HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form N-2/A
May 14, 2010
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As filed with the Securities and Exchange Commission on May 14, 2010

Securities Act File No. 333-166101

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)

Pre-Effective Amendment No. 1

Post-Effective Amendment No.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Exact name of Registrant as specified in charter)

400 Hamilton Avenue, Suite 310

Palo Alto, CA 94301

(Address of Principal Executive Offices)

Registrant s Telephone Number, including Area Code: (650) 289-3060

Manuel A. Henriquez

Chief Executive Officer

Hercules Technology Growth Capital, Inc.

400 Hamilton Avenue, Suite 310

Palo Alto, CA 94301

(Name and address of agent for service)

COPIES TO:

Cynthia M. Krus

Steven B. Boehm

Sutherland Asbill & Brennan LLP

1275 Pennsylvania Avenue, N.W.

Washington, DC 20004

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box): x when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered(1)(3)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(4)
Common Stock, $0.001 par value per share	13,000,000	$ 126,490,000	$ 4,233

(1) Pursuant to Rule 416, this registration statement also covers such additional shares of our common stock as may be issued by reason of stock splits, stock dividends or similar transactions.
(2) Estimated solely for purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices of our common stock as reported on the Nasdaq Global Select Market on May 11, 2010.
(3) In reliance upon Rule 429 under the Securities Act of 1933, all securities unsold under the prospectus contained in such prior registration statement on Form N-2 (File No. 333-150403) (a total of 13,000,000 shares of common stock) are carried forward into this registration statement, and the prospectus contained as a part of this registration statement shall be deemed to be combined with the prospectus contained in the above-referenced registration statement, which has previously been filed.
(4) Previously paid $4,233.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

May 14, 2010

13,000,000 Shares Common Stock

This prospectus relates to the offer, from time to time, of 13,000,000 shares of our common stock, par value $0.001 per share by us.

The shares of common stock may be offered at prices and terms to be described in one or more supplements to this prospectus. We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On June 3, 2009, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending June 3, 2010. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share.

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as additional offices in the Boston and Boulder. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured mezzanine debt and, to a lesser extent, in senior debt and equity.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

Our common stock is traded on the Nasdaq Global Select Market under the symbol HTGC. On May 11, 2010, the last reported sale price of a share of our common stock on the Nasdaq Global Select Market was $9.53. The net asset value per share of our common stock at March 31, 2010 (the last date prior to the date of this prospectus on which we determined net asset value) was $10.11.

An investment in our common stock may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 13 to read about risks that you should consider before investing in our common stock, including the risk of leverage.

Please read this prospectus before investing and keep it for future reference. It contains important information about us that a prospective investor ought to know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301 or by telephone calling collect at (650) 289-3060 or on our website at www.herculestech.com. The SEC also maintains a website at www.sec.gov that contains such information.

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

This prospectus may not be used to consummate sales of shares of common stock unless accompanied by a prospectus supplement.

The date of this prospectus is , 2010

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You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any shares of common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any common stock imply that the information in this prospectus is accurate as of any later date or that the affairs of Hercules Technology Growth Capital, Inc. have not changed since the date hereof. This prospectus will be updated to reflect material changes.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to 13,000,000 shares of our common stock on the terms to be determined at the time of the offering. Shares of our common stock may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the shares of our common stock that we may offer. Each time we use this prospectus to offer shares of our common stock, we will provide a prospectus supplement that will contain specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any such supplements together with the additional information described under Where You Can Find Additional Information in the Summary and Risk Factors sections before you make an investment decision.

A prospectus supplement may also add to, update or change information contained in this prospectus.

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SUMMARY

This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus and the documents that are referenced in this prospectus, together with any accompanying supplements. In this prospectus, unless the context otherwise requires, the Company, Hercules Technology Growth Capital, we, us and our refer to Hercules Technology Growth Capital, Inc. and our wholly-owned subsidiaries.

Our Company

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

As of March 31, 2010 our total assets were approximately $501.0 million, of which, our investments comprised $380.0 million at fair value and $390.0 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $321.6 million, $13.2 million and $45.2 million, respectively, or 64.2%, 2.6% and 9.0% of total assets, respectively. Our total investments at value in foreign companies were approximately $23.0 million or 4.6% of total assets at March 31, 2010. During the year ended December 31, 2009 we made debt commitments to 21 portfolio companies totaling $180.7 million and funded approximately $95.5 million to 28 portfolio companies. During the quarter ended March 31, 2010, we made debt commitments totaling $93.5 million and funded approximately $87.3 million, respectively. Debt commitments for the quarter ended March 31, 2010 included commitments of approximately $63.2 million to four new portfolio companies and $30.3 million to eight existing portfolio companies. During the quarter ended March 31, 2010, we made and funded an equity commitment of $1.1 million to one company. Since inception through March 31, 2010, we have made debt and equity investment commitments in excess of $1.6 billion to our portfolio companies.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of March 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in the Boston and Boulder areas. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of ventures active in the technology and life science industries and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including, but not limited to, computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, and media and life sciences. Within the life sciences sub-sector, we focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. See Regulation Qualifying Assets. Since 2007, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

Despite the current capital market disruption and recession, we continue to see a steady pace of new investments by venture capitalists. As a result of this favorable level of venture capital investment activities, we are experiencing an increase in new investment origination activities which commenced in the fourth quarter of 2009, and would expect it to continue to the extent the venture capital community continues to accelerate its own pace of new investments. We are encouraged by signs of an improving economy, including improved valuations and higher levels of liquidity for our portfolio companies, increased investment activity from venture capitalists and the opening of the initial public offering, or IPO, marketplace. To the extent that we are able, we intend to seek new investment opportunities; however, we remain cautious and conservative in our investment and credit management strategies and we do not expect to see significant growth in the portfolio until the second half of 2010.

As of March 31, 2010, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 27 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Our Market Opportunity

We believe that technology-related companies compete in one of the largest and most rapidly growing sectors of the U.S. economy and that continued growth is supported by ongoing innovation and performance improvements in technology products as well as the adoption of technology across virtually all industries in

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response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on investments in structured debt with warrants in technology-related companies for the following reasons:

- Technology-related companies have generally been underserved by traditional lending sources;
- Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil;
- Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds; and
- Valuations currently assigned to technology-related companies in private financing rounds have decreased since 2008 as a result of the turmoil in the general market and should provide a good opportunity for attractive capital returns.

Technology-Related Companies are Underserved by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies, particularly due to the recent credit market dislocation and because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending. More importantly, we believe traditional lenders are typically unable to underwrite the risk associated with financial sponsor-backed emerging-growth or expansion-stage companies effectively.

The unique cash flow characteristics of many technology-related companies include significant research and development expenditures and high projected revenue growth thus often making such companies difficult to evaluate from a credit perspective. In addition, the balance sheets of emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine marketplace, instead preferring the risk-reward profile of asset based lending. Traditional lenders generally do not have flexible product offerings that meet the needs of technology-related companies. The financing products offered by traditional lenders typically impose on borrowers many restrictive covenants and conditions, including limiting cash outflows and requiring a significant depository relationship to facilitate rapid liquidation.

Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies. Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity. In 2009, venture capital-backed companies received, in approximately 2,400 transactions, equity financing in an aggregate amount of approximately $20.5 billion, representing an 32% decrease from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during in 2009 was $5.0 million, down from $7.0 million in 2008. These decreases were primarily a result of contraction of the capital markets experienced during the past year. Overall, seed- and first-round deals made up 18% of the deal flow in 2009, and later-stage deals made up roughly 56% of all capital invested.

We believe that demand for structured debt financing is currently under served, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies during 2008 and 2009. In addition, lending requirements of traditional lenders have recently become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market, and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants product provides access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe emerging-growth and expansion-stage companies target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth. In addition, because financial sponsor-backed companies have reached a more mature stage prior to reaching a liquidity event, we believe our investments provide the debt capital needed to grow or recapitalize companies during the extended period prior to liquidity events.

Our Business Strategy

Our strategy to achieve our investment objective includes the following key elements:

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured debt, structured debt with warrants and equity investments in over 135 technology-related companies, representing over $1.6 billion in commitments and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

We concentrate our investing activities generally in industries in which our investment professionals have investment experience. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies and to identify and originate potentially attractive investments with these types of companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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Historically, our structured debt investments to technology-related companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

We use our relationships in the financial sponsor community to originate investment opportunities. Because venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our debt investments will be viewed as an attractive and complimentary source of capital, both by the portfolio company and by the portfolio company s financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies and established-stage companies. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company s development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not subject to requirements to return invested capital to investors nor do we have a finite investment horizon. Capital providers that are subject to such limitations are often required to seek a liquidity event more quickly than they otherwise might, which can result in a lower overall return on an investment.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of March 31, 2010, our proprietary SQL-based database system included over 20,000 technology-related companies and over 4,800 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Dividend Reinvestment Plan

We have adopted an opt-out dividend reinvestment plan through which distributions are paid to stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash. See Dividend

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Reinvestment Plan. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

Taxation

Prior to 2006, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended, which we refer to in this prospectus as the Code. We elected to be treated for federal income tax purposes as a regulated investment company (a RIC) under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election was effective as of January 1, 2006. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. See Certain United States Federal Income Tax Considerations. To obtain and maintain the federal income tax benefits of RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. There is no assurance that we will meet these tests and be eligible to make a RIC election. If we do not qualify or do not make a RIC election, we would be taxed as a C corporation.

Use of Proceeds

We intend to use the net proceeds from selling shares of common stock for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage for senior indebtedness as of March 31, 2010 was well over 200% since we exclude SBA leverage from this ratio and we have no other borrowings outstanding. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing.

We, through a special purpose wholly-owned subsidiary, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of $50 million, with Wells Fargo Foothill as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to $300 million if additional lenders are added to the syndicate. The Wells Facility expires on August 25, 2011, unless the option to extend the facility is exercised by the parties to the agreement. To date, we have not added any additional lenders under The Wells Facility, but intend to seek to do so when the financial markets reopen.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.5% annually, which was reduced to 0.3% on the one year anniversary of the credit facility. The Wells Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of

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eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We paid a one time $750,000 structuring fee in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at March 31, 2010. In February 2010, the facility was extended an additional year until August 2011 and we paid a $375,000 extension fee.

The Wells Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth of $250 million, contingent upon our total commitments under all lines of credit not exceeding $250 million. To the extent our total commitments exceed $250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by us. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at March 31, 2010.

Hercules Technology II, L.P. (HT II), our wholly-owned subsidiary, is licensed by the U.S. Small Business Administration (SBA) as a small business investment company (SBIC) under the Small Business Investment Act of 1958. At March 31, 2010, we had a commitment from the SBA permitting us to draw up to $137.1 million from the SBA, of which approximately $130.6 million was outstanding as of March 31, 2010. At March 31, 2010, we had a net investment of $68.55 million in HT II, and there are investments in 35 companies with a fair value of approximately $157.1 million. HT II s portfolio accounted for approximately 41.3% of our total portfolio at fair market value at March 31, 2010. As of March 31, 2010, the maximum statutory limit on the dollar amount of outstanding debentures guaranteed by the SBA issued to a single SBIC is $150.0 million. There is no assurance that HT II will be able to draw up to the maximum limit available under the SBIC program.

The American Recovery and Reinvestment Act of 2009 (the Federal Stimulus Bill) includes a provision which allows for existing SBIC entities to obtain a second license and gain access to additional leverage of up to $75.0 million, for a maximum of $225.0 million combined SBIC leverage (subject to additional required capitalization of its second wholly owned subsidiary). We have filed an application for a second SBIC license. In September 2009, we formed Hercules Technology III, L.P. (HT III) for the purpose of obtaining a second SBIC license. In May 2010, we received the approval of the Agency Committee of the SBA for a second SBIC license. The second SBIC license will provide us with access to an additional $75.0 million of SBIC debentures, subject to compliance with SBA regulations and an additional capital contribution by us of $37.5 million into HT III.

Distributions

As a RIC, we are required to distribute annually to our stockholders at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. We are not subject to corporate level income taxation on income we timely distribute to our stockholders as dividends. See Certain Material United States Federal Income Tax Considerations. We pay regular quarterly dividends based upon an estimate of annual taxable income available for distribution to shareholders and the amount of taxable income carried over from the prior year for distribution in the current year.

Principal Risk Factors

Investing in our common stock may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. In addition, we expect that

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our portfolio will continue to consist primarily of securities issued by privately-held technology-related companies, which generally require additional capital to become profitable. These investments may involve a high degree of business and financial risk, and they are generally illiquid. Our portfolio companies typically will require additional outside capital beyond our investment in order to succeed or to fully repay the amounts owed to us. A large number of entities compete for the same kind of investment opportunities as we seek.

