

CAPSTEAD MORTGAGE CORP

Form 424B5

November 16, 2007

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Filed pursuant to Rule 424(b)(5)  
Registration No. 333-143390

**Prospectus Supplement  
(To prospectus dated August 10, 2007)**

**8,000,000 Shares**

**Capstead Mortgage Corporation**

**Common Stock**

We are offering 8,000,000 shares of our common stock to be sold in this offering.

Our common stock is subject to certain restrictions on ownership designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See **Description of Our Capital Stock** on page 3 of the accompanying prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol **CMO**. The last reported sale price of our common stock on the New York Stock Exchange on November 15, 2007 was \$10.73 per share.

**Investing in our common stock involves risks that are described under the caption **Risk Factors** beginning on page 28 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$ 10.7300	\$ 85,840,000
Underwriting discounts and commissions	\$ 0.5365	\$ 4,292,000
Proceeds, before expenses, to us	\$ 10.1935	\$ 81,548,000

We have granted the underwriters a 30-day option to purchase up to 1,200,000 additional shares to cover any over-allotments.

The shares will be ready for delivery on or about November 21, 2007.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

***Joint Book-Running Managers***

**Bear, Stearns & Co. Inc.**

**JMP Securities**

**Keefe, Bruyette & Woods**

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**RBC Capital Markets**

The date of this prospectus supplement is November 15, 2007.

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**IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the base prospectus. The second part, the base prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. Unless otherwise indicated, all information presented in this prospectus supplement assumes that the underwriters' option to purchase up to 1,200,000 shares of common stock to cover over-allotments is not exercised.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in or incorporated by reference in this document is accurate only as of the date such information was issued, regardless of the time of delivery of this prospectus supplement or any sale of our common stock.

**FORWARD-LOOKING STATEMENTS**

In this document, we make forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that inherently involve risks and uncertainties. Our actual results and liquidity can differ materially from those anticipated in these forward-looking statements because of changes in the level and composition of our investments and unforeseen factors. These factors may include, but are not limited to, changes in general economic conditions, the availability of suitable investments from both an investment return and regulatory perspective, the availability of new investment capital, fluctuations in interest rates and levels of mortgage prepayments, deterioration in credit quality and ratings, the effectiveness of risk management strategies, the impact of leverage, liquidity of secondary markets and credit markets, increases in costs and other general competitive factors. In addition to these considerations, actual results and liquidity related to investments in loans secured by commercial real estate are affected by borrower performance under operating or development plans, lessee performance under lease agreements, changes in general as well as local economic conditions and real estate markets, increases in competition and inflationary pressures, changes in the tax and regulatory environment including zoning and environmental laws, uninsured losses or losses in excess of insurance limits and the availability of adequate insurance coverage at reasonable costs, among other factors.

For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the risks set forth under the caption Risk Factors in our quarterly report on Form 10-Q for the quarter ended September 30, 2007. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in our common stock, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the information set forth under the caption "Where You Can Find More Information" on page ii of the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, and the risks set forth under the caption "Risk Factors" in our quarterly report on Form 10-Q for the quarter ended September 30, 2007. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. All references to we, our and us in this prospectus supplement mean Capstead Mortgage Corporation and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor.*

**Our Company**

We are a self-managed real estate investment trust, or REIT, formed in 1985 and based in Dallas, Texas. Our core strategy is managing a leveraged portfolio of residential mortgage securities consisting primarily of adjustable-rate mortgage, or 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, which we refer to collectively as agency securities. Agency securities carry an actual or implied AAA credit rating with limited, if any, credit risk. We may also augment our core portfolio with investments in credit-sensitive commercial real estate-related assets. We have elected to be treated as a REIT for federal income tax purposes.

