minimum tax or any such special tax.

QUALIFICATION AND TAXATION OF CAPSTEAD REIT AS A REIT

Capstead REIT has made an election to be taxed as a REIT under Sections 856 through 860 of the Code effective for its taxable years ending on and after December 31, 1985. Capstead REIT's qualification and taxation as a REIT depends upon Capstead REIT's ability to meet on a continuing basis, through actual annual operating results, distribution levels and diversity of stock ownership, the various qualification tests and organizational requirements imposed under the Code, as discussed below. Capstead REIT believes that it is organized and has operated in such a manner as to qualify under the Code for taxation as a REIT commencing with its 1985 taxable year, and Capstead REIT intends to continue to operate in such a manner. No assurance, however, can be given that Capstead REIT will operate in a manner so as to qualify or remain qualified as a REIT. See "Failure to Qualify" below.

In the opinion of Andrews & Kurth L.L.P., tax counsel to Capstead REIT, for all of its taxable years beginning September 5, 1985 and ending December 31, 2000, Capstead REIT has met the requirements for qualification as a REIT under the Code and will be able to qualify as a REIT for taxable years beginning on and after January 1, 2001, provided that Capstead REIT continues to be organized and operated after the date of this prospectus so as to satisfy the applicable REIT requirements under the Code. This opinion is based on various assumptions relating to the organization and operation of Capstead REIT, and is conditioned upon the accuracy of certain representations made by Capstead REIT as to certain relevant factual matters relating to the organization and expected manner of

operation of Capstead REIT and its subsidiaries. Andrews & Kurth L.L.P. is not aware of any facts or circumstances that are inconsistent with these assumptions and representations. Moreover, such qualification and

taxation as a REIT will depend upon Capstead REIT's ability to meet on a continuing basis, through actual annual operating results, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code discussed below. Andrews & Kurth L.L.P. will not review compliance with these tests on a continuing basis. No assurance can be given that Capstead REIT will satisfy such tests on a continuing basis. See "Failure to Qualify" below.

The sections of the Code relating to qualification and operation as a REIT are highly technical and complex. The following discussion sets forth certain material aspects of the Code sections that govern the federal income tax treatment of a REIT and its stockholders. The discussion is qualified in its entirety by the applicable Code provisions, Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all of which are subject to change prospectively or retroactively.

So long as Capstead REIT continues to qualify for taxation as a REIT, it generally will not be subject to federal corporate income tax on its net income that is distributed currently to its stockholders. That treatment substantially eliminates the "double taxation" (i.e., taxation at both the corporate and stockholder levels) that generally results from investment in a corporation. However, Capstead REIT will be subject to federal income tax in the following circumstances. First, Capstead REIT will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains. Second, under certain circumstances, Capstead REIT may be subject to the "alternative minimum tax" on items of tax preference, if any. Third, if Capstead REIT has (1) net income from the sale or other disposition of "foreclosure property" (which is, in general, property acquired by foreclosure or otherwise on default of a loan or lease secured by the property) that is held primarily for sale to customers in the ordinary course of business or (2) other nonqualifying income from foreclosure property, it will be subject to tax at the highest corporate rate on such income. Fourth, if Capstead REIT has net income from prohibited transactions (which are, in general, certain sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business), such income will be subject to a 100% tax. Fifth, if Capstead REIT should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), and nonetheless has maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a 100% tax on the net income attributable to the greater of the amounts by which it fails the 75% or 90% gross income test. Sixth, if Capstead REIT should fail to distribute during each calendar year at least the sum of:

- 85% of its REIT ordinary income for such year,

- 95% of its REIT capital gain net income for such year and

- any undistributed taxable income from prior periods,

it would be subject to a 4% excise tax on the excess of such required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid. Seventh, Capstead REIT may be subject to a 100% excise tax with respect to certain

"redetermined rents," "redetermined deductions," and "excess interest" to ensure arm's length (1) pricing for certain services provided by taxable REIT subsidiaries of Capstead REIT to Capstead REIT's tenants, if any, and (2) allocation of shared expenses between Capstead REIT and its taxable REIT subsidiaries. Finally, if Capstead REIT acquires any asset from a C corporation (i.e., a corporation generally subject to full corporate-level tax) in a transaction in which the basis of the asset in Capstead REIT's hands is determined by reference to the basis of the asset or any other property in the hands of the corporation, and Capstead REIT recognizes gain on the disposition of such asset during the ten-year period beginning on the date on which such asset was acquired by Capstead REIT, then, to the extent of such property's "built-in" gain (the excess of the fair market value of such property at the time of acquisition by Capstead REIT over the adjusted basis of such property at such time), that gain will be subject to the highest corporate rate applicable, provided an election is made by Capstead REIT to defer this gain for the 10-year period under the principles of Section 1374 of the Code.

