UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2004

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Commission File Number 1-9819

Virginia	52-1549373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4551 Cox Road, Suite 300, Glen Allen, Virginia	23060-6740
(Address of principal executive offices)	(Zip Code)

(804) 217-5800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.
|X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). |_| Yes |X| No

As of July 31, 2004, the registrant had 12,162,391 shares of common stock outstanding with a par value of $.01 per share, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED
BALANCE SHEETS (UNAUDITED)
(amounts in thousands except share data)

	June 30, 2004	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 22,905	$ 7,386
Other assets	3,433	4,174
	26,338	11,560
Investments:		
Securitized finance receivables:		
Loans, net	1,422,878	1,518,613
Debt securities, available-for-sale	228,521	255,580
Other investments	35,258	37,903
Securities	25,007	33,275
Other loans	6,433	8,304
	1,718,097	1,853,675
	$ 1,744,435	$ 1,865,235
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse securitization financing	$ 1,589,596	$ 1,679,830
Repurchase agreements	17,330	23,884
Senior notes	823	10,049

	1,607,749	1,713,763
Accrued expenses and other liabilities	1,325	1,626
	1,609,074	1,715,389
Commitments and contingencies (Note 11)	-	-
SHAREHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, None and 493,595 shares issued and outstanding (None and $16,322 aggregate liquidation preference, respectively)	-	11,274
9.55% Cumulative Convertible Series B, None and 688,189 shares issued and outstanding (None and $23,100 aggregate liquidation preference, respectively)	-	16,109
9.73% Cumulative Convertible Series C, None and 684,893 shares issued and outstanding (None and $28,295 aggregate liquidation preference, respectively)	-	19,631
9.75% Cumulative Convertible Series D, 5,628,737 shares and none issued and outstanding ($57,535 and no aggregate liquidation preference, respectively)	55,670	-
Common stock, par value $.01 per share, 100,000,000 shares authorized, 12,162,391 and 10,873,903 shares issued and outstanding, respectively	122	109
Additional paid-in capital	366,897	360,684
Accumulated other comprehensive income (loss)	1,438	(3,882)
Accumulated deficit	(288,766)	(254,079)
	135,361	149,846
	$ 1,744,435	$ 1,865,235

See notes to unaudited condensed consolidated financial statements.
</TABLE>

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS
OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)
(amounts in thousands except share and per share data)

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Interest income:				
<S>	<C>	<C>	<C>	<C>
Securitized finance receivables	$ 32,469	$ 37,078	$ 65,355	$ 76,177
Securities	555	138	1,114	409
Other loans	163	127	333	253

Other investments	30	1,162	46	2,503
	33,217	38,505	66,848	79,342
Interest and related expense:				
Non-recourse securitization financing	27,555	28,824	54,427	57,927
Repurchase agreements and senior notes	83	730	325	984
Other	60	125	142	162
	27,698	29,679	54,894	59,073
Net interest margin before provision for loan losses	5,519	8,826	11,954	20,269
Provision for loan losses	(8,947)	(18,040)	(16,147)	(23,884)
Net interest margin	(3,428)	(9,214)	(4,193)	(3,615)
Impairment charges	(7,746)	(200)	(9,407)	(2,205)
Gain on sale of investments, net	20	556	4	1,010
Other income (expense)	216	23	(261)	40
General and administrative expenses	(2,015)	(2,151)	(4,483)	(4,172)
Net loss	(12,953)	(10,986)	(18,340)	(8,942)
Preferred stock benefit (charge)	2,045	(1,214)	854	9,230
Net (loss) income to common shareholders	$ (10,908)	$ (12,200)	$ (17,486)	$ 288
Change in net unrealized gain/(loss) on:				
Investments classified as available-for-sale during the period	3,056	2,355	3,315	2,981
Hedge instruments	1,924	(679)	2,005	(1,119)
Comprehensive loss	$ (7,973)	$ (9,310)	$ (13,020)	$ (7,080)
Net (loss) income per common share:				
Basic and diluted	$(0.95)	$(1.12)	$(1.59)	$0.03
Weighted average number of common shares outstanding:				
Basic and diluted	11,468,635	10,873,903	10,972,844	10,873,903

See notes to unaudited condensed consolidated financial statements.
</TABLE>

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS
OF CASH FLOWS (UNAUDITED)
(amounts in thousands)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Operating activities:		
Net loss	$ (18,340)	$ (8,942)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	16,147	23,884
Impairment charges	9,407	2,205
Gain on sale of investments	(4)	(1,010)
Amortization and depreciation	3,886	5,349
Net change in other assets, accrued expenses and other liabilities	2,096	(4,711)
Net cash and cash equivalents provided by operating activities	13,192	16,775
Investing activities:		
Principal payments received on securitized finance receivables	100,881	156,174
Payments received on other investments, securities and other loans	13,956	11,180
Proceeds from sales of securities and other investments	461	2,359
Purchase of or advances on investments	(1,308)	(3,508)
Other	(243)	177
Net cash and cash equivalents provided by investing activities	113,747	166,382
Financing activities:		
Principal payments on non-recourse securitization financing	(101,552)	(160,818)
Proceeds from issuance of bonds	7,377	-
Repayment of repurchase agreement borrowings	(5,731)	-
Repayment of senior notes	(10,049)	(4,010)
Retirement of preferred stock	(1,465)	(19,553)
Net cash and cash equivalents used for financing activities	(111,420)	(184,381)
Net increase (decrease) in cash and cash equivalents	15,519	(1,224)
Cash and cash equivalents at beginning of period	7,386	15,076

Cash and cash equivalents at end of period	$ 22,905	$ 13,852
Supplement disclosures of cash flow information:		
Cash paid for interest	$ 50,531	$ 55,104

See notes to unaudited condensed consolidated financial statements.
</TABLE>

DYNEX CAPITAL, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS June 30, 2004
(amounts in thousands except share and per share data)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the United States of America, hereinafter referred to as "generally accepted accounting principles," for complete financial statements. The condensed consolidated financial statements include the accounts of Dynex Capital, Inc. and its qualified real estate investment trust ("REIT") subsidiaries and taxable REIT subsidiary ("Dynex" or the "Company"). All inter-company balances and transactions have been eliminated in consolidation.

The Company follows the equity method of accounting for investments with greater than 20% and less than a 50% interest in partnerships when it is able to influence the financial and operating policies of the investee. For all other investments in partnerships, the cost method is applied.

The Company believes it has complied with the requirements for qualification as a REIT under the Internal Revenue Code (the "Code"). To the extent the Company qualifies as a REIT for federal income tax purposes, it generally will not be subject to federal income tax on the amount of its income or gain that is distributed as dividends to shareholders.

In the opinion of management, all significant adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the condensed consolidated financial statements have been included. The financial statements presented are unaudited. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 2003.

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The primary estimates inherent in the accompanying condensed consolidated financial statements are discussed below.

The Company uses estimates in establishing fair value for its financial instruments as discussed in Note 2.

The Company also has credit risk on certain investments in its portfolio as discussed in Note 5. An allowance for loan losses has been estimated and established for current existing losses based on management's judgment. The allowance for loan losses is evaluated and adjusted periodically by management based on the actual and projected timing and amount of credit losses. Provisions made to increase the allowance related to credit risk are presented as provision for loan losses in the accompanying condensed consolidated statements of operations. The Company's actual credit losses may differ from those estimates used to establish the allowance.

Certain reclassifications have been made to the financial statements for 2003 to conform to the presentation for 2004.

NOTE 2 - FAIR VALUE

Securities classified as available-for-sale are carried in the accompanying financial statements at estimated fair value. Securities are both fixed-rate and adjustable-rate. Estimates of fair value for securities are based on market prices provided by certain dealers, when available. Estimates of fair value for certain other securities, including securities pledged as securitized finance

receivables, are determined by calculating the present value of the projected cash flows of the instruments using market based assumptions such as the forward yield based on the forward Eurodollar curve and estimated market spreads to applicable indices for comparable securities, and using collateral based assumptions such as prepayment rates and credit loss assumptions based on the most recent performance and anticipated performance of the underlying collateral..

NOTE 3 - NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is presented on both a basic and diluted per common share basis. Diluted net income (loss) per common share assumes the conversion of the convertible preferred stock into common stock, using the if-converted method and stock appreciation rights to the extent that there are rights outstanding, using the treasury stock method, but only if these items are dilutive. The Series D preferred stock is convertible into one share of common stock for each share of preferred stock. The Series A, Series B and Series C preferred stock is convertible into one share of common stock for two shares of preferred stock.

The following table reconciles the numerator and denominator for both basic and diluted net income (loss) per common share for the three and six months ended June 30, 2004 and 2003.
<TABLE>
<CAPTION>

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	(Loss) Income	Weighted-Average Number Of Shares	(Loss) Income	Weighted-Average Number Of Shares	(Loss) Income	Weighted-Average Number Of Shares	(Loss) Income	Weighted-Average Number Of Shares
Net loss	$ (12,953)		$(10,986)		$ (18,340)		$ (8,942)	
Preferred stock benefit (charge)	2,045		(1,214)		854		9,230	
Net (loss) income to common shareholders	$ (10,908)	11,468,635	$(12,200)	10,873,903	$ (17,486)	10,972,844	$ 288	10,873,903
Net (loss) income per share:								
Basic and diluted		$(0.95)		$(1.12)		$(1.59)		$0.03
Reconciliation of shares not included in calculation of earnings per share due to anti-dilutive effect								
Series A	$ (48)	132,891	$ (289)	246,798	$ (337)	189,844	$ (675)	328,035
Series B	(134)	185,282	(403)	344,095	(537)	264,688	(940)	456,637
Series C	(167)	184,394	(500)	342,447	(666)	263,420	(1,169)	456,313
Series D	(1,263)	2,659,733	-	-	(1,263)	1,329,866	-	-
Expense and incremental shares of stock appreciation rights	-	21,119	-	19,933	-	21,067	-	19,933

	$ (1,612)	3,183,419	$ (1,192)	953,273	$ (2,803)	2,068,885	$ (2,784)	1,260,918

</TABLE>

NOTE 4 - SECURITIZED FINANCE RECEIVABLES

The following table summarizes the types of securitized finance receivables as of June 30, 2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Loans, at amortized cost	$ 1,472,346	$1,561,977
Allowance for loan losses	(49,468)	(43,364)
Loans, net	1,422,878	1,518,613
Debt securities, at fair value	228,521	255,580
	$ 1,651,399	$ 1,774,193

The following table summarizes the amortized cost basis, gross unrealized gains and losses and estimated fair value of debt securities pledged as securitized finance receivables as of June 30, 2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Debt securities, at amortized cost	$ 225,251	$ 255,462
Gross unrealized gains	3,270	118
Estimated fair value	$ 228,521	$ 255,580

The components of securitized finance receivables at June 30, 2004 and December 31, 2003 are as follows:
<TABLE>
<CAPTION>

	June 30, 2004			December 31, 2003		
	Loans, net	Debt Securities	Total	Loans, net	Debt Securities	Total
Collateral:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 746,852	$ -	$ 746,852	$ 758,144	$ -	$ 758,144
Manufactured housing	462,742	157,861	620,603	491,230	172,847	664,077
Single-family	267,798	65,156	332,954	317,631	80,468	398,099
	1,477,392	223,017	1,700,409	1,567,005	253,315	1,820,320
Allowance for loan losses	(49,468)	-	(49,468)	(43,364)	-	(43,364)
Funds held by trustees	131	383	514	131	147	278
Accrued interest receivable	9,335	1,458	10,793	9,878	1,594	11,472
Unamortized discounts and premiums, net	(14,512)	393	(14,119)	(15,037)	406	(14,631)
Unrealized gain, net	-	3,270	3,270	-	118	118

	$ 1,422,878	$ 228,521	$1,651,399	$1,518,613	$ 255,580	$ 1,774,193

</TABLE>

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The Company reserves for credit risk where it has exposure to losses on loans in its investment portfolio. The following table summarizes the aggregate activity for the allowance for loan losses on investments for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
Allowance at beginning of period	$ 43,364	$ 25,472
Provision for loan losses	16,147	23,884
Credit losses, net of recoveries	(10,043)	(9,645)
Allowance at end of period	$ 49,468	$ 39,711

An allowance for loan losses has been estimated and established for currently existing probable losses to the extent losses are borne by the Company under the terms of the securitization transaction. Factors considered in establishing an allowance include current loan delinquencies, historical cure rates of delinquent loans, and historical and anticipated loss severity of the loans as they are liquidated. The allowance for loan losses is evaluated and adjusted periodically by management based on the actual and estimated timing and amount of probable credit losses, using the above factors, as well as industry loss experience. Where loans are considered homogeneous, the allowance for losses are established and evaluated on a pool basis. Otherwise, the allowance for losses is established and evaluated on a loan-specific basis. Provisions made to increase the allowance are a current period expense to operations. Generally, the Company considers manufactured housing loans to be impaired when they are thirty days past due. The Company also provides an allowance for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired based on default trends, current market conditions and empirical observable performance data on the loans. Single-family loans are considered impaired when they are sixty days past due.

Commercial mortgage loans are considered impaired when they are thirty days past due, and are evaluated for impairment with the ratio of net operating income on the underlying collateral to the required debt service falls below 1:1. Once deemed impaired, loan losses on commercial mortgage loans are estimated based on several factors including the net operating income and estimated capitalization rates, or appraised value, if available. The following table presents certain information on commercial mortgage loans that the Company has determined to be impaired. Impaired loans at June 30, 2004 declined from December 31, 2003 based on the repayment in full in July and August 2004 of approximately $70 million of loans previously considered impaired, and the reclassification of loans previously considered impaired based on the improved performance of the underlying loan collateral, or if the loan is collateralized by low income housing tax credit properties.

<TABLE>
<CAPTION>

<S>	Recorded Investment in Impaired Loans <C>	Amount for which there is a Related Allowance for Credit Losses <C>	Amount for which there is no Related Allowance for Credit Losses <C>
December 31, 2003	$ 191,484	$ 10,861	$ 180,623
June 30, 2004	80,556	16,395	64,161

</TABLE>

NOTE 6 - OTHER INVESTMENTS

The following table summarizes the Company's other investments as of June 30,

2004 and December 31, 2003:
<TABLE>
<CAPTION>

<S>	June 30, 2004 <C>	December 31, 2003 <C>
Delinquent property tax receivables and securities, at amortized cost	$ 33,186	$ 34,939
Real estate owned	2,070	2,960
Other	2	4
	$ 35,258	$ 37,903

</TABLE>

At June 30, 2004 and December 31, 2003, the Company has real estate owned with a current carrying value of $2,070 and $2,960, respectively, resulting from foreclosures on delinquent property tax receivables and securities. During the six months ended June 30, 2004 and 2003, the Company collected an aggregate of $3,892 and $5,850, respectively, on delinquent property tax receivables and securities, including net sales proceeds from related real estate owned. The Company also accrued interest income of none and $2,444, respectively, during such periods. Delinquent property tax securities included in other investments are classified as held-to-maturity and are carried at amortized cost.

NOTE 7 - SECURITIES

The following table summarizes Dynex's amortized cost basis of securities classified as held-to-maturity and fair value of securities classified as available-for-sale, as of June 30, 2004 and December 31, 2003, and the effective interest rate of these securities as of the respective period end:
<TABLE>
<CAPTION>

	June 30, 2004		December 31, 2003	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
Securities, available-for-sale:				
<S>	<C>	<C>	<C>	<C>
Fixed-rate mortgage securities	$ 21,592	7.88%	$ 29,713	7.79%
Mortgage-related securities	46	-	54	-
Equity security, at amortized cost	3,000		3,000	
	24,638		32,767	
Gross unrealized gains	366		517	
Gross unrealized losses	(576)		(810)	
Securities, available-for-sale	24,428		32,474	
Asset-backed security, held-to-maturity	579		801	
	$ 25,007		$ 33,275	

</TABLE>

NOTE 8 - REPURCHASE AGREEMENTS AND SENIOR NOTES

The following table summarizes Dynex's recourse debt outstanding at June 30, 2004 and December 31, 2003:

	June 30, 2004	December 31, 2003
Repurchase agreements	$ 17,330	$ 23,884
9.50% Senior Notes (due 2/28/2005)	-	10,049

9.50% Senior Notes (due 4/30/2007)	823	-
	$ 18,153	$ 33,933

Repurchase agreements are collateralized by securities with a fair value of $19,319 and $26,517 as of June 30, 2004, and December 31, 2003, respectively.