**Our Assets**

As of September 30, 2007, our assets consisted of a core portfolio of approximately \$4.8 billion of residential mortgage securities, with ARM agency securities accounting for approximately 99% of our total portfolio. ARM agency securities that we hold are backed by residential mortgage loans that have coupon interest rates that adjust at least annually to more current interest rates or begin doing so after an initial fixed-rate period. Agency securities carry an actual or implied AAA credit rating with limited, if any, credit risk due to Freddie Mac, Fannie Mae or Ginnie Mae guaranteeing payment of the principal and interest related to these securities. We classify our ARM securities based on each security's average number of months until coupon reset, or months-to-roll. Current-reset ARM securities have months-to-roll of from one to 18 months while longer-to-reset ARM securities have months-to-roll of greater than 18 months, but less than 61 months. At September 30, 2007, we had approximately \$3.1 billion of current-reset ARM securities, with an average months-to-roll of approximately four months, and approximately \$1.6 billion of longer-to-reset ARM securities, with an average months-to-roll of approximately 46 months. Following the end of our third quarter, we used the proceeds of our common stock offering (as described in the Recent Developments section of this summary) that closed on October 2, 2007 to purchase an additional \$1.2 billion of ARM agency securities. The securities we acquired consist of approximately 40% current-reset and 60% longer-to-reset ARM agency securities.

**Utilization of Long-Term Investment Capital and Borrowings under Repurchase Arrangements**

We finance a majority of our holdings of residential mortgage securities with well-established lenders using repurchase arrangements. The balance of our portfolio is supported by our long-term investment capital, which totaled \$430 million as of September 30, 2007, consisting of \$330 million in preferred and common equity capital as well as

\$100 million in long-term unsecured borrowings, net of our investment in related statutory trusts accounted for as unconsolidated affiliates. Following the end of our third quarter, we increased our long-term investment capital by approximately \$106 million with the October 2, 2007 closing of a public offering of 11,500,000 shares of our common stock. We generally use our available liquidity to pay down

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borrowings under repurchase arrangements, which reduces our borrowing costs, and to otherwise efficiently manage our long-term investment capital.

We expect to maintain a ratio of secured borrowings-to-long-term investment capital, or leverage ratio, of between 8:1 and 12:1. The ratio may vary from time to time depending upon investment opportunities, market conditions and other factors such as the size and composition of our investment portfolio. For purposes of calculating this ratio, our long-term investment capital employed to support our investments is considered equal to the value of our investment portfolio on a mark-to-market basis, less the book value of our obligations under repurchase arrangements. At September 30, 2007, our leverage ratio was 10.3:1.

We pledge our interests in the mortgage securities we hold as collateral under uncommitted repurchase arrangements, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Borrowings under repurchase arrangements secured by residential mortgage securities totaled \$4.4 billion at September 30, 2007. Our borrowings supporting current-reset ARM securities typically have maturities of 30 days or less, although late in a calendar year we may extend maturities to as long as 90 days on a portion of our borrowings to lock in financing over year-end, which historically can be a less liquid market environment. Additionally, over the last several years we have routinely financed a significant portion of our investments in longer-to-reset ARM securities with longer-term repurchase arrangements, in order to effectively lock in financing spreads during a significant portion of these investment's fixed-rate terms. In the future we will likely make more use of interest rate swap agreements. Interest rates on our borrowings are generally based on a margin over the federal funds rate or on a corresponding benchmark rate for longer-term arrangements. Amounts available to be borrowed under these arrangements are dependent upon collateral requirements of our lenders and real or perceived changes in the fair value of the securities pledged as collateral, which is affected by, among other things, changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries.

During the contraction in market liquidity that began in August 2007, we experienced greater than anticipated margin calls due to declines in the market value of our pledged assets and the perception on the part of some lenders that these values would decline even further. While we met all margin calls during this period, we were also concerned that lenders could require higher margin requirements on future 30-day borrowings. In response, we reduced our balance sheet leverage in order to improve our liquidity position. Although the imposition of higher margin requirements largely has not materialized, we anticipate operating with less leverage in the coming quarters than we did earlier in 2007 to lessen our exposure to any potential market illiquidity that may occur in the future.