REQUIREMENTS FOR QUALIFICATION

The Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(3) that would be taxable as a domestic corporation, but for the REIT provisions of the Code;

(4) that is neither a financial institution nor an insurance company subject to certain provisions of the Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) not more than 50% in value of the outstanding shares of which is owned, directly or indirectly, by five or fewer individuals, as defined in the Code to include certain entities (the "5/50 Rule");

(7) that makes an election to be a REIT, or has made such election for a previous taxable year which has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met in order to elect and maintain REIT status;

(8) that uses a calendar year for federal income tax purposes; and

(9) that meets certain other tests, described below, regarding the nature of its income and assets.

The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year, that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months, and that condition (6) must be met during the last half of the taxable year. For purposes of determining stock ownership under the 5/50 Rule, a supplemental unemployment compensation benefits plan, a

private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. A qualified employee benefit trust, however, generally is not considered an individual, and beneficiaries of such trust are treated as holding shares of a REIT in proportion to their actuarial interests in such trust. Finally, Capstead REIT will be treated as having met condition (6) above if it has complied with certain Treasury Regulations for ascertaining the ownership of its stock for such year and if it did not know, or after the exercise of reasonable diligence would not have known, that its stock was sufficiently closely held during such year to cause it to fail condition (6).

A corporation that is a "qualified REIT subsidiary" is not treated as a separate corporation for federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of a "qualified REIT subsidiary" are treated as assets, liabilities and items of income, deduction and credit of the REIT. A "qualified REIT subsidiary" is a corporation, all of the capital stock of which is owned directly by the REIT. Certain subsidiaries of Capstead REIT constitute qualified REIT subsidiaries. Accordingly, in applying the income and asset tests described below, those subsidiaries will be ignored for federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of those subsidiaries will be treated as assets, liabilities and items of income, deduction, and credit of Capstead REIT. Those subsidiaries therefore will not be subject to federal corporate income taxation, although they may be subject to state and local taxation.

In the case of a REIT that is a partner in an entity that is classified for federal income tax purposes as a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership, based on the REIT's capital interest in the partnership, and will be deemed to be entitled to the gross income of the partnership attributable to such share. In addition, the assets and gross income of the partnership will retain the same character in the hands of the REIT for purposes of the REIT provisions of the Code, including satisfying the gross income and asset tests described below.

INCOME TESTS. In order for Capstead REIT to maintain its qualification as a REIT, two requirements relating to gross income must be satisfied annually. First, at least 75% of its gross income, excluding gross income from prohibited transactions, for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property (including "rents from real property" and, in certain circumstances, interest) or temporary investment income. Second, at least 95% of its gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from real property or temporary investments, and from dividends, other types of interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing.

Capstead REIT does not presently earn substantial amounts of rental income. However, if Capstead REIT were to acquire rental real estate, the rent received by Capstead REIT from its tenants would qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if several conditions are met. First, the amount of rent must not be based, in whole or in part, on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, rents received from a tenant of Capstead REIT will not qualify as "rents from real property" in satisfying the gross income tests if Capstead REIT, or a direct or indirect owner of 10% or

more of Capstead REIT, directly or constructively owns 10% or more of such tenant (a "Related Party Tenant") unless such tenant is a "taxable REIT subsidiary" of the REIT and certain other conditions are satisfied. Third, if rent attributable to personal property that is leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as "rents from real property." Finally, for the rent to qualify as "rents from real property," Capstead REIT generally must not operate or manage its properties or furnish or render services to the tenants of such properties, other than through an "independent contractor" who is adequately compensated and from whom Capstead REIT derives or receives no income. The "independent contractor" requirement, however, does not apply to the extent the services provided by Capstead REIT are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant." In addition, the "independent contractor" requirement will not apply to noncustomary services provided by Capstead REIT, the annual value of which does not exceed 1% of the gross income derived from the property with respect to which the services are provided (the "1% de minimis exception"). For this purpose, such services may not be valued at less than 150% of Capstead REIT's direct cost of providing the services, and any gross income deemed to have been derived by Capstead REIT from the performance of noncustomary services pursuant to the 1% de minimis exception will constitute nonqualifying gross income under the 75% and 95% gross income tests. In addition, a "taxable REIT subsidiary" of a REIT may provide noncustomary services to the tenants of the REIT without causing the rents paid by such tenants to be disqualified as "rents from real property."

