

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

SCHEDULE 13D
(Rule 13d-10)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE
13D-1(A) AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13D-2(A)*

(AMENDMENT NO. 2)

Dynex Capital, Inc.

(Name of Issuer)

Common Stock, \$0.01 par value per share

(Title of Class of Securities)

26817Q506

(CUSIP Number)

with a copy to:

Michael R. Kelly
550 West C Street
San Diego, CA 92101
(619) 687-5000

Stephen Fraidin
Fried, Frank, Harris, Shriver & Jacobson
One New York Plaza
New York, NY 10004-1980
(212) 859-8000

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications)

September 29, 2000

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box ☐.

Note: Schedules filed in paper format shall include a signed original and five copies of the Schedule, including all exhibits. See Rule 13d-7(b) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13D
CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

CALIFORNIA INVESTMENT FUND, LLC 33-0688954

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) ☒
(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED

PURSUANT TO ITEMS 2(d) or 2(e) []

NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION

CALIFORNIA

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 8 SHARED VOTING POWER

OWNED BY EACH 572,178

REPORTING 9 SOLE DISPOSITIVE POWER

PERSON WITH

10 SHARED DISPOSITIVE POWER

572,178

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

572,178

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) []
EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.00%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

SCHEDULE 13D
CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

MICHAEL R. KELLY

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) [x]

(b) []

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED
PURSUANT TO ITEMS 2(d) or 2(e) []

NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 8 SHARED VOTING POWER

OWNED BY EACH 572,178

REPORTING 9 SOLE DISPOSITIVE POWER

PERSON WITH

10 SHARED DISPOSITIVE POWER

572,178

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
572,178

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EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
5.00%

14 TYPE OF REPORTING PERSON (See Instructions)
IN

SCHEDULE 13D
CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
RICHARD KELLY

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)
(a) [x]
(b) []

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED
PURSUANT TO ITEMS 2(d) or 2(e) []
NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION
USA

NUMBER OF 7 SOLE VOTING POWER
SHARES

BENEFICIALLY 8 SHARED VOTING POWER
OWNED BY EACH 572,178

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572,178

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EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
5.00%

14 TYPE OF REPORTING PERSON (See Instructions)
IN

This amendment amends and supplements the Fund's Schedule 13D, dated March 29, 2000, and filed on April 4, 2000, and Amendment No. 1 to Schedule 13D, dated September 13, 2000, and filed on September 13, 2000, with the Securities and Exchange Commission (together, the "Schedule 13D").

Except as amended by this amendment, there has been no change in the information previously reported on the Schedule 13D.

ITEM 4. PURPOSE OF TRANSACTION.

On September 25, 2000, California Investment Fund, LLC (the "Fund") received a draft agreement and plan of merger (the "Merger Agreement") from Dynex Capital, Inc. ("Dynex") outlining a potential acquisition of Dynex by the Fund through a reverse triangular merger of a wholly-owned subsidiary of the Fund with and into Dynex. Delivery of the draft Merger Agreement by Dynex to the Fund followed the Fund's written proposal dated September 12, 2000 to acquire all of the outstanding shares of common stock and Series A, B and C Redeemable Preferred Stock of Dynex for an aggregate of \$90 million in cash, which proposal was delivered to Dynex on September 12, 2000 (the "Proposal Letter"). A copy of the Proposal Letter was attached as an Exhibit to the Fund's Amendment No. 1 to Schedule 13D filed September 13, 2000, and is specifically incorporated herein by reference, and the description herein of such letter is qualified in its entirety by reference to such letter. The Fund held discussions with Dynex regarding a potential acquisition transaction.