### **Our Business Strategy**

Our principal business objective is to invest in a leveraged portfolio of ARM agency securities that can earn attractive returns over the long term, while reducing, but not eliminating, sensitivity to changes in interest rates. Agency securities carry an actual or implied AAA credit rating, with limited, if any, credit risk. To achieve this business objective, our strategies include:

Acquiring primarily ARM agency securities backed by mortgage loans with coupon interest rates that reset at least annually or begin doing so after an initial fixed-rate period of typically five years or less;

Financing our investments primarily with repurchase arrangements with well-established lenders, with the balance being supported by our long-term investment capital; and

Financing purchases of additional ARM agency securities with the proceeds of this offering and utilizing leverage to increase potential returns to stockholders using similar borrowing arrangements.

Over time we may opportunistically invest a portion of our investment capital in credit-sensitive commercial real estate-related assets, including subordinate commercial real estate loans with the business objective of earning attractive risk-adjusted returns and providing earnings support during periods of rising short-term interest rates.

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**Recent Developments**

On September 19, 2007, we announced a public offering of 8,500,000 shares of our common stock that was subsequently increased to 10,000,000 shares when the offering priced on September 26, 2007 at \$9.75 per share. The offering closed on October 2, 2007. After exercise of the underwriters' over-allotment option for an additional 1,500,000 shares, the issuance totaled 11,500,000 shares with net proceeds of approximately \$106 million after underwriting discounts, commissions and offering expenses. This issuance was accretive to book value by approximately \$0.60 per share of common stock on the date of closing. We used the proceeds from the offering to purchase approximately \$1.2 billion of additional ARM agency securities. Neither the selected financial information included in this prospectus supplement nor our financial statements and related disclosures, which are incorporated herein by reference, reflect the issuance of these shares unless otherwise noted.

On October 4, 2007 and November 2, 2007, we declared our fixed monthly dividend of \$0.105 per Series B preferred share. The October dividend was paid on October 31, 2007, and the November dividend will be paid on November 30, 2007. On October 19, 2007, we paid our third quarter dividend of \$0.04 per share on our common stock held of record as of September 28, 2007. We plan on declaring our fourth quarter dividend on or about December 13, 2007, and the shares issued in this offering will be entitled to that dividend.

With the reduction in the federal funds rate to 4.75% on September 18, 2007 and to 4.50% on October 31, 2007, financing spreads and net interest margins on our existing portfolio, including the \$1.2 billion of additional ARM agency securities acquired in October with the proceeds of our recent public offering of our common stock, are improving significantly. This improvement is occurring even as the margin over the federal funds rate we pay on our 30-day borrowings remains higher than historical levels. Additionally, we anticipate taking further advantage of the current weak pricing environment for agency securities by using the proceeds from this offering over the next two months to purchase a mixture of current-reset and longer-to-reset ARM agency securities at attractive prices and favorable financing spreads.

**Compliance with REIT Requirements and Investment Company Act of 1940**

We have elected to be treated as a REIT for U.S. federal income tax purposes. In order to maintain our qualification as a REIT, we must comply with a number of requirements under U.S. federal income tax law that are discussed under "Federal Income Tax Consequences of Our Status as a REIT" in the accompanying prospectus. If we fail to maintain our qualification as a REIT, we would be subject to U.S. federal income tax, which could have an adverse impact on our business. In addition, we at all times intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of, the Investment Company Act of 1940, as amended, or the Investment Company Act. If we fail to maintain our exempt status under the Investment Company Act, we would be unable to conduct our business as described in this prospectus supplement and the accompanying prospectus.

**Corporate Information**

Our principal executive offices are located at 8401 North Central Expressway, Suite 800, Dallas, Texas 75225. Our telephone number is (214) 874-2323. Our website is <http://www.capstead.com>. The contents of our website are not a part of this prospectus supplement or the accompanying prospectus. Our shares of common stock are traded on the New York Stock Exchange, or NYSE, under the symbol CMO.

