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.

	Per Share	Total
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**

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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USE OF PROCEEDS

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.

	As of September 30, 2007		
	Actual	As Adjusted for the October 2, 2007 Offering	As Further Adjusted for this Offering
Stockholders Equity:			
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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OUR COMPANY

Overview

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):

ARM Type	Basis[1]	Net WAC	Fully Indexed WAC	Average Net Margins	Average Periodic Caps	Average Lifetime Caps	Months to Roll
Current-reset ARMs:							
Agency Securities:							
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
Longer-to-reset ARMs:							
Agency Securities:							
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):

	3rd Quarter Average			As of September 30, 2007		Projected 4th Quarter
	Basis(1)	Yield/Cost(1)	Runoff(1)	Premiums	Basis(1)	Yield/Cost(2)
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):

	Investments[1]	Related Borrowings	Capital Employed[1]	Potential Liquidity[1]
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[2]			(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.

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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.

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

ed earnings (loss) per common share:									
ne (loss) from continuing operations	$ (0.33)	$ (0.73)	$ (0.87)	$ (0.16)	$ 1.21	$ 2.51	$		
ne from discontinued operations				2.12	0.12	0.09			
	$ (0.33)	$ (0.73)	$ (0.87)	$ 1.96	$ 1.33	$ 2.60	$		
lar cash dividends per common share	$ 0.10	$ 0.06	$ 0.08	$ 0.32	$ 1.58	$ 3.10	$		
value per common share[(2)]	7.57	8.16	8.13	8.48	7.91	6.67			
age number of common shares anding:									
	19,017	18,895	18,902	18,868	16,100	13,977	13,		
ed	19,017	18,895	18,902	18,868	16,437	23,295	19,		

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	As of or for the Nine Months Ended September 30,		As of or for the Years Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
ect balance et data:							
rtgage securities similar estments	$ 4,781,085	$ 5,190,790	$ 5,252,399	$ 4,368,025	$ 3,438,559	$ 2,362,688	$ 3,514,94
ets of ontinued ration[1]					141,037	150,317	154,76
l assets	4,902,247	5,283,927	5,348,002	4,464,248	3,687,982	2,554,322	3,766,92
urchase ngements and lar borrowings	4,445,785	4,827,842	4,876,134	4,023,686	3,221,794	2,141,985	3,220,43
g-term estment tal:[3]							
ecured owings, net of ted statutory ts accounted for nconsolidated iates	100,000	100,000	100,000	75,000			
kholders equity	330,093	338,661	339,962	344,849	332,539	277,038	298,57
er data audited, centages ualized):							
rage mortgage urities and lar investments	5,285,824	4,931,792	4,916,580	3,537,877	2,769,491	2,693,519	4,562,06
rage related owings	4,958,550	4,595,498	4,578,943	3,289,901	2,570,070	2,527,999	4,309,32
rage capital loyed	327,274	336,294	337,637	247,976	199,421	165,520	252,73
rage investment ds	5.67%	5.04%	4.94%	3.68%	3.28%	4.43%	5.7
rage borrowing s	5.25%	5.20%	4.92%	3.17%	1.71%	2.30%	3.8
rage financing ads	0.42%	(0.16)%	0.02%	0.51%	1.57%	2.13%	1.9
rage total assets	$ 5,414,524	$ 4,913,627	$ 5,024,620	$ 3,795,353	$ 3,031,740	$ 2,970,402	$ 4,832,74
rage long-term estment capital	441,946	410,327	418,466	340,514	302,908	292,549	404,27

ancial Ratios audited, centages ualized):							
interest gin[4]	10.48%	3.65%	4.29%	9.84%	23.16%	36.56%	39.4
A expense as a centage of rage total assets	0.12%	0.13%	0.13%	0.19%	0.24%	0.28%	0.2
A expense as a centage of rage long-term estment capital	1.48%	1.58%	1.54%	2.14%	2.35%	2.80%	2.8
urn on average l assets	0.22%	0.04%	0.08%	1.51%	1.38%	2.04%	1.9
urn on average g-term estment capital[5]	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.

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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.

	Sales Price per Share		Cash Dividend Declared per Share
	High	**Low**	**per Share**
2007			
Fourth Quarter (through November 15, 2007)	$ 12.14	$ 10.06	$ *
Third Quarter	10.68	8.01	0.04
Second Quarter	10.73	9.01	0.04
First Quarter	10.02	7.75	0.02
2006			
Fourth Quarter	$ 8.70	$ 7.82	$ 0.02
Third Quarter	8.75	6.77	0.02
Second Quarter	8.10	6.56	0.02
First Quarter	7.66	6.30	0.02

* 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 the dividend.

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MANAGEMENT

The following table sets forth certain information as of November 15, 2007 concerning our executive officers:

Name	Age	Position Held With the Company
Andrew F. Jacobs	47	President and Chief Executive Officer
Phillip A. Reinsch	47	Executive Vice President, Chief Financial Officer and Secretary
Robert R. Spears, Jr.	46	Executive Vice President Director of Residential Mortgage Investments
Anthony R. Page	44	Senior Vice President Director of Commercial Mortgage Investments
Michael W. Brown	41	Senior Vice President Asset and Liability Management and Treasurer

Mr. Jacobs has served as our president and chief executive officer since July 2003. He served as our executive vice president finance from August 1998 to July 2003 and as secretary from April 2000 to July 2003. Mr. Jacobs has served in various other executive positions with us since July 1988. Mr. Jacobs is a certified public accountant.

Mr. Reinsch has served as our executive vice president, chief financial officer, or CFO, and secretary since July 2006. He served as our senior vice president, CFO and secretary from July 2003 to July 2006. Mr. Reinsch has served in various other executive positions with us since March 1993. Mr. Reinsch was employed by Ernst & Young LLP from July 1984 to March 1993, last serving as audit senior manager. Mr. Reinsch is a certified public accountant.

Mr. Spears has served as our executive vice president director of residential mortgage investments since July 2006. Prior thereto, Mr. Spears served as our senior vice president asset and liability management since February 1999. From April 1994 to February 1999, he served as our vice president asset and liability management. Mr. Spears was employed by NationsBanc Mortgage Corporation from 1990 to April 1994, last serving as vice president secondary marketing manager.

Mr. Page has served as our senior vice president director of commercial mortgage investments since June 2006. Since 1990, Mr. Page has worked in various executive capacities with real estate-related investment firms, including Victor Capital Group, L.P. (currently known as Capital Trust, Inc.), Winthrop Financial Associates, L.P., Apollo Real Estate Advisors, L.P. and most recently as a managing director for Perimeter Investments from 2001 to 2006.

Mr. Brown has served as our senior vice president asset and liability management and treasurer since July 2006. Prior thereto, Mr. Brown served as our vice president asset and liability management and treasurer since June 1999. Mr. Brown has been associated with us since July 1994.

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UNDERWRITING

Subject to the terms and conditions of an underwriting agreement, dated November 15, 2007, the underwriters named below, acting through their representatives, Bear, Stearns & Co. Inc., JMP Securities LLC and Keefe Bruyette & Woods, Inc., have severally agreed with us, subject to the terms and conditions of the underwriting agreement, to purchase from us the number of shares of common stock set forth below opposite their respective names.