NOTE 9 - PREFERRED STOCK

On May 19, 2004, the Company completed a shareholder approved recapitalization resulting in the exchange of all of its outstanding shares of its Series A, Series B, and Series C preferred stock for $823 of Senior Notes due 2007, and the conversion of the remaining shares of Series A, Series B, and Series C preferred stock into 5,628,737 shares of Series D preferred stock and 1,288,488 shares of common stock. As a result of the completion of the recapitalization, the dividend arrearage on the three existing classes of Series A, Series B and Series C preferred stock was eliminated. The Series D preferred stock has an issue price of $10 per share, currently pays $0.2375 per share in quarterly dividends, and each share is convertible into one share of common stock.

As of June 30, 2004 and December 31, 2003, the total liquidation preference on the Preferred Stock was $57,535 and $67,717, respectively. Individually, the amount of accrued dividends on the Series D shares were $1,248 ($0.22 per Series D share) at June 30, 2004 and dividends in arrears on the Series A, the Series B, the Series C shares were $4,476 ($9.07 per Series A share), $6,240 ($9.07 per Series B share) and $7,750 ($11.32 per Series C share), respectively at December 31, 2003.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into an interest rate swap agreement which matures on June 28, 2005, to mitigate its interest rate risk exposure on $100,000 in notional value of its variable rate non-recourse securitization financing, which finance a like amount of fixed rate assets. Under the agreement, the Company will pay interest at a fixed rate of 3.73% on the notional amount and will receive interest based on the one-month London Inter-Bank Offering Rate ("LIBOR") on the same amount. This contract has been treated as a cash flow hedge with the changes in the value of the hedge being reported as a component of accumulated other comprehensive income. During the six months ended June 30, 2004, the Company recognized $1,624 in other comprehensive gain on this hedge instrument and incurred $1,328 of interest expense related to net payments made on the interest-rate swap. At June 30, 2004, the aggregate accumulated other comprehensive loss on this hedge instrument was $1,314. As the repricing dates, interest rate indices and formulae for computing net settlements of the interest rate swap agreement match the corresponding terms of the underlying securitization financing being hedged, no ineffectiveness is assumed on this agreement and, accordingly, any prospective gains or losses are included in other comprehensive income until the interest rate swap payments are settled. Based on the forward LIBOR curve as of June 30, 2004, over the next twelve months, the Company expects to reclassify $1,314 of this other comprehensive loss to interest expense.

In October 2002, the Company entered into a synthetic three-year amortizing interest-rate swap with an initial notional balance of approximately $80,000 to mitigate its exposure to rising interest rates on a portion of its variable rate non-recourse securitization financing, which finance a like amount of fixed rate assets. This contract is accounted for as a cash flow hedge with gains and losses associated with the change in the value of the hedge being reported as a component of accumulated other comprehensive income. At June 30, 2004, the current notional balance of the amortizing synthetic swap was $29,000, and the remaining weighted-average fixed-rate payable by the Company under the terms of the synthetic swap was 2.68%. The synthetic swap amortizes through September 2005. During the six months ended June 30, 2004, the Company recognized $367 in other comprehensive gain for the synthetic interest-rate swap and incurred $303 of interest expense related to net payments made on this position. At June 30, 2004, the aggregate accumulated other comprehensive loss was $307. The Company evaluated the effectiveness of this hedge in mitigating its interest rate risk and determined that there was no material ineffectiveness to reflect in earnings. Based on the forward Eurodollar curve as of June 30, 2004, over the next twelve months the Company expects to reclassify $288 into earnings.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

GLS Capital, Inc. ("GLS"), a subsidiary of the Company, together with the County of Allegheny, Pennsylvania ("Allegheny County"), were defendants in a lawsuit in the Commonwealth Court of Pennsylvania (the "Commonwealth Court"), the appellate court of the state of Pennsylvania. Plaintiffs were two local businesses seeking status to represent as a class, delinquent taxpayers in Allegheny County whose delinquent tax liens had been assigned to GLS. Plaintiffs challenged the right of Allegheny County and GLS to collect certain interest, costs and expenses related to delinquent property tax receivables in Allegheny County, and whether the County had the right to assign the delinquent property tax receivables to GLS and therefore employ procedures for collection enjoyed by Allegheny County under state statute. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of GLS to charge to the delinquent taxpayer a rate of interest of 12% per annum versus 10% per annum on the collection of its delinquent property tax receivables, (ii) the charging of a full month's interest on a partial month's delinquency; (iii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iv) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court in its opinion remanded for further consideration to the lower trial court items (i), (ii) and (iv) above, and ruled that neither Allegheny County nor GLS had the right to charge attorney's fees to the delinquent taxpayer related to the collection of such tax receivables. The Commonwealth Court further ruled that Allegheny County could assign its rights in the delinquent property tax receivables to GLS, and that plaintiffs could maintain equitable class in the action. In October 2001, GLS, along with Allegheny County, filed an Application for Extraordinary Jurisdiction with the Supreme Court of Pennsylvania, Western District appealing certain aspects of the Commonwealth Court's ruling. In March 2003, the Supreme Court issued its opinion as follows: (i) the Supreme Court determined that GLS can charge delinquent taxpayers a rate of 12% per annum; (ii) the Supreme Court remanded back to the lower trial court the charging of a full month's interest on a partial month's delinquency; (iii) the Supreme Court revised the Commonwealth Court's ruling regarding recouping attorney fees for collection of the receivables indicating that the recoupment of fees requires a judicial review of collection procedures

used in each case; and (iv) the Supreme Court upheld the Commonwealth Court's ruling that GLS can charge certain fees and costs, while remanding back to the lower trial court for consideration the facts of each individual case. Finally, the Supreme Court remanded to the lower trial court to determine if the remaining claims can be resolved as a class action In August 2003, the Pennsylvania legislature signed a bill amending and clarifying certain provisions of the Pennsylvania statute governing GLS' right to the collection of certain interest, costs and expenses. The law is retroactive to 1996, and amends and clarifies that as to items (ii)-(iv) noted above by the Supreme Court, that GLS can charge a full month's interest on a partial month's delinquency, that GLS can charge the taxpayer for legal fees, and that GLS can charge certain fees and costs to the taxpayer at redemption. The issues remanded back to the Trial Court are currently on hold as the Court addresses the challenge made to the retroactive components of the legislation. The test case being used to decide this issue is one that is unrelated to GLS. Specific damages related to the issues remanded back to the Trial Court have not been determined, and the Company believes that the ultimate outcome of this litigation will not have a material impact on its financial condition, but may have a material impact on reported results for the particular period presented.

The Company and Dynex Commercial, Inc. ("DCI"), formerly an affiliate of the Company and now known as DCI Commercial, Inc., are defendants in state court in Dallas County, Texas in the matter of Basic Capital Management, et. al. v. Dynex Commercial, Inc., et. al. The suit was filed in April 1999, originally against DCI. In March 2000, Basic Capital Management (hereafter "BCM") amended the complaint and added the Company as a defendant. The complaint, which was further amended during pretrial proceedings, alleged that, among other things, DCI and the Company failed to fund tenant improvement or other advances allegedly required on various loans made by DCI to BCM, which loans were subsequently acquired by the Company; that DCI breached an alleged $160,000 "master" loan commitment entered into in February 1998; and that DCI breached another alleged loan commitment of approximately $9,000. The trial commenced in January 2004 and in February 2004, the jury in the case rendered a verdict in favor of one of the plaintiffs and against the Company on the alleged breach of the loan agreements for tenant improvements, and awarded that plaintiff damages in the amount of $253. The jury entered a separate verdict against DCI in favor of BCM under two mutually-exclusive damage models, for $2,200 and $25,600, respectively. The jury found in favor of DCI on the alleged $9,000 loan commitment, but did not find in favor of DCI for counterclaims made against BCM. The jury also awarded the plaintiffs attorneys' fees in the amount of $2,100. On June 29, 2004, after considering post-trial motions, the presiding judge entered judgment in favor of the Company and DCI, effectively overturning the verdicts of the jury and dismissing damages awarded by the jury. The trial court upheld the Company and DCI's position that the evidence and the jury verdict did not support a judgment against the Company and DCI in the litigation. The plaintiffs have subsequently filed motions with the trial court seeking a new trial. DCI is a former affiliate of the Company, and the Company believes that it will have no obligation for amounts, if any, awarded to the plaintiffs as a result of the actions of DCI.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, the Company believes the resolution of these lawsuits will not have a material effect on the Company's consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

NOTE 12 - RECENT ACCOUNTING PRONOUNCEMENTS

In March 2004, the Emerging Issues Task Force ("EITF") amended and ratified previous consensus reached on EITF 03-01, "The Meaning of Other-Than-Temporary Impairment", to introduce a three-step model to: 1) determine whether an investment is impaired; 2) evaluate whether the impairment is other-than-temporary; and 3) account for other-than-temporary impairments. In part, this amendment requires companies to apply qualitative and quantitative measures to determine whether a decline in the fair value of a security is other-than-temporary. The amount of other-than-temporary impairments to be recognized, if any, will be dependent on market conditions and management's intentions and ability at the time of evaluation to hold underwater investments until forecasted recovery in the fair value up to and beyond the adjusted cost. This amendment is effective for financial periods beginning after June 15, 2004. The Company has reviewed this statement and does not believe that its adoption will have a significant impact on its financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Dynex Capital, Inc. was incorporated in the Commonwealth of Virginia in 1987. References to "Dynex" or "the Company" contained herein refer to Dynex Capital, Inc. together with its qualified real estate investment trust (REIT) subsidiaries and taxable REIT subsidiary. Dynex is a financial services company, which invests in loans and securities consisting of or secured by, principally single-family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. The loans and securities in which the Company invests have generally been pooled and pledged (i.e. securitized) as securitized finance receivables for non-recourse bonds ("non-recourse securitization financing"), which provides long-term financing for such loans while limiting credit, interest rate and liquidity risk. The Company earns the net interest spread between the interest income on the loans and securities in its investment portfolio and the interest and other expenses associated with the non-recourse securitization financing. The Company also services its delinquent property tax receivables portfolio. The Company's primary focus is to manage cash flow on its existing investment portfolio, and opportunistically investing its capital, primarily in securitization financing bonds where the Company owns optional redemption rights to redeem these bonds at par where the bonds have fair values exceeding their par price as further discussed below.

The Company has elected to be treated as a REIT for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and, as such, must distribute substantially all of its taxable income to shareholders. Provided that the Company meets all of the prescribed Internal Revenue Code requirements for a REIT, the Company will generally not be subject to federal income tax.

The Company owns the right to call securitization financing previously issued and sold by the Company once the outstanding balance of such securities reaches a call trigger, generally either 35% or less of the original amount issued, or a specified date. Interest rates on the bonds issued in the securitization financing increase by 0.30%-2.00% if the bonds are not redeemed by the Company. On April 26, 2004, the Company redeemed the senior-most bond classes with an aggregate principal balance of $154.8 million, in its MERIT Series 12 securitization and reissued the bonds at a $7.4 million premium to the Company. In addition, MERIT Series 13 reaches its optional redemption date in August 2004, and the senior-most bond classes in this securitization financing will have an estimated aggregate principal balance of approximately $140 million. As of the end of the second quarter, the Company estimates the value of these senior-most bond classes to be approximately $4 million in excess of their purchase price, and its currently attempting to structure a resecuritization of these bonds where the Company would retain a subordinate interest of as much as $15 million in the new securitization which would have an estimated yield of approximately 15%. The Company's SASCO 2002-9 securitization financing is projected to reach a call trigger during the first quarter of 2005 with an aggregate callable balance of approximately $200 million at that time. The Company may or may not elect to call all or part of this securitization, or other securitizations, when eligible to call.

On May 19, 2004, the Company completed a recapitalization plan whereby the Company converted the Series A, Series B, and Series C preferred stock into a new Series D preferred stock and common stock. As part of the recapitalization plan, the Company exchanged 9.50% Senior Notes due 2007 for Series A, Series B and Series C preferred stock. The remaining Series A, Series B and Series C preferred stock were converted into 5,628,737 shares of Series D preferred stock and 1,288,488 shares of common stock. The Series D preferred stock had an issue price of $10 per share and pays $0.95 per year in dividends. All prior dividends-in-arrears on the Series A, Series B and Series C preferred stock were extinguished. Interest on the senior notes and dividends on the Series D preferred stock began to accrue on April 7, 2004. As a result of the recapitalization, the Company's book value per common share decreased by $0.21 per share. Common stock outstanding after the recapitalization transaction closed increased from 10,873,903 to 12,162,391 shares.

The Company believes that the successful completion of the recapitalization plan will be instrumental in its ability to pursue strategic alternatives, access additional sources of capital, enhance overall shareholder value, and provide

preferred shareholders with increased liquidity for their shares. Beyond the recapitalization plan, the Company's primary focus has been and will continue to be on maximizing cash flows from its investment portfolio and opportunistically calling securities pursuant to clean-up calls if the underlying collateral has value for the Company. Longer term, the Board of Directors will continue to evaluate alternatives for the use of the Company's cash flow in an effort to improve overall shareholder value. Such evaluation may include a number of alternatives, including the acquisition of a new business. In addition, given the availability of tax net operating loss carryforwards, the Company could forego its REIT status in connection with the introduction of a new business plan, if such business plan included activities not traditionally associated with REITs, or that are prohibited or otherwise restricted for REITs.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's financial condition and results of operations are based in large part upon its consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Critical accounting policies are defined as those that are reflective of significant judgments or uncertainties, and which may result in materially different results under different assumptions and conditions, or the application of which may have a material impact on the Company's financial statements. The following are the Company's critical accounting policies.

Consolidation of Subsidiaries. The consolidated financial statements represent the Company's accounts after the elimination of inter-company transactions. The Company follows the equity method of accounting for investments with greater than 20% and less than a 50% interest in partnerships and corporate joint ventures when it is able to influence the financial and operating policies of the investee. For all other investments, the cost method is applied.

Impairments. The Company evaluates all securities in its investment portfolio for other-than-temporary impairments. A security is generally defined to be other-than-temporarily impaired if, for a maximum period of three consecutive quarters, the carrying value of such security exceeds its estimated fair value and the Company estimates, based on projected future cash flows or other fair value determinants, that the carrying value is not likely to exceed fair value in the foreseeable future. A security will be considered other-than-temporarily impaired sooner than three consecutive quarters if the security is subject to credit losses, and credit performance of such collateral has deteriorated and is not anticipated to substantially recover for the foreseeable future. If an other-than-temporary impairment is deemed to exist, the Company records an impairment charge to adjust the carrying value of the security down to its estimated fair value. In certain instances, as a result of the other-than-temporary impairment analysis, the recognition or accrual of interest will be discontinued and the security will be placed on non-accrual status.

The Company considers an investment to be impaired if the fair value of the investment is less than its recorded cost basis. Impairments of other investments are considered other-than-temporary when the Company determines that the collection trends indicate the investment is not recoverable. The impairment recognized on other investments is the difference between the book value of the investment and the expected collections less collection costs.