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**The Offering**

Issuer	Capstead Mortgage Corporation
Common stock offered by us	8,000,000 shares
Common stock to be outstanding after this offering	38,921,593 shares, based upon 30,921,593 shares of common stock outstanding as of November 15, 2007.
NYSE symbol	CMO
Use of proceeds	We intend to use the net proceeds of this offering to finance purchases of additional ARM agency securities, on a leveraged basis, and for general corporate purposes.
Risk factors	An investment in our common stock involves various risks. Prior to making an investment in us, you should carefully consider these and other matters discussed under the heading Risk Factors in our quarterly report on Form 10-Q for the quarter ended September 30, 2007.

Unless otherwise indicated, all offering information in this prospectus supplement is based on the number of shares of common stock and number of options to purchase shares of common stock outstanding as of November 9, 2007.

Unless otherwise indicated, that number of shares of common stock does not include (i) 1,200,000 shares of common stock that may be issued if the underwriters' over-allotment option is exercised in full, (ii) 991,600 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to our long-term incentive plan or (iii) 9,817,812 shares of our common stock issuable upon the conversion of our Series A and Series B Preferred Stock.

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We expect that the net proceeds to us from this offering of our common stock (after deducting underwriting discounts and commissions and estimated offering expenses) will be approximately \$81 million (\$93 million if the underwriters over-allotment option is exercised in full) calculated at the offering price of \$10.73 per share. We intend to use the net proceeds from this offering to purchase additional ARM agency securities, on a leveraged basis, and for general corporate purposes.

**CAPITALIZATION**

The following table sets forth our capitalization (in thousands) as of September 30, 2007:

on an actual basis;

on an as adjusted basis giving effect to the sale of 11,500,000 shares of our common stock in a public offering that was completed on October 2, 2007 at \$9.75 per share; and

on an as further adjusted basis giving effect to the sale of 8,000,000 shares of our common stock at an offering price of \$10.73 per share .

This presentation should be read in conjunction with the more detailed information contained in our consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus.

	<b>As of September 30, 2007</b>		
		<b>As Adjusted for the October 2, 2007 Offering</b>	<b>As Further Adjusted for this Offering</b>
	<b>Actual</b>		
<b>Stockholders Equity:</b>			
Preferred stock \$0.10 par value; 100,000 shares authorized: \$1.60 Cumulative Preferred Stock, Series A, 202 shares issued and outstanding	\$ 2,828	\$ 2,828	\$ 2,828
\$1.26 Cumulative Convertible Preferred Stock, Series B, 15,819 shares issued and outstanding	176,705	176,705	176,705
Common stock \$0.01 par value; 100,000 shares authorized: 19,393 shares issued and outstanding, actual, 30,893 issued and outstanding, as adjusted for the October 2, 2007 offering and 38,893 issued and outstanding as adjusted for this offering	194	309	389
Paid-in capital	495,879	601,372	682,490
Accumulated deficit	(359,165)	(359,165)	(359,165)
Accumulated other comprehensive income	13,652	13,652	13,652

Total stockholders equity	\$ 330,093	\$ 435,701	\$ 516,899
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We operate as a self-managed REIT for federal income tax purposes and are based in Dallas, Texas. We earn income from investing our long-term investment capital in real estate-related securities on a leveraged basis. Our investments currently consist primarily of a portfolio of residential ARM mortgage 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 securities carry an actual or implied AAA credit rating with limited, if any, credit risk. We may also augment our core portfolio with investments in credit-sensitive commercial real estate-related assets. We have elected to be treated as a REIT for federal income tax purposes.

The size and composition of our investment portfolio depends on investment strategies being implemented by our management team, the availability of investment capital and overall market conditions, including the availability of attractively priced investments.