Underwriters	Number of Shares
Bear, Stearns & Co. Inc.	3,680,000
JMP Securities LLC	1,760,000
Keefe Bruyette & Woods, Inc.	1,760,000
RBC Capital Markets Corporation	800,000
Total	8,000,000

The underwriting agreement provides that the obligations of the several underwriters to purchase and accept delivery of the common stock offered by this prospectus supplement are subject to approval by their counsel of legal matters and to other conditions set forth in the underwriting agreement. The underwriters are obligated to purchase and accept delivery of all the common stock offered hereby, other than those shares covered by the over-allotment option described below, if any are purchased.

The representatives have advised us that the underwriters propose to offer common stock to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of $0.33 per share. If all of the shares in this offering are not sold at the public offering price, the public offering price or concession to dealers may be changed by the representatives. No such reduction shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement. The common stock is offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

We have granted to the underwriters an option, exercisable within 30 days after the date of the prospectus supplement, to purchase from time to time up to an aggregate of 1,200,000 shares of common stock to cover over-allotments, if any, at the public offering price less underwriting discounts and commissions. If the underwriters exercise their over-allotment option to purchase any of the 1,200,000 additional shares, each underwriter, subject to certain conditions, will become obligated to purchase its pro-rata portion of these additional shares based on the underwriter s percentage underwriting commitment in the offering as indicated in the preceding table. If purchased, these additional shares will be sold by the underwriters on the same terms as those on which the shares offered hereby are being sold. We will be obligated, pursuant to the over-allotment option, to sell shares to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise the over-allotment option only to cover over-allotments made in connection with the sale of the common stock offered in this offering.

The following table shows the public offering price, underwriting discounts and commissions and proceeds, before expenses, to us. Such amounts are shown assuming both no exercise and full exercise of the underwriters over-allotment option to purchase additional shares.

	Per Share	Total Without Over-allotment	Total With Over-allotment
Public offering price	$ 10.7300	$ 85,840,000	$ 98,716,000
Underwriting discounts and commissions payable by us	$ 0.5365	$ 4,292,000	$ 4,935,800
Proceeds, before expenses, to us	$ 10.1935	$ 81,548,000	$ 93,780,200

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $350,000.

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We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and liabilities arising from breaches of representations and warranties contained in the underwriting agreement, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

Each of our executive officers and directors have agreed, subject to specified exceptions, not to:

> Offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any common stock or any options or warrants to purchase any common stock, or any securities convertible into or exchangeable for common stock owned as of the date of this prospectus supplement or thereafter acquired directly by those holders or with respect to which they have the power of disposition; or
>
> Enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any common stock (regardless of whether any of these transactions are to be settled by the delivery of common stock, or such other securities, in cash or otherwise),

for a period of 90 days after the date of this prospectus supplement without the prior written consent of Bear, Stearns & Co. Inc. There are no existing agreements between the representatives and any of our shareholders who will execute a lock-up agreement, providing consent to the sale of shares prior to the expiration of the lock-up period.

In addition, we have agreed that, subject to certain exceptions, during the lock-up period referred to above we will not, without the prior written consent of Bear, Stearns & Co. Inc. consent to the disposition of any shares held by shareholders subject to lock-up agreements prior to the expiration of the lock-up period, or issue, sell, contract to sell, or otherwise dispose of, any common stock, any options or warrants to purchase any common stock or any securities convertible into, exercisable for or exchangeable for common stock other than our sale of shares in this offering, the issuance of our common stock upon the exercise of outstanding options or warrants, and the issuance of options or common stock under existing stock option and incentive plans, or the issuance of common stock under our existing controlled equity offering program.

The lock-up restrictions on us and our executive officers and directors terminate after the close of trading of the shares of common stock on and including the 90 days after the date of this prospectus supplement. However, if (a) during the period that begins on the date that is 15 calendar days plus three business days before the last day of the foregoing 90-day period and ends on the last day of the foregoing 90-day period, we issue an earnings release or material news or a material event relating to us occurs or (b) prior to the expiration of the foregoing 90-day period referred, we announce that we will release earnings results during the 17-day period beginning on the last day of the 90-day period, these lock-up restrictions imposed will continue to apply until the expiration of the date that is 15 calendar days plus three business days after the date on which the issuance of the earnings release or the material news or material event occurs, unless Bear, Stearns & Co. Inc. waive the extension of such restrictions. Bear, Stearns & Co. Inc. may, in their sole discretion and at any time or from time to time before the termination of the 90-day period, without notice, release all or any portion of the securities subject to lock-up agreements.

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the common stock offered by this prospectus supplement in any jurisdiction where action for that purpose is required. The common stock offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such shares be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus supplement. This prospectus supplement does not constitute an offer to

sell or a solicitation of an offer to buy any common stock offered by this prospectus supplement in any jurisdiction in which such an offer or a solicitation is unlawful.

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To the extent that the offer of the common stock is made in any Member State of the European Economic Area that has implemented the Prospectus Directive before the date of publication of a prospectus in relation to the common stock which has been approved by the competent authority in the Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in the Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require us to publish a prospectus pursuant to the Prospectus Directive.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that it has not made and will not make an offer of common stock to the public in that Relevant Member State prior to the publication of a prospectus in relation to those shares of common stock, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that such underwriter may make an offer of common stock to the public in that Relevant Member State at any time:

(1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(2) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year, (b) a total balance sheet of more than 43,000,000 and (c) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or

(4) in any other circumstances which do not require the publication by the company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, (x) the term offer of common stock to the public in relation to any shares of common stock in any Relevant Member State means a communication in any form and by any means of sufficient information on the terms of the offer and the shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe the shares of common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and (y) the term Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters represents and agrees that:

(1) it has not made or will not make an offer of common stock to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (the FSMA) except to legal entities which are authorized or regulated to operate in the financial markets, or if not authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the prospectus Rules of the Financial Services Authority (FSA);

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 or in circumstances in which section 21 of FSMA

does not apply to us; and

(3) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom.

Our common stock is traded on the New York Stock Exchange under the symbol CMO.

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A prospectus supplement in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters of this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on any underwriter s web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus supplement or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

The representatives have advised us that, pursuant to Regulation M under the Securities Exchange Act of 1934, as amended, some participants in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. A stabilizing bid is a bid for or the purchase of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A syndicate covering transaction is the bid for or purchase of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. A penalty bid is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with this offering if the common stock originally sold by such underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and have therefore not been effectively placed by such underwriter or syndicate member. The representatives have advised us that such transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Bear, Stearns & Co. Inc. (383 Madison Avenue, New York, New York) and other underwriters and their respective affiliates from time to time perform investment banking and other financial services for us and our affiliates for which they receive advisory or transaction fees, as applicable, plus out-of-pocket expenses, of the nature and in amounts customary in the industry for these financial services. In particular, an affiliate of Bear, Stearns & Co. Inc. provides financing, on an uncommitted basis, pursuant to repurchase arrangements. This affiliate has informed us that it has currently extended to us credit availability of $500 million, of which $466 million was outstanding as of October 31, 2007, and that this credit line will increase to $850 million with the consummation of this offering.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Andrews Kurth LLP, Dallas, Texas. In addition, the description of federal income tax consequences contained in the section of the accompanying prospectus entitled Federal Income Tax Consequences of Our Status as a REIT is based on the opinion of Andrews Kurth LLP. Certain legal matters related to the offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain Maryland law matters in connection with this offering will be passed upon for us by Hogan & Hartson L.L.P., Baltimore, Maryland.