Allowance for Loan Losses. The Company has credit risk on loans pledged in securitization financing transactions and classified as securitized finance receivables in its investment portfolio. An allowance for loan losses has been estimated and established for currently existing probable losses to the extent losses are borne by the Company under the terms of the securitization transaction. Factors considered in establishing an allowance include current loan delinquencies, historical cure rates of delinquent loans, and historical and anticipated loss severity of the loans as they are liquidated. The allowance for loan losses is evaluated and adjusted periodically by management based on the actual and estimated timing and amount of probable credit losses, using the above factors, as well as industry loss experience. Where loans are considered homogeneous, the allowance for losses are established and evaluated on a pool basis. Otherwise, the allowance for losses is established and evaluated on a loan-specific basis. Provisions made to increase the allowance are a current period expense to operations. Generally, the Company considers manufactured housing loans to be impaired when they are thirty days past due. The Company also provides an allowance for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which

the Company has determined to be impaired based on default trends, current market conditions and empirical observable performance data on the loans. Single-family loans are considered impaired when they are sixty days past due.

Commercial mortgage loans are evaluated on a loan by loans basis for impairment. Generally, commercial mortgage loans with a debt service coverage ratio less than 1:1, except loans secured by low income housing tax credit properties are considered impaired. Based on the specific details of a loan, loans with a debt service coverage ratio greater than 1:1 may be considered impaired; conversely, loans with a debt service coverage ratio less than 1:1 may not be considered impaired. Low income housing tax credit properties are deemed impaired when such loans are thirty days past due or if the underlying property is near the expiration of its tax credit compliance period and the debt service coverage ratio is below 1:1. A range of loss severity assumptions are applied to these impaired loans to determine the level of reserves necessary. Certain of the commercial mortgage loans are covered by loan guarantees that limit the Company's exposure on these loans. The level of allowance for loan losses required for these loans is reduced by the amount of applicable loan guarantees. The Company's actual credit losses may differ from those estimates used to establish the allowance.

FINANCIAL CONDITION

(amounts in thousands except per share data)	June 30, 2004	December 31, 2003
Investments:		
Securitized finance receivables:		
Loans, net	$ 1,422,878	$ 1,518,613
Debt securities, available-for-sale	228,521	255,580
Other investments	35,258	37,903
Securities	25,007	33,275
Other loans	6,433	8,304
Non-recourse securitization financing	1,589,596	1,679,830
Repurchase agreements	17,330	23,884
Senior notes	823	10,049
Shareholders' equity	135,361	149,846
Book value per common share (inclusive of dividends in arrears)	6.40	7.55

Securitized finance receivables. As of June 30, 2004, the Company had 20 series of non-recourse securitization financing outstanding. Loans, net decreased to $1.42 billion at June 30, 2004 compared to $1.52 billion at December 31, 2003. This decrease of $95.7 million is primarily the result of $79.6 million in principal paydowns on the securitized finance receivables, $16.1 million of additions to allowance for loan losses and decreases of accrued interest receivables of $0.5 million, partially offset by $0.5 million of net premium amortization. Debt securities decreased to $228.5 million at June 30, 2004 compared to $255.6 million at December 31, 2003. This decrease of $27.1 million is primarily the result of $21.3 million in principal paydowns on the securitized finance receivables, $9.1 million of impairment charges, partially offset by $3.2 million of market value adjustments and $0.1 million of other increases.

Other investments. Other investments at June 30, 2004 consist primarily of delinquent property tax receivables. Other investments decreased from $37.9 million at December 31, 2003, to $35.3 million at June 30, 2004. This decrease is primarily the result of pay-downs of delinquent property tax receivables, which totaled $3.5 million, and sales of real estate owned properties of $0.5 million. These decreases were partially offset by additional advances for collections of $1.8 million.

Other loans. Other loans decreased by $1.9 million from $8.3 million at December

31, 2003, to $6.4 million at June 30, 2004, principally as the result of pay-downs during the quarter.

Securities. Securities decreased during the six months ended June 30, 2004 by $8.3 million, to $25.0 million at June 30, 2004 from $33.3 million at December 31, 2003 due primarily to principal payments on the securities.

Non-recourse securitization financing. Non-recourse securitization financing decreased $90.2 million; from $1.7 billion at December 31, 2003 to $1.6 billion at June 30, 2004. This decrease was primarily a result of principal payments received of $100.9 million on the associated securitized finance receivables pledged which were used to pay down the non-recourse securitization financing in accordance with the respective indentures. Additionally, for certain securitizations, surplus cash in the amount of $1.5 million was retained within the security structure and used to cover losses, as certain performance triggers were not met in such securitizations. These decreases were partially offset by the addition of $7.4 million of premium on the call and reissue of a securitization financing and $4.0 million of amortization of bond premium during the six months ended June 30, 2004.

Senior notes. Of the $32.1 million of February 2005 Senior Notes issued in exchange for Preferred Stock in February 2003, the $10.0 million remaining balance was paid in March 2004. In conjunction with the recapitalization plan completed in May 2004, $0.8 million of 9.50% Senior Notes due April 2007 were issued in exchange for Series A, Series B, and Series C preferred shares.

Shareholders' equity. Shareholders' equity decreased to $135.4 million at June 30, 2004, from $149.8 million at December 31, 2003. This decrease was primarily the result of a net loss of $18.3 million and a net decrease of $1.5 million resulting from the issues costs of and shares tendered for senior notes in connection with the recapitalization transaction completed in May 2004, partially offset by a net increase in accumulated other comprehensive income of $5.3 million. The increase in accumulated other comprehensive income is comprised of an increase in unrealized gain on investments available-for-sale of $3.3 million and $2.0 million of other comprehensive income from hedging instruments during the period.

RESULTS OF OPERATIONS

<TABLE>
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(amounts in thousands except per share information)	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Net interest margin before provision for losses	$ 5,519	$ 8,826	$ 11,954	$ 20,269
Net interest margin	(3,428)	(9,214)	(4,193)	(3,615)
Impairment charges	(7,746)	(200)	(9,407)	(2,205)
Gain on sales of investments, net	20	556	4	1,010
General and administrative expenses	(2,015)	(2,151)	(4,483)	(4,172)
Net loss	(12,953)	(10,986)	(18,340)	(8,942)
Preferred stock benefit (charge)	2,045	(1,214)	854	9,230
Net (loss) income to common shareholders	(10,908)	(12,200)	(17,486)	288
Net (loss) income per common share:				
Basic	$(0.95)	$(1.12)	$(1.59)	$0.03

</TABLE>

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003. Net loss and net (loss) income per common share decreased during the three months ended June 30, 2004 as compared to the same period in 2003. The decrease in net loss is primarily the result of decreased additions of $9.1 million to provision for loan losses. Included in this reduction is $14.4 million in provision for loan losses recorded in June 2003 specifically for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired. As a partial offset to the decrease in provision for loan losses, net margin before provision for loan losses decreased by $3.3 million. Offsetting this improvement in net income was increased impairment charges of approximately $7.7 million and reduced net gains on sales of investments of $0.5 million for the three months ended June 30, 2004 compared to the same periods in 2003. Net loss to common shareholders decreased by $1.3 million or $0.17 per common share, from a loss of

$12.2 million for the three months ended June 30, 2003 to a loss of $10.9 million for the same period in 2004, mostly due to the net effect preferred stock benefits from the recapitalization completed in May 2004 offset by a $7.6 million impairment of debt securities backed primarily by manufactured housing loans.

Net interest margin for the three months ended June 30, 2004 increased to $(3.4) million from $(9.2) million for the same period in 2003. This increase was primarily the result of lower provision for loan losses for 2004 including the $14.4 million addition to provision for loan losses in 2003, as discussed above. Net interest margin was negatively impacted during the three months ended June 30, 2004 by a decline in net interest spread and a decline in interest earning assets compared to the three months ended June 30, 2003.

Impairment charges increased by $7.6 million for the three months ended June 30, 2004 from the same period last year on debt securities pledged as securitized finance receivables and comprised largely of manufactured housing loans. Impairment of these debt securities is determined as the difference between the fair value of the security, as measured by discounting the cash flows of the security certificates utilizing prepayment and loan loss rate assumptions, at discount rates that a market participant would use, and the book value of those securities. The fair value of these debt securities has declined during the second quarter 2004 as the result of an increase in losses during the quarter which is not anticipated to improve for the foreseeable future. The Company believes that market participants will use the higher loss rate assumptions in evaluating the fair value of these securities.

General and administrative expense decreased slightly by $0.1 million to $2.0 million for the three months ended June 30, 2004 compared to the same period in 2003.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003. Net loss and net loss per common share increased during the six months ended June 30, 2004 as compared to the same period in 2003. The increase in net loss is primarily the result of decreased net interest margin, increased impairment charges, and decreased gain on sale of investments. Additions to provision for loan losses decreased by $7.7 million during the six months ended June 30, 2004 compared to the same period in 2003. Included in this amount is $14.4 million in provision for loan losses recorded in June 2003 specifically for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired. Net income to common shareholders decreased from $0.3 million for the six months ended June 30, 2003 to a loss of $17.5 million for the six months ended June 30, 2004, mostly due to the net effect of preferred stock benefits from the tender offer completed in February 2003 and the recapitalization completed in May 2004 offset by a $9.1 million impairment of a debt security backed primarily by manufactured housing loans.

Net interest margin for the six months ended June 30, 2004 decreased to $(4.2) million from $(3.6) million for the same period in 2003. This decrease was primarily the result of a $8.3 million decrease in net interest margin before provision for loan losses. Net interest margin before provision for loan losses was negatively impacted during the six months ended June 30, 2004 by a decline in net interest spread and a decline in interest earning assets compared to the six months ended June 30, 2003. This decline in net interest margin before provision for loan losses was partially offset by decreased provisions for loan losses, mostly due to the $14.4 million addition to provisions for loan losses on current loans recorded in 2003.

Impairment charges increased by $7.2 million for the six months ended June 30, 2004 from the same period last year. This increase was primarily a result of losses on debt securities pledged as securitized finance receivables and comprised largely of manufactured housing loans. Impairment of these debt securities is determined as the difference between the fair value of the security, as measured by discounting the cash flows of the security certificates utilizing prepayment and loan loss rate assumptions, at discount rates that a market participant would use, and the book value of those securities. The fair value of these debt securities has declined during the second quarter 2004 as the result of an increase in losses during the quarter which is not anticipated to improve for the foreseeable future. The Company believes that market participants will use the higher loss rate assumptions in evaluating the fair value of these securities.

General and administrative expense increased slightly by $0.3 million to $4.5 million for the six months ended June 30, 2004 compared to the same periods in 2003. This increase was primarily the result of litigation related expenses in connection with the litigation discussed in Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements.

The following table summarizes the average balances of interest-earning assets and their average effective yields, along with the average interest-bearing liabilities and the related average effective interest rates, for each of the periods presented.

Average Balances and Effective Interest Rates

<TABLE>
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	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
(amounts in thousands)	Average Balance	Effective Rate	Average Balance	Effective Rate	Average Balance	Effective Rate	Average Balance	Effective Rate
Interest-earning assets(1):								
Securitized finance								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
receivables(2) (3)	$1,707,230	7.61%	$1,986,849	7.46%	$1,737,618	7.52%	$2,027,677	7.51%
Securities	24,211	7.87%	3,377	16.34%	26,310	7.87%	4,523	18.09%
Other loans	6,757	9.68%	8,298	6.13%	7,492	8.90%	8,526	5.94%
Cash and other investments	15,545	0.77%	61,608	7.55%	12,092	0.76%	62,716	7.98%
Total interest-earning assets	$1,753,743	7.56%	$2,060,132	7.48%	$1,783,512	7.49%	$2,103,442	7.54%
Interest-bearing liabilities:								
Non-recourse securitization financing(3)	$1,602,163	6.71%	$1,863,400	6.02%	$1,627,252	6.54%	$1,902,524	5.96%
Repurchase agreements	20,103	1.40%	-	-	21,438	1.42%	-	-
Senior notes	549	9.50%	30,699	9.51%	3,624	9.50%	20,696	9.51%
Total interest-bearing liabilities	$1,622,815	6.64%	$1,894,099	6.08%	$1,652,314	6.48%	$1,923,220	6.00%
Net interest spread on all investments(3)		0.92%		1.40%		1.01%		1.54%
Net yield on average interest-earning assets(3)		1.41%		1.88%		1.49%		2.06%

</TABLE>

(1) Average balances exclude adjustments made in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" to record available-for-sale securities at fair value.
(2) Average balances exclude funds held by trustees of $509 and $370 for the three months ended June 30, 2004 and 2003, respectively, and $422 and $435 for the six months ended June 30, 2004 and 2003, respectively.
(3) Effective rates are calculated excluding non-interest related collateralized bond expenses. If included, the effective rate on interest-bearing liabilities would be 6.83% and 6.26% for the three months ended June 30, 2004 and 2003, respectively, and 6.64% and 6.14% for the six months ended June 30, 2004 and 2003, respectively

The net interest spread decreased 48 basis points to 92 basis points for the three months ended June 30, 2004, from 140 basis points for the same period in 2003 (each basis point is 0.01%). The net interest spread for the six months ended June 30, 2004 also decreased relative to the same period in 2003, to 101 basis points from 154 basis points. The decrease in the Company's net interest spread for both periods can be generally attributed to the resetting of interest rates on adjustable rate mortgage loans in the Company's investment portfolio and the prepayment of higher rate loans in that portfolio which together caused a decline in interest earning asset yield of 47 basis points and 57 basis points for the three and six month comparative periods, respectively. The majority of the Company's variable-rate interest-bearing liabilities are indexed relative to One-Month LIBOR. Interest-bearing liability costs increased 56 basis points and 48 basis points for the three and six month periods ended June 30, 2004, respectively, primarily as a result of an adjustment of discount amortization arising from the expected sale of eighteen loans in the commercial loan portfolio. In addition, as two higher rated bonds paid off during the period, more cash flowed to the lower rated bond classes in the waterfall structure, whose interest rates are approximately 25 basis points higher. The Company currently finances approximately $187 million of the fixed-rate assets with non-recourse LIBOR based floating-rate liabilities. In June 2002, the Company, through the use of an interest-rate swap, converted $100 million of such floating-rate liabilities into fixed rate, in effect locking the spread in for that portion of fixed rate assets financed with floating rate liabilities. Under the swap, the Company pays a fixed rate of 3.73% and receives one-month LIBOR. In October 2002, the Company created an amortizing synthetic swap through the short sale of a string of Eurodollar futures contracts, with an initial effective notional balance of approximately $80 million, amortizing over a three-year period. At June 30, 2004, the notional amount of this synthetic amortizing swap was $29 million.

The Company would expect its net interest spread on its interest-earning assets for the balance of 2004 to continue to decrease as rates on adjustable-rate assets in the investment portfolio continue to adjust downward and as borrowing costs increase as the Federal Reserve continues to increase the Federal Funds target rate going forward. The average One-Month LIBOR rate declined to 1.15% and 1.13% for the three and six month periods ended June 30, 2004, respectively, from 1.26% and 1.30% for the three and six month periods ended June 30, 2003. One-Month LIBOR has increased from 1.12% at year-end 2003 to 1.37% at June 30, 2004.

Interest Income and Interest-Earning Assets. At June 30, 2004, $1.4 billion of the investment portfolio consists of loans and securities which pay a fixed-rate of interest, and approximately $298.5 million of the investment portfolio is comprised of loans and securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. The Company finances its investment portfolio with principally non-recourse securitization financing. At June 30, 2004, approximately $1.1 billion of fixed-rate bonds and $467 million of adjustable rate bonds were outstanding. The following table presents a breakdown, by principal balance, of the Company's securitized finance receivables and ARM and fixed mortgage securities by type of underlying loan. This table excludes mortgage-related securities, other investments and other loans.