On September 29, 2000, the Fund and Dynex entered into a letter of intent regarding the Fund's proposed acquisition of Dynex for \$90 million through a merger transaction (the "Letter of Intent"). Among other things, the Letter of Intent provides that for the three-week period commencing on September 29, 2000 (the "Exclusivity Period") (i) Dynex will not, directly or indirectly, cooperate with, provide information for or otherwise engage in or facilitate discussions or negotiations with any third party concerning any alternative transaction with a third party regarding a potential acquisition of Dynex and (ii) the Fund will use its best efforts to obtain the necessary financing commitments on terms reasonably satisfactory to the Fund to consummate the proposed merger, complete its due diligence and obtain any consents that it believes are necessary or advisable to complete a merger transaction. A copy of the Letter of Intent is attached hereto as Exhibit A and is specifically incorporated herein by reference, and the description herein of such letter is qualified in its entirety by reference to such letter.

On October 3, 2000, the Fund issued a press release announcing that it had entered into the Letter of Intent. A copy of the press release is attached hereto as Exhibit B.

Discussions between the Fund and Dynex regarding the potential merger transaction and negotiation of a definitive merger agreement are expected to continue to take place from time to time during the Exclusivity Period.

Depending on the outcome of the discussions between Dynex and the Fund, the Fund reserves the right to formulate other plans and/or make other proposals, and take such actions with respect to its investment in Dynex, including any or all of the actions set forth in paragraphs (a) through (j) of Item 4 of Schedule 13D and any other actions as it may determine. The Fund also reserves the right to suspend or terminate its discussions with Dynex.

Except as stated in this response to Item 4 and in furtherance of a proposed business combination, the Fund has no current plans or proposals with respect to Dynex or its securities of the types enumerated in paragraphs (a) through (j) of Item 4 of Schedule 13D.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

Exhibit A -- Letter of Intent between the Fund and Dynex dated September 29, 2000

Exhibit B -- Press Release of the Fund dated October 3, 2000

SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this statement is true, complete and correct.

Date: October 3, 2000

California Investment Fund, LLC,
a California limited liability company

By: /s/ Michael R. Kelly

Michael R. Kelly
Its: Managing Member

Date: October 3, 2000

Michael R. Kelly

By: /s/ Michael R. Kelly

Michael R. Kelly, as an Individual

Date: October 3, 2000

Richard Kelly

By: /s/ Richard Kelly

Richard Kelly, as an Individual

EXHIBIT INDEX

Exhibit A -- Letter of Intent between the Fund and Dynex dated September 29,
2000

Exhibit B -- Press Release of the Fund dated October 3, 2000

CALIFORNIA INVESTMENT FUND, LLC
550 West C Street, 10th Floor
San Diego, CA 92101

CONFIDENTIAL
- -----

September 29, 2000

The Board of Directors of Dynex Capital, Inc.
c/o Thomas H. Potts
President
Dynex Capital, Inc.
4551 Cox Road, Suite 300
Glen Allen, VA 23060

Re: Dynex Capital, Inc.

Gentlemen:

California Investment Fund, LLC ("CIF") is pleased to provide this Letter of Intent to confirm our mutual understanding regarding the proposed acquisition by CIF of Dynex Capital, Inc. ("Dynex") through a merger transaction (the "Merger"), as set forth in Sections 1 and 3 of the letter from CIF to Dynex dated September 12, 2000.

To consummate the Merger, CIF will be required to devote a substantial amount of time, effort and resources. To induce CIF to do so, Dynex agrees as follows:

1. Exclusivity and No Shop: Dynex and each of its subsidiaries and affiliates, and their respective directors, officers, employees, agents and representatives (collectively, the "Dynex Parties") will immediately terminate any and all existing discussions or negotiations with any person, corporation, partnership, limited liability company or other entity or group other than CIF and its affiliates (each, a "Third Party") with respect to the sale of Dynex or any of its subsidiaries, or any of their respective assets or businesses (except for those assets that relate to the tax-exempt bonds), whether through direct sale, merger, consolidation or other business combination or sale of securities or options or warrants to purchase any securities of Dynex or any of its subsidiaries, or any similar transaction involving Dynex, any of its subsidiaries or any division of Dynex or any of its subsidiaries (each an "Alternative Transaction"). In addition, for the three week period beginning on the date of your execution of this Letter of Intent (the "No-Shop Period"), Dynex and the other Dynex Parties will not, directly or indirectly, encourage, solicit, cooperate with, provide information for or otherwise engage in or facilitate discussions or negotiations with any Third Party concerning an Alternative Transaction. During the No-Shop Period CIF will use its best efforts to obtain the necessary financing commitments on terms reasonably satisfactory to CIF to consummate the Merger, complete its due diligence and obtain any consents that it believes are necessary or advisable to complete the Merger.

