

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 2, 2007**

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

Virginia
(State or other jurisdiction
of incorporation)

1-9819
(Commission File Number)

52-1549373
(IRS Employer
Identification No.)

4551 Cox Road, Suite 300
Glen Allen, Virginia
(Address of principal executive offices)

23060
(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On August 2, 2007, the Registrant issued a press release reporting its financial results for the quarter ended June 30, 2007. A copy of the press release is being furnished as an exhibit to this report and is incorporated by reference into this Item 2.02.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibit is being furnished pursuant to Item 2.02 above.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 99.1 | Earnings Press Release dated August 2, 2007 |

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 hereunto duly authorized.

DYNEX CAPITAL, INC.

Date: August 2, 2007

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Executive Officer

Exhibit Index

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|--------------------|---|
| 99.1 | Earnings Press Release dated August 2, 2007 |

PRESS RELEASE

FOR IMMEDIATE RELEASE
August 2, 2007

CONTACT:

Alison Griffin
(804) 217-5897

**DYNEX CAPITAL, INC. ANNOUNCES
SECOND QUARTER 2007 RESULTS**

Dynex Capital, Inc. (NYSE: DX) reported net income of \$2.7 million and \$4.6 million for the three-month and six-month periods ended June 30, 2007, respectively, compared to \$1.6 million and \$2.8 million for the same periods of last year. Net income to common shareholders was \$1.7 million, or \$0.14 per common share, for the second quarter of 2007, versus \$0.6 million, or \$0.05 per common share, for the second quarter of 2006. Net income to common shareholders for the six-month period ended June 30, 2007 was \$2.6 million, or \$0.22 per common share, versus \$789 thousand, or \$0.06 per common share for the same period in 2006.

The Company's common equity book value increased to \$8.01 per common share from \$7.93 at March 31, 2007 and \$7.78 at December 31, 2006. The Company also reported adjusted common equity book value of \$99.4 million, or \$8.19 per common share, at the end of the second quarter of 2007. Adjusted common equity book value consists of book value per common share, adjusted to reflect all financial assets and financial liabilities at their fair values, based on anticipated cash flows from the assets less the associated cash requirements for the liabilities, discounted at estimated market rates. A reconciliation of common equity book value to adjusted common equity book value per share is included at the end of this press release.

The Company has scheduled a conference call for Friday, August 3, 2007, at 11:00 A.M. EDT, to discuss the second quarter results. Investors may participate in the call by dialing 1-800-732-9506.

Thomas Akin, Chairman, stated, "We are quite pleased to be reporting results for the quarter of \$0.14 per common share. Our portfolio continues to perform very well from a credit point of view, and we have virtually no exposure to the problems that are currently being experienced in the subprime and Alt-A mortgage markets. We have had only \$33 thousand of credit losses in our securitized single-family mortgage loan portfolio in the last 12 months. In addition, our existing investments are yielding in excess of 11% on a net investment basis, with comparably low leverage. Our excess cash is being invested at yields approximating One-Month LIBOR, and leverage on our capital is low, so we have room to substantially increase earnings by investing our capital as market conditions allow."

Mr. Akin continued, “Over the last several years, we have patiently sold assets, improved our financial flexibility and increased our available capital, with the expectation that yields on residential assets would improve. We believe that the market is in the midst of resetting yields and redefining risk premiums for these and other assets. Our view is that this period of stress will continue for the foreseeable future, and we stand ready to take advantage of more favorable risk-adjusted returns as they appear. We continue to stress patience to our shareholders, and we believe that there will be opportunities this year to invest our capital at good risk-adjusted returns.”

Discussion of Second Quarter Results

The Company reported net income for the quarter of \$2.7 million compared to \$1.6 million for the same period last year. After consideration of the preferred stock dividend, the Company reported net income to common shareholders of \$1.7 million, or \$0.14 per common share, compared to \$0.6 million, or \$0.05 per common share, for the second quarter of 2006.