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PROSPECTUS

$500,000,000

COMMON STOCK
PREFERRED STOCK
DEBT SECURITIES
WARRANTS

Capstead Mortgage Corporation intends to offer and sell from time to time the debt and equity securities described in this prospectus. The total offering price of the securities described in this prospectus will not exceed $500,000,000 in the aggregate.

We will provide the specific terms of any securities we may offer in a supplement to this prospectus. You should carefully read this prospectus and any applicable prospectus supplement before deciding to invest in these securities.

Our common stock is listed on the New York Stock Exchange under the symbol CMO. We may make any sales of our common shares under this prospectus, if any, on or through the facilities of the New York Stock Exchange, to or through a market maker, or to or through an electronic communications network, at market prices prevailing at the time of sale, or in any other manner permitted by law (including, without limitation, privately negotiated transactions). On August 9, 2007, the last reported sale price of our common stock as reported was $9.40 per share.

The securities may be offered directly, through agents designated by us from time to time, or through underwriters or dealers.

Investing in our securities involves risks. See Risk Factors beginning on page 4 of this prospectus for information regarding risks associated with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of 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 August 10, 2007.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. An offer to sell these securities will not be made in any jurisdiction where the offer and sale is not permitted. You should assume that the information appearing in this prospectus, as well as information we previously filed with the Securities and Exchange Commission and incorporated by reference, is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement. We may sell, from time to time, in one or more offerings, any combinations of the securities described in this prospectus. This prospectus only provides you with a general description of the securities we may offer. Each time we sell securities under this prospectus, we will provide a prospectus supplement that contains specific information about the terms of the securities. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading Where You Can Find More Information.

The total dollar amount of the securities sold under this prospectus will not exceed $500,000,000.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission under the Securities Exchange Act of 1934. You may read and copy any materials that we file with the SEC without charge at the public reference room of the Securities and Exchange Commission, 450 Fifth Street, N.W., Room 1024, Washington, DC 20549. Information about the operation of the public reference room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including Capstead, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov.

We also make available free of charge on or through our internet website (www.capstead.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and our securities, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract is an exhibit to the registration statement, each statement is qualified in all respects by reference to the exhibit to which the reference relates.

INCORPORATION OF INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to other documents that we file with the SEC. These incorporated documents contain important business and financial information about us that is not included in or delivered with this prospectus. The information incorporated by reference is considered to be part of this prospectus, and later information filed with the SEC will update and supersede this information.

We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, until the offering of securities covered by this prospectus is complete:

- our Annual Report on Form 10-K for the year ended December 31, 2006;

our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007; and

our Current Reports on Form 8-K, filed with the SEC on February 9, 2007 (with respect to item 5.02 only), May 7, 2007 and June 18, 2007.

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You may obtain copies of these documents at no cost by writing or telephoning us at the following address:

Investor Relations
Capstead Mortgage Corporation
8401 N. Central Expressway, Suite 800
Dallas, Texas 75225
(214) 874-2323

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This prospectus contains 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. As discussed in our filings with the Securities and Exchange Commission (the SEC), these factors may include, but are not limited to, changes in general economic conditions, the availability of suitable qualifying 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 the above 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.

OUR COMPANY

We were incorporated on April 15, 1985, in Maryland and commenced operations in September 1985. We are a mortgage investment firm operating as a real estate investment trust (REIT) that earns income from investing in real estate-related assets on a leveraged basis and from other investment strategies. These investments currently consist primarily of a core portfolio of residential, adjustable-rate 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. We also seek to opportunistically invest a portion of our investment capital in credit-sensitive commercial real estate-related assets, including subordinate commercial real estate loans.

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 of our affiliates, which may be consolidated with us for financial reporting purposes, may not be consolidated for federal income tax purposes because such entities may elect taxable REIT subsidiary tax status. All taxable income of any such taxable REIT subsidiaries would be subject to federal and state income taxes, where applicable.

Our principal executive offices are located at 8401 N. 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. Our shares of common stock are traded on the New York Stock Exchange, or the NYSE, under the symbol CMO.

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RISK FACTORS

An investment in our securities involves various risks. You should carefully consider the risk factors incorporated by reference to our most recent Annual Report on Form 10-K and the other information contained in this prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, and the risk factors and other information contained in the applicable prospectus supplement before acquiring any of our securities.

USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, we expect to use the net proceeds from the sale of these securities for general corporate purposes.

RATIO OF INCOME FROM CONTINUING OPERATIONS (BEFORE FIXED CHARGES) TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth the historical ratios of income from continuing operations (before fixed charges) to combined fixed charges and our preferred stock dividends for the periods indicated:

	Six Months Ended June 30,	Year Ended December 31,				
	2007	2006	2005	2004	2003	2002
Ratio of income from continuing operations (before fixed charges) to combined fixed charges and preferred stock dividends	1.01:1			1.30:1	1.48:1	1.40:1
Deficiency of income from continuing operations (before fixed charges) to combined fixed charges and preferred stock dividends		$ 16,413	$ 3,061			

DESCRIPTION OF OUR CAPITAL STOCK

General

We were formed under the laws of the State of Maryland. Rights of our stockholders are governed by the Maryland General Corporation Law, or MGCL, our charter and our bylaws. The following is a summary of the material provisions of our capital stock. Copies of our charter and bylaws are filed as exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information.

Authorized Stock

Our charter provides that we may issue up to 100 million shares of voting common stock, par value $.01 per share, and 100 million shares of preferred stock, par value $.10 per share.

Power to Issue Additional Shares of Our Common Stock and Preferred Stock

We believe that the power of our board of directors, without stockholder approval, to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock provides us with flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as the common stock, will be available for issuance without further action by our stockholders, unless stockholder consent is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not intend to do so, it could authorize us to issue an additional class or series of stock that could, depending upon the terms of the particular class or series, delay,

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defer or prevent a transaction or a change of control of our company that might involve a premium price for our stockholders or otherwise be in their best interest.

Restrictions on Ownership and Transfer

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.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock and preferred stock is Wells Fargo Shareholder Services.

DESCRIPTION OF OUR COMMON STOCK

The following description of our common stock sets forth certain general terms and provisions of our common stock to which any prospectus supplement may relate, including a prospectus supplement providing that common stock will be issuable upon conversion or exchange of our debt securities or preferred stock or upon the exercise of warrants to purchase our common stock.

All shares of our common stock covered by this prospectus will be duly authorized, fully paid and nonassessable. Subject to the preferential rights of any other class or series of stock and to the provisions of the charter regarding the restrictions on transfer of stock, holders of shares of our common stock are entitled to receive dividends on such stock when, as and if authorized by our board of directors out of funds legally available therefor and declared by us and to share ratably in the assets of our company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all known debts and liabilities of our company, including the preferential rights on dissolution of any class or classes of preferred stock.

Subject to the provisions of our charter regarding the restrictions on transfer of stock, each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our board of directors, which

means that the holders of a plurality of the outstanding shares of our common stock can elect all of the directors then standing for election and the holders of the remaining shares will not be able to elect any directors.

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Holders of shares of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of our company. Subject to the provisions of the charter regarding the restrictions on transfer of stock, shares of our common stock will have equal dividend, liquidation and other rights.