Investment Portfolio Composition(1)

<TABLE>
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($ in millions)	LIBOR Based ARM Loans	CMT Based ARM Loans	Other Indices Based ARM Loans	Fixed-Rate Loans	Total
<C>	<C>	<C>	<C>	<C>	<C>
2003, Quarter 2	$ 316.9	$ 59.6	$ 49.9	$ 1,564.9	$ 1,991.3
2003, Quarter 3	288.8	53.4	48.2	1,519.2	1,909.6
2003, Quarter 4	258.2	48.8	45.4	1,512.2	1,864.6
2004, Quarter 1	235.3	46.5	45.0	1,479.0	1,805.8
2004, Quarter 2	215.8	41.9	40.8	1,443.1	1,741.6

</TABLE>

(1) Includes only the principal amount of securitized finance receivables, ARM securities and fixed-rate mortgage securities.

Credit Exposures. The Company invests in non-recourse securitization financing or pass-through securitization structures. Generally these securitization structures use over-collateralization, subordination, third-party guarantees, reserve funds, bond insurance, mortgage pool insurance or any combination of the foregoing as a form of credit enhancement. The Company generally has retained a limited portion of the direct credit risk in these securities. In most instances the Company retained the "first-loss" credit risk on pools of loans that it has securitized.

The following table summarizes the aggregate principal amount of securitized finance receivables and securities outstanding; the direct credit exposure retained by the Company (represented by the amount of over-collateralization pledged and subordinated securities owned by the Company), net of the credit reserves and discounts maintained by the Company for such exposure; and the actual credit losses incurred for each year.

The table excludes other forms of credit enhancement from which the Company benefits, and based upon the performance of the underlying loans, may provide additional protection against losses. These additional protections include loss reimbursement guarantees with a remaining balance of $27.5 million and a remaining deductible aggregating $0.2 million on $40.9 million of securitized single-family mortgage loans which are subject to such reimbursement agreements; guarantees aggregating $21.8 million on $295.3 million of securitized commercial mortgage loans, whereby losses on such loans would need to exceed the respective guarantee amount before the Company would incur credit losses; and $138.6 million of securitized single family mortgage loans which are subject to various mortgage pool insurance policies whereby losses would need to exceed the remaining stop loss of at least 62% on such policies before the Company would incur losses. During the second quarter 2004, the Company established a receivable of $559 thousand under the $27.5 million loss reimbursement guarantee.

Credit Reserves and Actual Credit Losses

<TABLE>
<CAPTION>

($ in millions)	Outstanding Loan Principal Balance	Credit Exposure, Net of Credit Reserves	Actual Credit Losses	Credit Exposure, Net to Outstanding Loan Balance
<C>	<C>	<C>	<C>	<C>
2003, Quarter 2	$ 1,997.1	$ 72.8	$ 6.4	3.65%
2003, Quarter 3	1,903.7	67.6	5.7	3.55%
2003, Quarter 4	1,830.2	64.7	7.2	3.54%
2004, Quarter 1	1,775.1	54.3	6.0	3.06%
2004, Quarter 2	1,716.1	48.0	8.0	2.80%

</TABLE>

The following table summarizes single family mortgage loan, manufactured housing loan and commercial mortgage loan delinquencies as a percentage of the outstanding securitized finance receivables balance for those securities in which the Company has retained a portion of the direct credit risk. The delinquencies as a percentage of the outstanding securitized finance receivables balance have increased to 9.97% at June 30, 2004 from 4.83% at June 30, 2003 primarily due to seventeen commercial loans which have become delinquent since 2003. Of these seventeen loans, fourteen are low income housing tax credit ("LIHTC") loans with an aggregate unpaid principal balance of $60 million which were repaid in full in July and August 2004. The adjusted delinquency percentage excluding these fourteen loans is 6.48%. The Company monitors and evaluates its exposure to credit losses and has established reserves based upon anticipated losses, general economic conditions and trends in the investment portfolio. As of June 30, 2004, management believes the level of credit reserves is appropriate for currently existing losses.

Delinquency Statistics(1)

<TABLE>
<CAPTION>

	30 to 60 days delinquent	60 to 90 days delinquent	90 days and over delinquent (2)	Total
<C>	<C>	<C>	<C>	<C>
2003, Quarter 2	1.61%	0.43%	2.79%	4.83%
2003, Quarter 3	1.55%	0.48%	2.73%	4.76%
2003, Quarter 4	1.63%	0.43%	2.62%	4.68%
2004, Quarter 1	3.40%	0.49%	2.63%	6.52%
2004, Quarter 2	3.00%	2.09%	4.88%	9.97%

</TABLE>

(1) Excludes other investments and loans held for sale or securitization. (2) Includes foreclosures, repossessions and REO.

General and Administrative Expense. The following tables present a breakdown of general and administrative expense. Included in the first and second quarter of 2004 is an aggregate $703 thousand of litigation related expense for the litigation in Dallas County, Texas and Pittsburgh, Pennsylvania.

<TABLE>

<CAPTION>

($ in thousands)	Servicing	Corporate/Investment Portfolio Management	Total
<C>	<C>	<C>	<C>
2003, Quarter 2	$ 1,262.3	$ 888.3	$ 2,150.6
2003, Quarter 3	1,240.6	884.1	2,124.7
2003, Quarter 4	1,199.4	1,136.8	2,336.2
2004, Quarter 1	1,008.9	1,459.6	2,468.5
2004, Quarter 2	986.8	1,028.1	2,014.9

</TABLE>

Recent Accounting Pronouncements. In March 2004, the Emerging Issues Task Force ("EITF") amended and ratified previous consensus reached on EITF 03-01, "The Meaning of Other-Than-Temporary Impairment", to introduce a three-step model to: 1) determine whether an investment is impaired; 2) evaluate whether the impairment is other-than-temporary; and 3) account for other-than-temporary impairments. In part, this amendment requires companies to apply qualitative and quantitative measures to determine whether a decline in the fair value of a security is other-than-temporary. The amount of other-than-temporary impairments to be recognized, if any, will be dependent on market conditions and management's intentions and ability at the time of evaluation to hold underwater investments until forecasted recovery in the fair value up to and beyond the adjusted cost. This amendment is effective for financial periods beginning after June 15, 2004. The Company has reviewed this statement but does not believe that its adoption will have a significant impact on its financial position, results of operations or cash flows.

Non-GAAP Information on Securitized Finance Receivables and Non-Recourse Securitization Financing

The Company finances its securitized finance receivables through the issuance of non-recourse securitization financing. The Company presents in its condensed consolidated financial statements the securitized finance receivables as assets, and the associated securitization financing as a liability. Because the securitization financing is recourse only to the finance receivables pledged, and is therefore not a general obligation of the Company, the risk to the Company on its investment in securitized finance receivables is limited to its net investment (i.e., the excess of the finance receivables pledged over the non-recourse securitization financing). This excess is often referred to as overcollateralization. The purpose of the information presented in this section is to present the securitized finance receivables on a net investment basis, and to provide estimated fair value information using various assumptions on such net investment. In the tables below, the "principal balance of net investment" in securitized finance receivables represents the excess of the principal balance of the collateral pledged over the outstanding balance of the associated non-recourse securitization financing owned by third parties. The "amortized cost basis of net investment" is principal balance of net investment plus or minus premiums and discounts and related costs. The Company generally has sold the investment grade classes of the securitization financing to third parties, and has retained the portion of the securitization financing that is below investment grade.

The Company estimates the fair value of its net investment in collateralized bond securities in the tables below as the present value of the projected cash flow from the collateral, adjusted for the impact of and assumed level of future prepayments and credit losses, less the projected principal and interest due on the bonds owned by third parties. The Company master services four of its collateral for collateralized bond securities. Structured Asset Securitization Corporation (SASCO) Series 2002-9 is master-serviced by Wells Fargo Bank. CCA One Series 2 and Series 3 are master-serviced by Bank of New York. Monthly payment reports for those securities master-serviced by the Company may be found on the Company's website at www.dynexcapital.com.

Below is a summary as of June 30, 2004, by each series of the Company's net investment in securitized finance receivables where the fair value exceeds $0.5 million. The following tables show the Company's net investment in each of the securities presented below on both a principal balance and amortized cost basis, as those terms are defined above. The accompanying condensed consolidated financial statements of the Company presents the securitized finance receivables as an asset, and presents the associated securitization financing bond obligation as a non-recourse liability. In addition, the Company carries only its investment in MERIT Series 11 at fair value. As a result, the table below is not meant to present the Company's investment in securitized finance receivables or the non-recourse securitization financing in accordance with generally accepted accounting principles applicable to the Company's transactions. See below for a reconciliation of the amounts included in the table to the Company's condensed consolidated financial statements.

<TABLE>
<CAPTION>

(amounts in thousands) Collateralized Bond Series(1)	Collateral Type	Principal balance of securitized finance receivables pledged	Principal balance of non-recourse securitization financing outstanding to third parties	Principal Balance of Net Investment	Amortized Cost Basis of Net Investment
<S>		<C>	<C>	<C>	<C>
MERIT Series 11A	Debt securities backed by Single-family loans and Manufactured housing loans	$ 237,466	$ 207,265	$ 30,201	$ 15,773
MERIT Series 12-1	Manufactured housing loans	210,871	194,743	16,128	5,168
MERIT Series 13	Manufactured housing loans	251,871	232,159	19,712	12,212
SASCO 2002-9	Single family loans	267,798	259,394	8,404	13,303
MCA One Series 1	Commercial mortgage loans	78,457	73,739	4,718	337
CCA One Series 2	Commercial mortgage loans	284,055	261,952	22,103	11,314
CCA One Series 3	Commercial mortgage loans	384,340	343,394	40,946	49,922
		$ 1,714,858	$ 1,572,646	$ 142,212	$ 108,029

</TABLE>

(1) MERIT stands for MERIT Securities Corporation; MCA stands for Multifamily Capital Access One, Inc. (now known as Commercial Capital Access One, Inc.); and CCA stands for Commercial Capital Access One, Inc. Each such entity is a wholly-owned limited purpose subsidiary of the Company. SASCO stands for Structured Asset Securitization Corporation.

The following table reconciles the balances presented in the table above with the amounts included for securitized finance receivables and non-recourse securitization financing in the accompanying consolidated financial statements.

<TABLE>
<CAPTION>

(amounts in thousands)	Securitized Finance Receivables	Non-recourse securitization financing
<S>	<C>	<C>
Principal balances per the above table	$ 1,714,858	$ 1,572,646
Principal balance of security excluded from above table	3,074	3,369
Recorded impairments on debt securities	(17,523)	-
Premiums and discounts	(14,119)	6,235
Unrealized gain	3,270	-
Accrued interest and other	11,307	7,346
Allowance for loan losses	(49,468)	-
Balance per consolidated financial statements	$ 1,651,399	$ 1,589,596

</TABLE>

The following table summarizes the fair value of the Company's net investment in collateralized bond securities, the various assumptions made in estimating value and the cash flow received from such net investment during the six months ended June 30, 2004. As the Company does not present its investment in non-recourse securitization financing on a net investment basis and carries only its investment in MERIT Series 11 at fair value, the table below is not meant to present the Company's investment in securitized finance receivables or non-recourse securitization financing in accordance with generally accepted accounting principles applicable to the Company's transactions.

<TABLE>
<CAPTION>

<S> <C> <C> <C> <C> <C>

	Fair Value Assumptions			($ in thousands)	
Collateralized Bond Series	Weighted-average prepayment speeds	Losses	Projected cash flow termination date	Fair value of net investment(1)	Cash flows received in 2004, net(1)
MERIT Series 11A	35%-40% CPR on SF securities; 7% CPR on MH securities	3.8% annually on MH securities	Anticipated final maturity in 2025	$ 14,216	$ 6,540
MERIT Series 12-1	8% CPR	3.4% annually on MH Loans	Anticipated final maturity in 2027	1,367	544
MERIT Series 13	7% CPR	4.0% annually	Anticipated final maturity in 2026	4,499	601
SASCO 2002-9	30% CPR	0.10% annually	Anticipated call date in 2005	16,589	5,803
MCA One Series 1	(2)	0.80% annually	Anticipated final maturity in 2018	2,604	232
CCA One Series 2	(3)	0.80% annually beginning in 2004	Anticipated call date in 2012	12,009	867
CCA One Series 3	(3)	1.2% annually beginning in 2004	Anticipated call date in 2009	20,076	979
				$ 71,360	$ 15,566

</TABLE>

(1) Calculated as the net present value of expected future cash flows, discounted at 16%. Expected cash flows were based on the forward LIBOR curve as of June 30, 2004, and incorporate the resetting of the interest rates on the adjustable rate assets to a level consistent with projected prevailing rates. Increases or decreases in interest rates and index levels from those used would impact the calculation of fair value, as would differences in actual prepayment speeds and credit losses versus the assumptions set forth above. Cash flows received by the Company during the six months ended June 30, 2004, equal to the excess of the cash flows received on the collateral pledged, over the cash flow requirements of the collateralized bond security.
(2) Computed at 0% CPR until maturity.
(3) Computed at 0% CPR until the respective call date.

The above tables illustrate the Company's estimated fair value of its net investment in certain collateralized bond securities. In its consolidated financial statements, the Company carries its investments at amortized cost, except for its investment in MERIT Series 11, which it carries at estimated fair value. Including the recorded allowance for loan losses of $49.5 million, the Company's net investment in collateralized bond securities is approximately $58.5 million. This amount compares to an estimated fair value, utilizing a discount rate of 16%, of approximately $71.4 million, as set forth in the table above. The difference between the $58.5 million in net investment as included in the consolidated financial statements and the $71.4 million of estimated fair value, is due to the differences between the estimated fair value of such net investment and amortized cost.

The following table compares the fair value of these investments at various discount rates, but otherwise using the same assumptions as set forth for the two immediately preceding tables:

	Fair Value of Net Investment			
Collateralized Bond Series	12%	16%	20%	25%
MERIT Series 11A	$ 15,843	$ 14,216	$ 12,900	$ 11,585
MERIT Series 12-1	1,347	1,367	1,361	1,333
MERIT Series 13	4,311	4,499	4,631	4,743
SASCO 2002-9	18,673	16,589	14,973	13,405
MCA One Series 1	3,211	2,604	2,144	1,718
CCA One Series 2	14,479	12,009	10,059	8,178
CCA One Series 3	23,377	20,076	17,307	14,459
	$ 81,241	$ 71,360	$ 63,375	$ 55,421

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations from a variety of sources. These sources have included cash flow generated from the investment portfolio, including net interest income and principal payments and prepayments. In addition, while the Company was actively originating loans or accumulating assets for its investment portfolio, the Company funded these operations through short-term warehouse lines of credit with commercial and investment banks, repurchase agreements and the capital markets via the asset-backed securities market (which provides long-term non-recourse funding of the investment portfolio via the issuance of non-recourse securitization financing). Should the Company's future operations require access to sources of capital such as lines of credit and repurchase agreements, the Company believes that it would be able to access such sources.

The Company's cash flow from its investment portfolio for the three months and six months ended June 30, 2004 was approximately $11.7 million and $22.8 million, respectively. Such cash flow is after payment of principal and interest on the associated non-recourse securitization financing (i.e., non-recourse debt) outstanding. From the cash flow on its investment portfolio, the Company funds its operating overhead costs, including the servicing of its delinquent property tax receivables, and repays any remaining recourse debt.

The Company's cash flow from its investment portfolio is subject to fluctuation due to changes in interest rates, repayment rates and default rates and related losses. In a period of rapidly rising interest rates, the Company's net interest margin and cash flow from the investment portfolio is likely to be significantly impacted due to increased borrowing costs on variable-rate non-recourse securitization financing. The Company anticipates, however, that it will have sufficient cash flow from its investment portfolio to meet all of its obligations.

Non-recourse securitization financing. Dynex, through limited-purpose finance subsidiaries, has issued non-recourse debt in the form of non-recourse securitization financing to fund the majority of its investment portfolio. The obligations under the non-recourse securitization financing are payable solely from the securitized finance receivables and are otherwise non-recourse to the Company. The maturity of each class of non-recourse securitization financing is directly affected by the rate of principal prepayments on the related collateral and is not subject to margin call risk. Each series is also subject to redemption according to specific terms of the respective indentures, generally on the earlier of a specified date or when the remaining balance of the bonds equals 35% or less of the original principal balance of the bonds. At June 30, 2004, Dynex had $1.6 billion of non-recourse securitization financing outstanding. Approximately $1.1 billion of the non-recourse securitization financing carry a fixed rate of interest, and approximately $467 million carries a rate of interest, which adjusts monthly based on One-Month LIBOR.