The Company reported net interest income on its investment portfolio of \$3.0 million for the second quarter of 2007 compared to \$2.5 million for the same period in 2006. Net interest income for the second quarter of 2007 included \$0.6 million of income from premium amortization related to the prepayment of \$11.8 million in securitized commercial mortgage loans.

Net interest income after recapture of provision for loan losses was \$3.7 million for the second quarter of 2007 compared to \$2.5 million for the same period in 2006. The Company recognized a \$0.7 million benefit from the recapture of provision for loan losses, primarily related to improved performance on two commercial mortgage loans during the first half of 2007 which led to a reduction of reserves on these loans. At June 30, 2007, the Company had no delinquent commercial mortgage loans in its investment portfolio, and there was only one delinquent loan with a principal balance of \$1.4 million held by the joint venture in which the Company holds an interest. The Company also had only two securitized single-family mortgage loans in real estate owned at June 30, 2007, with a current balance of \$132 thousand.

Net interest spread on investments was 2.17% for the second quarter of 2007 compared to 0.14% for the second quarter of 2006. Net interest spread for the second quarter of 2007 was favorably influenced by 0.94% as a result of the aforementioned \$0.6 million in income related to commercial mortgage loan prepayments. The Company’s net yield on average interest earning assets was 3.50% for the second quarter of 2007 compared to 1.40% for the second quarter of 2006. The overall yield on interest earning assets, including cash and cash equivalents, was 7.95% for the second quarter of 2007 versus 7.51% for the second quarter of 2006, and the weighted average cost of funds was 6.24% for the second quarter of 2007 versus 7.64% for the second quarter of 2006.

The first quarter also included other expenses of \$0.5 million primarily related to the change in value in the Company’s mortgage servicing obligations. General and administrative expenses were \$1.2 million for the second quarter of 2007, which was in-line with the first quarter of 2007 and the second quarter of 2006.

Balance Sheet

Total assets were \$444.6 million at June 30, 2007 compared to \$466.6 million at December 31, 2006. Investments declined from \$403.6 million at December 31, 2006 to \$377.9 million at the end of the second quarter of 2007, primarily as a result of principal payments received.

At the end of the second quarter of 2007, the Company had capital immediately available for reinvestment of \$67.9 million, consisting of cash and cash equivalents and borrowing capacity under its existing repurchase agreement facility. There is also \$40.3 million of cash and cash equivalents available for investment in the Company's joint venture with Deutsche Bank.

Dynex Capital, Inc. is a financial services company that elects to be treated as a real estate investment trust (REIT) for federal income tax purposes. Additional information about Dynex Capital, Inc. is available at www.dynexcapital.com.

Note: This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "forecast," "anticipate," "estimate," "project," "plan," " and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. The Company's actual results and timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements as a result of unforeseen external factors. These factors may include, but are not limited to, changes in general economic and market conditions, defaults by borrowers, availability of suitable reinvestment opportunities, variability in investment portfolio cash flows, fluctuations in interest rates, fluctuations in property capitalization rates and values of commercial real estate, defaults by third-party servicers, prepayments of investment portfolio assets, other general competitive factors, the impact of regulatory changes, and the impact of Section 404 of the Sarbanes-Oxley Act of 2002. For additional information, see the Company's Annual Report on Form 10-K for the period ended December 31, 2006, and other reports filed with and furnished to the Securities and Exchange Commission.

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DYNEX CAPITAL, INC.
Consolidated Balance Sheets
(Thousands except share data)