We borrow funds to make our investments in portfolio companies. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings magnify the potential for gain and loss on amounts invested and, therefore increase the risks associated with investing in our common stock. Also, we are subject to certain risks associated with valuing our portfolio, changing interest rates, accessing additional capital, fluctuating quarterly results, and operating in a regulated environment. See Risk Factors for a discussion of factors you should carefully consider before deciding whether to invest in our common stock.

Certain Anti-Takeover Provisions

Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for our company. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities.

General Information

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in the Boston, Massachusetts and the Boulder, Colorado areas. We maintain a website on the Internet at www.herculestech.com. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Technology Growth Capital.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses	%
Dividend reinvestment plan fees	%
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):(2)	
Operating expenses	5.0%(3)(4)
Interest payments on borrowed funds	2.5%(5)
Fees paid in connection with borrowed funds	0.2%(6)
Acquired fund fees and expenses(7)	0.0%
Total annual expenses	7.7%(8)

(1) In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load. We will not pay any underwriting discount or commission, and we will not receive any of the proceeds from shares sold by the selling stockholders.

(2) Average net assets attributable to common stock equals the weighted estimated average net assets for 2010 which is approximately $382.6 million.

(3) Operating expenses represent our estimated operating expenses for the year ending December 31, 2010 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2009 was 5.3%. See Management s Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors.

(4) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.

(5) Interest payments on borrowed funds represents estimated interest payments on borrowed funds for 2010. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under our prior credit facility with Citigroup (the Citigroup Facility). As a fee and incentive to Citigroup for the extension of the Citigroup Facility, we entered into a Warrant Participant Agreement with Citigroup in August 2005. Pursuant to the Warrant Participation Agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the Citigroup Facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue until the Maximum Participation Limit has been reached even though the Citigroup Facility was terminated. During the quarter ended March 31, 2010, we recorded a decrease of the derivative liability related to this obligation and decreased its unrealized appreciation by approximately $38,000 for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized appreciation in the related equity investments was approximately $430,000 at March 31, 2010 and is included in accrued liabilities. Since inception of the warrant participation agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing.

(6) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2010. This percentage for the year ended December 31, 2009 was approximately 0.5%.

(7) For the quarter ended March 31, 2010 and the year ended December 31, 2009, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.

(8) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.

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Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 122	$ 260	$ 392	$ 690

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or lesser than those shown. Moreover, while the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or lesser than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal 2009, 2008, 2007, 2006 and 2005 and the selected statement of operations data for fiscal 2009, 2008, 2007, 2006 and 2005 have been derived from our audited financial statements included elsewhere herein, which have been audited by Ernst & Young LLP, an independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period. The selected financial and other data for the three months ended March 31, 2010 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

	For the three months ended March 31,	For the year ended December 31,				
	2010	2009	2008	2007	2006	2005
Investment income:						
Interest	$ 11,235	$ 62,200	$ 67,283	$ 48,757	$ 26,278	$ 9,791
Fees	1,285	12,077	8,552	5,127	3,230	876
Total investment income	12,520	74,277	75,835	53,884	29,508	10,667
Operating expenses:						
Interest	2,026	9,387	13,121	4,404	5,770	1,801
Loan fees	298	1,880	2,649	1,290	810	1,098
General and administrative	1,889	7,281	6,899	5,437	5,409	2,285
Employee Compensation:						
Compensation and benefits	2,238	10,737	11,595	9,135	5,779	3,706
Stock-based compensation	457	1,888	1,590	1,127		

	Fees Earned or Paid in Cash ($)	Stock Awards (2) ($)	Option Awards (3) ($)	All Other Compensation (4) ($)	Total ($)
Michael R. Hughes	$ 70,375	$ 50,004	$ —	$ 5,984	$ 126,363
Barry A. Igdaloff	63,000	50,004	—	5,984	118,988
Valerie A. Mosley	53,000	50,004	—	5,984	108,988
Robert A. Salcetti	53,000	50,004	—	5,984	108,988
James C. Wheat, III	57,375	50,004	—	5,984	113,363

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* Columns for “Non-Equity Incentive Plan Compensation” and “Change in Pension Value and Nonqualified Deferred Compensation Earnings” have been omitted because they are not applicable.

(1) Thomas B. Akin, the Company's Executive Chairperson, and Byron L. Boston, the Company’s, Chief Executive Officer, President and Co-Chief Investment Officer, are not included in this table as they are employees of the Company. Mr. Akin's and Mr. Boston's compensation for service as executive officers is included in the Summary Compensation Table on page 33.

(2) The amounts in this column reflect the aggregate grant date fair value of grants of restricted stock to each listed director on May 22, 2015, under the Company’s 2009 Stock and Incentive Plan, calculated in accordance with ASC

Topic 718. The grant date fair value of the restricted stock is based on the closing price of the Company's common stock on the grant date. As of December 31, 2015, each of Messrs. Hughes, Igdaloff, Salcetti and Wheat and Ms. Mosley had outstanding 6,511 shares of restricted stock.

(3) *There were no stock options granted in 2015. As of December 31, 2015, none of the directors had any outstanding stock options.*

(4) *The amounts in this column reflect the amount of dividends paid in 2015 on unvested restricted stock held by the directors.*

OWNERSHIP OF STOCK

Security Ownership of Management

The following table sets forth information regarding the beneficial ownership of shares of common stock and preferred stock as of March 3, 2016, by: (a) each director of the Company, (b) each named executive officer of the Company, (c) all directors and executive officers of the Company as a group. Unless otherwise indicated, each person has sole investment and sole voting power with respect to the securities shown. The business address of each director and named executive officer is the Company's principal address.

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	Common Stock		Series A Preferred Stock (1)		Series B Preferred Stock (2)	
Name	**Shares**	**Percentage (3)**	**Shares**	**Percentage (4)**	**Shares**	**Percentage (5)**
Thomas B. Akin (6)	2,638,361	5.4%	—	—	—	—
Stephen J. Benedetti (7)	270,323	*	—	—	—	—
Byron L. Boston (8)	507,493	1.0%	—	—	—	—
Michael R. Hughes (9)	154,028	*	—	—	—	—
Barry A. Igdaloff (10)	911,892	1.9%	6,700	*	—	—
Valerie A. Mosley (11)	12,346	*	—	—	—	—
Smriti L. Popenoe (12)	100,688	*	—	—	—	—
Robert A. Salcetti (13)	57,846	*	—	—	—	—
James C. Wheat, III (14)	110,346	*	—	—	—	—
All directors and executive officers as a group (9 persons)	4,763,323	9.7%	6,700	*	—	—

* Percentage of ownership is less than one percent of the outstanding shares.

For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Exchange Act under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he or she has the right to acquire beneficial ownership of the security within 60 days ("presently exercisable").

(1) *The shares of Series A Preferred Stock are nonvoting except in very limited circumstances affecting the rights of the holders of such shares and are not convertible into common stock except in connection with certain change in control events.*

(2) *The shares of Series B Preferred Stock are nonvoting except in very limited circumstances affecting the rights of the holders of such shares and are not convertible into common stock except in connection with certain change in control events.*

(3) *Each percentage is based on 49,109,339 shares of common stock issued and outstanding.*

(4) *Each percentage is based upon 2,300,000 shares of Series A Preferred Stock issued and outstanding.*

(5) *Each percentage is based upon 2,250,000 shares of Series B Preferred Stock issued and outstanding.*

(6) *Amount includes 1,305,083 shares of common stock owned by Talkot Fund, L.P., of which Mr. Akin is the managing general partner, 75,748 shares of common stock held jointly with Mr. Akin's spouse over which Mr. Akin shares voting and investment power, and 32,500 shares held in a trust account of which Mr. Akin's spouse is the trustee and over which Mr. Akin shares voting and investment power. Amount includes 101,986 restricted shares of common stock over which Mr. Akin does not have investment power until such shares vest.*

(7)

Amount includes 80,623 restricted shares of common stock over which Mr. Benedetti does not have investment power until such shares vest.

(8) *Amount includes 246,525 restricted shares of common stock over which Mr. Boston does not have investment power until such shares vest.*

(9) *Amount includes 6,200 shares of common stock held in Mr. Hughes' spouse's IRA account and 32,700 shares of common stock held in Mr. Hughes' mother-in-law's account, over which accounts Mr. Hughes shares voting and investment power. Amount also includes 6,511 restricted shares of common stock over which Mr. Hughes does not have investment power until such shares vest on May 21, 2016.*

(10) *Amount includes 590,164 shares of common stock and 6,700 shares of Series A Preferred Stock owned by clients of Rose Capital, of which Mr. Igdaloff is the sole proprietor. Mr. Igdaloff shares the power to vote and dispose of such shares. Amount also includes 6,511 restricted shares of common stock over which Mr. Igdaloff does not have investment power*

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until such shares vest on May 21, 2016 and 3,062 shares held by Mr. Igdaloff's spouse, over which Mr. Igdaloff shares voting and investment power.

(11) *Amount includes 6,511 restricted shares of common stock over which Ms. Mosley does not have investment power until such shares vest on May 21, 2016.*

(12) *Amount includes 68,500 restricted shares of common stock over which Ms. Popenoe does not have investment power until such shares vest.*

(13) *Amount includes 6,511 restricted shares of common stock over which Mr. Salcetti does not have investment power until such shares vest on May 21, 2016.*

(14) *Amount includes 5,000 shares of common stock held in a trust account and 10,000 shares of common stock held in an IRA account, over which accounts Mr. Wheat shares voting and investment power. Amount also includes 6,511 restricted shares of common stock over which Mr. Wheat does not have investment power until such shares vest on May 21, 2016.*

Common Stock Ownership of Certain Beneficial Owners

The following table sets forth information regarding the beneficial ownership of shares of common stock by persons or entities known by the Company to be beneficial owners of more than 5% of our voting securities as of March 3, 2016.

Name and Address of Beneficial Owner	**Amount and Nature of Beneficial Ownership**	**Percent of Class** (1)
Thornburg Investment Management Inc. 2300 North Ridgetop Road Sante Fe, NM 87506	4,418,542 shares (2)	9.0%

(1) *Percentage is based on 49,109,339 shares of common stock issued and outstanding.*

(2) *Based solely on information as of December 31, 2015 contained in Amendment No. 4 to Schedule 13G filed with the SEC on February 12, 2016 by Thornburg Investment Management Inc., including notice that it has sole investment and sole voting power as to 4,418,542 shares of common stock.*

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and controller, and any persons who own more than 10% of the outstanding shares of common stock to file with the SEC reports of ownership and changes in ownership of common stock. Our directors, executive officers and controller are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports that they file. Generally, we will prepare all Section 16(a) filings with the SEC for our directors, executive officers and controller. Based solely on a review of the copies of such reports filed with the SEC and written representations that no other reports were required, we believe that our directors, executive officers and controller complied with all such reporting requirements during 2015, except for Mr. Boston, Mr. Jeffrey Childress and Ms. Popenoe who each reported one transaction late on a Form 4.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides an overview of the Company's executive compensation program, including a description of the Company's compensation philosophies and objectives and a discussion of the material elements of compensation awarded to, earned by or paid to the Company's named executive officers for 2015. The Company had four executive officers for 2015, who are referred to in this Proxy Statement as our "named executive officers" and are listed below with their current titles:

- Thomas B. Akin, Executive Chairperson
- Byron L. Boston, Chief Executive Officer, President and Co-Chief Investment Officer
- Stephen J. Benedetti, Executive Vice President, Chief Financial Officer and Chief Operating Officer
- Smriti L. Popenoe, Executive Vice President and Co-Chief Investment Officer

Executive Summary

As discussed further below, as a result of the overall decline in corporate performance in 2015, the Compensation Committee awarded aggregate incentive compensation to Messrs. Boston and Benedetti and Ms. Popenoe of $2.1 million versus $2.6 million in aggregate incentive compensation for 2014. The performance award for 2015 of $2.1 million amounted to an achievement of 84% of the aggregate discretionary target bonus as determined by the Compensation Committee for these individuals for corporate and individual performance in 2015. Mr. Akin did not receive any incentive compensation for 2015.

In December 2015, the independent directors approved a new Executive Incentive Plan to replace the Company’s Performance Bonus Program, effective January 1, 2016. The Executive Incentive Plan includes both an annual incentive component (with a 1-year performance period) and a separate long-term incentive component (with a 3-year performance period). The Executive Incentive Plan has a mix of quantitative and qualitative objectives with a combination of fixed and variable weightings for the metrics included in the Executive Incentive Plan. Payouts under the Executive Incentive Plan are intended to comprise both the executive officer’s cash and equity incentive awards in any given year. The Compensation Committee views adoption of the Executive Incentive Plan as critical to its efforts in modernizing the Company’s incentive compensation program and establishing a clear framework while seeking to strengthen alignment with shareholders as it relates to incentive compensation.