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, consolidate, transfer all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation s charter. Our charter provides for a vote of a majority of the outstanding shares for these matters. However, Maryland law permits a corporation to transfer all or substantially all of its assets without the approval of the stockholders of the corporation to one or more persons if all of the equity interests of the person or persons are owned, directly or indirectly, by the corporation. Because operating assets may be held by a corporation s subsidiaries, as in our situation, this may mean that a subsidiary of a corporation can transfer all of its assets without a vote of the corporation s stockholders.

Our charter authorizes our board of directors to reclassify any unissued shares of our common stock into other classes or series of classes of stock and to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption for each such class or series.

DESCRIPTION OF OUR PREFERRED STOCK

Our charter authorizes our board of directors to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series. Prior to issuance of shares of each series, our board of directors is required by the MGCL and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. As of the date hereof, 202,246 shares of Series A Preferred Stock and 15,819,432 shares of Series B Preferred Stock are outstanding. Our preferred stock will, when issued, be fully paid and nonassessable and will not have, or be subject to, any preemptive or similar rights.

The prospectus supplement relating to the series of preferred stock offered by that supplement will describe the specific terms of those securities, including:

- the title and stated value of that preferred stock;
- the number of shares of that preferred stock offered, the liquidation preference per share and the offering price of that preferred stock;
- the dividend rate(s), period(s) and payment date(s) or method(s) of calculation thereof applicable to that preferred stock;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends on that preferred stock will accumulate;
- the voting rights applicable to that preferred stock;

the procedures for any auction and remarketing, if any, for that preferred stock;

the provisions for a sinking fund, if any, for that preferred stock;

the provisions for redemption including any restriction thereon, if applicable, of that preferred stock;

any listing of that preferred stock on any securities exchange;

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the terms and conditions, if applicable, upon which that preferred stock will be convertible into shares of our common stock, including the conversion price (or manner of calculation of the conversion price) and conversion period;

a discussion of federal income tax considerations applicable to that preferred stock;

any limitations on issuance of any series of preferred stock ranking senior to or on a parity with that series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

in addition to those limitations described above under DESCRIPTION OF CAPITAL STOCK Restrictions on Ownership and Transfer, any other limitations on actual and constructive ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT; and

any other specific terms, preferences, rights, limitations or restrictions of that preferred stock.

Rank Within Our Capital Structure

Unless otherwise specified in the applicable prospectus supplement, the preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our affairs rank:

senior to all classes or series of common stock and to all equity securities ranking junior to the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs;

on a parity with all equity securities issued by us the terms of which specifically provide that those equity securities rank on a parity with the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs; and

junior to all equity securities issued by us the terms of which specifically provide that those equity securities rank senior to the preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our affairs.

The term equity securities does not include convertible debt securities.

Dividends

Subject to the preferential rights of any other class or series of stock and to the provisions of the charter regarding the restrictions on transfer of stock, holders of shares of our preferred stock will be entitled to receive dividends on such stock when, as and if authorized by our board of directors out of funds legally available therefor and declared by us, at rates and on dates as will be set forth in the applicable prospectus supplement.

Dividends on any series or class of our preferred stock may be cumulative or noncumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. If our board of directors fails to authorize a dividend payable on a dividend payment date on any series or class of preferred stock for which dividends are noncumulative, then the holders of that series or class of preferred stock will have no right to receive a dividend in respect of the dividend period ending on that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on such series or class are declared or paid for any future period.

If any shares of preferred stock of any series or class are outstanding, no dividends may be authorized or paid or set apart for payment on the preferred stock of any other series or class ranking, as to dividends, on a parity with or junior to the preferred stock of that series or class for any period unless:

- the series or class of preferred stock has a cumulative dividend, and full cumulative dividends have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment

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of those dividends is set apart for payment on the preferred stock of that series or class for all past dividend periods and the then current dividend period; or

the series or class of preferred stock does not have a cumulative dividend, and full dividends for the then current dividend period have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment of those dividends is set apart for the payment on the preferred stock of that series or class.

When dividends are not paid in full (or a sum sufficient for the full payment is not set apart) upon the shares of preferred stock of any series or class and the shares of any other series or class of preferred stock ranking on a parity as to dividends with the preferred stock of that series or class, then all dividends authorized on shares of preferred stock of that series or class and any other series or class of preferred stock ranking on a parity as to dividends with that preferred stock shall be authorized pro rata so that the amount of dividends authorized per share on the preferred stock of that series or class and other series or class of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share on the shares of preferred stock of that series or class (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if the preferred stock does not have a cumulative dividend) and that other series or class of preferred stock bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on preferred stock of that series or class that may be in arrears.

Redemption

We may have the right or may be required to redeem one or more series of preferred stock, in whole or in part, in each case upon the terms, if any, and at the time and at the redemption prices set forth in the applicable prospectus supplement.

If a series of preferred stock is subject to mandatory redemption, we will specify in the applicable prospectus supplement the number of shares we are required to redeem, when those redemptions start, the redemption price, and any other terms and conditions affecting the redemption. The redemption price will include all accrued and unpaid dividends, except in the case of noncumulative preferred stock. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement. If the redemption price for preferred stock of any series or class is payable only from the net proceeds of the issuance of our stock, the terms of that preferred stock may provide that, if no such stock shall have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, that preferred stock shall automatically and mandatorily be converted into shares of our applicable stock pursuant to conversion provisions specified in the applicable prospectus supplement.

Liquidation Preference

Upon any voluntary or involuntary liquidation or dissolution of us or winding up of our affairs, then, before any distribution or payment will be made to the holders of common stock or any other series or class of stock ranking junior to any series or class of the preferred stock in the distribution of assets upon any liquidation, dissolution or winding up of our affairs, the holders of that series or class of preferred stock will be entitled to receive out of our assets legally available for distribution to shareholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount equal to all dividends accrued and unpaid on the preferred stock (which will not include any accumulation in respect of unpaid dividends for prior dividend periods if the preferred stock does not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of preferred stock will have no right or claim to any of our remaining assets.

If, upon any voluntary or involuntary liquidation, dissolution or winding up, the legally available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of any series or class of preferred stock and the corresponding amounts payable on all shares of other classes or series of our stock of ranking on a parity with that series or class of preferred stock in the distribution of assets upon liquidation, dissolution or winding up, then the holders of that series or class of preferred stock and all other

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classes or series of capital stock will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions have been made in full to all holders of any series or class of preferred stock, our remaining assets will be distributed among the holders of any other classes or series of stock ranking junior to that series or class of preferred stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For these purposes, the consolidation or merger of us with or into any other entity, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our affairs.

Voting Rights

Holders of preferred stock will not have any voting rights, except as set forth below or as indicated in the applicable prospectus supplement.

Unless provided otherwise for any series or class of preferred stock, so long as any shares of preferred stock of a series or class remain outstanding, we will not, without the affirmative vote or consent of the holders of at least a majority of the shares of that series or class of preferred stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (such series or class voting separately as a class):

- authorize or create, or increase the authorized or issued amount of, any class or series of stock ranking prior to that series or class of preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized stock into any of those shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any of those shares; or

- amend, alter or repeal the provisions of our charter or articles supplementary for such series or class of preferred stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of that series or class of preferred stock or the holders of the preferred stock.