| | June 30, 2007 (unaudited) | December 31, 2006 |
|---|------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 62,556 | \$ 56,880 |
| Other assets | 4,096 | 6,111 |
| | <u>66,652</u> | <u>62,991</u> |
| Investments: | | |
| Securitized commercial mortgage loans, net | 220,109 | 228,466 |
| Securitized single-family mortgage loans, net | 99,398 | 117,838 |
| Investment in joint venture | 39,296 | 37,388 |
| Securities | 13,446 | 13,143 |
| Other investments | 2,239 | 2,802 |
| Other loans | 3,438 | 3,929 |
| | <u>377,926</u> | <u>403,566</u> |
| | <u>\$ 444,578</u> | <u>\$ 466,557</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Securitization financing | \$ 201,046 | \$ 211,564 |
| Repurchase agreements | 80,965 | 95,978 |
| Obligation under payment agreement | 16,829 | 16,299 |
| Other liabilities | 6,352 | 6,178 |
| | <u>305,192</u> | <u>330,019</u> |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock | 41,749 | 41,749 |
| Common stock | 121 | 121 |
| Additional paid-in capital | 366,716 | 366,637 |
| Accumulated other comprehensive income | 793 | 663 |
| Accumulated deficit | (269,993) | (272,632) |
| | <u>139,386</u> | <u>136,538</u> |
| | <u>\$ 444,578</u> | <u>\$ 466,557</u> |
| Book value per common share | <u>\$ 8.01</u> | <u>\$ 7.78</u> |

DYNEX CAPITAL, INC.
Consolidated Statements of Operations
(Thousands except share data)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------------|------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest income | \$ 8,023 | \$ 14,192 | \$ 16,238 | \$ 28,958 |
| Interest and related expense | (5,060) | (11,649) | (10,814) | (24,127) |
| Net interest income | <u>2,963</u> | <u>2,543</u> | <u>5,424</u> | <u>4,831</u> |
| Recapture of provision for loan losses | <u>702</u> | <u>-</u> | <u>1,225</u> | <u>119</u> |
| Net interest income after recapture of provision for loan losses | 3,665 | 2,543 | 6,649 | 4,950 |
| Equity in earnings of joint venture | 672 | - | 1,302 | - |
| Other (expense) income, net | (472) | 237 | (1,018) | 370 |
| General and administrative expenses | <u>(1,163)</u> | <u>(1,165)</u> | <u>(2,289)</u> | <u>(2,492)</u> |
| Net income | 2,702 | 1,615 | 4,643 | 2,828 |
| Preferred stock charge | <u>(1,003)</u> | <u>(1,003)</u> | <u>(2,005)</u> | <u>(2,039)</u> |
| Net income to common shareholders | <u>\$ 1,699</u> | <u>\$ 612</u> | <u>\$ 2,638</u> | <u>\$ 789</u> |
| Change in net unrealized gain (loss) during the period on: | | | | |
| Investments classified as available-for-sale | (602) | 84 | (476) | 448 |
| Investment in joint venture | (223) | - | 606 | - |
| Comprehensive income | <u>\$ 1,877</u> | <u>\$ 1,699</u> | <u>\$ 4,773</u> | <u>\$ 3,276</u> |
| Net income per common share | | | | |
| Basic and diluted | <u>\$ 0.14</u> | <u>\$ 0.05</u> | <u>\$ 0.22</u> | <u>\$ 0.06</u> |
| Weighted average number of common shares outstanding: | | | | |
| Basic | <u>12,136,262</u> | <u>12,138,469</u> | <u>12,134,715</u> | <u>12,150,011</u> |
| Diluted | <u>12,140,893</u> | <u>12,138,469</u> | <u>12,136,624</u> | <u>12,150,011</u> |

DYNEX CAPITAL, INC.
Reconciliation of Book Value to Adjusted Common Equity Book Value
(Thousands except share data)
(unaudited)

| | June 30, 2007 | December 31, 2006 |
|--|------------------|----------------------|
| Shareholders' equity | \$ 139,386 | \$ 136,538 |
| Less: Preferred stock redemption value | <u>(42,215)</u> | <u>(42,215)</u> |
| Common equity book value | 97,171 | 94,323 |
| Adjustments to present amortized cost basis investments at fair value: | | |
| Securitized finance receivables, net | 2,254 | 4,427 |
| Other mortgage loans | 683 | 776 |
| Investment in joint venture | <u>(667)</u> | <u>(868)</u> |
| Adjusted common equity book value | <u>\$ 99,441</u> | <u>\$ 98,658</u> |
| Adjusted book value per common share | <u>\$ 8.19</u> | <u>\$ 8.13</u> |