If Capstead REIT fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it nevertheless may qualify as a REIT for such year if it is entitled to relief under certain provisions of the Code. Those relief provisions generally will be available if the failure to meet such tests is due to reasonable cause and not due to willful neglect, Capstead REIT attaches a schedule of the sources of its income to its return, and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances Capstead REIT would be entitled to the benefit of those relief provisions. As discussed above in "Qualification and Taxation of Capstead REIT as a REIT," even if those relief provisions apply, a 100% tax would be imposed on the net income attributable to the greater of the amount by which Capstead REIT fails the 75% and 90% gross income tests.

ASSET TESTS. At the close of each quarter of its taxable year, Capstead REIT also must satisfy several tests relating to the nature of its assets. First, at least 75% of the value of Capstead REIT's total assets must be represented by real estate assets, cash, cash items and government securities. Second, of the investments not included in the 75% asset class, the value of any one issuer's debt and equity securities owned by Capstead REIT may not exceed 5% of the value of Capstead REIT's total assets. Third, Capstead REIT may not own more than 10% of any one issuer's outstanding voting securities, nor, more than 10% of the total value of any one issuer's outstanding debt and equity securities.

The 5% and 10% asset tests described above do not apply to the securities of a "taxable REIT subsidiary" of Capstead REIT, although the value of the debt and equity securities of all taxable REIT subsidiaries owned by Capstead REIT cannot represent more than 20% of the value of the REIT's total assets. Any corporation in which a REIT directly or indirectly owns stock (other

than another REIT, a corporation which directly or indirectly operates or manages a lodging facility or a health care facility, and, with certain exceptions, a corporation which directly or indirectly provides to any other person (under a franchise, license, or otherwise) rights to any brand name under which any lodging facility or health care facility is operated) may be treated as a "taxable REIT subsidiary" if the REIT and the corporation file a joint election with the Internal Revenue Service for the corporation to be treated as a taxable REIT subsidiary of the REIT.

A number of constraints are imposed on REITs and their taxable REIT subsidiaries to ensure that REITs cannot, through taxable REIT subsidiaries, engage in substantial non-real estate activities and also to ensure that taxable REIT subsidiaries pay an appropriate corporate-level tax on their income. For example, a taxable REIT subsidiary will be subject to the "earnings stripping" rules of the Code with respect to interest paid to the REIT, which could disallow a portion of the taxable REIT subsidiary's interest deductions under certain circumstances. In addition, a 100% excise tax may be imposed on the REIT with respect to certain "redetermined rents", "redetermined deductions", and "excess interest" to ensure arm's length (1) pricing for services provided by the taxable REIT subsidiary to REIT tenants and (2) allocation of shared expenses between the REIT and the taxable REIT subsidiary.

DISTRIBUTION REQUIREMENTS. In order to qualify as a REIT, Capstead REIT is required to distribute with respect to each taxable year dividends, other than capital gain dividends, to its stockholders in an aggregate amount at least equal to (1) the sum of (A) 90% of its "REIT taxable income," computed without regard to the dividends paid deduction and its net capital gain, and (B) 90% of the net after tax income, if any, from foreclosure property, minus (2) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before Capstead REIT timely files its federal income tax return for such year and if paid on or before the first regular dividend payment date after such declaration. To the extent that Capstead REIT does not distribute all of its net capital gain or distributes at least 90%, but less than 100%, of its "REIT taxable income," as adjusted, it will be subject to tax thereon at regular ordinary and capital gains corporate tax rates.

Capstead REIT has made and intends to continue to make timely distributions sufficient to satisfy the minimum annual distribution requirements. It is possible, however, that Capstead REIT, from time to time, may not have sufficient cash or other liquid assets to meet the distribution requirements due to timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of such income and deduction of such expenses in arriving at Capstead REIT's taxable income, or if the amount of nondeductible expenses (such as principal amortization or capital expenses) exceeds the amount of noncash deductions. In the event that such timing differences occur, in order to meet the distribution requirements, Capstead REIT may arrange for borrowings to permit the payment of required dividends.