Senior notes. In March 2004, the Company redeemed the remaining $10.0 million of 9.50% senior unsecured notes due February 2005 (the "February 2005 Senior Notes") in preparation for implementation the Company's recapitalization plan. In April, the Company issued $823 thousand of 9.50% Senior Notes due April 2007 in exchange for 8,890 shares of Series A preferred stock, 10,553 shares of

Series B preferred stock and 8,584 shares of Series C preferred stock. At June 30, 2004, the outstanding balance of the Senior Notes was $0.8 million.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-Q made by the Company, that are not historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may involve factors that could cause the actual results of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. The Company cautions the public not to place undue reliance on forward-looking statements, which may be based on assumptions and anticipated events that do not materialize. The Company does not undertake, and the Securities Litigation Reform Act specifically relieves the Company from, any obligation to update any forward-looking statements.

Factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements include the following:

Economic Conditions. The Company is affected by general economic conditions. The risk of defaults and credit losses could increase during an economic slowdown or recession. This could have an adverse effect on the performance of the Company's securitized loan pools and on the Company's overall financial performance.

Capital Resources. Cash flows from the investment portfolio fund the Company's operations and repayments of recourse debt, and are subject to fluctuation due to changes in interest rates, repayment rates and default rates and related losses.

Interest Rate Fluctuations. The Company's income and cash flow depends on its ability to earn greater interest on its investments than the interest cost to finance these investments. Interest rates in the markets served by the Company generally rise or fall with interest rates as a whole. Approximately $1.4 billion of the loans currently pledged as securitized finance receivables by the Company are fixed-rate. The Company currently finances these fixed-rate assets through non-recourse securitization financing, approximately $1.1 billion is fixed-rate and approximately $187 million of which is variable rate and resets monthly. Through the use of interest rate swaps and synthetic swaps, the Company has reduced this exposure by approximately $129 million at June 30, 2004 on an amortizing basis through approximately June 2005. In addition, approximately $298 million of the investments held by the Company are adjustable-rate securitized finance receivables, which generally reset on a delayed basis and have periodic interest rate caps. These investments are financed through non-recourse long-term non-recourse securitization financing which reset monthly and which have no periodic caps. In total at June 30, 2004, the Company has approximately $467 million of adjustable-rate non-recourse securitization financing.

The net interest spread and cash flow for the Company could decrease materially during a period of rapidly rising short-term interest rates, despite the use of interest-rate swaps and synthetic swaps, as a result of the monthly reset in the rate on the adjustable-rate non-recourse securitization financing issued by the Company.

Defaults. Defaults by borrowers on loans securitized by the Company may have an adverse impact on the Company's financial performance, if actual credit losses differ materially from estimates made by the Company. Although the Company believes that its reserves for loan losses are adequate as of June 30, 2004, the allowance for losses is calculated on the basis of historical experience and management's best estimates. Actual default rates or loss severity may differ from the Company's estimate as a result of economic conditions. In particular, the default rate and loss severity on the Company's portfolio of manufactured housing loans has been higher than initially estimated. Actual defaults on adjustable-rate loans may increase during a rising interest rate environment.

Third-party Servicers. Third-party servicers service the majority of the Company's investment portfolio. To the extent that these servicers are financially impaired, the performance of the Company's investment portfolio may deteriorate, and defaults and credit losses may be greater than estimated.

Prepayments. Prepayments by borrowers on loans securitized by the Company may have an adverse impact on the Company's financial performance. Prepayments are expected to increase during a declining interest rate or flat yield curve environment. The Company's exposure to rapid prepayments is primarily (i) the faster amortization of premium on the investments and, to the extent applicable, amortization of bond discount, and (ii) the replacement of investments in its portfolio with lower yield securities.

Competition. The financial services industry is a highly competitive market. Increased competition in the market has adversely affected the Company, and may continue to do so.

Regulatory Changes. The Company's businesses as of June 30, 2004 are not subject to any material federal or state regulation or licensing requirements. However, changes in existing laws and regulations or in the interpretation thereof, or the introduction of new laws and regulations, could adversely affect the Company and the performance of the Company's securitized loan pools or its ability to collect on its delinquent property tax receivables.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management extends beyond derivatives to include all market risk sensitive financial instruments. As a financial services company, net interest margin comprises the primary component of the Company's earnings. Additionally, cash flow from the investment portfolio represents the primary component of the Company's incoming cash flow. The Company is subject to risk resulting from interest rate fluctuations to the extent that there is a gap between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that are prepaid, mature or re-price within specified periods. While certain investments may perform poorly in an increasing or decreasing interest rate environment, other investments may perform well, and others may not be impacted at all.

The Company focuses on the sensitivity of its cash flow, and measures such sensitivity to changes in interest rates. Changes in interest rates are defined as instantaneous, parallel, and sustained interest rate movements in 100 basis point increments. The Company estimates its net interest margin cash flow for the next twenty-four months assuming interest rates following the forward LIBOR curve (based on 90-day Eurodollar futures contracts) as of June 30, 2004. Once the base case has been estimated, cash flows are projected for each of the defined interest rate scenarios. Those scenario results are then compared against the base case to determine the estimated change to cash flow.

The following table summarizes the Company's net interest margin cash flow sensitivity analysis as of June 30, 2004. This analysis represents management's estimate of the percentage change in net interest margin cash flow given a shift in interest rates, as discussed above. Other investments are excluded from this analysis because they are not interest rate sensitive. The "Base" case represents the interest rate environment as it existed as of June 30, 2004. At June 30, 2004, one-month LIBOR was 1.37% and six-month LIBOR was 1.94%. The analysis is heavily dependent upon the assumptions used in the model. The effect of changes in future interest rates, the shape of the yield curve or the mix of assets and liabilities may cause actual results to differ significantly from the modeled results. In addition, certain financial instruments provide a degree of "optionality." The most significant option affecting the Company's portfolio is the borrowers' option to prepay the loans. The model applies prepayment rate assumptions representing management's estimate of prepayment activity on a projected basis for each collateral pool in the investment portfolio. The model applies the same prepayment rate assumptions for all five cases indicated below. The extent to which borrowers utilize the ability to exercise their option may cause actual results to significantly differ from the analysis. Furthermore, the projected results assume no additions or subtractions to the Company's portfolio, and no change to the Company's liability structure. Historically, there have been significant changes in the Company's assets and liabilities, and there are likely to be such changes in the future.

<TABLE>
<CAPTION>

Basis Point Increase (Decrease) in Interest Rates	Projected Change in Net Interest Margin Cash Flow From Base Case	Projected Change in Value, Expressed as a Percentage of Shareholders' Equity
+200	(13.2)%	(6.3)%
+100	(4.0)%	(2.1)%
Base	-	-
-100	8.3%	2.2%
-200	17.7%	4.3%

</TABLE>

The Company's interest rate rise is related both to the rate of change in short-term interest rates and to the level of short-term interest rates. Approximately $298 million of the Company's investment portfolio as of June 30, 2004 is comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 71% and 14% of the adjustable rate loans underlying the Company's adjustable rate securities and securitized finance receivables are indexed to and reset based upon the level of six-month LIBOR and one-year CMT, respectively.

Generally, during a period of rising short-term interest rates, the Company's net interest spread earned on its investment portfolio will decrease. The decrease of the net interest spread results from (i) the lag in resets of the adjustable rate loans underlying the adjustable rate securities and securitized finance receivables relative to the rate resets on the associated borrowings and (ii) rate resets on the adjustable rate loans which are generally limited to 1% every six months or 2% every twelve months and subject to lifetime caps, while the associated borrowings have no such limitation. As to item (i), the Company has substantially limited its interest rate risk on such investments through (a) the issuance of fixed-rate non-recourse securitization financing which approximated $1.1 billion as of June 30, 2004, and (b) equity, which was $135.4 million. In addition, the Company has entered into interest rate swaps and synthetic swaps to mitigate its interest rate risk exposure on fixed-rate investments financed with variable rate bonds as further discussed below. As to item (ii), as short-term interest rates stabilize and the ARM loans reset, the net interest margin may be partially restored as the yields on the ARM loans adjust to market conditions. The remaining portion of the Company's investment portfolio as of June 30, 2004, approximately $1.4 billion, is comprised of loans or securities that have coupon rates that are fixed.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's management, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's management concluded that the Company's disclosure controls and procedures are effective.

In conducting its review of disclosure controls, management concluded that sufficient disclosure controls and procedures did exist to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in internal controls.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Company's internal controls or in other factors that could materially affect, or are reasonably likely to materially affect the Company's internal controls subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such internal controls requiring corrective actions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

GLS Capital, Inc. ("GLS"), a subsidiary of the Company, together with the County of Allegheny, Pennsylvania ("Allegheny County"), were defendants in a lawsuit in the Commonwealth Court of Pennsylvania (the "Commonwealth Court"), the appellate court of the state of Pennsylvania. Plaintiffs were two local businesses seeking status to represent as a class, delinquent taxpayers in Allegheny County whose delinquent tax liens had been assigned to GLS. Plaintiffs challenged the right of Allegheny County and GLS to collect certain interest, costs and expenses related to delinquent property tax receivables in Allegheny County, and whether the County had the right to assign the delinquent property tax receivables to GLS and therefore employ procedures for collection enjoyed by Allegheny County under state statute. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of GLS to charge to the delinquent taxpayer a rate of interest of 12% per annum versus 10% per annum on the collection of its delinquent property tax receivables, (ii) the charging of a full month's interest on a partial month's delinquency; (iii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iv) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court in its opinion remanded for further consideration to the lower trial court items (i), (ii) and (iv) above, and ruled that neither Allegheny County nor GLS had the right to charge attorney's fees to the delinquent taxpayer related to the collection of such tax receivables. The Commonwealth Court further ruled that Allegheny County could assign its rights in the delinquent property tax receivables to GLS, and that plaintiffs could maintain equitable class in the action. In October 2001, GLS, along with Allegheny County, filed an Application for Extraordinary Jurisdiction with the Supreme Court of Pennsylvania, Western District appealing certain aspects of the Commonwealth Court's ruling. In March 2003, the Supreme Court issued its opinion as follows: (i) the Supreme Court determined that GLS can charge delinquent taxpayers a rate of 12% per annum; (ii) the Supreme Court remanded back to the lower trial court the charging of a full month's interest on a partial month's delinquency; (iii) the Supreme Court revised the Commonwealth Court's ruling regarding recouping attorney fees for collection of the receivables indicating that the recoupment of fees requires a judicial review of collection procedures used in each case; and (iv) the Supreme Court upheld the Commonwealth Court's ruling that GLS can charge certain fees and costs, while remanding back to the lower trial court for consideration the facts of each individual case. Finally, the Supreme Court remanded to the lower trial court to determine if the remaining claims can be resolved as a class action. In August 2003, the Pennsylvania legislature signed a bill amending and clarifying certain provisions of the Pennsylvania statute governing GLS' right to the collection of certain interest, costs and expenses. The law is retroactive to 1996, and amends and clarifies that as to items (ii)-(iv) noted above by the Supreme Court, that GLS can charge a full month's interest on a partial month's delinquency, that GLS can charge the taxpayer for legal fees, and that GLS can charge certain fees and costs to the taxpayer at redemption. The issues remanded back to the Trial Court are currently on hold as the Court addresses the challenge made to the retroactive components of the legislation. The test case being used to decide this issue is one that is unrelated to GLS. Specific damages related to the issues remanded back to the Trial Court have not been determined, and the Company believes that the ultimate outcome of this litigation will not have a material impact on its financial condition, but may have a material impact on reported results for the particular period presented.

The Company and Dynex Commercial, Inc. ("DCI"), formerly an affiliate of the Company and now known as DCI Commercial, Inc., are defendants in state court in Dallas County, Texas in the matter of Basic Capital Management, et. al. v. Dynex Commercial, Inc., et. al. The suit was filed in April 1999 originally against DCI but in March 2000, Basic Capital Management (hereafter, "BCM" or "Plaintiffs") amended the complaint and added the Company as a defendant. The complaint, which was further amended during pretrial proceedings, alleged that, among other things, DCI and the Company failed to fund tenant improvement or other advances allegedly required on various loans made by DCI to BCM, which loans were subsequently acquired by the Company; that DCI breached an alleged \$160 million "master" loan commitment entered into in February 1998; and that DCI breached another alleged loan commitment of approximately \$9 million. The

trial commenced in January 2004 and in February 2004, the jury in the case rendered a verdict in favor of one of the plaintiffs and against the Company on the alleged breach of the loan agreements for tenant improvements and awarded that plaintiff damages in the amount of \$.3 million. The jury entered a separate verdict against DCI in favor of BCM under two mutually exclusive damage models, for \$2.2 million and \$25.6 million, respectively. The jury found in favor of DCI on the alleged \$9 million loan commitment, but did not find in favor of DCI for counterclaims made against BCM. The jury also awarded the plaintiffs attorneys fees in the amount of \$2.1 million. On June 29, 2004, after considering post-trial motions, the presiding judge entered judgment in favor of the Company and DCI, effectively overturning the verdicts of the jury and dismissing damages awarded by the jury. The trial court upheld the Company and DCI's position that the evidence and the jury verdict did not support a judgment against the Company and DCI in the litigation. The plaintiffs have subsequently filed motions with the trial court seeking a new trial. DCI is a former affiliate of the Company, and the Company believes that it will have no obligation for amounts, if any, awarded to the plaintiffs as a result of the actions of DCI.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, the Company believes the resolution of these lawsuits will not have a material effect on the Company's consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchasers of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

On April 30, 2004, a special meeting of preferred and common shareholders was held to approve several issues relative to the Company's recapitalization transaction. The following table summarizes the results of those votes.

	FOR	AGAINST	ABSTAIN
Series A Preferred Shareholders			
Approval and adoption of the amendment of the Company's Articles of Incorporation to accomplish the Series D conversion (in connection with the recapitalization transaction)	347,551	20,654	450
Approval of adjournment of the Meeting.	346,928	21,053	674
Series B Preferred Shareholders			
Approval and adoption of the amendment of the Company's Articles of Incorporation to accomplish the Series D conversion (in connection with the recapitalization transaction)	498,658	17,689	307
Approval of adjournment of the Meeting.	498,671	17,548	435
Series C Preferred Shareholders			
Approval and adoption of the amendment of the Company's Articles of Incorporation to accomplish the Series D conversion (in connection with the recapitalization transaction)	500,672	21,636	1,057
Approval of adjournment of the Meeting.	498,533	22,462	2,370
Common Shareholders			
Approval of issuance of additional shares of Common Stock as provided for by the proposed amendment to the Company's Articles of Incorporation creating a new Series D Preferred Stock,	7,478,298	220,248	

			45,592
Approval of adjournments of the Meeting.	7,330,143	367,248	46,747

</TABLE>

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Amendment to Articles of Incorporation effective May 19, 2004.

31.1 Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The Company furnished a report on Form 8-K, dated May 12, 2004, reporting under item 12 the issuance by the company of a press release announcing the Company's financial results for the quarter ended March 31, 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNEX CAPITAL, INC.

Dated: August 16, 2004

By: /s/ Stephen J. Benedetti

Stephen J. Benedetti
Executive Vice President
(authorized officer of registrant,
principal accounting officer)

EXHIBIT INDEX

Exhibit No.	
3.1	Amendment to Articles of Incorporation effective May 19, 2004.
31.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Dynex Capital, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen J. Benedetti, the Principal Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 16, 2004 By: /s/ Stephen J. Benedetti

Stephen J. Benedetti,
Principal Executive Officer
Chief Financial Officer

Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen J. Benedetti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynex Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control of financial reporting; and,

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 16, 2004 By: /s/ Stephen J. Benedetti

Stephen J. Benedetti,
Principal Executive Officer
and Chief Financial Officer

Exhibit 3.13

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
DYNEX CAPITAL, INC.