However, any increase in the amount of the authorized preferred stock or the creation or issuance of any other series or class of preferred stock, or any increase in the amount of authorized shares of such series or class or any other series or class of preferred stock, in each case ranking on a parity with or junior to the preferred stock of that series or class with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

These voting provisions will not apply if, at or prior to the time when the act with respect to which that vote would otherwise be required will be effected, all outstanding shares of that series or class of preferred stock have been redeemed or called for redemption upon proper notice and sufficient funds have been deposited in trust to effect that redemption.

Conversion Rights

The terms and conditions, if any, upon which shares of any series or class of preferred stock are convertible into shares of common stock will be set forth in the applicable prospectus supplement. The terms will include:

- the number of shares of common stock into which the preferred stock is convertible;

the conversion price (or manner of calculation of the conversion price);

the conversion period;

provisions as to whether conversion will be at the option of the holders of the preferred stock or us,

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the events requiring an adjustment of the conversion price; and

provisions affecting conversion in the event of the redemption of the preferred stock.

Series A Preferred Stock

Our board of directors has classified and designated 5,465,000 shares of Series A Preferred Stock, of which 202,246 shares are currently outstanding. The Series A Preferred Stock generally provides for the following rights, preferences and obligations.

Dividend Rights. Holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors out of funds legally available therefor, cumulative preferential cash dividends at the rate of $1.60 per annum per share, and no more, payable in equal quarterly installments on each March 31, June 30, September 30 and December 31.

Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series A Preferred Stock will be entitled to receive a liquidation preference of $16.40 per share, plus any accumulated, accrued and unpaid dividends (whether or not declared), before any payment or distribution will be made or set aside for holders of any junior stock.

Redemption Provisions. We may redeem Series A Preferred Stock, in whole or from time to time in part, at a cash redemption price equal to 100% of the liquidation preference plus all accrued and unpaid dividends (whether or not earned or declared) to the date fixed for redemption. The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption provisions.

Voting Rights. Holders of Series A Preferred Stock generally have no voting rights, except in certain circumstances when our board of directors will be expanded by two seats and the holders of Series A Preferred Stock will be entitled to elect these two directors. In addition, the issuance of senior shares or certain changes to the terms of the Series A Preferred Stock that would be materially adverse to the rights of holders of Series A Preferred Stock cannot be made without the affirmative vote of holders of at least 662/3% of the outstanding Series A Preferred Stock and shares of any class or series of shares ranking on a parity with the Series A Preferred Stock which are entitled to similar voting rights, if any, voting as a single class.

Conversion and Preemptive Rights. Holders of the Series A Preferred Stock may, at their option, convert shares of Series A Preferred Stock into shares of our common stock at the rate of 1.5512 shares of our common stock for each share of Series A Preferred Stock converted. The conversion rates of the Series A Preferred Stock are subject to adjustment in certain circumstances. Holders of shares of our Series A Preferred Stock have no preemptive rights to subscribe for any securities of our company.

Series B Preferred Stock

Our board of directors has classified and designated 31,000,000 shares of Series B Preferred Stock, of which 15,819,432 shares are currently outstanding. The Series B Preferred Stock generally provides for the following rights, preferences and obligations.

Dividend Rights. Holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by our board of directors out of funds legally available therefor, cumulative preferential cash dividends at the annual rate of $1.26 per share, and no more, payable in equal monthly installments on each monthly dividend payment date.

Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series B Preferred Stock will be entitled to receive a liquidation preference of $11.38 per share, plus an amount equal to all accumulated, accrued and unpaid dividends (whether or not declared) to the date of liquidation, dissolution or winding up of the affairs of our company, before any payment or distribution will be made to or set apart for the holders of any junior stock.

Redemption Provisions. We may redeem Series B Preferred Stock, in whole or from time to time in part, at a cash redemption price equal to $12.50 per share, plus all accrued and unpaid dividends (whether or

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not earned or declared) to the date fixed for redemption. The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption provisions.

Voting Rights. Holders of Series B Preferred Stock are entitled to vote on (i) all matters submitted to the holders of our common stock together with the holders of our common stock as a single class and (ii) certain matters affecting the Series Preferred Stock as a separate class. In certain circumstances, our board of directors will be expanded by two seats and the holders of Series B Preferred Stock will be entitled to elect these two directors.

So long as 20% or more of the aggregate number of shares of Series B Preferred Stock issued in connection with the Tyler Cabot merger remain outstanding, the affirmative vote of at least a majority of the outstanding shares of such Series B Preferred Stock will be required for the sale, lease or conveyance by us of all or substantially all of our property or business, or our consolidation or merger with any other corporation unless the corporation resulting from such consolidation or merger will have after such consolidation or merger no class of shares either authorized or outstanding ranking prior to or on a parity with the Series B Preferred Stock except the same number of shares ranking prior to or on a parity with the Series B Preferred Stock and having the same rights and preferences as our authorized and outstanding shares immediately preceding such consolidation or merger, and each holder of Series B Preferred Stock immediately preceding such consolidation or merger shall receive the same number of shares, with the same rights and preferences, of the resulting corporation.

Conversion and Preemptive Rights. Holders of Series B Preferred Stock may, at their option, convert shares of Series B Preferred Stock into shares of the our common stock at the rate of 0.5980 shares of our common stock for each share of Series B Preferred Stock converted. The conversion rates of the Series B Preferred Stock are subject to adjustment in certain circumstances. Holders of shares of our Series B Preferred Stock have no preemptive rights to subscribe for any securities of our company.

DESCRIPTION OF OUR DEBT SECURITIES

The following description, together with the additional information we include in any applicable prospectus supplements, summarizes the material terms and provisions of the debt securities that we may offer under this prospectus. While the terms we have summarized below will apply generally to any future debt securities we may offer, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. If we indicate in a prospectus supplement, the terms of any debt securities we offer under that prospectus supplement may differ from the terms we describe below.

The debt securities will be our direct unsecured general obligations and may include debentures, notes, bonds or other evidences of indebtedness. The debt securities will be either senior debt securities or subordinated debt securities. The debt securities will be issued under one or more separate indentures. Senior debt securities will be issued under a senior indenture, and subordinated debt securities will be issued under a subordinated indenture. We use the term indentures to refer to both the senior indenture and the subordinated indenture. The forms of indentures are filed as exhibits to the registration statement of which this prospectus forms a part. The indentures will be qualified under the Trust Indenture Act of 1939, as amended. We use the term trustee to refer to either the senior trustee or the subordinated trustee, as applicable.

The following summaries of material provisions of the debt securities and indentures are subject to, and qualified in their entirety by reference to, all the provisions of the indenture applicable to a particular series of debt securities.

General

We will describe in each prospectus supplement the following terms relating to a series of debt securities:

the title;

any limit on the amount that may be issued;

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whether or not we will issue the series of debt securities in global form, the terms and who the depository will be;

the maturity date;

the annual interest rate, which may be fixed or variable, or the method for determining the rate and the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;

whether or not the debt securities will be secured or unsecured, and the terms of any secured debt;

the terms of the subordination of any series of subordinated debt;

the place where payments will be payable;

our right, if any, to defer payment of interest and the maximum length of any such deferral period;

the date, if any, after which, and the price at which, we may, at our option, redeem the series of debt securities pursuant to any optional redemption provisions;

the date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund provisions or otherwise, to redeem, or at the holder s option to purchase, the series of debt securities;

whether the indenture will restrict our ability to pay dividends, or will require us to maintain any asset ratios or reserves;

whether we will be restricted from incurring any additional indebtedness;

a discussion on any material or special United States federal income tax considerations applicable to the debt securities;

the denominations in which we will issue the series of debt securities, if other than denominations of $1,000 and any integral multiple thereof; and

any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities not inconsistent with the applicable indentures.