Compensation Committee

The Compensation Committee is responsible for the development, oversight and implementation of our compensation program for our executive officers. The Compensation Committee consists entirely of non-employee, independent members of our Board of Directors and operates under a written charter approved by the Board of Directors.

Information on the Compensation Committee's processes and procedures for the consideration and determination of executive and director compensation is included under the captions “Corporate Governance and the Board of Directors - Committees of the Board - Compensation Committee” and “- Directors' Compensation.”

Compensation Objectives and Philosophy

Our executive compensation program is designed to attract and retain highly skilled and motivated employees who will manage the Company in a manner to:

- promote our growth and profitability,
- preserve our capital, and
- advance the interests of our shareholders.

We incorporate a pay-for-performance philosophy into the design of our compensation programs by linking incentive compensation to our operating performance and the attainment of both corporate and individual financial, operational and strategic objectives.

Program Design. Our compensation program is designed to provide levels of compensation that are competitive and also reflective of both the individual's and the Company's performance in achieving our goals and objectives. The Compensation Committee seeks to provide a mix of compensation that will align the short-term and long-term interests of our executive

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officers with that of our shareholders. The Compensation Committee strives to establish competitive compensation packages which strike a balance between recognition of recent performance and aligning the interests of management on a longer-term basis with that of the Company's shareholders. Further, it is the intent of the Compensation Committee, and executive management, that this compensation philosophy be applied throughout the organization and that the types of compensation and benefits described herein provided to the executive officers generally be provided in similar fashion to all other employees.

The Compensation Committee understands that the specialized nature and complexities of the Company's business, and in particular its investment, financing and risk management activities and REIT structure, require individuals with unique skills and experience. The Compensation Committee also understands the potential volatility in the Company’s performance given its use of leverage to enhance its return to shareholders, and the Company’s exposure to macroeconomic conditions, monetary policy (globally but especially in the U.S.), regulatory policy, and fiscal policy. The Company is also exposed to general market conditions for our investments which may impact their performance and their liquidity. Many factors affecting Company performance are beyond its control, and the Compensation Committee has sought to establish a compensation program, and performance criteria, that accounts for the potential volatility of the Company’s results on a year-to-year basis.

Pay-for-Performance. The primary elements of our compensation program are base salary, incentive compensation (paid in a combination of cash and stock) and to a lesser extent, other benefits or agreements. These components of executive compensation are used together in an attempt to strike an appropriate balance between cash and stock-based compensation, between short-term and long-term incentives and between guaranteed and “at-risk” compensation.

As part of our pay-for-performance compensation philosophy, we expect a meaningful portion of an executive officer's total compensation to be at risk, tied to our annual and long-term performance as well as to the creation and protection of shareholder value. We believe that incentive compensation should be tied directly to both corporate performance and individual performance for the applicable performance period, including the achievement of identified goals as they pertain to the areas of our financial performance, and for operations for which the executive officer is personally responsible and accountable. Under our compensation approach, performance that exceeds identified goals results in increased total compensation, and performance that falls below identified goals results in lower total compensation. Reflecting this pay-for-performance philosophy, the annual incentive compensation paid to Messrs. Boston and Benedetti and Ms. Popenoe declined on average 19% (based on the information included in the table on page 21) for 2015 as a result of the overall decline in corporate performance in 2015. In particular, core net operating income per common share was down $0.06 or 6.0% and the Company posted a negative 3.9% total economic return (defined below) and a negative 12.0% total shareholder return.

In addition, by paying a significant portion of any incentive compensation in stock, the Company also ensures a focus on longer-term performance objectives by aligning a portion of executive compensation to the Company's long-term performance, as reflected in dividends paid, changes in book value per common share and its stock price.

Shareholder Alignment. An important consideration for the Compensation Committee is the alignment of management compensation with shareholder interests. This includes the pay-for-performance concepts discussed above such as total economic return, but it is also incorporated in the significant amount of compensation of the executives that is paid in stock and in dividends on unvested restricted stock. As indicated in the charts below, approximately 38.5% of the CEO's and approximately 24.0% of the average of Mr. Benedetti's and Ms. Popenoe's 2015 compensation was paid in equity and dividends on unvested restricted stock. The Compensation Committee believes that having such a large portion of compensation tied directly to the value of the Company's equity and the payment of dividends is critical to ensuring the appropriate alignment with the interests of the Company's shareholders. In addition, as shown below, approximately 65.6% of Mr. Boston's 2015 compensation as CEO and approximately 58.0% of the average of Mr. Benedetti's and Ms. Popenoe's 2015 compensation as our other Named Executive Officers was linked to the achievement of performance objectives. For purposes of the charts below, compensation consists of base salary and other benefits (401(k) plan match, insurance related premiums and gross-ups and other personal benefits), incentive compensation paid in cash, and incentive compensation paid in stock

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including dividends paid on restricted stock. Mr. Akin is excluded from the below presentation because as part of the Company's ongoing succession planning, Mr. Akin did not receive any incentive compensation for 2015.

2015 Say on Pay Vote; Shareholder Engagement

At the 2015 Annual Meeting of Shareholders, the Company asked its shareholders to vote to approve, on an advisory basis, the Company's executive compensation. Approximately 85.7% of the shareholders who voted on the "say-on-pay" proposal approved the compensation of our named executive officers, while approximately 14.3% voted against.

The Compensation Committee values the input of our shareholders regarding the design and effectiveness of our executive compensation program. Due in part to a negative recommendation from Institutional Shareholder Services, the votes cast in favor of our executive compensation in our 2015 advisory "say-on-pay" vote fell below 90% for the first time. The Compensation Committee took this message of decreased support for our executive compensation program very seriously. To better understand shareholder perspectives on this important topic, the Compensation Committee authorized executive management to engage in a shareholder outreach effort which included direct discussions with several of the Company's largest shareholders.

While investors had varying perspectives, a few common themes emerged from the discussions. These themes included a desire to see (1) a greater link between CEO pay and Company performance, (2) less Compensation Committee discretion with respect to incentive awards for executives, (3) longer performance periods for performance-based awards and (4) performance metrics that are viewed to more closely link executive pay with shareholder value, such as total shareholder return.

The Compensation Committee carefully considered the perspectives heard during the shareholder outreach efforts and reviewed the results of the discussions over several months, along with input from the Compensation Committee's compensation consultant. The results of these discussions are reflected in the new Executive Incentive Plan the Company adopted in December 2015. As described in more detail under "Incentive Compensation" below, the Executive Incentive Plan retains aspects of the Company's prior Performance Bonus Program that remain relevant to the Company's compensation philosophy and strategic objectives, and incorporates new features that reflect evolving compensation practices and feedback from shareholders and advisors. The Compensation Committee believes the Executive Incentive Plan will provide improved incentives to the Company's executive officers to achieve corporate and individual objectives with a more formulaic and transparent approach. The Compensation Committee believes that adoption of the Executive Incentive Plan addresses many of the key concerns raised by shareholders and will result in an even greater alignment between the interests of our named executive officers and those of our shareholders.

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Company Performance Highlights

	2015	2014	2013
Net income to common shareholders (GAAP)	$7.4 million	$18.6 million	$60.2 million
Core net operating income to common shareholders (non-GAAP)	$49.2 million	$54.2 million	$63.8 million
Net income to common shareholders per common share (GAAP)	$0.14	$0.34	$1.10
Core net operating income to common shareholders per common share (non-GAAP)	$0.93	$0.99	$1.17
Dividends declared per common share	$0.96	$1.00	$1.12
Total economic return to common shareholders[1]	-3.9 %	15.3 %	-4.8 %
Return on equity – Core[2]	10.3 %	11.4 %	11.4 %
Total shareholder return [3]	-12.0 %	16.0 %	-4.5 %
Book value per common share, period end	$7.71	$9.02	$8.69

(1) Calculated as the sum of (i) dividends declared on common stock and (ii) change in book value per common share for the period, divided by beginning book value per common share.

(2) Calculated as defined under the new Executive Incentive Plan using the Company's core net operating income per basic common share.

(3) Source: Bloomberg.

Net income to common shareholders on a GAAP basis decreased compared to 2014 due primarily to a decline in net interest income in 2015 and lower gains on sales of investments, net, partially offset by a decline in losses on derivative hedging instruments. Core net operating income to common shareholders declined in 2015, by 0.2%, primarily due to lower adjusted net interest income of $2.9 million and higher general and administrative expenses of $1.7 million. Core net operating income to common shareholders per common share declined $0.06 per share, or 6.0% for similar reasons but did not decline as much as core net operating income because the Company executed accretive repurchases of common shares during the year. Total economic return to common shareholders was a negative 3.9% in 2015 versus a positive 15.3% in 2014 primarily reflecting the decline in book value per common share of $1.31, or 14.5% versus 2014. Total economic return to common shareholders equals the sum of (i) $0.96 in dividends declared per common share and (ii) -$1.31 decline in book value per common share divided by beginning book value per common share of $9.02. For a reconciliation between GAAP (net income to common shareholders) and non-GAAP (core net operating income to common shareholders) financial measures, see pages 31-32 of the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2016. In considering management's performance for purposes of incentive compensation for 2015, the Compensation Committee considered primarily core net operating income to common shareholders rather than its GAAP counterpart as discussed further below.

How Executive Pay Levels are Determined

The Compensation Committee annually reviews our executive compensation program and its elements. All decisions by the Compensation Committee relating to the compensation of our executive officers are reported to the full Board of Directors, and in the case of the CEO's compensation are approved by the independent directors. The Compensation

Committee periodically solicits input from FPL and management for information related to peer company compensation and performance. The Compensation Committee also reviews management’s calculations of the achievement of quantitative performance metrics and management’s observations with respect to the achievement of qualitative performance goals.

In determining the compensation of our executive officers, the Compensation Committee evaluates total overall compensation (for our executive officers as well as our entire employee base), as well as the mix of salary, and incentive compensation, using a number of factors including the following:

- Historical cash and equity compensation levels,
- The financial performance of the Company primarily as measured by core net operating income per common share and dividends per share for the year and the change in book value per common share,
- The operating performance of the Company,
- The performance of the executive officer, as determined by Mr. Boston and reviewed by the Compensation Committee in the case of Messrs. Akin and Benedetti and Ms. Popenoe, and as determined by the Compensation Committee and recommended to the independent directors in the case of Mr. Boston,
- Total general and administrative expense as a percentage of year-end and average shareholders' equity, and
- Comparative industry and market data.

With respect to comparative industry data, with assistance from FPL and management, the Compensation Committee periodically reviews executive salaries, compensation structures and the financial performance of comparable companies in a designated peer group recommended by FPL. The peer group used for comparison purposes may change from year to year, but focuses principally on public mortgage REITs that have a similar business to ours or are similar to our Company in complexity. Many mortgage REITs are externally managed and executive officer compensation for them is not readily available. The most recent executive compensation peer group comparison analysis prepared by FPL for the Compensation Committee was in October 2013 and included the following companies: Arbor Realty Trust, Capstead Mortgage Corporation, CYS Investments, Inc., MFA Financial, Inc., New York Mortgage Trust, Inc., Northstar Realty Finance Corp, RAIT Financial Trust and Redwood Trust, Inc. The Compensation Committee did not utilize specific peer company compensation information for determining compensation for 2015.

In general, our executive officers' compensation packages are meant to be structured in a manner similar to the peer companies listed above, though there may be significant variation in the types of awards made to executive officers and also the metrics used in incentive compensation plans. Our executive officer compensation may differ in the amount of total compensation or in the amounts allocated to base salaries, annual incentive bonuses or long-term incentive stock awards versus the peer group listed above. Overall, the Compensation Committee viewed the level of executive officer compensation as appropriate given our performance and size versus the activities and size of other companies reviewed for 2015.

The table below shows each named executive officer’s total direct compensation for services rendered in 2015, 2014 and 2013. The table below reflects the way the Compensation Committee considers executive compensation versus the Summary Compensation Table on page 33, which for 2014 and 2013 includes additional stock awards granted in 2014 and 2013 for 2013 and 2012 performance, whereas the table below includes stock awards in the year for which they were paid. The table below supplements, but does not replace, the Summary Compensation Table.