1. The name of the Corporation is Dynex Capital, Inc.

2. The texts of the amendments are as follows:

Articles IIIA, IIIB and IIIC shall be deleted, and in place thereof shall be inserted the text as set forth in Appendix A, attached hereto.

3. The amendments provide for the exchange of shares of Series A Cumulative Convertible Preferred Stock, Series B Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock for shares of newly designated Series D Cumulative Convertible Preferred Stock and shares of Common Stock. The Corporation will implement this exchange by providing holders of the exchanged shares with new stock certificates representing the shares of newly designated Series D Cumulative Convertible Preferred Stock and the shares of Common Stock.

4. The amendments to the Articles of Incorporation were proposed by the Board of Directors and submitted to the shareholders entitled to vote thereon for approval in accordance with Section 13.1-710 of the Virginia Stock Corporation Act at a special meeting convened on April 29, 2004 and concluded on April 30, 2004. Pursuant to Section 13.1-639 of the Virginia Stock Corporation Act, no action by the holders of the Corporation's Common Stock was required.

5. The designation, number of outstanding shares and number of votes entitled to be cast by each voting group entitled to vote separately on the amendments are as follows:

<TABLE>
<CAPTION>

Designation of Voting Group Entitled to Vote Separately	Number of Shares Outstanding	Number of Votes Entitled to be Cast
<S>	<C>	<C>
Series A Cumulative Convertible Preferred Stock	493,595	493,595
Series B Cumulative Convertible Preferred Stock	688,189	688,189
Series C Cumulative Convertible Preferred Stock	684,893	684,893

</TABLE>

6. The total number of undisputed votes cast for the amendments for each voting group are as follows, such votes being sufficient for approval of the amendments by each voting group:

<TABLE>
<CAPTION>

Designation of Voting Group Entitled to Vote Separately	Number of Undisputed Votes Cast in Favor of the Amendments
<S>	<C>
Series A Cumulative Convertible Preferred Stock	347,551
Series B Cumulative Convertible Preferred Stock	498,658
Series C Cumulative Convertible Preferred Stock	500,672

</TABLE>

IN WITNESS WHEREOF, the undersigned has executed these Articles of Amendment on behalf of the Corporation.

DYNEX CAPITAL, INC.

Dated: May 18, 2004

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
Executive Vice President,
Chief Financial Officer
and Secretary

A. SERIES D PREFERRED

Section 1. Number of Shares and Designation.

(a) This series of Preferred Stock shall be designated as Series D 9.50% Cumulative Convertible Preferred Stock (the "Series D Preferred Stock") and up to five million seven hundred thirteen thousand four hundred thirty (5,713,430) shall be the number of shares of such Preferred Stock constituting this series.

(b) Upon the effectiveness of this Article IIID:

(i) Each share of the Corporation's Series A Preferred Stock shall be deemed to have been converted into 2.784 shares of Series D Preferred Stock and 0.6373 shares of Common Stock. Each holder of Series A Preferred Stock shall also receive a cash payment equal to any fractional shares of Series D Preferred Stock and Common Stock that it would otherwise be entitled to receive on a basis that values each share of Series D Preferred Stock at $10.00 and each share of Common Stock at $5.6484.

(ii) Each share of the Corporation's Series B Preferred Stock shall be deemed to have been converted into 2.842 shares of Series D Preferred Stock and 0.6506 shares of Common Stock. Each holder of Series B Preferred Stock shall also receive a cash payment equal to any fractional shares of Series D Preferred Stock and Common Stock that it would otherwise be entitled to receive on a basis that values each share of Series D Preferred Stock at $10.00 and each share of Common Stock at $5.6484.

(iii) Each share of the Corporation's Series C Preferred Stock shall be deemed to have been converted into 3.480 shares of Series D Preferred Stock and 0.7967 shares of Common Stock. Each holder of Series C Preferred Stock shall also receive a cash payment equal to any fractional shares of Series D Preferred Stock and Common Stock that it would otherwise be entitled to receive on a basis that values each share of Series D Preferred Stock at $10.00 and each share of Common Stock at $5.6484.

Section 2. Definitions.

For purposes of the Series D Preferred Stock, the following terms shall have the meanings indicated:

"Act" shall mean the Securities Act of 1933, as amended.

"Affiliate" of a person means a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.

"Board of Directors" shall mean the Board of Directors of the Corporation or any committee authorized by such Board of Directors to perform any of its responsibilities with respect to the Series D Preferred Stock.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

"Call Date" shall have the meaning set forth in paragraph (b) of Section 5 hereof.

"Common Stock" shall mean the common stock, $.01 par value per share, of the Corporation or such shares of the Corporation's capital stock into which such Common Stock shall be reclassified.

"Conversion Ratio" shall mean the conversion ratio per share of Common Stock for which each share of Series D Preferred Stock is convertible, as such Conversion Ratio may be adjusted pursuant to Section 7. The initial Con- version Ratio shall be one share of Common Stock for each share of Series D Preferred Stock.

"Current Market Price" of publicly traded shares of Common Stock or any other class or series of capital stock or other security of the Corporation or of any similar security of any other issuer for any day shall mean the closing price, regular way on such day, or, if no sale takes place on such day, the average of the reported closing bid and asked prices regular way on such day, in either case as reported on the New York Stock Exchange ("NYSE") or, if such security is not listed or admitted for trading on the NYSE, on the principal national securities exchange on which such security is listed or admitted for trading or, if not listed or admitted for trading on any national securities exchange, on the National Market of the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ") or, if such security is not quoted on NASDAQ, the average of the closing bid and asked prices on such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on such day shall not have been reported through NASDAQ, the average of the bid and asked prices on such day as furnished by any NYSE or National Association of Securities Dealers, Inc. member firm regularly making a market in such security selected for such purpose by the Chief Executive Officer or the Board of Directors or if any class or series of securities are not publicly traded, the fair value of the shares of such class as determined reasonably and in good faith by the Board of Directors of the Corporation.

"Dividend Payment Date" shall mean, with respect to each Dividend Period, the last day of January, April, July and October, in each year, commencing on July 31, 2004 with respect to the period commencing on April 7, 2004 and ending June 30, 2004; provided, however, that if any Dividend Payment Date falls on any day other than a Business Day, the dividend payment due on such Dividend Payment Date shall be paid on the Business Day immediately following such Dividend Payment Date.

"Dividend Periods" shall mean quarterly dividend periods commencing on January 1, April 1, July 1 and October 1 of each year and ending on and including the day preceding the first day of the next succeeding Dividend Period (other than the initial Dividend Period, which shall commence on April 7, 2004 and end on and include June 30, 2004).

"Fair Market Value" shall mean the average of the daily Current Market Prices of a share of Common Stock during five (5) consecutive Trading Days selected by the Corporation commencing not more than twenty (20) Trading Days before, and ending not later than, the earlier of the day in question and the day before the "ex date" with respect to the issuance or distribution requiring such computation. The term "ex date," when used with respect to any issuance or distribution, means the first day on which the share of Common Stock trades regular way, without the right to receive such issuance or distribution, on the exchange or in the market, as the case may be, used to determine that day's Current Market Price.

"Issue Date" shall mean April 7, 2004 or the earlier date of issue of the Series D Preferred Stock.

"Issue Price" shall mean the amount of $10.00.

"Junior Stock" shall mean the Common Stock and any other class or series of capital stock of the Corporation over which the shares of Series D Preferred Stock have preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

"Person" shall mean any individual, firm, partnership, corporation or other entity and shall include any successor (by merger or otherwise) of such entity.

"Press Release" shall have the meaning set forth in paragraph (a)(i) of Section 5 hereof.

"Series A Preferred Stock" shall mean the Series A Cumulative Convertible Preferred Stock formerly authorized by Article IIIA of these Articles of Incorporation.

"Series B Preferred Stock" shall mean the Series B Cumulative Convertible Preferred Stock formerly authorized by Article IIIB of these Articles of Incorporation.

"Series C Preferred Stock" shall mean the Series C Cumulative Convertible Preferred Stock formerly authorized by Article IIIC of these Articles of Incorporation.

"Series D Preferred Stock" shall have the meaning set forth in Section 1 hereof.

"Set apart for payment" shall be deemed to include, without any action other than the following, the recording by the Corporation in its accounting ledgers of any accounting or bookkeeping entry which indicates, pursuant to a declaration of dividends or other distribution by the Board of Directors, the allocation of funds to be paid on any series or class of capital stock of the Corporation; provided, however, that if any funds for any class or series of Junior Stock are placed in a separate account of the Corporation or delivered to a disbursing, paying or other similar agent, then "set apart for payment" with respect to the Series D Preferred Stock shall mean placing such funds in a separate account or delivering such funds to a disbursing, paying or other similar agent.

"Trading Day" as to any securities, shall mean any day on which such securities are traded on the NYSE or, if such securities are not listed or admitted for trading on the NYSE, on the principal national securities exchange on which such securities are listed or admitted or, if such securities are not listed or admitted for trading on any national securities exchange, on NASDAQ or, if such securities are not quoted on NASDAQ, in the securities market in which such securities are traded.

"Transaction" shall have the meaning set forth in paragraph (e) of Section 7 hereof.

"Transfer Agent" means Wachovia Bank Shareholder Services or such other transfer agent as may be designated by the Board of Directors or their designee as the transfer agent for the Series D Preferred Stock.

Section 3. Dividends.
- ---------- ----------

(a) The holders of Series D Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors out of funds legally available for that purpose, cumulative dividends payable in cash in an amount per share of Series D Preferred Stock equal to the greater of (i) the base dividend of $0.2375 per quarter (the "Base Rate") or (ii) the aggregate quarterly dividends declared on the shares of the Common Stock (or portion thereof) into which each share of the Series D Preferred Stock is convertible. The initial Dividend Period shall commence on the Issue Date and end on June 30, 2004. The dividends payable with respect to the portion of the initial Dividend Period commencing on the Issue Date and ending on June 30, 2004 shall be prorated from the Issue Date and determined by reference to the Base Rate. The amount referred to in clause (ii) of this paragraph (a) with respect to each Dividend Period shall be determined by multiplying each share of Common Stock, or portion thereof calculated to the fourth decimal point, into which a share of Series D Preferred Stock would be convertible at the close of business on the record date for the payment of dividends on the Series D Preferred Stock (based on the Conversion Ratio then in effect) by the quarterly cash dividend payable or paid for such Dividend Period in respect of a share of Common Stock outstanding as of the record date for the payment of dividends on the Common Stock with respect to such Dividend Period or, if different, with respect to the most recent quarterly period for which dividends with respect to the Common Stock have been declared. Such dividends shall be cumulative from the Issue Date, whether or not in any Dividend Period or Periods such dividends shall be declared or there shall be funds of the Corporation legally available for the payment of such dividends, and shall be payable quarterly in arrears on the Dividend Payment Dates, commencing on the first Dividend Payment Date after the Issue Date. Each such dividend shall be payable in arrears to the holders of record of the Series D Preferred Stock, as they appear on the stock records of the Corporation at the close of business on a record date which shall be not more than sixty (60) days prior to the applicable Dividend Payment Date and shall be fixed by the Board of Directors to coincide with the record date for the regular quarterly dividends, if any, payable with respect to the Common Stock; provided, however, that the record dates for the Dividend Period ending December 31, may be separated so that the record date for the Common Stock dividend is December 31 and the record date for the Series D Preferred Stock dividend is January 1 and vice versa. Accumulated, accrued and unpaid dividends for any past Dividend Periods may be declared and paid at any time, without reference to any regular Dividend Payment Date, to holders of record on such date, which date, shall precede by not more than forty-five (45) days the payment date thereof, as may be fixed by the Board of Directors.

(b) The amount of dividends payable per share of Series D Preferred Stock for the portion at the initial Dividend Period commencing on the Issue Date and ending and including June 30, 2004, or any other period shorter than a full Dividend Period, shall be computed ratably on the basis of twelve (12) thirty (30)-day months and a three hundred sixty (360)-day year. Holders of Series D Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of cumulative dividends, as herein provided, on the Series D Preferred Stock. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series D Preferred Stock that may be in arrears.

(c) So long as any of the shares of Series D Preferred Stock are outstanding, no dividends shall be declared or paid or set apart for payment by the Corporation and no other distribution of cash or other property shall be declared or made directly or indirectly by the Corporation unless dividends equal to the full amount of accumulated, accrued and unpaid dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for such payment on the Series D Preferred Stock for all Dividend Periods terminating on or prior to the Dividend Payment Date.

(d) So long as any of the shares of Series D Preferred Stock are outstanding, no dividends (other than dividends or distributions paid in shares of or options, warrants or rights to subscribe for or purchase shares of Junior Stock) shall be declared or paid or set apart for payment by the Corporation and no other distribution of cash or other property shall be declared or made directly or indirectly by the Corporation with respect to any shares of Junior Stock, nor shall any shares of Junior Stock be redeemed, purchased or otherwise acquired (other than by a redemption, purchase or other acquisition of Common Stock made for purposes of an employee incentive or benefit plan of the Corporation or any subsidiary) for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) directly or indirectly by the Corporation (except by conversion into or exchange for Junior Stock), nor shall any other cash or other property otherwise be paid or distributed to or for the benefit of any holder of shares of Junior Stock in respect thereof, directly or indirectly, by the Corporation unless in each case (i) the full cumulative dividends (including all accumulated, accrued and unpaid dividends) on all outstanding shares of Series D Preferred Stock shall have been paid or such dividends have been declared and set apart for payment for all past Dividend Periods with respect to the Series D Preferred Stock and (ii) sufficient funds shall have been paid or set apart for the payment of the full dividend for the current Dividend Period with respect to the Series D Preferred Stock.

Section 4. Liquidation Preference.
- ---------- -----------------------

(a) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any payment or distribution of the assets of the Corporation (whether capital or surplus) shall be made to or set apart for the holders of Junior Stock, the holders of shares of Series D Preferred Stock shall be entitled to receive an amount in cash per share of Series D Preferred Stock ("Liquidation Preference") equal to the Issue Price, plus an amount in cash equal to all dividends (whether or not earned or declared) accumulated, accrued and unpaid thereon to the date of final distribution to such holders; but such holders shall not be entitled to any further payment. Until the holders of the Series D Preferred Stock have been paid the Liquidation Preference in full, plus an amount equal to all dividends (whether or not earned or declared) accumulated, accrued and unpaid thereon to the date of final distribution to such holders, no payment will be made to any holder of Junior Stock upon the liquidation, dissolution or winding up of the Corporation. If, upon any liquidation, dissolution or winding up of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of Series D Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among the holders of Series D Preferred Stock ratably in the same proportion as the respective amounts that would be payable on such Series D Preferred Stock if all amounts payable thereon were paid in full. For the purposes of this Section 4, (i) a consolidation or merger of the Corporation with one or more corporations, (ii) a sale or transfer of all or substantially all of the Corporation's assets, or (iii) a statutory share exchange shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary, of the Corporation.

(b) Upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full to the holders of Series D Preferred Stock, as provided in this Section 4, any other series or class or classes of Junior Stock shall, subject to the respective terms thereof, be entitled to receive any and all assets remaining to be paid or distributed, and the holders of the Series D Preferred Stock shall not be entitled to share therein.