**Our Assets**

As of September 30, 2007, our residential mortgage securities portfolio consisted primarily of ARM agency securities. Our ARM securities are backed by residential mortgage loans that have coupon interest rates that adjust at least annually to more current interest rates or begin doing so after an initial fixed-rate period. We classify our ARM securities based on each security's average number of months until coupon reset, or months-to-roll. Current-reset ARM securities have months-to-roll of from one to 18 months or less while longer-to-reset ARM securities have months-to-roll of greater than 18 months, but less than 61 months. Investments in non-agency securities, which totaled approximately \$38 million as of September 30, 2007, consisted of seasoned private mortgage pass-through securities in which the related credit risk of the underlying loans is borne directly by us or by AAA-rated private mortgage insurers. Following the end of our third quarter, we sold approximately \$19 million of these non-agency securities for a small gain. As of September 30, 2007, our ARM securities featured the following average current and fully-indexed weighted average coupon rates, net of servicing and other fees, or WAC, net margins over related indexes, periodic and lifetime limits, referred to as caps, and months-to-roll (dollars in thousands):

<b>ARM Type</b>	<b>Basis<sup>(1)</sup></b>	<b>Net WAC</b>	<b>Fully Indexed WAC</b>	<b>Average Net Margins</b>	<b>Average Periodic Caps</b>	<b>Average Lifetime Caps</b>	<b>Months to Roll</b>
<b>Current-reset ARMs:</b>							
<b>Agency Securities:</b>							
Fannie Mae/Freddie Mac	\$ 2,531,873	6.59%	6.19%	1.89%	4.30%	10.61%	3.9
Ginnie Mae	568,262	5.88	5.54	1.54	1.00	9.89	5.5
Non-agency Securities	24,690	7.22	7.25	2.10	1.69	11.30	5.3
	3,124,825	6.46	6.08	1.83	3.68	10.48	4.2
<b>Longer-to-reset ARMs:</b>							
<b>Agency Securities:</b>							
Fannie Mae/Freddie Mac	1,604,697	6.34	6.77	1.72	3.69	12.03	45.5
	\$ 4,729,522	6.42	6.31	1.79	3.69	11.01	18.2

- (1) Basis represents our investment before unrealized gains and losses. Expressed as a percentage of related unpaid principal balances, the basis in our ARM securities was 101.31% as of September 30, 2007.

As of September 30, 2007, we also had approximately \$5 million of collateral for structured financings in our portfolio, which consisted of non-agency securities pledged to related securitizations. The related credit risk for these assets is borne by bondholders of the securitization to which the collateral is pledged. Also as of September 30, 2007, we had committed approximately \$13 million to commercial real estate-related assets, consisting of subordinated mortgage loans or mezzanine debt supported by interests in commercial real estate,

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including an \$8 million investment in a subordinate commercial loan limited partnership and several loans totaling \$5 million to a Dallas, Texas-based developer. These commercial loans are subordinate loans that carry credit risk associated with specific commercial real estate collateral.

The following yield and cost analysis illustrates results achieved during the third quarter of 2007 for our mortgage securities and similar investments and projected fourth quarter 2007 annualized portfolio yields, borrowing rates and financing spreads given the assumptions more fully described in the accompanying notes (dollars in thousands):

	3 <sup>rd</sup> Quarter Average			As of September 30, 2007		Projected 4 <sup>th</sup> Quarter
	Basis <sup>(1)</sup>	Yield/Cost <sup>(1)</sup>	Runoff <sup>(1)</sup>	Premiums	Basis <sup>(1)</sup>	Yield/Cost <sup>(2)</sup>
Agency Securities:						
Fannie Mae/Freddie Mac:						
Fixed-rate	\$ 14,379	6.40%	21%	\$ 39	\$ 13,833	6.42%
ARMs	4,619,792	5.65	30	58,434	4,136,570	5.83
Ginnie Mae ARMs	601,958	5.62	36	2,611	568,262	5.63
	5,236,129	5.65	30	61,084	4,718,665	5.81
Non-agency Securities:						
Fixed-rate	14,275	6.98	24	22	13,881	6.93
ARMs	25,300	6.95	20	225	24,690	6.63
	39,575	6.96	21	247	38,571	6.76
Commercial loans	4,562	18.62		(14)	5,042	18.37
Collateral for structured financings	5,558	7.91	22	86	5,281	7.91
	5,285,824	5.67	30	\$ 61,403	4,767,559	5.81
Related borrowings:						
30-day LIBOR	3,395,942	5.35			2,919,365	4.88
Greater than 30-day LIBOR	1,557,050	5.00			1,521,139	5.01
Structured financings	5,558	7.91			5,281	7.91
	4,958,550	5.25			4,445,785	4.93
Capital employed/ financing spread	\$ 327,274	0.42			\$ 321,774	0.88