We may issue debt securities at less than the principal amount payable at maturity. We refer to these securities as original issue discount securities. If material or applicable, we will describe in the applicable prospectus supplement special US federal income tax, accounting and other considerations applicable to original issue discount securities.

Consolidation, Merger or Sale

Under the terms of the indentures, we would be generally permitted to consolidate or merge with another company. We would be also permitted to sell, convey, transfer, lease or otherwise dispose of all or substantially all of our assets to another company. However, we would not be able to take any of these actions unless the following conditions are met:

if we merge out of existence or sell our assets, the other company must be an entity organized under the laws of one of the states of the United States or the District of Columbia or under United States federal law and must agree to be legally responsible for our debt securities; and

immediately after the merger, sale of assets or other transaction, we may not be in default on the debt securities.

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Events of Default Under the Indenture

The following are events of default under the indentures with respect to any series of debt securities that we may issue:

- if we fail to pay the principal or any premium on a debt security when due, for more than a specified number of days past the due date;
- if we fail to pay interest on a debt security when due, for more than a specified number of days past the due date;
- if we fail to deposit any sinking fund payment when due, for more than a specified number of days past the due date;
- if we fail to observe or perform any other covenant contained in the debt securities or the indentures, other than a covenant specifically relating to another series of debt securities, and our failure continues for a number of days to be stated in the indenture after we receive notice from the trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities of the applicable series; and
- if specified events of bankruptcy, insolvency or reorganization occur as to us.

If an event of default with respect to debt securities of any series occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series, by notice to us in writing, and to the trustee if notice is given by such holders, may declare the unpaid principal of, premium, if any, and accrued interest, if any, due and payable immediately.

The holders of a majority in principal amount of the outstanding debt securities of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture. Any waiver shall cure the default or event of default.

Subject to the terms of the indentures, if an event of default under an indenture shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of debt securities, unless such holders have offered the trustee reasonable indemnity. The holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series, provided that:

- the direction so given by the holder is not in conflict with any law or the applicable indenture; and
- subject to its duties under the Trust Indenture Act, the trustee need not take any action that might involve it in personal liability or might be unduly prejudicial to the holders not involved in the proceeding.

A holder of the debt securities of any series will only have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies if:

- the holder has given written notice to the trustee of a continuing event of default with respect to that series;

the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holders have offered reasonable indemnity to the trustee to institute the proceeding as trustee;

the trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series other conflicting directions within 60 days after the notice, request and offer; and

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no direction inconsistent with such written request has been given to the trustee during such 60-day period by the holders of a majority in principal amount of the debt securities of that series.

These limitations do not apply to a suit instituted by a holder of debt securities if we default in the payment of the principal, premium, if any, or interest on, the debt securities.

We will periodically file statements with the trustee regarding our compliance with specified covenants in the indentures.

Modification of Indenture; Waiver

We and the trustee may change an indenture without the consent of any holders with respect to specific matters, including:

to fix any ambiguity, defect or inconsistency in the indenture; and

to change anything that does not materially adversely affect the interests of any holder of debt securities of any series.

In addition, under the indentures, the rights of holders of a series of debt securities may be changed by us and the trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series that is affected. However, we and the trustee may only make the following changes with the consent of each holder of any outstanding debt securities affected:

changing the stated maturity of the principal or interest on a series of debt securities;

reducing the principal amount, reducing the rate of or extending the time of payment of interest, or any premium payable upon the redemption of any debt securities;

changing the currency of payment on a debt security;

impair your right to sue for payment;

modify the subordination provisions, if any, in a manner that is adverse to you;

reducing the percentage of debt securities the holders of which are required to consent to any amendment; or

modify any of the foregoing provisions.

Certain Covenants

The indentures contain certain covenants requiring us to take certain actions and prohibiting us from taking certain actions, including the following:

we must maintain a paying agent in each place of payment for the debt securities;

we will do or cause to be done all things necessary to preserve and keep in full force and effect our existence; and

we will cause all properties used or useful in the conduct of our business to be maintained and kept in good condition.

Any additional or different covenants or modifications to the foregoing covenants with respect to any series of debt securities will be described in the applicable prospectus supplement.

Redemption

The indentures provide that the debt securities of any series that are redeemable may be redeemed at any time at our option, in whole or in part. Debt securities may also be subject to optional or mandatory redemption on terms and conditions described in the applicable prospectus supplement.

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From and after notice has been given as provided in the applicable indenture, if funds for the redemption of any debt securities called for redemption shall have been made available on such redemption date, such debt securities will cease to bear interest on the date fixed for such redemption specified in such notice, and the only right of the holders of the debt securities will be to receive payment of the redemption price.

Discharge, Defeasance and Covenant Defeasance

To the extent stated in the prospectus supplement, we may elect to apply the provisions in the indentures relating to defeasance and discharge of indebtedness, or to defeasance of restrictive covenants, to the debt securities of any series. The indentures provide that, upon satisfaction of the requirements described below, we may terminate all of our obligations under the debt securities of any series and the applicable indenture, known as legal defeasance, other than our obligation:

to maintain a registrar and paying agents and hold monies for payment in trust;

to register the transfer or exchange of the debt securities; and

to replace mutilated, destroyed, lost or stolen debt securities.

In addition, we may terminate our obligation to comply with any restrictive covenants under the debt securities of any series or the applicable indenture, known as covenant defeasance.

We may exercise our legal defeasance option even if we have previously exercised our covenant defeasance option. If we exercise either defeasance option, payment of the debt securities may not be accelerated because of the occurrence of events of default.

To exercise either defeasance option as to debt securities of any series, we must irrevocably deposit in trust with the trustee money and/or obligations backed by the full faith and credit of the United States that will provide money in an amount sufficient in the written opinion of a nationally recognized firm of independent public accountants to pay the principal of, premium, if any, and each installment of interest on the debt securities. We may only establish this trust if, among other things:

no event of default shall have occurred or be continuing;

in the case of legal defeasance, we have delivered to the trustee an opinion of counsel to the effect that we have received from, or there has been published by, the Internal Revenue Service a ruling or there has been a change in law, which in the opinion of our counsel, provides that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred;

in the case of covenant defeasance, we have delivered to the trustee an opinion of counsel to the effect that the holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance had not occurred; and

we satisfy other customary conditions precedent described in the applicable indenture.

Conversion and Exchange of Securities

The terms and conditions, if any, upon which any debt securities are convertible or exchangeable into debt securities, common stock, preferred stock or other securities or property will be set forth in the applicable prospectus supplement relating thereto. Such terms will include:

whether such debt securities are convertible or exchangeable into debt securities, common stock, preferred stock or other securities or property;

the conversion price (or manner of calculation thereof);

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the conversion period;

provisions as to whether conversion will be at the option of the holders or us;

the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such debt securities; and

any restrictions on conversion, including restrictions directed at maintaining our REIT status.