Section 5. Redemption at the Option of the Corporation.
- ---------- ---

(a) Shares of Series D Preferred Stock will be redeemable by the Corporation, in whole or in part, at the option of the Corporation as set forth herein, subject to the provisions described below:

(i) Provided that for twenty (20) Trading Days within any period of thirty (30) consecutive Trading Days, including the last Trading Day of such period, the closing price of the Common Stock on the NYSE equals or exceeds $10.00, shares of Series D Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation by issuing and delivering to each holder for each share of Series D Preferred Stock to be redeemed one share of authorized but previously unissued Common Stock, subject to adjustment of the Conversion Ratio as provided in Section 7 plus accumulated, accrued and unpaid dividends (as provided below), which are to be paid in cash through the end of the prior Dividend Period; however, no dividend will be payable for the Dividend Period in which such a redemption occurs if such redemption occurs before the record date for the dividend on the Common Stock, in which event, the dividend will be payable through the redemption date, provided, however, if no dividend on the Common Stock has been declared for such period, a dividend shall be paid on the redeemed Series D Preferred Stock in cash and on a pro rata basis for the period in which such redemption occurs). In order to exercise its redemption option pursuant to this paragraph (a)(i), the Corporation must issue a press release announcing the redemption (the "Press Release") prior to the opening of business on the second Trading Day after the condition upon which this redemption is based has been satisfied. The Press Release shall announce the redemption and set forth the number of shares of Series D Preferred Stock that the Corporation intends to redeem; or

(ii) Shares of Series D Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation out of funds legally available therefore for cash at the Issue Price per share, plus any accumulated, accrued and unpaid dividends (as provided in Section 5(b) below), plus the pro-rated dividend accrued from the beginning of the current Dividend Period to the date of redemption determined by reference solely to the Base Rate.

(b) Shares of Series D Preferred Stock shall be redeemed by the Corporation on the date specified in the notice to holders required under paragraph (d) of this Section 5 (the "Call Date"). The Call Date shall be selected by the Corporation, shall be specified in the notice of redemption and shall be not less than thirty (30) days nor more than 60 days after (i) the date on which the Corporation issues the Press Release, if such redemption is pursuant to paragraph (a)(i) of this Section 5, or (ii) the date notice of redemption is sent by the Corporation, if such redemption is pursuant to paragraph (a)(ii) of this Section 5. In the event of a redemption pursuant to Section 5(a)(i) or 5(a)(ii), if the Call Date falls after a dividend payment record date and prior to the corresponding Dividend Payment Date, then (i) in the event of a redemption pursuant to Section 5(a)(i) each holder of Series D Preferred Stock at the close of business on such dividend payment record date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares prior to such Dividend Payment Date and (ii) in the event of a redemption pursuant to Section 5(a)(ii), each holder of Series D Preferred Stock at the close of business on such dividend payment record date shall be entitled to the portion of the dividend accrued from the beginning of the Dividend Period in which the redemption occurs and ending on the Call Date notwithstanding the redemption of such shares prior to such Dividend Payment Date. Except as provided above, the Corporation shall make no payment or allowance for accumulated or accrued dividends on shares of Series D Preferred Stock called for redemption or on the shares of Common Stock issued upon such redemption.

If the dividend payment record date for the Series D Preferred Stock and Common Stock do not coincide, and the preceding sentence does not operate to ensure that a holder of shares of Series D Preferred Stock whose shares are redeemed for Common Stock does not receive dividends on both the shares of Series D Preferred Stock and the Common Stock for which such shares are redeemed for the same Dividend Period, then notwithstanding anything herein to the contrary, it is the intent, and the Transfer Agent is authorized to ensure that no redemption after the earlier of such record dates will be accepted until after the latter of such record dates.

(c) If full cumulative dividends on all outstanding shares of Series D Preferred Stock of the Corporation have not been paid or declared and set apart for payment, no shares of Series D Preferred Stock may be redeemed unless all outstanding shares of Series D Preferred Stock are simultaneously redeemed, and neither the Corporation nor any affiliate of the Corporation may purchase or acquire shares of Series D Preferred Stock, otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of shares of Series D Preferred Stock.

(d) If the Corporation shall redeem shares of Series D Preferred Stock pursuant to paragraph (a) of this Section 5, notice of such redemption shall be given to each holder of record of the shares to be redeemed and, if such redemption is pursuant to paragraph (a)(i) of this Section 5, such notice shall be given not more than ten (10) Business Days after the date on which the Corporation issues the Press Release; if the Corporation shall redeem shares of Series D Preferred Stock pursuant to paragraph (a)(ii) of this Section 5, notice of such redemption shall be given not less than thirty (30) nor more than sixty (60) days prior to the Call Date. Such notice shall be provided by first class mail, postage prepaid, at such holder's address as the same appears on the stock records of the Corporation, or by publication in The Wall Street Journal or The New York Times, or if neither such newspaper is then being published, any other daily newspaper of national circulation not less than thirty (30) nor more than sixty (60) days prior to the Call Date. If the Corporation elects to provide such notice by publication, it shall also promptly mail notice of such redemption to the holders of the shares of Series D Preferred Stock to be redeemed. Neither the failure to mail any notice required by this paragraph (d), nor any defect therein or in the mailing thereof, to any particular holder, shall affect the sufficiency of the notice or the validity of the proceedings for redemption with respect to the other holders. Any notice which was mailed in the manner herein provided shall be conclusively presumed to have been duly given on the date mailed whether or not the holder receives the notice. Each such mailed or published notice shall state, as appropriate: (1) the Call Date; (2) the number of shares of Series D Preferred Stock to be redeemed and, if fewer than all such shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) whether redemption will be for shares of Common Stock pursuant to paragraph (a)(i) of this Section 5 or for cash pursuant to paragraph (a)(ii) of this Section 5, and, if redemption will be for Common Stock, the number of shares of Common Stock to be issued with respect to each share of Series D Preferred Stock to be redeemed; (4) the place or places at which certificates for such shares are to be surrendered for certificates representing shares of Common Stock and (5) the then-current Conversion Ratio. Notice having been published or mailed as aforesaid, from and after the Call Date (unless the Corporation shall fail to issue and make available the number of shares of Common Stock and/or amount of cash necessary to effect such redemption), (i) except as otherwise provided herein, dividends on the shares of Series D Preferred Stock so called for redemption shall cease to accumulate or accrue on the shares of Series D Preferred Stock called for redemption (except that, in the case of a Call Date after a dividend record date and prior to the related Dividend Payment Date, holders of Series D Preferred Stock on the dividend record date will be entitled on such Dividend Payment Date to receive the dividend payable on such shares), (ii) said shares shall no longer be deemed to be outstanding, and (iii) all rights of the holders thereof as holders of Series D Preferred Stock of the Corporation shall cease (except the rights to receive the shares of Common Stock and/or cash payable upon such redemption, without interest thereon, upon surrender and endorsement of their certificates if so required and to receive any dividends payable thereon). The Corporation's obligation to provide shares of Common Stock and/or cash in accordance with the preceding sentence shall be deemed fulfilled if on or before the Call Date, the Corporation shall deposit with a bank or trust company (which may be an affiliate of the Corporation) that has, or is an affiliate of, a bank or trust company that has a capital and surplus of at least $50,000,000, such number or shares of Common Stock and such amount of cash as is necessary for such redemption, in trust, with irrevocable instructions that such shares of Common Stock and/or cash be applied to the redemption of the shares of Series D Preferred Stock so called for redemption. In the case of any redemption pursuant to paragraph (a)(i) of this Section 5, at the close of business on the Call Date, each holder of shares of Series D Preferred Stock to be redeemed (unless the Corporation defaults in the delivery of the shares of Common Stock or cash payable on such Call Date) shall be deemed to be the record holder of the number of shares of Common Stock into which such shares of Series D Preferred Stock are to be converted at redemption, regardless of whether such holder has surrendered the certificates representing the shares of Series D Preferred Stock to be so redeemed. No interest shall accrue for the benefit of the holders of shares of Series D Preferred Stock to be redeemed on any cash so set aside by the Corporation. Subject to applicable escheat laws, any such cash unclaimed at the end of two years from the Call Date shall revert to the general funds of the Corporation after which reversion the holders of shares of Series D Preferred Stock so called for redemption shall look only to the general funds of the Corporation for the payment of such cash.

As promptly as practicable after the surrender in accordance with said notice of the certificates for any such shares so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and if the notice shall so state), such certificates shall be exchanged for certificates representing shares of Common Stock and/or any cash (without interest thereon) for which such shares have been redeemed in accordance with such notice. If fewer than all the outstanding shares of Series D Preferred Stock are to be redeemed, shares to be redeemed shall be selected by the Corporation from outstanding shares of Series D Preferred Stock not previously called for redemption by lot or, with respect to the number of shares of Series D Preferred Stock held of record by each holder of such shares, pro rata (as nearly as may be) or by any other method as may be determined by the Board of Directors in its discretion to be equitable. If fewer than all the shares of Series D Preferred Stock represented by any certificate are redeemed, then a new certificate representing the unredeemed shares shall be issued without cost to the holders thereof.

(e) In the case of any redemption pursuant to paragraph (a)(i) of this Section 5, no fractional shares of Common Stock or scrip representing fractions of shares of Common Stock shall be issued upon redemption of the shares of Series D Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon redemption of shares of Series D Preferred Stock, the Corporation shall pay to the holder of such share an amount in cash (computed to the nearest cent) based upon the Current Market Price of the Common Stock on the Trading Day immediately preceding the Call Date. If more than one share shall be surrendered for redemption at one time by the same holder, the number of full shares of Common Stock issuable upon redemption thereof shall be computed on the basis of the aggregate number of shares of Series D Preferred Stock so surrendered.

(f) In the case of any redemption pursuant to paragraph (a)(i) of this Section 5, the Corporation covenants that any shares of Common Stock issued upon redemption of shares of Series D Preferred Stock shall be validly issued, fully paid and non-assessable. The Corporation shall use its best efforts to list, subject to official notice of issuance, the shares of Common Stock required to be delivered upon any such redemption of shares of Series D Preferred Stock, prior to such redemption, on a national securities exchange, if any, on which the outstanding shares of Common Stock are listed at the time of such delivery.

The Corporation shall take any action necessary to ensure that any shares of Common Stock issued upon the redemption of Series D Preferred Stock are freely transferable and not subject to any resale restrictions under the Act or any applicable state securities or blue sky laws (other than any shares of Common Stock issued upon redemption of any Series D Preferred Stock which are held by an "affiliate" (as defined in Rule 144 under the Act) of the Corporation).

Section 6. Stock To Be Retired.

All shares of Series D Preferred Stock which shall have been issued and reacquired in any manner by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock, without designation as to series. The Corporation may also retire any unissued shares of Series D Preferred Stock, and such shares shall then be restored to the status of authorized but unissued shares of Preferred Stock, without designation as to series.

Section 7. Conversion into Common Stock.
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Holders of shares of Series D Preferred Stock shall have the right to convert all or a portion of such shares into shares of Common Stock, as follows:

(a) Subject to and upon compliance with the provisions of this Section 7, a holder of shares of Series D Preferred Stock shall have the right, at such holder's option at any time to convert such shares, in whole or in part, into one share, subject to adjustment as provided in this Section 7, of fully paid and non-assessable, authorized but previously unissued Common Stock per each share of Series D Preferred Stock by surrendering such shares to be converted, such surrender made in the manner provided in paragraph (b) of this Section 7; provided, however, that the right to convert shares of Series D Preferred Stock called for redemption pursuant to Section 5 shall terminate at the close of business on the Call Date fixed for such redemption, unless the Corporation shall default in making payment of shares of Common Stock and/or cash payable upon such redemption under Section 5 hereof.

(b) In order to exercise the conversion right, the holder of each share of Series D Preferred Stock to be converted shall surrender the certificate representing such share, duly endorsed or assigned to the Corporation or in blank, at the office of the Transfer Agent, accompanied by written notice to the Corporation that the holder thereof elects to convert such share of Series D Preferred Stock. Unless the shares issuable on conversion are to be issued in the same name as the name in which such share of Series D Preferred Stock is registered, each share surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or such holder's duly authorized attorney and an amount sufficient to pay any transfer or similar tax (or evidence reasonably satisfactory to the Corporation demonstrating that such taxes have been paid).

Holders of shares of Series D Preferred Stock at the close of business on a dividend payment record date shall be entitled to receive the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the conversion thereof following such dividend payment record date and prior to such Dividend Payment Date. Except as provided above, the Corporation shall make no payment or allowance for unpaid dividends, whether or not in arrears, on converted shares or for dividends on the shares of Common Stock issued upon such conversion.

As promptly as practicable after the surrender of certificates for shares of Series D Preferred Stock as aforesaid, the Corporation shall issue and shall deliver at such office to such holder, or send on such holder's written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such shares of Series D Preferred Stock in accordance with provisions of this Section 7, and any fractional interest in respect of a share of Common Stock arising upon such conversion shall be settled as provided in paragraph (c) of this Section 7.

Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the certificates for shares of Series D Preferred Stock shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby at such time on such date and such conversion shall be at the Conversion Ratio in effect at such time on such date unless the stock transfer books of the Corporation shall be closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Ratio in effect on the date on which such shares shall have been surrendered and such notice received by the Corporation. If the dividend payment record date for the Series D Preferred Stock and Common Stock do not coincide, and the preceding sentence does not operate to ensure that a holder of shares of Series D Preferred Stock whose shares are converted into Common Stock does not receive dividends on both the shares of Series D Preferred Stock and the Common Stock into which such shares are converted for the same Dividend Period, then notwithstanding anything herein to the contrary, it is the intent, and the Transfer Agent is authorized to ensure that no conversion after the earlier of such record dates will be accepted until after the latter of such record dates.

(c) No fractional share of Common Stock or scrip representing fractions of a share of Common Stock shall be issued upon conversion of the shares of Series D Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon the conversion of shares of Series D

Preferred Stock, the Corporation shall pay to the holder of such share an amount in cash based upon the Current Market Price of the Common Stock on the Trading Day immediately preceding the date of conversion. If more than one share shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series D Preferred Stock so surrendered.

(d) The Conversion Ratio shall be adjusted from time to time as follows:

(i) If the Corporation shall after the Issue Date (A) pay a dividend or make a distribution on its capital stock in shares of Common Stock, (B) subdivide its outstanding Common Stock into a greater number of shares, (C) combine its outstanding Common Stock into a smaller number of shares or (D) issue any shares of capital stock by reclassification of its Common Stock, the Conversion Ratio in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or distribution or at the opening of business on the day following the day on which such subdivision, combination or reclassification becomes effective, as the case may be, shall be adjusted so that the holder of any share of Series D Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock (or fraction of a share of Common Stock) that such holder would have owned or have been entitled to receive after the happening of any of the events described above had such share of Series D Preferred Stock been converted immediately prior to the record date in the case of a dividend or distribution or the effective date in the case of a subdivision, combination or reclassification. An adjustment made pursuant to this paragraph (d)(i) of this Section 7 shall become effective immediately after the opening of business on the day next following the record date (except as provided in paragraph (h) below) in the case of a dividend or distribution and shall become effective immediately after the opening of business on the day next following the effective date in the case of a subdivision, combination or reclassification.

(ii) If the Corporation shall issue after the Issue Date rights, options or warrants to all holders of Common Stock entitling them (for a period expiring within 45 days after the record date described below in this paragraph (d)(ii) of this Section 7) to subscribe for or purchase Common Stock at a price per share less than the Fair Market Value per share of the Common Stock on the record date for the determination of stockholders entitled to receive such rights, options or warrants, then the Conversion Ratio in effect at the opening of business on the day next following such record date shall be adjusted to equal the ratio determined by multiplying the Conversion Ratio in effect immediately prior to the opening of business on the day following the date fixed for such determination by a fraction, the numerator of which shall be the sum of (X) the number of shares of Common Stock outstanding on the close of business on the date fixed for such determination and (Y) the number of shares that the aggregate proceeds to the Corporation from the exercise of such rights, options or warrants for Common Stock would purchase at such Fair Market Value, and the denominator of which shall be the sum of (XX) the number of shares of Common Stock outstanding on the close of business on the date fixed for such determination and (YY) the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights, options or warrants. Such adjustment shall become effective immediately after the opening of business on the day next following such record date (except as provided in paragraph (h) below). In determining whether any rights, options or warrants entitle the holders of Common Stock to subscribe for or purchase Common Stock at less than such Fair Market Value, there shall be taken into account any consideration received by the Corporation upon issuance and upon exercise of such rights, options or warrants, the value of such consideration, if other than cash, to be determined in good faith by the Board of Directors.