Name	Year	Salary	Bonus Awards Cash Awards	Bonus Awards Stock Awards (1)	Stock Awards (2)	Dividends Paid on Unvested Restricted Stock	Total Annual Salary & Incentive Compensation
Thomas B. Akin	2015	$500,000	$ —	$ —	$ —	$ 171,600	$671,600
	2014	500,000	250,000	249,993	—	200,659	1,200,652
	2013	600,000	—	629,994	459,998	162,029	1,852,021
Byron L. Boston	2015	675,000	562,501	562,499	—	238,322	2,038,322
	2014	675,000	675,000	674,997	—	239,316	2,264,313
	2013	600,000	—	629,994	692,995	184,649	2,107,638
Stephen J. Benedetti	2015	375,000	314,391	157,167	—	81,323	927,881
	2014	375,000	281,250	281,247	—	80,271	1,017,768
	2013	375,000	142,500	149,618	267,997	77,869	1,012,984
Smriti L. Popenoe	2015	408,000	350,558	175,249	—	57,426	991,233
	2014	408,000	346,000	346,000	300,000	28,125	1,428,125

(1) *For 2015, these awards were granted on February 22, 2016 but related to 2015 performance. For 2014, these awards were granted February 25, 2015 but related to 2014 performance. For 2013, these awards were granted on January 28, 2014 but relate to 2013 performance.*

(2) *For 2015 and 2014, no separate restricted stock awards were granted to the executive officers outside of the portion of their annual bonus awards that was paid in restricted stock. For 2013, these awards were granted on January 21, 2014 but relate to 2013 performance.*

Components of Executive Compensation

The elements of our compensation program for 2015 included base salary and incentive compensation paid partly in cash and partly in stock awards under our 2009 Stock and Incentive Plan. These elements are consistent with our compensation program in prior years. We provide certain retirement benefits through our 401(k) Savings Plan. We also provide health and welfare benefits that include participation in our health, dental and vision plans and various insurance plans, including disability and life insurance, as well as certain perquisites.

Each of the principal components of executive compensation is designed to reward and provide incentives to the executive officers consistent with our overall policies and principles on executive compensation. These components and the rationale and methodology for each are described below. Specific information on the amounts and types of compensation earned by each of the named executive officers during 2015 can be found in the Summary Compensation Table and other tables and narrative disclosures following this discussion.

Base Salary. Our base salary philosophy is to provide reasonable current income to our executive officers in amounts that will attract and retain individuals with a broad, proven track record of performance. The Compensation Committee establishes the annual salary for executive officers other than our CEO and recommends our CEO's base salary to the independent directors for approval. In determining salaries, the Compensation Committee balances the need to offer salaries that are competitive with peer companies with the need to maintain careful control of salary and benefits expense, particularly relative to our size and equity capital base.

The table below presents the base salary for each of our named executive officers for 2016, 2015 and 2014. After reducing Mr. Akin's salary and increasing Mr. Boston's salary in 2014, as the CEO role was transitioned from Mr. Akin to Mr. Boston, the Compensation Committee and the independent directors determined not to make any changes to base salaries for 2015. The amounts included in the table for 2016 were determined by the Compensation Committee and the independent directors in February and March, 2016, respectively. Mr. Akin's 2016 salary will be prorated for his service through May 17, 2016, at which time he will transition to non-employee Chairperson of the Board and receive compensation as a non-employee director as disclosed on page 15.

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Base Salary

Name	**2016**	**2015**	**2014**
Thomas B. Akin [(1)]	$188,525	$500,000	$500,000
Byron L. Boston	675,000	675,000	675,000
Stephen J. Benedetti	375,000	375,000	375,000
Smriti L. Popenoe	408,000	408,000	408,000

(1) For 2016, Mr. Akin's base salary of $500,000 is pro-rated through May 17, 2016.

Incentive Compensation. In December 2015, the Company adopted the Executive Incentive Plan to replace the Performance Bonus Program that had been in place for several years. In connection with this new incentive compensation plan, the Compensation Committee and the independent directors decided that in determining bonuses to be awarded to the executive officers for 2015 performance, the Compensation Committee should not follow the terms of the Performance Bonus Program given the inapplicability of certain provisions of the Performance Bonus Program and the fact that the Company had been working to replace that plan during 2015. Instead, even though the Executive Incentive Plan did not become effective until January 1, 2016, the Compensation Committee evaluated 2015 individual and Company performance using the individual and corporate objectives that the Board approved at the beginning of 2015 as part of the Company’s strategic planning for 2015 and then determined in its discretion appropriate bonus awards for the executive officers consistent with the spirit of the Executive Incentive Plan. In determining the incentive compensation for each of the executive officers, the Compensation Committee in its discretion selected the same target incentive opportunities set forth in the Executive Incentive Plan which were 200% of base salary for Mr. Boston and 150% of base salary for both Mr. Benedetti and Ms. Popenoe. Given the succession planning for the Company, the Committee had previously determined that Mr. Akin would not be eligible for incentive compensation for 2015.

Incentive compensation for 2015 performance was determined by the Compensation Committee in its discretion based on an evaluation of the Company’s core return on equity (Core ROE) as calculated under the new Executive Incentive Plan, book value per common share as of December 31, 2015 compared to December 31, 2014 and achievement with respect to corporate and individual objectives. While not tied to a formal incentive plan for 2015, the Company’s corporate financial performance goals for 2015 were:

- Targeted Core ROE of 10.0% within a minimum and maximum range of 8.0%-12.0%,
- Book value per common share target of $9.02 and no less than $8.12 per common share, and
- Operate at a general and administrative (G&A) expense ratio of no more than 2.60% of the greater of beginning or average shareholders’ equity for 2015 (but excluding costs related to potential contingent liabilities or litigation).

With respect to the financial performance goals noted above, Core ROE as computed for 2015 using core net operating income to common shareholders (a non-GAAP measure) was 10.4% based on beginning of the year book value per common share, slightly above the target goal for 2015. Book value per common share as of December 31, 2015 was $7.71, significantly below the target goal for 2015. G&A expense ratio was 2.54%, below (*i.e.*, better than) the target goal of 2.60% for 2015.

The strategic and operational goals for the executives for 2015 were as follows:

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- Continue to enhance the capability of the operating infrastructure to ensure efficient and effective management of up to $1 billion in shareholder capital,
- Implement an enterprise risk management framework that protects shareholder value,
- Implement a management operating committee framework that enables management to timely respond to the critical needs of the business and changes in the market environment,
- Continue to develop and implement relationship management committee that provides oversight for the Company’s management of and interactions with its business partners, creditors, key vendors, trading partners, investors, bankers and competitors, and

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- Improve the performance and effectiveness of our human capital to ensure that the Company has peak performers in all functional areas.

The Company also set several personal and other corporate objective goals for Mr. Boston as Chief Executive Officer, including the following:

- Overseeing the framework for disciplined decision-making across the Company,
- Establishing a captive insurance company and becoming a member of a Federal Home Loan Bank institution,
- Continuing to develop as a CEO by providing leadership to the executive team, developing relationships with peers and members of the Board, and ensuring that the Company operates at a high level of integrity and governance, and
- Continue to develop strategic relationships that benefit the Company across its entire platform.

The Compensation Committee reviewed the individual performance of Messrs. Boston and Benedetti and Ms. Popenoe with respect to their contributions to meeting these strategic and operational goals for 2015 and, in addition, the performance of their responsibilities as Chief Executive Officer, President and Co-Chief Investment Officer, Executive Vice President, Chief Financial Officer and Chief Operating Officer and Executive Vice President and Co-Chief Investment Officer, respectively. The Compensation Committee did not assign specific weightings to any of the factors noted above but in their evaluation the Compensation Committee did consider the potential contribution of each of the executive officers to the accomplishment of these goals.

The Compensation Committee reviewed the performance of the Company and each of the individual executive officer's performance against these goals. Mr. Boston was awarded 100% achievement for his performance versus the strategic and operational goals noted above, as well as his personal goals. Ms. Popenoe was awarded 98.8% achievement versus these goals as her performance was modestly reduced for lack of complete achievement related to human capital objectives. Mr. Benedetti was awarded 88.1% achievement versus these goals. Mr. Benedetti's performance was reduced for not completing certain achievements related to enhancing the capability of the Company's operating infrastructure and process enhancements related to the management operating committee.

As part of its overall review of Company performance, the Compensation Committee also noted that total economic return to common shareholders was a negative 3.9% for 2015, compared to 15.3% for 2014. The Compensation Committee viewed total economic return for 2015 (consisting of a $1.31 decrease in book value per common share and declared dividends of $0.96 per common share versus beginning book value of $9.02 per common share) as an important measure of the overall value created for shareholders during the year. The Compensation Committee noted however, that a large portion of the decline in book value per common share resulted from a decline in fair value of the Company's investments from credit spread widening as a result of market concerns regarding the macroeconomic environment in the second half of 2015, which management largely could not have avoided. The Compensation Committee acknowledged that exposure to credit spread risk is a fundamental risk of the Company's business model.

The Compensation Committee considered all of the factors above and awarded total bonuses of $2.1 million to the executive officers in February 2016 as set forth in the table below. As previously noted, the Compensation Committee selected target bonuses for each of the executives similar to the percentage targets included in the Executive Incentive Plan. Mr. Boston was awarded 166.7% of his base salary versus a target of 200%. Mr. Benedetti and Ms. Popenoe were awarded 125.7% and 128.9%, respectively versus a target of 150%. The approved bonus awards for Messrs. Boston and Benedetti and Ms. Popenoe were $224,997, or 16.7%, $90,939, or 16.2% and $166,193 or 24.0% lower than their bonus awards for 2014 performance, respectively. Ms. Popenoe's bonus was significantly lower on a dollar and percentage basis than in 2014 because her 2014 bonus was based on a target opportunity of up to 200% of base salary under the Performance Bonus Program.

Name	Amount of 2015 Bonus Award	Amount of 2015 Bonus Award as Percentage of Base Salary	% of Maximum Potential Bonus Award	Portion Required to be Paid in Restricted Shares
Thomas B. Akin	n/a	n/a	n/a	n/a
Byron L. Boston	$1,125,000	166.7%	n/a	50.0%
Stephen J. Benedetti	471,558	125.7%	n/a	33.3%
Smriti L. Popenoe	525,807	128.9%	n/a	33.3%

As in 2015, the Compensation Committee felt that it was important that part of the bonus compensation for management be paid in restricted common stock of the Company and approved the payment of the executive officers' bonus awards partly in cash and partly in restricted stock as shown in the table above. The restricted stock portions of the bonuses were paid on February 22, 2016 and the cash portions of the bonuses were paid on March 10, 2016. The restricted stock will vest over a period of three years and was issued under the 2009 Stock and Incentive Plan.

New Executive Incentive Plan for 2016. As discussed above, in December 2015, the independent directors approved the Executive Incentive Plan to replace the Company's Performance Bonus Program, effective January 1, 2016. The Executive Incentive Plan retains aspects of the Performance Bonus Program that remain relevant to the Company's compensation philosophy and strategic objectives, and incorporates new features that reflect evolving compensation practices and feedback from shareholders, the Compensation Committee's compensation consultant and influential advisory firms. The Company believes the Executive Incentive Plan will provide improved incentives to the Company's executive officers to achieve corporate and individual objectives and better align their interests with those of shareholders. In a change from the Performance Bonus Program, the Executive Incentive Plan has both an annual incentive component (with a 1-year performance period) and a separate long-term incentive component (with a 3-year performance period). Consistent with the Company's approach in 2015 and 2014, payouts under the Executive Incentive Plan are anticipated to comprise both the executive officer's cash and equity incentive awards in any given year.

Individuals, other than the Executive Chairperson, serving as executive officers each year will be eligible to participate in the Executive Incentive Plan. For 2016, the participants include Messrs. Boston and Benedetti and Ms. Popenoe, each of whom is a named executive officer.

Each year, a participant will be granted an incentive opportunity equal to the following percentages of his/her base salary as of January 1 of that year:

	Target Incentive Opportunity	**Maximum Incentive Opportunity**
CEO	200%	400%
EVP	150%	300%

Each year, the total incentive opportunity will be allocated 80% to the annual incentive component and 20% to the long-term incentive component.

Bonuses under the Executive Incentive Plan will be earned by the participants based on the achievement of various performance goals for the applicable annual or long-term performance period.

<u>Annual Incentive Component (80%)</u>. The annual incentive component will consist of the following performance goals, weighted as follows:

Metric	**Weighting (of incentive opportunity)**
Core Return on Equity (Core ROE)	0% - 40%
Book value per common share	0% - 40%
Corporate/individual objectives	40%

At the beginning of each year, the Compensation Committee will establish the weightings and the minimum, target and maximum performance targets for the annual incentive component goals, including the corporate and individual objectives and related weightings for each participant for the 1-year performance period. Core ROE will be calculated using the Company's core net operating income per basic common share divided by book value per common share at the end of the prior period. The corporate/individual objectives may be different for each participant and may consist of quantitative or qualitative Company or individual goals, including but not limited to: annual and/or longer-term performance versus a benchmark and/or a select group of peers; general and administrative expense efficiency ratio; attainment of Company strategic objectives; and attainment of personal objectives.