2. Definitive Documentation: Promptly after the execution of this Letter of Intent, CIF and Dynex shall commence the negotiation of definitive agreements and documents related to the Merger, and CIF and Dynex agree to negotiate such documents in good faith.

3. Inspection and Access to Information: From and after the date of execution of this Letter of Intent by the parties hereto, Dynex shall permit access to, and shall make available to CIF and its representatives and professional advisors for inspection and review, the properties, books, records, accounts, and documents of or relating to Dynex and its subsidiaries. Dynex shall also make its officers and employees available to CIF at reasonable times to discuss with CIF and its representatives and professional advisors the business and affairs of Dynex and its subsidiaries.

4. Governing Law: This Letter of Intent shall be governed by the internal laws of the Commonwealth of Virginia.

5. Counterparts: This Letter of Intent may be executed in counterparts, each of which shall be deemed to constitute an original but all of which together shall constitute one and the same instrument.

6. Non-Binding: Except for the parties' obligations under Section 1 above, this Letter of Intent is not intended to create a binding obligation

on either party.

Please execute this Letter of Intent in the space provided below to indicate your acceptance of, and (to the extent set forth in Section 6 above) agreement to be bound by, this Letter of Intent and return an executed original to me by September 29, 2000. We look forward to working with you on this transaction.

Very truly yours,

CALIFORNIA INVESTMENT FUND, LLC

By:/s/ Michael Kelly

Name: Michael Kelly

Agreed to and Accepted this
29th day of September, 2000

DYNEX CAPITAL, INC.

By:/s/ Thomas H. Potts

Name: Thomas H. Potts
Title: President

DRAFT - NOT FOR RELEASE

Contacts:

Michael Kelly	Judy Brennan/Jonathan Gasthalter
California Investment Fund	Citigate Sard Verbinen
(619) 687-5000	(212) 687-8080

CALIFORNIA INVESTMENT FUND AND DYNEX CAPITAL
SIGN LETTER OF INTENT REGARDING ACQUISITION OF DYNEX

SAN DIEGO, CALIFORNIA - October 3, 2000 - California Investment Fund, LLC (CIF), a private real estate company headquartered in San Diego, California, today announced that it has signed a letter of intent with Dynex Capital, Inc. (NYSE: DX), a Virginia-based mortgage lending institution, with respect to CIF's proposed acquisition of 100% of the equity of Dynex for a purchase price of \$90 million in cash. CIF currently owns 572,178 shares of the common stock of Dynex, approximately 5% of the outstanding shares.

The letter of intent provides for a three-week period of exclusivity during which Dynex will not directly or indirectly engage in or facilitate discussions or negotiations with any third party concerning an alternative acquisition transaction. During this period, CIF will also use its best efforts to obtain necessary financing commitments on terms reasonably satisfactory to CIF to consummate the acquisition.

Consummation of the proposed transaction is subject to execution of a definitive merger agreement and to a number of customary conditions.

In connection with the execution of the letter of intent, CIF amended its Schedule 13D. Additional information regarding the letter of intent can be found in such amended Schedule 13D.

California Investment Fund, LLC is a real estate investment company that is a subsidiary of First Commercial Corporation. First Commercial, a private real estate investment company based in San Diego, California, is focused on the acquisition of whole loans and whole loan portfolios secured by commercial real estate. Founded in 1993 by Michael and Richard Kelly, First Commercial Corporation specializes in the commercial real estate secondary market.

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.