(iii) No adjustment in the Conversion Ratio shall be required unless such adjustment would require a cumulative increase or decrease of at least 1%, in such ratio, provided, however, that any adjustments that by reason of this paragraph (d)(iii) are not required to be made shall be carried forward and taken into account in any subsequent adjustment until made: and provided, further, that any adjustment shall be required and made in accordance with the provisions of this Section 7 (other than this paragraph (d)(iii)) not later than such time as may be required in order to preserve the tax-free nature of a distribution to the holders of shares of Common Stock. Notwithstanding any other provisions of this Section 7, the Corporation shall not be required to make any adjustment of the Conversion Ratio for the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Corporation and the investment of additional optional amounts in shares of Common Stock under such plan. All calculations under this Section 7 shall be made to the nearest one-tenth of a share (with .05 of a share being rounded upward). Anything in this paragraph (d) of this Section 7 to the contrary notwithstanding, the Corporation shall be entitled, to the extent permitted by law, to make such reductions in the Conversion Ratio, in addition to those required by this paragraph (d), as it in its discretion shall determine to be advisable in order that any stock dividends, subdivision of shares, reclassification or combination of shares, distribution of rights or warrants to purchase stock or securities, or a distribution of other assets (other than cash dividends) hereafter made by the Corporation to its stockholders shall not be taxable, or if that is not possible, to diminish any income taxes that are otherwise payable because of such event.

(e) If the Corporation shall be a party to any transaction (including without limitation a merger, consolidation, statutory share exchange, issuer or self tender offer for all or a substantial portion of the shares of Common Stock outstanding, sale of all or substantially all of the Corporation's assets or recapitalization of the Common Stock, but excluding any transaction as to which paragraph (d)(i) of this Section 7 applies (each of the foregoing being referred to herein as a "Transaction"), in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), each share of Series D Preferred Stock which is not converted into the right to receive stock, securities or other property in connection with such Transaction shall thereupon be convertible into the kind and amount of shares of stock, securities and other property (including cash or any combination thereof) receivable upon such consummation by a holder of that number of shares of Common Stock into which one share of Series D Preferred Stock was convertible immediately prior to such Transaction. The Corporation shall not be a party to any Transaction unless the terms of such Transaction are consistent with the provisions of this paragraph (e), and it shall not consent or agree to the occurrence of any Transaction until the Corporation has entered into an agreement with the successor or purchasing entity, as the case may be, for the benefit of the holders of the Series D Preferred Stock that will contain provisions enabling the holders of the Series D Preferred Stock that remain outstanding after such Transaction to convert into the consideration received by holders of Common Stock at the Conversion Ratio in effect immediately prior to such Transaction. The provisions of this paragraph (e) shall similarly apply to successive Transactions.

(f) If,

(i) the Corporation shall declare a dividend (or any other distribution) on the Common Stock (other than cash dividends and cash distributions); or

(ii) the Corporation shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of any class or series of capital stock or any other rights or warrants; or

(iii) there shall be any reclassification of the Common Stock or any consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or a statutory share exchange, or an issuer or self tender offer by the Corporation for all or a substantial portion of its outstanding shares of Common Stock (or an amendment thereto changing the maximum number of shares sought or the amount or type of consideration being offered therefor or the sale or transfer of all or substantially all of the assets of the Corporation as an entirety; or

(iv) there shall occur the voluntary or involuntary liquidation, dissolution or winding up of the Corporation,

then the Corporation shall cause to be filed with the Transfer Agent and shall cause to be mailed to each holder of shares of Series D Preferred Stock at such holder's address as shown on the stock records of the Corporation, as promptly as possible, but at least fifteen (15) days prior to the applicable date hereinafter specified, a notice stating (A) the record date for the payment of such dividend, distribution or rights or warrants, or, if a record date is not established, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights or warrants are to be determined or (B) the date on which such reclassification, consolidation, merger, statutory share exchange, sale, transfer, liquidation, dissolution or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, statutory share exchange, sale, transfer, liquidation, dissolution or winding up or (C) the date on which such tender offer commenced, the date on which such tender offer is scheduled to expire unless extended, the consideration offered and the other material terms thereof (or the material terms of any amendment thereto). Failure to give or receive such notice or any defect therein shall not affect the legality or validity of the proceedings described in this Section 7.

(g) Whenever the Conversion Ratio is adjusted as herein provided, the Corporation shall promptly file with the Transfer Agent an officer's certificate setting forth the Conversion Ratio after such adjustment and setting forth a brief statement of the facts requiring such adjustment which certificate shall be conclusive evidence of the correctness of such adjustment absent manifest error. Promptly after delivery of such certificate, the Corporation shall prepare a notice of such adjustment of the Conversion Ratio setting forth the adjusted Conversion Ratio and the effective date such adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Ratio to each holder of shares of Series D Preferred Stock at such holder's last address as shown on the stock records of the Corporation.

(h) In any case in which paragraph (d) of this Section 7 provides that an adjustment shall become effective on the day next following the record date for an event, the Corporation may defer until the occurrence of such event (A) issuing to the holder of any share of Series D Preferred Stock converted after such record date and before the occurrence of such event the additional Common Stock issuable upon such conversion by reason of the adjustment required by such event over and above the Common Stock issuable upon such conversion before giving effect to such adjustment and (B) paying to such holder any amount of cash in lieu of any fraction pursuant to paragraph (c) of this Section 7.

(i) There shall be no adjustment of the Conversion Ratio in case of the issuance of any capital stock of the Corporation in a reorganization, acquisition or other similar transaction except as specifically set forth in this Section 7.

(j) If the Corporation shall take any action affecting the Common Stock other than action described in this Section 7, that in the opinion of the Board of Directors would materially adversely affect the conversion rights of the holders of Series D Preferred Stock, the Conversion Ratio for the Series D Preferred Stock may be adjusted, to the extent permitted by law, in such manner, if any, and at such time as the Board of Directors, in its sole discretion may determine to be equitable under the circumstances.

(k) The Corporation shall at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock solely for the purpose of effecting conversion of the Series D Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series D Preferred Stock not theretofore converted into Common Stock. For purposes of this paragraph (k), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series D Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single holder.

The Corporation covenants that any shares of Common Stock issued upon conversion of the shares of Series D Preferred Stock shall be validly issued, fully paid and non-assessable.

The Corporation shall use its best efforts to list the shares of Common Stock required to be delivered upon conversion of the shares of Series D Preferred Stock, prior to such delivery, on a national securities exchange, if any, on which the outstanding shares of Common Stock are listed at the time of such delivery.

The Corporation shall take any action necessary to ensure that any shares of Common Stock issued upon conversion of shares of Series D Preferred Stock are freely transferable and not subject to any resale restrictions under the Act, or any applicable state securities or blue sky laws (other than any shares of Common Stock which are held by an "affiliate" (as defined in Rule 144 under the Act).

(l) The Corporation will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock or other securities or property on conversion or redemption of shares of Series D Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or other securities or property in a name other than that of the holder of the shares of Series D Preferred Stock to be converted or redeemed, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or established, to the reasonable satisfaction of the Corporation, that such tax has been paid.

Section 8. Conversion into Senior Notes.
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(a) If at any time the Corporation:

(i) falls in arrears in the payment of dividends on the Series D Preferred Stock in an aggregate amount equal to the full accrued dividends for two quarterly Dividend Periods; or

(ii) fails to maintain consolidated shareholders' equity determined in accordance with generally accepted accounting principles of at least 200% of the aggregate Issue Price of the then outstanding Series D Preferred Stock, then the Series D Preferred Stock will automatically convert into 9.50% Senior Notes (the "Conversion Notes"), which will be in substantially the following form:

[Date] ,
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DYNEX CAPITAL, INC.

9.50% Senior Note

DYNEX CAPITAL, INC., a corporation duly organized and validly existing under the laws of the Commonwealth of Virginia (the "Company"), for value received hereby promises to pay to the order of ___________________ (the "Note Holder") the principal sum of ____________ Dollars ($_________) with interest thereon at the rate of 9.50% per annum, payable as follows:

a. Interest in quarterly installments payable only on the last day of the months of _______ , _______ , _______ ,and _______ commencing from the date of issuance of this Note (the "Issue Date"); and

b. Principal in arrears, together with associated interest, commencing the third year after the Issue Date over eight quarterly periods payable on the last day of the months of _______ , _______ , _______ ,and _______; provided, however, that such quarterly payments will not begin until after the Company tenders its last payment on the Company's 9.50% Senior Notes due 2007.

The principal and interest payable on this Note will be paid to the person in whose name this Note is registered at the close of business on the record date, which shall be _______ , _______ , _______ ,and _______ (whether or not a business day). Interest shall be paid by check mailed to the Noteholder at the registered address of such person unless other arrangements are made by the Noteholder with the Company.

Interest on this Note shall be computed on the basis of a 360-day year composed of twelve 30-day months.

The Company will have the right to prepay or redeem this Note in part or in its entirety, including all accrued interest due hereon, at its option, anytime prior to maturity without penalty.

The Company covenants that, until it satisfies its obligations pursuant to the terms of this Note, it will not (i) repurchase outstanding capital stock of the Company or (ii) make distributions to shareholders of the Company other than such distributions necessary to maintain the Company's status as a real estate investment trust pursuant to the Internal Revenue Code of 1986, as amended.

Any of the following shall constitute an "Event of Default" hereunder: (i) the failure to pay any sum due hereunder within ten (10) days after a notice of default is delivered to Company by Noteholder following the date such sum is due, (ii) Company's admission in writing that it is unable to pay its debts as they become due, (iii) any assignment by the Company for the benefit of its creditors, or (iv) Company's filing or having filed against it a petition in bankruptcy. Upon the occurrence of an Event of Default, interest shall begin to accrue at a rate of __% per annum from the date of said occurrence until this Note is paid in full. Upon the occurrence of an Event of Default, the outstanding principal balance hereof and all interest accrued thereon shall become due and payable immediately at the election of Noteholder, without notice. Failure to exercise this option upon any such Event of Default shall not constitute or be construed as a waiver of the right to exercise such option subsequently.

This Note has been executed and delivered in the Commonwealth of Virginia, and shall be construed and governed by the laws of the Commonwealth of Virginia.

The provisions of this Note shall be binding upon the successors and assigns of the Company and shall inure to the benefit of the Noteholder.

(b) The Conversion Notes shall be subordinate only to the Corporation's 9.50% Senior Notes due April 2007 (the "2007 Senior Notes"). The principal payments under the Conversion Notes will not begin until after the Corporation tenders its last payment on the 2007 Senior Notes.

(c) If the Series D Preferred Stock converts into Conversion Notes, then the aggregate amount of accrued and unpaid dividends payable to holders of the Series D Preferred Stock, including pro-rata dividends, will be added to the principal balance of the Conversion Notes.

(d) The Conversion Notes shall be issued pursuant to an indenture substantially similar to the indenture that governs the Corporation's 9.50% Senior Notes due 2007 and that complies with the requirements of the Trust Indenture Act of 1939.

Section 9. Ranking.
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The Series D Preferred Stock will rank senior to the Common Stock with respect to the payment of dividends and amounts payable upon liquidation, dissolution or winding up of the Corporation. The Corporation is not permitted to issue any stock ranking senior to the Series D Preferred Stock as to the payment of dividends or amounts upon liquidation, without the approval of the holders of two-thirds (2/3) of the Series D Preferred Stock.

Section 10. Voting.

(a) The holders of the Series D Preferred Stock voting as a single class, will have the right to elect two representatives to the Board of Directors of the Corporation so long as there remains outstanding greater than or equal to 50% of the number of shares of Series D Preferred Stock issued in accordance with Section 1(b). If the amount of Series D Preferred Stock at any time outstanding is less than 50% of the number of shares of Series D Preferred Stock issued in accordance with Section 1(b), then the holders of the Series D Preferred Stock will have the right to elect one representative to the Board of Directors of the Corporation. In this event, unless one of the two directors delivers notice of his resignation to the Corporation within ten days after receiving notice of the change in the right of the holders of the Series D Preferred Stock to elect representatives to the Board of Directors, the term of the board representative of the holders of the Series D Preferred Stock who received the fewest number of votes in the most recent election of directors shall terminate effective as of the date on which the amount of Series D Preferred Stock outstanding ceased to be greater than or equal to 50% of the number of shares of the Series D Preferred Stock issued in accordance with Section 1(b). If no Series D Preferred Stock remains outstanding, the holders of the Series D Preferred Stock shall no longer have the right to elect any representatives to the Board of Directors of the Corporation, and the term of the board representatives of the holders of the Series D Preferred Stock shall terminate effective as of the date on which the Series D Preferred Stock ceased to be outstanding. However, if the reason that the Series D Preferred Stock ceased to be outstanding is the conversion of the Series D Preferred Stock pursuant to Section 8, then any representatives to the Board of Directors of the Corporation elected by the holders of the Series D Preferred Stock will continue in office until the next succeeding meeting of the shareholders of the Corporation.

(b) So long as any shares of Series D Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Articles of Incorporation, as amended, and subject to Section 11 below, the affirmative vote of at least 66 2/3% of the votes entitled to be cast by the holders of the Series D Preferred Stock, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

> (i) Any amendment, alteration or repeal of any of the provisions of this amendment to the Articles of Incorporation, the Articles of Incorporation or the Bylaws of the Corporation that materially adversely affects the voting powers, rights or preferences of the holders of the Series D Preferred Stock; provided, however, that the amendment of the provisions of the Articles of Incorporation so as to authorize or create, or to increase the authorized amount of, any Junior Stock or any shares of any class ranking on a parity with the Series D Preferred Stock shall not be deemed to materially adversely affect the voting powers, rights or preferences of the holders of Series D Preferred Stock; or
>
> (ii) The authorization or creation of, or the increase in the authorized amount of, any shares of any class or any security convertible into shares of any class ranking prior or senior to the Series D Preferred Stock in the distribution of assets on any liquidation, dissolution or winding up of the Corporation or in the payment of dividends; provided, however, that no such vote of the holders of Series D Preferred Stock shall be required if, at or prior to the time when such amendment, alteration or repeal is to take effect, or when the issuance of any such prior shares or convertible security is to be made, as the case may be, provision is made for the redemption of all shares of Series D Preferred Stock at the time outstanding.

For purposes of the foregoing provisions of this Section 10, each share of Series D Preferred Stock shall have one (1) vote per share, except that when any other series of preferred stock shall have the right to vote with the Series D Preferred Stock as a single class on any matters then the Series D Preferred Stock and such other series shall have with respect to such matters one (1) vote per $10.00 of stated liquidation preference. Except as otherwise required by applicable law or as set forth herein, the Series D Preferred Stock shall not have any relative participating, optional or other special voting rights and powers other than as set forth herein, and the consent of the holders thereof shall not be required for the taking of any corporate action.

Section 11. Restriction on Payments.

The Corporation will not make any payments for (a) repurchases, tender offers, and other retirements of Common Stock of the Corporation or (b) dividends on Common Stock in excess of the amount of payment required to maintain the status of the Corporation as a real estate investment trust unless, after taking into account such payment, consolidated shareholders equity of the Corporation, as determined in accordance with generally accepted accounting principles, exceeds 300% of the aggregate Issue Price of the then outstanding Series D Preferred Stock unless approved by the holders of at least 75% of the Series D Preferred Stock.

Section 12. Record Holders.

The Corporation and the Transfer Agent may deem and treat the record holder of any share of Series D Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor the Transfer Agent shall be affected by any notice to the contrary.