To determine each participant's annual incentive bonus earned, after the end of each 1-year performance period, the Compensation Committee will determine the level of performance achieved with respect to each of the annual incentive component performance goals. Performance for each goal can range from 0-200% and will be based on quantitative calculations in the case of the Core ROE and Book value per common share goals. Performance with respect to the corporate/individual objectives will be determined by the Compensation Committee in its good faith discretion in accordance with the criteria previously established. Subject to the Compensation Committee's ability to increase or decrease the bonus amount by up to 10% in its discretion (without exceeding the maximum incentive opportunity), each participant's bonus amount for the annual incentive component will be equal to the performance level achieved for the relevant performance goal, multiplied by the relevant weighting for such goal, multiplied by the participant's target incentive opportunity percentage, multiplied by the participant's applicable base salary amount.

Long-Term Incentive Component (20%). The long-term incentive component will consist of the following performance goal, weighted as follows:

Metric	Weighting (of incentive opportunity)
Total Economic Return (TER)	20%

At the beginning of each year, the Compensation Committee will establish the minimum, target and maximum performance targets for the TER goal for the long-term performance period, which will generally be 3 years, except during the first 2 transition years of the Executive Incentive Plan where this component will have a 1-year performance period and a 2-year performance period, respectively. TER will be calculated as the sum of (A) the change in the Company's GAAP book value per common share over the performance period and (B) the cumulative dividends declared by the Company during the performance period, divided by the book value per common share at the beginning of the period and further divided by 3 (or 1 or 2 in the case of the transition performance periods).

To determine each participant's long-term incentive bonus earned, after the end of each long-term performance period, the Compensation Committee will determine the level of performance achieved with respect to the TER performance goal. Performance can range from 0-200% and will be based on quantitative calculations. Subject to the Compensation Committee's ability to increase or decrease the bonus amount by up to 10% in its discretion (without exceeding the maximum incentive opportunity), each participant's bonus amount for the long-term incentive component will be equal to the performance level achieved for the TER performance goal, multiplied by 20%, multiplied by the participant's target incentive opportunity percentage, multiplied by the participant's applicable base salary amount.

To further align the participants' interests with those of shareholders, the bonus amounts determined for the annual incentive component and for the long-term incentive component for any performance period will be paid partly in shares of the Company's common stock, as follows:

	Cash/Stock Allocation	
CEO	Cash:	0% - 50%
	Stock:	50% - 100%
EVP	Cash:	66.67%
	Stock:	33.33%

The allocation between cash and stock for the EVP bonus amounts is fixed. A minimum of 50% of each of the CEO's bonus amounts will be paid in stock, with the exact allocation determined by the Compensation Committee for each bonus payment.

The stock portion of the bonus amount for the annual incentive component will be paid in restricted stock, vesting in equal 1/3 installments on the 1st, 2nd and 3rd anniversaries of the grant. The stock portion of the bonus amount for the long-term incentive component will be paid in unrestricted stock. In each case, the stock will be granted under the Company's 2009 Stock and Executive Incentive Plan (or its successor).

The cash and stock portions of any annual or long-term incentive bonus earned under the Executive Incentive Plan will be paid on the same date no later than the March 15 following the end of each performance period.

Any bonus amount paid under the Executive Incentive Plan will be subject to clawback in the event repayment is required by applicable law or regulation or stock exchange requirement.

Long-Term Equity Incentives. Since 2010, long-term equity incentives have been awarded to executive officers in the form of restricted stock. The goal of the Compensation Committee in granting equity incentives is to directly link an executive's compensation opportunities with creating and protecting shareholder value and to encourage our executive officers to think like owners of the Company. In particular, the Compensation Committee views restricted stock as a strong alignment of interests by making employees direct owners of the Company while providing incentive for employees to remain with the Company as their shares vest.

The Compensation Committee uses multi-year vesting of equity incentive awards. Multi-year vesting focuses executive officers on consistent long-term growth in shareholder value and requires executive officers to remain employed with us for extended periods to receive the full benefit of the awards. Recent awards of restricted stock generally vest over three-year and four-year periods. Equity incentive awards are currently made pursuant to our 2009 Stock and Incentive Plan.

Similar to the prior year, with respect to 2015 performance, in February 2016, the Compensation Committee determined to grant all restricted stock awards to our executive officers as part of the annual bonus payout. No separate awards of restricted stock were granted to the executive officers and employees for 2015 performance outside of the bonus awards that were paid partly in restricted stock. As noted above, payouts under the Executive Incentive Plan are anticipated to comprise both the executive officer’s cash and equity incentive awards in any given year.

Timing of Long-Term Incentive Awards. We are aware that the release of our quarterly financial results may have an impact on the market price of our common stock, and therefore the value of the long-term incentive awards to our executive officers, as well as stock grants awarded to directors, depending on whether the information is favorable or unfavorable. Our historical practice with respect to the timing of long-term incentive awards had been to approve such grants once each year in the first quarter of the year following the year to which the award pertains. As noted above, long-term incentive restricted stock awards for 2013, 2014 and 2015 performance were granted to certain officers and employees of the Company. The 2014 and 2015 grants occurred in in the first quarter of 2015 and 2016, respectively, in each case after the Company had released its fourth quarter results for the year. The 2013 grants occurred in the first quarter of 2014 before the Company had released its fourth quarter results for 2013, primarily because the Compensation Committee had completed its analysis of the Company’s performance earlier than in prior years. We anticipate that any future grants will be awarded on a timetable similar to our historical practice.

Non-employee directors receive annual grants of restricted stock on the first Friday following the annual meeting of shareholders, generally in May or June of each year, which shares will vest at the end of one year.

In the case of grants to our non-employee directors, we believe that the annual meeting of shareholders is an appropriate time during the year to make equity grants and that a consistent application of our equity granting practices from year to year regardless of the content of the first quarter earnings release is also appropriate. The equity awards granted by the Compensation Committee are designed to create incentives for the creation of long-term shareholder value and contain delayed vesting provisions that prevent recipients from taking advantage of short-term fluctuations in the market price of our common stock.

We have not planned in the past, nor do we plan in the future, to time the release of material non-public information for the purpose of affecting the value of executive or director compensation. We do not have a practice when granting such awards of setting the exercise price of options or stock appreciation rights based on the stock price on any date other than the grant date, nor do we use a formula or any other method to select a price based on a period before, after or surrounding the grant date. All stock incentive awards granted to executives are granted at the closing price of our common stock on the effective date of grant.

Retirement Plans. We provide additional compensation to our executive officers through various plans which are also available to some or all of our other employees. The Compensation Committee oversees these plans and the Compensation Committee considers these plans when reviewing an executive's total annual compensation and determining the annual and long-term compensation components described above.

We have a 401(k) Savings Plan for all of our employees. The 401(k) Savings Plan allows eligible employees to defer up to 25% of their eligible income, subject to certain Internal Revenue Code limits, on a pretax basis. We match on a dollar-for-dollar basis up to 6% of an employee's eligible compensation, subject to limitations imposed by the Internal Revenue Code.

Other Benefits and Perquisites. The Company provides our executive officers with perquisites and other personal benefits on a limited basis with overall compensation program objectives to attract and retain high quality executives. The Compensation Committee has reviewed the levels of perquisites and other personal benefits provided to our executive officers and the Compensation Committee believes them to be appropriate.

Mr. Boston relocated in 2011 from Jacksonville, Florida to our headquarters in Richmond, Virginia. The Company reimbursed Mr. Boston for certain relocation expenses and granted him 35,006 shares of restricted stock, which vested quarterly over a three-year period, in connection with his relocation to Richmond in August 2011. The total amount of relocation expense incurred in 2012 for Mr. Boston's relocation to Richmond was $212,472, which equates to the vested amount of his restricted stock grant in connection with his relocation, the related income tax gross-up expense and trailing relocation expenses paid in 2012. The total amount incurred in 2013 for Mr. Boston's relocation to Richmond was $189,337, which equates to the vested amount of his restricted stock grant in connection with his relocation and the related income tax gross-up expense. The total amount incurred in 2014 for Mr. Boston's relocation to Richmond was $128,380, which equates to the vested amount of his restricted stock grant in connection with his relocation and the related income tax gross-up expense. No amounts were incurred in 2015 for Mr. Boston's relocation to Richmond.

In 2015, the Company paid certain legal fees incurred by Mr. Boston in connection with the ongoing negotiation of his new employment agreement.

Details of perquisites provided to the executive officers are set forth in footnotes to the Summary Compensation Table.

Employment Agreements and Severance Agreements. We have an employment agreement with Mr. Boston and a severance agreement with Mr. Benedetti. Mr. Akin's employment agreement expired on March 1, 2011 and will not be renewed in light of his transition to non-executive Chairman of the Board in May 2016. Ms. Popenoe does not currently have an employment or severance agreement. The Company is in the process of drafting new employment agreements for Mr. Boston, Mr. Benedetti and Ms. Popenoe and expects to complete this process in 2016. As used below, the terms “cause,” “change in control,” and “good reason” have the respective meanings set forth in the applicable employment or severance agreement.

Mr. Boston. Mr. Boston's employment agreement provides for his employment as the Chief Investment Officer of the Company, with a current term through March 31, 2017. The agreement renews automatically for successive one-year terms, unless either the Company or Mr. Boston gives written notice of non-renewal at least 90 days prior to expiration of the then-current term of the agreement. Mr. Boston's employment agreement provides for an initial annual base salary of $275,000 (subject to further increases by the Compensation Committee) and annual cash incentive payments in the form of discretionary annual bonuses and long-term equity incentives in the form of restricted stock. The agreement provides for his participation in the Performance Bonus Program, although as noted above, for 2015, the Compensation Committee determined not to follow the Performance Bonus Program. Under his employment agreement, Mr. Boston is entitled to participate in the employee and executive benefit plans and programs implemented by the Company in which other senior executives of the Company are eligible to participate, including life, medical, dental, accidental and disability insurance plans and retirement, deferred compensation and savings plans, in accordance with the terms and conditions of such plans. Mr. Boston is also eligible to participate in the Company's 401(k) Savings Plan, including the Company match in accordance with the plan's terms. Under the agreement, Mr. Boston will also be provided with a cell phone and personal data assistant for his use, and the Company will pay for any business-related usage fees for such items. Mr. Boston's employment agreement provides generally that a lump sum payment will be made to him under certain circumstances upon his termination of employment with us. These circumstances include the termination of employment by Mr. Boston for “good reason,” which includes, among other things, termination after a “change in control,” or the termination of his employment by the Company without “cause.” In such events, Mr. Boston will have the right to receive a lump sum payment equal to the sum of (i) his base salary through the date of his termination (to the extent not previously paid), reimbursement for any unreimbursed business expenses incurred by him prior to his termination and payment for any vacation time accrued by him but unused as of the date of his termination, together with a portion of certain amounts payable under the Performance Bonus Program, (ii) the equivalent of his then current annual base salary multiplied by 2.99 and (iii) any other amounts or benefits Mr. Boston is entitled to receive under any plan, program, policy or practice or contract or agreement of the Company. Mr. Boston also will become fully vested in any unvested restricted stock, options, stock appreciation rights or other forms of incentive stock compensation granted to him if he terminates his employment for good reason or if he is terminated without cause. Finally, in such events, the Company is obligated to provide continued coverage to Mr. Boston at its expense under the Company's medical, dental, life insurance and disability policies or arrangements for a period of 12 months following termination of employment, which may be limited in certain circumstances.

Mr. Boston's employment agreement provides for confidentiality obligations during and following Mr. Boston's employment and includes non-competition provisions that are effective during, and for 90 days following, his employment and non-solicitation provisions that are effective during, and for six months following, his employment.

In all circumstances, any amounts paid by the Company pursuant to Mr. Boston's employment agreement will be limited to the maximum amount deductible under Section 280G of the Internal Revenue Code (and any successor provision). See further discussion under “Potential Payments upon Termination or Change in Control” below.

Mr. Benedetti. The terms of Mr. Benedetti's severance agreement provide generally that a lump sum payment will be made to Mr. Benedetti under certain circumstances upon his termination of employment with us. These circumstances include the termination of employment by Mr. Benedetti for “good reason,” which includes termination after a “change in control,” or the termination of his employment by the Company without “cause.” In such events, Mr. Benedetti will have the right to receive a lump sum payment equal to the sum of (i) his base salary and bonus, to the extent already earned by Mr. Benedetti, but unpaid, (ii) the equivalent of his annual base salary of one year for every fifty months that Mr. Benedetti has been employed by the Company pro-rated for any period of less than fifty months and (iii) any other amounts or benefits Mr. Benedetti is entitled to receive under any plan, program, policy or practice or contract or agreement of the Company. Mr. Benedetti also will become fully vested in any restricted stock, options, stock appreciation rights or other forms of incentive stock compensation granted to him if he terminates his employment for good reason or if he is terminated without cause. Finally, in such events, the Company is obligated to provide continued coverage to Mr. Benedetti at its expense under the Company's medical, dental, life insurance and disability policies or arrangements for a period of 12 months following termination of employment, which may be limited in certain circumstances.