(1) Basis represents our investment before unrealized gains and losses. Asset yields, runoff rates, borrowing rates and resulting financing spread are presented on an annualized basis.

(2)

Projected annualized yields and borrowing rates reflect management's expectations for fourth quarter portfolio acquisitions (including approximately \$1.2 billion in ARM agency securities acquired with the net proceeds of our recent common stock offering), ARM coupon resets and runoff rates, assuming no further changes in the federal funds rate beyond the October 31, 2007 action taken by the Federal Reserve to reduce the federal funds rate to 4.50%. Actual yields realized in future periods largely depend upon (i) changes in portfolio composition, (ii) ARM coupon resets, which are based on underlying indexes, (iii) near term runoff and (iv) changes in lifetime runoff assumptions. Interest rates on borrowings that reset every 30 days are based on a margin over the federal funds rate and therefore largely depend on changes or anticipated changes in the federal funds rate and market liquidity

### **Utilization of Long-Term Investment Capital and Borrowings under Repurchase Arrangements**

We finance a majority of our holdings of residential mortgage securities with well-established lenders using repurchase arrangements. The balance of our portfolio is supported by our long-term investment capital, which totaled \$430 million as of September 30, 2007, consisting of \$330 million in preferred and common equity capital as well as \$100 million in long-term unsecured borrowings, net of our investment in related statutory trusts accounted for as unconsolidated affiliates. Following the end of our third quarter, we increased



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our long-term investment capital by approximately \$106 million with the October 2, 2007 closing of a public offering of 11,500,000 shares of our common stock. We generally use our available liquidity to pay down borrowings under repurchase arrangements, which reduces our borrowing costs, and to otherwise efficiently manage our long-term investment capital.

We expect to maintain a ratio of secured borrowings-to-long-term investment capital, or leverage ratio, of between 8:1 and 12:1. The ratio may vary from time to time depending upon investment opportunities, market conditions and other factors such as the size and composition of our investment portfolio. For purposes of calculating this ratio, our long-term investment capital employed to support our investments is considered equal to the value of our investment portfolio on a mark-to-market basis, less the book value of our obligations under repurchase arrangements. At September 30, 2007, our leverage ratio was 10.3:1.

We pledge our interests in the mortgage securities we hold as collateral under uncommitted repurchase arrangements with well-established lenders, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Borrowings under repurchase arrangements secured by residential mortgage securities totaled \$4.4 billion at September 30, 2007. Our borrowings supporting current-reset ARM securities typically have maturities of 30 days or less, although late in a calendar year we may extend maturities to as long as 90 days on a portion of our borrowings to lock in financing over year-end, which historically can be a less liquid market environment. Additionally, over the last several years we have routinely financed a significant portion of our investments in longer-to-reset ARM securities with longer-term repurchase arrangements, in order to effectively lock in financing spreads during a significant portion of these investment's fixed-rate terms. In the future we will likely make more use of interest rate swap agreements. Interest rates on our borrowings are generally based on a margin over the federal funds rate or on a corresponding benchmark rate for longer-term arrangements. Amounts available to be borrowed under these arrangements are dependent upon collateral requirements of our lenders and real or perceived changes in the fair value of the securities pledged as collateral, which is affected by, among other things, changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries.