Form, Exchange and Transfer

We will issue the debt securities of each series only in fully registered form without coupons and, unless we otherwise specify in the applicable prospectus supplement, in denominations of $1,000 and any integral multiple thereof. The indentures provide that we may issue debt securities of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company or another depository named by us and identified in a prospectus supplement with respect to that series.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement, the holder of the debt securities of any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplement, holders of the debt securities may present the debt securities for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the debt securities that the holder presents for transfer or exchange, we will make no service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges.

We will name in the applicable prospectus supplement the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If we elect to redeem the debt securities of any series, we will not be required to:

issue, register the transfer of, or exchange any debt securities of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any debt securities that may be selected for redemption and ending at the close of business on the day of the mailing; or

register the transfer of or exchange any debt securities so selected for redemption, in whole or in part, except the unredeemed portion of any debt securities we are redeeming in part.

Information Concerning the Trustee

The trustee, other than during the occurrence and continuance of an event of default under an indenture, undertakes to perform only those duties as are specifically set forth in the applicable indenture. Upon an event of default under an indenture, the trustee must use the same degree of care as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the trustee is under no obligation to exercise any of the powers given it by the indentures at the request of any holder of debt securities unless it is offered reasonable security and indemnity against the costs, expenses and liabilities that it might incur.

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Payment and Paying Agents

Unless we otherwise indicate in the applicable prospectus supplement, we will make payment of the interest on any debt securities on any interest payment date to the person in whose name the debt securities, or one or more predecessor securities, are registered at the close of business on the regular record date for the interest.

We will pay principal of and any premium and interest on the debt securities of a particular series at the office of the paying agents designated by us, except that unless we otherwise indicate in the applicable prospectus supplement, we will make interest payments by check which we will mail to the holder. Unless we otherwise indicate in a prospectus supplement, we will designate the corporate trust office of the trustee in the City of New York as our sole paying agent for payments with respect to debt securities of each series. We will name in the applicable prospectus supplement any other paying agents that we initially designate for the debt securities of a particular series. We will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money we pay to a paying agent or the trustee for the payment of the principal of or any premium or interest on any debt securities which remains unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, and the holder of the security thereafter may look only to us for payment thereof.

Subordination

The prospectus supplement relating to any offering of subordinated debt securities will describe the specific subordination provisions. However, unless otherwise noted in the prospectus supplement, subordinated debt securities will be subordinate and junior in right of payment to senior indebtedness.

The indebtedness underlying any subordinated debt securities will be payable only if all payments due under our senior indebtedness, as defined in the applicable indenture and any indenture supplement, including any outstanding senior debt securities, have been made. If we distribute our assets to creditors upon any dissolution, winding-up, liquidation or reorganization or in bankruptcy, insolvency, receivership or similar proceedings, we must first pay all amounts due or to become due on all senior indebtedness before we pay the principal of, or any premium or interest on, the subordinated debt securities. In the event the subordinated debt securities are accelerated because of an event of default, we may not make any payment on the subordinated debt securities until we have paid all senior indebtedness or the acceleration is rescinded.

By reason of such subordination, if we experience a bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of subordinated debt securities may receive less, ratably, than our other creditors. The indenture for subordinated debt securities may not limit our ability to incur additional senior or subordinated indebtedness.

Governing Law

The indentures and the debt securities will be governed by and construed in accordance with the laws of the State of New York, except to the extent that the Trust Indenture Act is applicable.

DESCRIPTION OF OUR WARRANTS

This section describes the general terms and provisions of our securities warrants. The applicable prospectus supplement will describe the specific terms of the securities warrants offered through that prospectus supplement as well as any general terms described in this section that will not apply to those securities warrants.

We may issue securities warrants for the purchase of our debt securities, preferred stock, or common stock. We may issue warrants independently or together with other securities, and they may be attached to or separate from the other securities. Each series of securities warrants will be issued under a separate warrant agreement that we will enter into with a bank or trust company, as warrant agent, as detailed in the applicable

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prospectus supplement. The warrant agent will act solely as our agent in connection with the securities warrants and will not assume any obligation, or agency or trust relationship, with you.

The prospectus supplement relating to a particular issue of securities warrants will describe the terms of those securities warrants, including, where applicable:

- the aggregate number of the securities covered by the warrant;
- the designation, amount and terms of the securities purchasable upon exercise of the warrant;
- the exercise price for our debt securities, the amount of debt securities upon exercise you will receive, and a description of that series of debt securities;
- the exercise price for shares of our preferred stock, the number of shares of preferred stock to be received upon exercise, and a description of that series of our preferred stock;
- the exercise price for shares of our common stock and the number of shares of common stock to be received upon exercise;
- the expiration date for exercising the warrant;
- the minimum or maximum amount of warrants that may be exercised at any time;
- a discussion of U.S. federal income tax consequences; and
- any other material terms of the securities warrants.

After the warrants expire they will become void. The prospectus supplement will describe how to exercise securities warrants. A holder must exercise warrants for our preferred stock or common stock through payment in U.S. dollars. All securities warrants will be issued in registered form. The prospectus supplement may provide for the adjustment of the exercise price of the securities warrants.

Until a holder exercises warrants to purchase our debt securities, preferred stock, or common stock, that holder will not have any rights as a holder of our debt securities, preferred stock, or common stock by virtue of ownership of warrants.

BOOK-ENTRY SECURITIES

The securities offered by means of this prospectus may be issued in whole or in part in book-entry form, meaning that beneficial owners of the securities will not receive certificates representing their ownership interests in the securities, except in the event the book-entry system for the securities is discontinued. Securities issued in book entry form will be evidenced by one or more global securities that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement relating to the securities. We expect that The Depository Trust Company will serve as depository. Unless and until it is exchanged in whole or in part for the individual securities represented by that security, a global security may not be transferred except as a whole by the depository for the global security to a nominee of that depository or by a nominee of that depository to that depository or another nominee of that depository or by the depository or any nominee of that depository to a successor depository or a nominee of that successor. Global securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a class or series of securities that differ from the terms

described here will be described in the applicable prospectus supplement.

Unless otherwise indicated in the applicable prospectus supplement, we anticipate that the provisions described below will apply to depository arrangements.

Upon the issuance of a global security, the depository for the global security or its nominee will credit on its book-entry registration and transfer system the respective principal amounts of the individual securities represented by that global security to the accounts of persons that have accounts with such depository, who are called participants. Those accounts will be designated by the underwriters, dealers or agents with respect to the securities or by us if the securities are offered and sold directly by us. Ownership of beneficial interests in

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a global security will be limited to the depository s participants or persons that may hold interests through those participants. Ownership of beneficial interests in the global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable depository or its nominee (with respect to beneficial interests of participants) and records of the participants (with respect to beneficial interests of persons who hold through participants). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. These limits and laws may impair the ability to own, pledge or transfer beneficial interest in a global security.

So long as the depository for a global security or its nominee is the registered owner of such global security, that depository or nominee, as the case may be, will be considered the sole owner or holder of the securities represented by that global security for all purposes under the applicable indenture or other instrument defining the rights of a holder of the securities. Except as provided below or in the applicable prospectus supplement, owners of beneficial interest in a global security will not be entitled to have any of the individual securities of the series represented by that global security registered in their names, will not receive or be entitled to receive physical delivery of any such securities in definitive form and will not be considered the owners or holders of that security under the applicable indenture or other instrument defining the rights of the holders of the securities.