If Mr. Benedetti's employment is terminated for “cause,” the Company will only be obligated to pay to Mr. Benedetti (i) his annual base salary through the date of termination, (ii) any bonus to the extent already earned by Mr. Benedetti, but unpaid, (iii) the amount of any compensation previously deferred by Mr. Benedetti, and (iv) any other amounts or benefits Mr. Benedetti would be entitled to receive under any plan, program, policy or practice or contract or agreement of the Company.

If Mr. Benedetti voluntarily terminates his employment for other than “good reason,” the Company will be obligated to pay him (i) his annual base salary through the date of termination, (ii) any bonus to the extent already earned by Mr. Benedetti, but unpaid, and (iii) any other amounts or benefits Mr. Benedetti would be entitled to receive under any plan, program, policy or practice or contract or agreement of the Company.

In all circumstances, any amounts paid by the Company pursuant to the severance agreement will be limited to the maximum amount deductible under Section 280G of the Internal Revenue Code (and any successor provision). See further discussion under “Potential Payments upon Termination or Change in Control” below.

New Employment Agreements for 2016. As noted above, the Compensation Committee continues to negotiate new employment agreements with each of Messrs. Boston and Benedetti and Ms. Popenoe, which are intended to replace any existing employment or severance agreement.

Limitations on Deductibility of Compensation

In making compensation decisions, the Compensation Committee considers Section 162(m) of the Internal Revenue Code (“Section 162(m)”), which limits the federal income tax deductibility of certain compensation in excess of $1 million paid to certain executive officers. Certain compensation, including certain forms of “performance-based compensation,” may qualify for an exemption from the deduction limit if it satisfies various technical requirements under Section 162(m). The Compensation Committee views the tax deductibility of executive compensation as one factor to be considered in the context of the Company’s overall compensation philosophy. The Compensation Committee currently believes, however, that it is generally in the Company’s and its shareholders’ best interest for the Compensation Committee to retain discretion and flexibility to develop appropriate compensation programs and establish appropriate compensation levels. As a result, the Compensation Committee awards compensation that is not fully deductible under Section 162(m) when it believes it is in the best interest of the Company and its shareholders to do so, as it has done in recent years with respect to the named executive officers’ compensation.

For 2015, approximately $0.3 million, $1.4 million and $3 thousand of the compensation for Messrs. Akin, Boston and Benedetti, respectively, was not deductible under Section 162(m). In approving compensation for 2015, the Compensation Committee considered the requirements of Section 162(m) for the performance-based compensation exemption and determined that the need for discretion and flexibility in the Company’s compensation program, particularly with respect to bonus awards, outweighed the related loss of tax deductibility.

Limitations on Certain Short-term or Speculative Transactions in the Company's Securities

The Board of Directors has approved a Statement of Policy Regarding Trading in Company Securities (the “Insider Trading Policy”) that applies to all directors, officers and employees of the Company and helps ensure that the Company's personnel bear the full risks and benefits of stock ownership. The Insider Trading Policy prohibits executive officers, among others, from engaging in short-term or speculative transactions in the Company's securities, such as short sales, trading in publicly-traded derivative securities, and hedging transactions. Executive officers are also prohibited from holding the Company's common stock in margin accounts or, with limited exceptions, pledging the Company's common stock as collateral for a loan. The prohibition on trading in derivative securities does not prohibit the exercise of options or other awards granted under a Company compensation plan.

Report of the Compensation Committee

The Compensation Committee has reviewed the Compensation Discussion and Analysis included in this Proxy Statement and discussed it with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee

Michael R. Hughes, Chairperson

Robert A. Salcetti

James C. Wheat, III

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Compensation Committee Interlocks and Insider Participation

No current member of the Compensation Committee is, and no member who served during 2015 was, a current or former officer or employee of the Company or any of our subsidiaries. In addition, there are no compensation committee interlocks with other entities with respect to any current member of the Compensation Committee or member who served during 2015.

Compensation of Executive Officers

Compensation for our executive officers is administered under the direction of our Compensation Committee. In the tables and discussion below, we summarize the compensation earned during 2015, 2014, and 2013 by Messrs. Akin, Boston, and Benedetti, and during 2015 and 2014 by Ms. Popenoe. The Company had no other executive officers during 2015.

Summary Compensation Table for 2015*

Name and Principal Position	Year	Salary ($)	**Bonus (1) ($)**	**Stock Awards (2) ($)**	**Non-Equity Incentive Plan Compensation (3) ($)**	**All Other Compensation (4) ($)**	Total ($)
Thomas B. Akin	2105	$500,000	$—	$—	$ —	$ 174,445	$674,445
	2014	500,000	499,993	459,998	—	203,504	1,663,495
Executive Chairperson	2013	600,000	—	263,750	629,994	164,875	1,658,619
Byron L. Boston	2015	$675,000	$1,125,000	$—	$ —	$ 278,618	$2,078,618
	2014	675,000	—	692,995	1,349,997	375,528	3,093,520
Chief Executive Officer, President and Co-Chief Investment Officer	2013	600,000	—	313,757	629,994	282,283	1,826,034
Stephen J. Benedetti	2015	$375,000	$471,558	$—	$ —	$ 101,357	$947,915
	2014	375,000	—	267,997	562,497	100,005	1,305,499
Executive Vice President, Chief Financial Officer and Chief Operating Officer	2013	375,000	—	—	292,118	97,820	764,938
Smriti L. Popenoe	2015	$408,000	$525,807	$—	$ —	$ 74,853	$1,008,660
Executive Vice President and Co-Chief Investment Officer	2014	408,000	—	300,000	692,000	29,653	1,429,653

*The columns for "Option Awards" and “Change in Pension Value and Nonqualified Deferred Compensation Earnings” have been omitted because they are not applicable.

(1) *Bonus amounts earned for 2015 and for Mr. Akin for 2014 were determined by the Compensation Committee on a discretionary basis and are, therefore, included in the “Bonus” column rather than the “Non-Equity Incentive Plan Compensation” column. The amounts reported include both the cash portion of the executive officer’s discretionary bonus award as well as the portion that was paid in restricted shares of the Company's common stock, for 2015 and 2014 performance, respectively. Both the cash portion and the restricted shares portion of these bonus awards were paid in the year following the year of performance.*

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(2) *No stock awards were granted to the executive officers in 2015 outside of the portion of the bonus award under the Performance Bonus Program paid in restricted shares of the Company's common stock, which are included in the "Non-Equity Incentive Plan Compensation" column for 2014. The amounts in the "Stock Awards" column for 2014 and 2013 for Messrs. Akin, Boston and Benedetti represent the aggregate grant date fair value of restricted stock granted to them outside of the Performance Bonus Program in January 2014 and April 2013 under the Company's 2009 Stock and Incentive Plan (calculated in accordance with ASC Topic 718), representing incentive compensation related to 2013 and 2012 performance, respectively. The amount for Ms. Popenoe for 2014 represents the grant date fair value of the restricted stock grant she received in connection with her hiring as Executive Vice President and Co-Chief Investment Officer, effective January 1, 2014. In all cases, the grant date fair value of the restricted stock is based on the closing price of the Company's common stock on the grant date.*

(3) *Bonus amounts earned for 2014 and 2013 under the Performance Bonus Program for Messrs. Akin (for 2013), Boston, and Benedetti and for Ms. Popenoe (for 2014) are included in the "Non-Equity Incentive Plan Compensation" column and include both the cash portion of the bonus award and the portion that was paid in restricted shares of the Company's common stock per the Compensation Committee's determination. Both the cash portion and the restricted shares portion of these bonus awards were paid in the year following the year of performance under the Performance Bonus Program.*

(4) *The following table presents the components of "All Other Compensation" in the table above for each of the executive officers for 2015:*

Name	**Thomas B. Akin**	**Byron L. Boston**	**Stephen J. Benedetti**	**Smriti L. Popenoe**
Dividends paid on unvested restricted stock	$171,600	$238,322	$ 81,323	$57,426
Matching contributions to the Company's 401(k) Savings Plan	—	15,900	15,900	15,900
Group term life insurance premiums	1,584	1,032	552	360
Gross up expenses related to the group term life insurance	121	79	42	27
HSA Company contributions	—	—	2,400	—
Long-term disability insurance premiums	1,140	1,140	1,140	1,140
Fees paid for legal review of draft employment agreement	—	22,145	—	—
Total other compensation	$174,445	$278,618	$101,357	$74,853

All compensation that we have paid to Messrs. Akin, Boston, and Benedetti and Ms. Popenoe has been determined as described above in our "Compensation Discussion and Analysis" section.

The Grants of Plan-Based Awards Table has been omitted because none of the executive officers participated in the Performance Bonus Program or any other formal incentive plan for 2015, and the Company did not grant any equity awards to the executive officers during the fiscal year ended December 31, 2015 other than the portion of the 2014 bonus award under the Performance Bonus Program that was paid in restricted shares of the Company's common stock. The bonus amounts earned by the executive officers for 2015 performance were determined by the Compensation Committee on a discretionary basis and are included in the "Bonus" column of the Summary Compensation Table.

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Holdings of Stock-Based Awards

The table below presents information regarding restricted stock held by each of our named executive officers as of December 31, 2015. None of our named executive officers held any options or stock appreciation rights as of December 31, 2015.

Outstanding Equity Awards at 2015 Fiscal Year-End*

	Option Awards [(1)]				**Stock Awards**	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested [(2)] (#)**	**Market Value of Shares or Units of Stock That Have Not Vested [(3)] ($)**
Thomas B. Akin	—	—	—	—	164,248	$1,042,975
Byron L. Boston	—	—	—	—	242,660	1,540,891
Stephen J. Benedetti	—	—	—	—	84,374	535,775
Smriti L. Popenoe	—	—	—	—	66,737	423,780

* The columns for “Equity Incentive Plan Awards” have been omitted because they are not applicable.

(1) *None of the executive officers had any outstanding stock options or stock appreciation rights as of December 31, 2015.*

(2) *All of these shares were granted under the Company’s 2009 Stock and Incentive Plan. See the following table for details of the vesting for each grant of restricted stock:*

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Name	***Grant Date***	***Restricted Shares***	***Vesting Schedule***
Thomas B. Akin	*03-01-12*	*11,906*	*Vests on March 1, 2016*
	03-29-13	*14,826*	*Vests on March 15, 2016*
	04-02-13	*12,500*	*Vests in equal annual installments on March 15, 2016 and March 15, 2017*
	01-21-14	*42,751*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
	01-28-14	*52,109*	*Vests in equal annual installments on February 15, 2016, and February 15, 2017*
	02-25-15	*30,156*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
Byron L. Boston	*03-01-12*	*11,906*	*Vests on March 1, 2016*
	03-29-13	*17,947*	*Vests on March 15, 2016*
	04-02-13	*14,870*	*Vests in equal annual installments on March 15, 2016 and March 15, 2017*
	01-21-14	*64,405*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
	01-28-14	*52,109*	*Vests in equal annual installments on February 15, 2016, and February 15, 2017*
	02-25-15	*81,423*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
Stephen J. Benedetti	*03-01-12*	*3,221*	*Vests on March 1, 2016*
	03-29-13	*9,944*	*Vests on March 15, 2016*
	01-21-14	*24,907*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
	01-28-14	*12,376*	*Vests in equal annual installments on February 15, 2016, and February 15, 2017*
	02-25-15	*33,926*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*
Smriti L. Popenoe	*01-01-14*	*25,000*	*Vests in equal annual installments on January 1, 2016 and January 1, 2017*
	02-25-15	*41,737*	*Vests in equal annual installments on February 15, 2016, February 15, 2017 and February 15, 2018*

(3) This amount represents the fair market value of the restricted stock as of December 31, 2015, based on the closing price of the Company's common stock of $6.35 on that date.

Option Exercises and Stock Vested

The table below presents information regarding restricted stock held by our executive officers that vested during 2015.