If Capstead REIT should fail to distribute during each calendar year at least the sum of:

- 85% of its REIT ordinary income for such year,

- 95% of its REIT capital gain income for such year and

- any undistributed taxable income from prior periods,

it would be subject to a 4% nondeductible excise tax on the excess of such required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid.

Under certain circumstances, Capstead REIT may be able to rectify a failure to meet the distribution requirements for a year by paying "deficiency dividends" to its stockholders in a later year, which may be included in its deduction for dividends paid for the earlier year. Although Capstead REIT may be able to avoid being taxed on amounts distributed as deficiency dividends, it will be required to pay to the IRS interest based upon the amount of any deduction taken for deficiency dividends.

RECORDKEEPING REQUIREMENTS. Pursuant to applicable Treasury Regulations, Capstead REIT must maintain certain records and request on an annual basis certain information from its stockholders designed to disclose the actual ownership of its outstanding shares. Capstead REIT intends to comply with these requirements.

FAILURE TO QUALIFY

If Capstead REIT fails to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, it will be subject to tax, including any applicable alternative minimum tax on its taxable income at regular corporate rates. Distributions to stockholders in any year in which Capstead REIT fails to qualify will not be deductible nor will they be required to be made. In such event, to the extent of current and accumulated earnings and profits, all distributions to stockholders will be taxable as ordinary income and, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to

relief under specific statutory provisions, Capstead REIT also will be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT. It is not possible to predict whether in all circumstances Capstead REIT would be entitled to such statutory relief.

TAXATION OF STOCKHOLDERS

As long as Capstead REIT qualifies as a REIT, distributions made to taxable U.S. Stockholders out of current or accumulated earnings and profits, and not designated as capital gain dividends will be taken into account by such U.S. Stockholders as ordinary income and will not be eligible for the dividends received deduction generally available to corporations. The term "U.S. Stockholder" means a holder of Capstead REIT's shares that for United States federal income tax purposes is:

(1) a citizen or resident of the United States,

(2) a corporation, partnership or other entity created or organized in or under the laws of the United States, any State or the District of Columbia,

(3) an estate the income of which is subject to United States federal income taxation regardless of its source, or

(4) a trust if (A) a court within the United States is able to exercise

primary supervision over the administration of the trust, and (B) one or more United States persons have the authority to control all substantial decisions of the trust.

Distributions that are designated as capital gain dividends will be taxed as gain from the sale or exchange of a capital asset held for more than one year (to the extent they do not exceed Capstead REIT's actual net capital gain for the taxable year) without regard to the period for which the U.S. Stockholder has held his or her shares. However, corporate U.S. Stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. Stockholder to the extent that they do not exceed the adjusted basis of the U.S. Stockholder's shares, but will reduce the adjusted basis of such shares. To the extent that such distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of a U.S. Stockholder's shares, such distributions will be included in income as capital gain, if such shares are capital assets in the hands of the U.S. Stockholder. In addition, any distribution declared by Capstead REIT in October, November or December of any year and payable to a U.S. Stockholder of record on a specified date in any such month will be treated as both paid by Capstead REIT and received by the U.S. Stockholder on December 31 of such year, provided that the distribution is actually paid by Capstead REIT during January of the following calendar year.

Capstead REIT may make an election to treat all or part of its undistributed net capital gain as if it had been distributed to its stockholders. As described above, these undistributed

amounts would be subject to corporate level tax payable by Capstead REIT. If Capstead REIT should make such an election, its stockholders would be required to include in their income as long-term capital gain their proportionate share of Capstead REIT's undistributed net capital gain as designated by Capstead REIT. Each such stockholder would be deemed to have paid his proportionate share of the income tax imposed on Capstead REIT with respect to such undistributed net capital gain, and this amount would be credited or refunded to the stockholder. In addition, the tax basis of the stockholder's stock would be increased by his proportionate share of undistributed net capital gains included in his income less his proportionate share of the income tax imposed on Capstead REIT with respect to such gains.