Payments of amounts payable with respect to individual securities represented by a global security registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the global security representing those securities. None of us, our officers and directors or any trustee, paying agent or security registrar for an individual series of securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global security for such securities or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

We expect that the depository for a series of securities offered by means of this prospectus or its nominee, upon receipt of any payment of principal, premium, interest, dividend or other amount in respect of a permanent global security representing any of those securities, will immediately credit its participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of that global security for those securities as shown on the records of that depository or its nominee. We also expect that payments by participants to owners of beneficial interests in that global security held through those participants will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in street name. Those payments will be the responsibility of these participants.

If a depository for a series of securities is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by us within 90 days, we will issue individual securities of that series in exchange for the global security representing that series of securities. In addition, we may, at any time and in our sole discretion, subject to any limitations described in the applicable prospectus supplement relating to those securities, determine not to have any securities of that series represented by one or more global securities and, in that event, will issue individual securities of that series in exchange for the global security or securities representing that series of securities.

MATERIAL PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

The following is a summary of certain provisions of Maryland law and of our charter and bylaws. Copies of our charter and bylaws are filed as exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information.

The Board of Directors

Our bylaws provide that the number of directors of our company may be established by our board of directors but may not be fewer than the minimum number permitted under the MGCL nor more than 25. Any

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vacancy will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors.

Pursuant to our charter, each member of our board of directors will serve one year terms and until their successors are elected and qualified. Holders of shares of our common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders at which our board of directors is elected, the holders of a plurality of the shares of our common stock will be able to elect all of the members of our board of directors.

Business Combinations

Maryland law prohibits business combinations between a corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, statutory share exchange, or, in circumstances specified in the statute, certain transfers of assets, certain stock issuances and transfers, liquidation plans and reclassifications involving interested stockholders and their affiliates as asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested stockholder as:

- any person who beneficially owns 10% or more of the voting power of our voting stock; or
- an affiliate or associate 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.

A person is not an interested stockholder if the board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving the transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board of directors.

After the five year prohibition, any business combination between a corporation and an interested stockholder generally must be recommended by the board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of common stock; and
- two-thirds of the votes entitled to be cast by holders of the common stock other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or shares held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if certain fair price requirements set forth in the MGCL are satisfied.

The statute permits various exemptions from its provisions, including business combinations that are approved by the board of directors before the time that the interested stockholder becomes an interested stockholder.

Control Share Acquisitions

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 at a special meeting by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock in a corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of shares of stock of the corporation in the

election of directors: (i) a person who makes or proposes to make a control share acquisition, (ii) an officer of the corporation or (iii) an employee of the corporation who is also a director 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

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exercise voting power in electing directors within one of the following ranges of voting power: (i) one-tenth or more but less than one-third, (ii) one-third or more but less than a majority, or (iii) 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 our board of directors 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 (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (ii) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Amendment to Our Charter

Our charter may be amended only if declared advisable by the board of directors and approved by the affirmative vote of the holders of at least a majority of all of the votes entitled to be cast on the matter.

Dissolution of Our Company

The dissolution of our company must be declared advisable by the board of directors and approved by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter.

Advance Notice of Director Nominations and New Business

Our bylaws provide that:

with respect to an annual meeting of stockholders, the only business to be considered and the only proposals to be acted upon will be those properly brought before the annual meeting:

pursuant to our notice of the meeting;

by, or at the direction of, a majority of our board of directors; or

by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws;

with respect to special meetings of stockholders, only the business specified in our company s notice of meeting may be brought before the meeting of stockholders unless otherwise provided by law; and

nominations of persons for election to our board of directors at any annual or special meeting of stockholders may be made only:

by, or at the direction of, our board of directors; or

by a stockholder who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

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Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

The advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Indemnification and Limitation of Directors and Officers Liability

Our charter provide for indemnification of our officers and directors against liabilities to the fullest extent permitted by the MGCL, as amended from time to time.

The MGCL permits a corporation to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that:

an act or omission of the director or officer was material to the matter giving rise to the proceeding and:

was committed in bad faith; or

was the result of active and deliberate dishonesty;

the director or officer actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation (other than for expenses incurred in a successful defense of such an action) or for a judgment of liability on the basis that personal benefit was improperly received. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of:

a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation; and

a written undertaking by the director or on the director s behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director did not meet the standard of conduct.

Our bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

any present or former director or officer who is made a party to the proceeding by reason of his or her service in that capacity; or

any individual who, while a director or officer of our company and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other

enterprise as a director, officer, partner or trustee and who is made a party to the proceeding by reason of his or her service in that capacity.

Our bylaws also obligate us to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described in second and third bullet points above and to any employee or agent of our company or a predecessor of our company.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that in the opinion of the Securities and Exchange Commission, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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FEDERAL INCOME TAX CONSEQUENCES OF OUR STATUS AS A REIT

The following discussion is a summary of the material federal income tax considerations that may be relevant to a prospective holder of securities, and, unless otherwise noted in the following discussion, expresses the opinion of Andrews Kurth LLP insofar as it relates to matters of United States federal income tax law and legal conclusions with respect to those matters. The discussion does not address all aspects of taxation that may be relevant to particular investors in light of their personal investment or tax circumstances, or to certain types of investors that are subject to special treatment under the federal income tax laws, such as insurance companies, financial institutions or broker-dealers, tax-exempt organizations (except to the limited extent discussed in Taxation of Tax-Exempt Stockholders), foreign corporations and persons who are not citizens or residents of the United States (except to the limited extent discussed in Taxation of Non-U.S. Holders), investors who hold or will hold securities as part of hedging or conversion transactions, investors subject to federal alternative minimum tax, investors that have a principal place of business or tax home outside the United States and investors whose functional currency is not the United States dollar.

The statements of law in this discussion and the opinion of Andrews Kurth LLP are based on current provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing temporary and final Treasury regulations thereunder, and current administrative rulings and court decisions. No assurance can be given that future legislative, judicial, or administrative actions or decisions, which may be retroactive in effect, will not affect the accuracy of any statements in this prospectus with respect to the transactions entered into or contemplated prior to the effective date of such changes.

We urge you to consult your own tax advisor regarding the specific tax consequences to you of ownership of our securities and of our election to be taxed as a REIT. Specifically, we urge you to consult your own tax advisor regarding the federal, state, local, foreign, and other tax consequences of such ownership and election and regarding potential changes in applicable tax laws.

Taxation of Our Company

We are currently taxed as a REIT under the federal income tax laws. We believe that we are organized and operate in such a manner as to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to continue to qualify as a REIT. This section discusses the laws governing the federal income tax treatment of a REIT and its investors. These laws are highly technical and complex.

Andrews Kurth LLP has acted as our counsel in connection with the filing of this registration statement. In the opinion of Andrews Kurth LLP for the taxable years beginning September 5, 1985, and ending December 31, 2006, we qualified to be taxed as a REIT pursuant to sections 856 through 860 of the Code, and our organization and present and proposed method of operation enables us to meet the requirements for qualification and taxation as a REIT under the Code. Investors should be aware that Andrews Kurth LLP