Option Exercises and Stock Vested for 2015 [1]

	Stock Awards	
Name	**Number of Shares Acquired On Vesting (#)**	**Value Realized on Vesting** [2] **($)**
Thomas B. Akin	79,272	$656,799
Byron L. Boston	93,190	771,803
Stephen J. Benedetti	31,845	263,326
Smriti L. Popenoe	12,500	103,125

(1) *None of the executive officers exercised any stock options or stock appreciation rights during 2015.*

(2) *For purposes of this table, where a vesting date was a non-business day, the Company's common stock closing stock price on the business day prior to the vesting date was used. For Mr. Akin, the amount in this column represents the Company's common stock closing price of $8.34 for the vesting date of February 13, 2015, $8.34 for the vesting date of March 1, 2015, $8.18 for the vesting date of March 13, 2015, and $8.18 for the vesting date of March 15, 2015 all times the number of shares that vested on such date. For Mr. Boston, the amount in this column represents the Company's common stock closing price of $8.34 for the vesting date of February 13, 2015, $8.34 for the vesting date of March 1, 2015, $8.18 for the vesting date of March 13, 2015, and $8.18 for the vesting date of March 15, 2015 all times the number of shares that vested on such date. For Mr. Benedetti, the amount in this column represents the Company's common stock closing price of $8.34 for the vesting date of February 13, 2015, $8.34 for the vesting date of March 1, 2015, $8.18 for the vesting date of March 13, 2015, and $8.18 for the vesting date of March 15, 2015 all times the number of shares that vested on such date. For Ms. Popenoe, the amount in this column represents the Company's common stock closing price of $8.25 for the vesting date of January 1, 2015.*

Nonqualified Deferred Compensation for 2015

The Company does not have a nonqualified deferred compensation plan.

Other Compensation

We do not offer any pension benefit plans or deferred compensation plans to our executive officers or other employees, other than what is discussed under the Retirement Plans section of "Compensation Discussion and Analysis" above.

Potential Payments upon Termination or Change in Control

As discussed above, we currently have an employment agreement with Mr. Boston and a severance agreement with Mr. Benedetti. As described below, these agreements provide our executive officers with, among other things, base salary, bonus and certain payments at, following and/or in connection with certain terminations of employment including in connection with a change in control of the Company. As used below, the terms "cause," "change in control," and "good reason" have the respective meanings set forth in the applicable employment or severance agreement. In addition, each of Messrs. Akin, Boston and Benedetti and Ms. Popenoe are parties to restricted stock agreements that provide for accelerated vesting of their restricted shares under certain circumstances.

Mr. Akin. Mr. Akin had no employment agreement effective as of December 31, 2015 and therefore he would not have the contractual right to receive payments upon a termination or upon a change in control on such date. However, Mr. Akin has restricted shares that will become fully vested (i) upon a change in control, (ii) if his employment is terminated upon his becoming disabled, his death, or his retirement (with the consent of the Compensation Committee) at or after age sixty-five where there is no cause for termination or (iii) if he terminates his employment for good reason (only if defined in an applicable employment agreement) or if his employment is terminated without cause. The value of the accelerated vesting of Mr. Akin's restricted shares would have been $1,042,975 based on the closing market price of the Company's common stock on December 31, 2015.

Mr. Boston. The employment agreement for Mr. Boston provides for an annual base salary of not less than $275,000. Mr. Boston’s current base salary is $675,000. As discussed above, Mr. Boston's employment agreement provides for a term through March 31, 2017 and renews automatically for successive one-year terms, unless either the Company or Mr. Boston gives written notice of non-renewal at least 90 days prior to expiration of the then-current term of the agreement.

Pursuant to the terms of his employment agreement, under certain specified scenarios during the term of his employment, Mr. Boston is entitled to receive, in addition to earned and unpaid amounts then owed to him, certain payments upon the termination of his employment including in connection with a “change in control” involving the Company. Under Mr. Boston’s employment agreement, the occurrence of a “change in control” is included in the definition of “good reason.”

(1) *Without Cause or For Good Reason*. If Mr. Boston's employment is terminated by us without “cause” (which would exclude our determination not to renew his employment at the end of any applicable term) or by him for “good reason,” he will be entitled to receive a lump sum payment in cash equal to the aggregate of the amounts under items (1) through (4) below, and will receive the benefits listed in items (5) through (8) as follows: (1) his base salary through the date of his termination, to the extent not previously paid; (2) reimbursement of any unreimbursed business expenses incurred by him prior to his termination; (3) payment for any vacation time accrued by him but unused as of the date of his termination; (4) an amount equal to his annual base salary on the day prior to the date of his termination multiplied by 2.99; (5) the pro-rata portion of the Performance Bonus Program payment that would have been payable to him based on the achievement by the Company of performance goals for that portion of time during the calendar year of the Company that he was employed (the “Pro-Rata Bonus”), payable at the time such bonus would have otherwise been paid (interpreted for purposes of this disclosure as the pro-rata portion of the discretionary bonus awarded to Mr. Boston for 2015 performance); (6) any incentive stock awards awarded to him prior to his termination will become immediately 100% vested and exercisable; (7) subject to certain limitations, continued coverage under the Company's medical plans for Mr. Boston and his dependents covered under such plans for a period of one year from the date of his termination; and (8) to the extent not paid prior to his termination, the Company will pay or provide him with any other amounts or benefits required to be paid or provided or which he is eligible to receive under any plan, program, policy or practice or contract or agreement with the Company. In the event that Mr. Boston's employment with us was terminated on December 31, 2015 under one of these two scenarios, he would have been entitled to receive from us a payment estimated to be $3,143,250, inclusive of the bonus award paid in February 2016 to Mr. Boston for 2015 performance (prior to any rounding for fractional shares). Also, the cost to the Company of providing continued benefits for 12 months would have been approximately $37,094. Additionally, the value of the accelerated vesting of Mr. Boston's restricted shares of the Company's common stock would have been $1,540,891, based on the closing market price of the

Company's common stock on December 31, 2015.

(2) *Without Good Reason or With Cause*. If Mr. Boston's employment is terminated by him without "good reason" or by us for "cause," he will be entitled only to receive a lump sum payment in cash equal to the aggregate of the following amounts: (1) his base salary through the date of his termination, to the extent not previously paid; (2) reimbursement of any unreimbursed business expenses incurred by him prior to his termination; and (3) payment for any vacation time accrued by him but unused as of the date of his termination.

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- *Death or Disability.* If Mr. Boston's employment is terminated upon his death or because of his disability, he will be entitled to receive a lump sum payment in cash equal to the aggregate of the following amounts: (1) his base salary through the date of his termination, to the extent not previously paid; (2) reimbursement of any unreimbursed business expenses incurred by him prior to his termination; and (3) payment for any vacation time accrued by him but unused as of the date of his termination. In addition the Company will pay to him (or his estate in the event of his death), the Pro-Rata Bonus amount due to him under the Performance Bonus Program, if any, in one lump sum payment on the date such bonus would have otherwise been paid for the calendar year of the Company that includes the date of his termination (interpreted for purposes of this disclosure as the pro-rata portion of the discretionary bonus awarded to Mr. Boston for 2015 performance) and all of his unvested restricted shares would vest immediately. In the event that Mr. Boston's employment with us was terminated due to his death or disability on December 31, 2015, he would have been entitled to receive from us a payment estimated to be $1,125,000, which is the bonus amount he earned for 2015 (prior to any rounding for fractional shares), and the value of the accelerated vesting of Mr. Boston's restricted shares would have been $1,540,891 based on the closing market price of the Company's common stock on December 31, 2015.

Mr. Boston's employment agreement provides that it is intended that any payments made to Mr. Boston under the agreement and under any other plan, agreement or arrangement maintained by the Company shall not constitute “excess parachute payments” within the meaning of Section 280G of the Internal Revenue Code (or any successor provision). If the Company's auditors determine that any payment or distribution to be made to Mr. Boston under the agreement would be nondeductible by the Company under Section 280G of the Code, then the amounts payable or distributable under the agreement will be reduced to the maximum amount which may be paid or distributed without causing such payments or distributions to be nondeductible. The amounts shown above do not reflect any potential reductions that may be imposed pursuant to this provision.

Mr. Benedetti. The severance agreement for Mr. Benedetti does not provide for a specific annual base salary. However, Mr. Benedetti's severance agreement provides for his right to terminate for good reason if there is a material diminution in his compensation. Mr. Benedetti's severance agreement has no expiration date.

Pursuant to the terms of his severance agreement, under certain specified scenarios during the term of his employment, Mr. Benedetti is entitled to receive, in addition to earned and unpaid amounts then owed to him, certain payments upon the termination of his employment, including termination in connection with a “change in control” involving the Company. Items considered “good reason” include the occurrence of a change in control of the Company, a material change in Mr. Benedetti's responsibilities or compensation, or a change in the location of Mr. Benedetti's employment. A “change in control” includes among other things, an acquisition of more than 20% of our common stock by an unrelated entity, a material change in the composition of our Board of Directors, certain mergers or other business combinations, or a vote by our shareholders to liquidate or dissolve the Company.

- *Without Cause or For Good Reason*. If Mr. Benedetti's employment is terminated by us without “cause” (which would exclude our determination not to renew his employment at the end of any applicable term) or by him for “good reason,” he will be entitled to (i) his base salary and any bonus that has accrued but has not been paid, (ii) the equivalent of his annual base salary of one year for every fifty months that Mr. Benedetti has been employed by the Company pro-rated for any period of less than fifty months and (iii) any other amounts or benefits Mr. Benedetti is entitled to receive under any plan, program, policy or practice or contract or agreement of the Company. Mr. Benedetti also will become fully vested in any options, stock appreciation rights or other forms of incentive stock compensation granted to him if he terminates his employment for good reason or if he is terminated without cause. Finally, in such events, the Company is obligated to provide continued coverage to Mr. Benedetti at its expense under the Company's medical, dental, life insurance and disability policies or arrangements for a period of 12 months following termination of employment, which may be limited in certain circumstances. In the event that Mr. Benedetti's employment with us was terminated on December 31, 2015 under one of these two scenarios, he would have been entitled to receive from us a payment estimated to be $2,384,058, inclusive of the bonus amount paid to him in February 2016 for 2015 performance (prior to any rounding for fractional shares). Also, the cost to the Company of providing continued benefits for 12 months would have been approximately $17,390. The value of the accelerated vesting of Mr. Benedetti's restricted shares of the Company's common stock would have been $535,775 based on the closing market price of the Company's common stock on December 31, 2015.

- *Without Good Reason or With Cause*. If Mr. Benedetti's employment is terminated for “cause,” the Company will be obligated to pay to Mr. Benedetti (i) his annual base salary through the date of termination, (ii) any bonus to the extent already earned by Mr. Benedetti, but unpaid, (iii) the amount of any compensation previously deferred by Mr. Benedetti, and (iv) any other amounts or benefits Mr. Benedetti would be entitled to receive under any plan, program, policy or practice or contract or agreement of the Company. If Mr. Benedetti voluntarily terminates his employment for other than “good reason,” the Company will be obligated to pay him (i) his annual base salary through the date of termination, (ii) any bonus to which Mr. Benedetti is entitled but has not yet been paid, and (iii) any other amounts or benefits Mr. Benedetti would be entitled to receive under any plan, program, policy or practice or contract or agreement of the Company. In the event that Mr. Benedetti's employment with us was terminated for “cause” or voluntarily terminated by Mr. Benedetti for other than “good reason” on December 31, 2015, he would have been entitled to receive from us a payment estimated to be $471,558, which is the bonus amount he earned for performance for 2015 (prior to any rounding for fractional shares).

Death or Disability. If Mr. Benedetti's employment is terminated by reason of his death or disability, the Company will be obligated to pay him (i) his annual base salary through the date of termination, (ii) any bonus to which Mr. Benedetti is entitled but has not yet been paid, and (iii) any other amounts or benefits Mr. Benedetti would be entitled to receive under any plan, program, policy or practice or contract or agreement of the Company, including any payments that may be due to Mr. Benedetti under the Company's 2009 Stock and Incentive Plan. In the event that Mr. Benedetti's employment with us was terminated due to his death or disability on December 31, 2015, he would have been entitled to receive from us a payment estimated to be $471,558, which is the bonus amount he earned for performance for 2015 (prior to any rounding for fractional shares). In addition, pursuant to the terms of the agreements relating to such shares, the value of the accelerated vesting of Mr. Benedetti's restricted shares of the Company's common stock in the event of his death or disability would have been $535,775 based on the closing market price of the Company's common stock on December 31, 2015. Mr. Benedetti's severance agreement provides that it is intended that any payments made to Mr. Benedetti under the agreement and under any other plan, agreement or arrangement maintained by the Company shall not constitute “excess parachute payments” within the meaning of Section 280G of the Internal Revenue Code (or any successor provision). If the Company's auditors determine that any payment or distribution to be made to Mr. Benedetti would be nondeductible by the Company under Section 280G of the Code, then the amounts payable or distributable under the agreement will be reduced to the maximum amount which may be paid or distributed without causing such payments or distributions to be nondeductible. The amounts shown above do not reflect any potential reductions that may be imposed pursuant to this provision.