Our utilization of long-term investment capital and estimated potential liquidity were as follows as of September 30, 2007 in comparison with December 31, 2006 (in thousands):

	<b>Investments<sup>(1)</sup></b>	<b>Related Borrowings</b>	<b>Capital Employed<sup>(1)</sup></b>	<b>Potential Liquidity<sup>(1)</sup></b>
Residential mortgage securities	\$ 4,776,043	\$ 4,445,785	\$ 330,258	\$ 173,717
Commercial real estate-related assets	13,046		13,046	80
	\$ 4,789,089	\$ 4,445,785	343,304	173,797
Other assets, net of other liabilities			87,565	44,633
Third quarter common dividend <sup>(2)</sup>			(776)	(776)
			\$ 430,093	\$ 217,654
Balances as of December 31, 2006	\$ 5,269,355	\$ 4,876,134	\$ 439,962	\$ 226,330

(1)

Investments are stated at carrying amounts on our balance sheet. Potential liquidity is based on maximum amounts of borrowings available under existing uncommitted repurchase arrangements considering management's estimate of the fair value of related collateral as of the indicated dates adjusted for other sources (uses) of liquidity such as unrestricted cash and cash equivalents, cash flow (requirements) distributions from the commercial loan partnership and dividends payable.

- (2) The third quarter 2007 common dividend was declared September 13, 2007 and paid October 19, 2007 to stockholders of record as of September 28, 2007.

To prudently and efficiently manage our liquidity and capital resources, we strive to maintain sufficient liquidity reserves in the form of potential liquidity to fund margin calls (requirements to pledge additional collateral or pay down borrowings) required by monthly principal payments (that are not remitted to us for 20 to 45 days after any given month-end) and potential declines in the market value of pledged assets under stressed market conditions.

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During the contraction in market liquidity that began in August 2007, we experienced greater than anticipated margin calls due to declines in the market value of our pledged assets and the perception on the part of some lenders that these values would decline even further. While we met all margin calls during this period, we were also concerned that lenders could require higher margin requirements on future 30-day borrowings. In response, we reduced our balance sheet leverage in order to improve our liquidity position. Although the imposition of higher margin requirements largely has not materialized and conditions in the credit markets have since improved, we anticipate operating with less leverage in the coming quarters than we did earlier in 2007 to lessen our exposure to any potential market illiquidity that may occur in the future.

**Table of Contents****SELECTED FINANCIAL INFORMATION**

The selected financial information set forth below is derived from our audited consolidated financial statements for the fiscal years ended December 31, 2006, 2005, 2004, 2003 and 2002 and our unaudited consolidated financial statements for the nine months ended September 30, 2007 and 2006 (in thousands, except for share and per share data). The following selected financial information should be read in conjunction with our more detailed information contained in the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus.

	<b>As of or for the Nine Months Ended September 30,</b>		<b>As of or for the Years Ended December 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Condensed statement of income and per share data:</b>							
Mortgage securities and similar investments:							
Interest income	\$ 222,886	\$ 172,505	\$ 242,859	\$ 130,333	\$ 91,121	\$ 119,444	\$ 264,000
Interest expense	(197,174)	(163,294)	(228,379)	(105,937)	(44,939)	(58,924)	(164,000)
	25,712	9,211	14,480	24,396	46,182	60,520	99,000
(Loss) on asset sales and redemptions							
Structured financings	(8,276)			156		4,560	4,000
Interest expense on unsecured borrowings	(6,560)	(4,955)	(7,142)	(972)			
Other revenue (expense)	(3,509)	(4,447)	(5,863)	(6,375)	(6,313)	(6,414)	(9,000)
Change in earnings (losses) of consolidated affiliates	1,486	1,684	2,368	(10)			
Income from continuing operations	8,853	1,493	3,843	17,195	39,869	58,666	95,000
Income from discontinued operation, net of taxes <sup>(1)</sup>				39,997	1,936	1,993	
Income	\$ 8,853	\$ 1,493	\$ 3,843	\$ 57,192	\$ 41,805	\$ 60,659	\$ 96,000
Income available (loss attributable) to non stockholders, after payment of preferred share dividends	\$ (6,339)	\$ (13,699)	\$ (16,413)	\$ 36,936	\$ 21,546	\$ 40,386	\$ 75,000
Earnings (loss) per common share:							
Income (loss) from continuing operations	\$ (0.33)	\$ (0.73)	\$ (0.87)	\$ (0.16)	\$ 1.22	\$ 2.75	\$ 5.00
Income from discontinued operations				2.12	0.12	0.14	0.00
	\$ (0.33)	\$ (0.73)	\$ (0.87)	\$ 1.96	\$ 1.34	\$ 2.89	\$ 5.00