U.S. Stockholders may not include in their individual income tax returns any net operating losses or capital losses of Capstead REIT. Instead, such losses would be carried over by Capstead REIT for potential offset against its future income (subject to certain limitations). Taxable distributions from Capstead REIT and gain from the disposition of its shares will not be treated as passive activity income and, therefore, U.S. Stockholders generally will not be able to apply any "passive activity losses" (such as losses from certain types of limited partnerships in which a stockholder is a limited partner) against such income. In addition, taxable distributions from Capstead REIT generally will be treated as investment income for purposes of the investment interest limitations. Capital gains from the disposition of Capstead REIT's shares (or distributions treated as such), however, will be treated as investment income only if the U.S. Stockholder so elects, in which case such capital gains will be taxed at ordinary income rates. Capstead REIT will notify stockholders after the close of Capstead REIT's taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

In general, any gain or loss realized upon a taxable disposition of Capstead REIT's shares by a U.S. Stockholder who is not a dealer in securities will be treated as a capital gain or loss. However, any loss upon a sale or exchange by a U.S. Stockholder who has held such shares for six months or less, after applying certain holding period rules, will be treated as a long-term capital loss to the extent of distributions from Capstead REIT required to be treated by such U.S. Stockholder as long- term capital gain. All or a portion of any loss realized upon a taxable disposition of Capstead REIT's shares may be disallowed if other Capstead REIT shares are purchased within 30 days before or after the disposition.

INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING

Capstead REIT will report to its U.S. Stockholders and to the IRS the amount of distributions paid during each calendar year and the amount of tax withheld, if any. Under the backup withholding rules, a U.S. Stockholder may be subject to backup withholding with respect to distributions paid unless such holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. The backup withholding tax rate is 30.5% and will be reduced to 30% for amounts paid in 2002 with further reductions

through 2005 and with a rate of 28% after December 31, 2005. A U.S. Stockholder who does not provide Capstead REIT with his correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. Stockholder's income tax liability. In addition, Capstead REIT may be required to withhold a portion of capital gain distributions to any U.S. Stockholders who fail to certify their non-U.S. Stockholder status to Capstead REIT.

TAXATION OF TAX-EXEMPT STOCKHOLDERS

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts ("Exempt Organizations"), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("UBTI"). The IRS has ruled that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal service plans that are exempt from taxation under paragraphs (7), (9), (17) and (20), respectively, of Code section 501(c) are subject to different UBTI rules, which generally will require them to characterize distributions from Capstead REIT as UBTI. In addition, in certain circumstances, a pension trust that owns more than 10% (by value) of the shares of a REIT would be required to treat a percentage of the dividends on its shares as UBTI (the "UBTI Percentage"). The UBTI Percentage is the gross income, less related direct expenses, derived by Capstead REIT from an unrelated trade or business (determined as if Capstead REIT were a pension trust) divided by the gross income, less related direct expenses, of Capstead REIT for the year in which the dividends are paid. The UBTI rule applies to a pension trust holding more than 10% of the Common Stock only if (1) the UBTI Percentage is at least 5%, (2) Capstead REIT qualifies as a REIT by reason of the modification of the 5/50 Rule that allows the beneficiaries of the pension trust to be treated as

holding shares of Capstead REIT, in proportion to their actuarial interests in the pension trust and (3) either (A) one pension trust owns more than 25% of the value of such shares or (B) a group of pension trusts individually holding more than 10% of the value of shares collectively owns more than 50% of the value of the shares.

Specific tax rules of a complex nature not summarized herein apply to non-U.S. investors in REITs. Accordingly, non-U.S. Stockholders should consult their own tax advisers concerning the federal income and withholding tax consequences and the state, local and foreign tax consequences of an investment in Capstead REIT.

STATE AND LOCAL TAXES

State or local income tax treatment of Capstead REIT or holders of any of its securities may differ from the federal income tax treatment described above. As a result, prospective stockholders should consult their own tax advisers for an explanation of how state and local tax laws may affect their investment in Capstead REIT.

LEGAL MATTERS

Certain legal matters with respect to the securities offered hereby will be passed on for the company and Fortress by Andrews & Kurth L.L.P., Dallas, Texas, and for the underwriters or agents by counsel to be identified in the related prospectus supplement. Andrews & Kurth L.L.P. will rely as to all matters of Maryland law on Hogan & Hartson L.L.P., Baltimore, Maryland.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements and schedules included in our Annual Report on Form 10-K for the year ended December 31, 2000, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements and schedules are incorporated by reference in reliance on Ernst & Young's report, given on their authority as experts in accounting and auditing.