Earnings (loss) per common share:														
Income (loss) from continuing operations	\$	(0.33)	\$	(0.73)	\$	(0.87)	\$	(0.16)	\$	1.21	\$	2.51	\$	4.00
Income from discontinued operations								2.12		0.12		0.09		0.00
	\$	(0.33)	\$	(0.73)	\$	(0.87)	\$	1.96	\$	1.33	\$	2.60	\$	4.00
Annual cash dividends per common share	\$	0.10	\$	0.06	\$	0.08	\$	0.32	\$	1.58	\$	3.10	\$	5.00
Book value per common share <sup>(2)</sup>		7.57		8.16		8.13		8.48		7.91		6.67		8.00
Average number of common shares outstanding:														
		19,017		18,895		18,902		18,868		16,100		13,977		13,977
Weighted average		19,017		18,895		18,902		18,868		16,437		23,295		19,017

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Financial Ratios (Audited, Percentages Annualized):							
Net interest margin <sup>(4)</sup>	10.48%	3.65%	4.29%	9.84%	23.16%	36.56%	39.4%
Net A expense as a percentage of average total assets	0.12%	0.13%	0.13%	0.19%	0.24%	0.28%	0.2%
Net A expense as a percentage of average long-term investment capital	1.48%	1.58%	1.54%	2.14%	2.35%	2.80%	2.8%
Return on average total assets	0.22%	0.04%	0.08%	1.51%	1.38%	2.04%	1.9%
Return on average long-term investment capital <sup>(5)</sup>	4.65%	2.10%	2.63%	17.08%	13.80%	20.73%	23.7%

NOTE: See Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into this prospectus supplement for discussion of changes to our operations that are expected to impact future operating results.

- (1) In December 2005, we sold our real estate held for lease for a gain of \$38 million, net of taxes. The gain on sale and related earnings of this operation have been classified as a discontinued operation.
- (2) Book value is calculated by taking total stockholders' equity less liquidation preferences of our Series A and B preferred shares divided by shares outstanding. Book value at September 30, 2007 excludes the benefit of our common stock offering, which added \$0.60 per share of common stock upon closing on October 2, 2007.
- (3) Long-term investment capital consists of long-term unsecured borrowings, net of related investments in statutory trusts accounted for as unconsolidated affiliates, along with preferred and common stockholders' equity.
- (4) Net interest margin is the ratio of net margin earned on the mortgage securities and similar investment portfolio and related average capital employed to support this portfolio.
- (5) Return on average long-term investment capital is the ratio of earnings, before interest on unsecured borrowings and average long-term investment capital.

**Table of Contents****PRICE RANGE OF OUR COMMON STOCK AND DIVIDENDS DECLARED**

Our common stock began trading on the New York Stock Exchange in 1985 under the symbol CMO. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock and the cash dividends declared per share of our common stock.

	<b>Sales Price per Share</b>		<b>Cash Dividend Declared per Share</b>
	<b>High</b>	<b>Low</b>	
2007			
Fourth Quarter (through November 15, 2007)	\$ 12.14	\$ 10.06	\$ *
Third Quarter	10.68	8.01	0.04
Second Quarter			