Ms. Popenoe. Ms. Popenoe had no employment agreement effective as of December 31, 2015 and therefore she would not have the contractual right to receive payments upon a termination or upon a change in control on such date. However, Ms. Popenoe has restricted shares that will become fully vested (i) upon a change in control, (ii) if her employment is terminated upon her becoming disabled, her death, or her retirement (with the consent of the Compensation Committee) at or after age sixty-five where there is no cause for termination or (iii) if she terminates her employment for good reason (only if defined in an applicable employment agreement) or if her employment is terminated without cause. The value of the accelerated vesting of Ms. Popenoe's restricted shares would have been

$423,780 based on the closing market price of the Company's common stock on December 31, 2015.

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PROPOSAL TWO

ADVISORY AND NON-BINDING VOTE TO APPROVE EXECUTIVE COMPENSATION

As required by SEC rules, we are providing our shareholders the opportunity to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's rules.

As described in detail under the heading “Executive Compensation - Compensation Discussion and Analysis,” our executive compensation program is designed to attract and retain highly skilled and motivated officers who will manage the Company in a manner to promote our growth and profitability, prudently preserve our capital, and advance the interests of our shareholders. Under this program, our named executive officers are rewarded for the achievement of specific annual, long-term and strategic goals, corporate goals, and the realization of increased shareholder value. Please read the “Compensation Discussion and Analysis” beginning on page 17 for additional details about our executive compensation programs, including information about the fiscal year 2015 compensation of our named executive officers and changes we made to our incentive compensation approach.

The Compensation Committee annually reviews the compensation programs for our named executive officers to ensure they achieve the desired goal of striking a balance between recognition of recent achievements and aligning the interests of management on a longer-term basis with that of the Company's shareholders. We are asking our shareholders to indicate their support for our named executive officer compensation as described in this Proxy Statement by voting for this proposal. This proposal, commonly known as a “say-on-pay” proposal, gives our shareholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we will ask our shareholders to vote “FOR” the following resolution at the Annual Meeting:

“RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and related disclosure.”

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board of Directors. Our Board of Directors and our Compensation Committee value the opinions of our shareholders and, as discussed above in response to the 2015 “say-on-pay” vote, we will consider our shareholders' concerns, and the Compensation Committee will evaluate whether any changes are necessary to address those concerns.

Pursuant to the vote of our shareholders at the 2011 Annual Meeting of Shareholders, we will conduct an advisory and non-binding vote to approve our named executive compensation on an annual basis. The next advisory and non-binding vote to approve our named executive officer compensation will occur at the 2017 Annual Meeting of Shareholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

RELATED PERSON TRANSACTIONS

We recognize that maintaining the independence in fact and appearance for our directors and officers is critical. Therefore, we have certain policies and procedures in place to critically evaluate each transaction that could impact the independence of directors and officers. Our Code of Business Conduct and Ethics provides that the Company's personnel, including directors and officers, are expected to avoid any situation in which their personal interests conflict, or have the appearance of conflicting,

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with those of the Company. Our Corporate Governance Guidelines also provide that the Company will generally refrain from entering into contracts with Board members and their immediate family members or providing support directly or indirectly to organizations with which a Board member may be affiliated. In the event that we deem it appropriate to enter transactions with a Board member or a member of his or her immediate family, the terms of the transaction must be made in the ordinary course of business and on substantially the same terms as those prevailing at the time of a comparable transaction with a non-related person. The Board will also evaluate each of these transactions when the independence of the director is determined.

Our Board has adopted certain written policies and procedures, included within our Code of Business Conduct and Ethics, for the review, approval and ratification of related person transactions, which we refer to here as our Related Person Policy. Among other things, our Related Person Policy provides that, other than compensation matters which are ratified or approved by our Compensation Committee, a related person transaction is prohibited unless it is approved or ratified by the Audit Committee. A “related person transaction” is any transaction, arrangement or relationship (or any series of transactions, arrangements or relationships) in which we were, are or will be a participant, in which the amount involved exceeds $120,000, and in which any related person had, has or will have a direct or indirect material interest. Any related person transaction must be reported to the Chairperson of the Audit Committee. A “related person,” as defined in our Related Person Policy, means any person who is an executive officer, director or nominee for director of the Company, any person who is the owner of more than 5% of any class of the Company's outstanding equity securities, any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law or any person (other than a tenant or employee) sharing the household of the executive officer, director, nominee or more than 5% owner, and any entity which is owned or controlled by any of the foregoing persons or in which one of the foregoing persons has a substantial ownership interest or control of such entity.

Under the Related Person Policy, proposed related person transactions are reported to the Chairperson of the Audit Committee. The Chairperson will assess, with the assistance of counsel, if appropriate, whether the proposed transaction would be a related person transaction and, if so, the proposed related person transaction shall be submitted to the Audit Committee for consideration. In determining whether to approve or ratify the proposed related person transaction, the Audit Committee will consider, among other things, whether the related person transaction is in, or is not inconsistent with, the best interest of the Company and its shareholders, and, where applicable, whether the terms of such transaction are comparable to those that could be obtained in arms-length dealings with an unrelated third party. The Audit Committee notifies the related person of its determination.

Mr. Benedetti, the Company's Executive Vice President, Chief Financial Officer and Chief Operating Officer has since 2002, been the sole shareholder of a company that was the parent corporation to a wholly-owned subsidiary, DCI Commercial, Inc., formerly known as Dynex Commercial, Inc. (“DCI”). The Company and DCI were jointly named in litigation regarding the activities of DCI while it was an operating subsidiary of an affiliate of the Company. As disclosed in Part II, Item 8. “Financial Statements and Supplementary Data” in Note 11 in the Company’s Annual Report on Form 10-K filed with the SEC on March 8, 2016, in May 2013, the Fifth Circuit Court of Appeals in Dallas, Texas (the “Fifth Circuit”) affirmed the trial court’s decision with respect to a take nothing judgment against the Company. With respect to DCI, the Fifth Circuit remanded the case to the trial court for entry of judgment and a $25.6 million damage award against DCI and for a new trial with respect to attorneys’ fees and for costs and pre- and post-judgment interest as determined by the trial court.

On July 31, 2014, in a case styled ART Midwest, Inc., et al. v. David M. Clapper, et al., Cause No. 3:99-CV-2355-N, U.S. Dist. Ct., N.D. Tex., David M. Clapper, Atlantic XIII, LLC, and Atlantic Midwest, LLC (the "Clapper Parties" and such litigation together with all subsequent proceedings, the "ART Litigation") obtained a final judgment against ART in the principal amount of $46.9 million. In an effort to collect their judgment against ART, on July 31, 2015, the Clapper Parties filed an Application for Writ of Garnishment against DCI and the Company in U.S. Dist. Ct., N.D. Tex. ("Garnishment Action"). In the Garnishment Action, the Clapper Parties seek to garnish ART's judgment against DCI and allege that the Company is "the apparent successor to DCI." In September 2015, the Company filed a motion to dismiss the Garnishment Action against it on

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the grounds that, among other things, the Clapper Parties alleged no facts to support any allegations against the Company and requested no relief against the Company. The Company's motion to dismiss was granted in March 2016.

In December 2000, the Company and DCI entered into a Litigation Cost Sharing Agreement whereby the Company agreed to advance DCI's portion of the costs of defending against the DCI litigation. The Litigation Cost Sharing Agreement currently remains in effect. Litigation costs advanced by the Company on behalf of DCI are loans and carry simple interest at the rate of Prime plus 8% per annum. At December 31, 2015, the total amount due to the Company under the Litigation Cost Sharing Agreement, including interest, was $9.63 million. Neither DCI nor Mr. Benedetti expects to derive any monetary benefit from the arrangement other than the advancement of the litigation costs. Neither DCI nor its parent company has made any payments to the Company. The Audit Committee approved the Litigation Cost Sharing Agreement in accordance with our Related Person Policy.

PROPOSAL THREE

RATIFICATION OF THE SELECTION

OF THE COMPANY'S AUDITORS

The Audit Committee has selected the firm of BDO USA, LLP as independent certified public accountants to audit the consolidated financial statements of the Company for the fiscal year ending December 31, 2016. BDO USA, LLP has audited the financial statements of the Company since 2006, including for the fiscal year ended December 31, 2015.

In the event that shareholders do not ratify the selection of BDO USA, LLP, the Audit Committee will consider making a change in auditors for the Company for the fiscal year ending December 31, 2017.

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of BDO USA, LLP as the Company's independent auditor. In order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be regular rotation of the independent auditor. The members of the Audit Committee and the Board of Directors believe that continued retention of BDO USA, LLP to serve as the Company's independent auditor is in the best interest of the Company and its shareholders.

Representatives of BDO USA, LLP are expected to be present at the Annual Meeting, will have an opportunity to make a statement, if they desire to do so, and are expected to be available to respond to appropriate questions from shareholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR RATIFICATION OF THE SELECTION OF BDO USA, LLP AS INDEPENDENT PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016.

AUDIT INFORMATION

Independent Registered Public Accounting Firm Fees

The following information is furnished with respect to fees billed for professional services rendered to the Company by BDO USA, LLP for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2015 and 2014, respectively, and fees billed for other services rendered by BDO USA, LLP during those periods. Information related to audit fees for 2015 includes amounts billed through December 31, 2015, and additional amounts estimated to be billed for the 2015 period for audit services rendered.

	For Fiscal Year Ended December 31,	
	2015	**2014**
Audit Fees [(1)]	$319,485	$305,045
Audit-Related Fees [(2)]	7,000	—
Tax Fees	—	—
All Other Fees	—	—
Total	$326,485	$305,045

(1) *Audit Fees include: (i) the audit of the Company's consolidated financial statements included in its Annual Report on Form 10-K and services attendant to, or required by, statute or regulation; (ii) reviews of the interim consolidated financial statements included in the Company's quarterly reports on Form 10-Q; (iii) comfort letters, consents and other services related to SEC and other regulatory filings; and (iv) for 2015, subsidiary audit fees.*

(2) *During 2015, BDO USA, LLP performed certain agreed upon procedures related to the Company's master servicing responsibilities on certain securitization financing issuances.*

Pre-Approval Policies and Procedures

In accordance with the Audit Committee Charter, all audit (including audit-related) and non-audit services performed by BDO USA, LLP, as described above, were pre-approved by the Audit Committee, which concluded that the provision of such services by the Company's independent registered public accounting firm was compatible with the maintenance of that firm's independence in the conduct of its auditing functions. The charter authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting.

Audit Committee Report

The following Audit Committee Report shall not be deemed to be soliciting material or to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report therein, and shall not otherwise be deemed filed under such Acts.

The Audit Committee is responsible, among other responsibilities, for the engagement of independent public accountants, reviews with the independent public accountants the plans and results of any audits, reviews other professional services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of internal accounting controls. The Audit Committee is comprised of three directors, each of whom is independent for audit committee purposes, as defined by the regulations of the SEC and the New York Stock Exchange listing standards.

The Audit Committee has reviewed and discussed with management and the independent accountants the Company's audited financial statements and the results of their examination and evaluation of the Company's internal controls for fiscal year 2015. In addition, the Audit Committee has discussed with the independent accountants the matters required to be discussed under auditing standards of the Public Company Accounting Oversight Board, including Auditing Standard No. 16.

The Audit Committee has received from the independent accountants written disclosures and a letter regarding BDO USA, LLP's communications with the Audit Committee concerning independence, as required by the applicable requirements of the Public Company Accounting Oversight Board. These disclosures have been reviewed by the Audit Committee, and the Audit Committee has discussed with the independent accountants the independent accountants' independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for fiscal year 2015 for filing with the SEC.

Audit Committee

Barry A. Igdaloff, Chairperson

Valerie A. Mosley

Robert A. Salcetti

SHAREHOLDER PROPOSALS

If any shareholder desires to present a proposal to be acted upon at the 2017 Annual Meeting of Shareholders (including a nomination for director), written notice of such proposal must be received, in proper form, by the Secretary of the Company no later than January 6, 2017 and no earlier than October 8, 2016. The proxy solicited by the Board of Directors for the 2017 Annual Meeting will confer discretionary authority to vote on any shareholder proposal presented at the meeting if the Company has not received notice of such proposal within this time period, in writing delivered to the Company's Secretary. If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy materials in connection with the 2017 Annual Meeting, the proposal must comply with Exchange Act Rule 14a-8 and must be received by the Company's Secretary, at the Company's principal office, on or before December 7, 2016.

ANNUAL REPORT ON FORM 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 2015 and a list of all its exhibits will be supplied without charge to any shareholder upon written request sent to the Company's principal executive offices: Dynex Capital, Inc., Attention: Investor Relations, 4991 Lake Brook Drive, Suite 100, Glen Allen, Virginia 23060. Exhibits to the Form 10-K are available for a reasonable fee. You may also view the Company's Annual Report on Form 10-K and its exhibits online at the SEC web page at www.sec.gov or via the Company's web page at www.dynexcapital.com under “Investor Center - SEC Filings.”

By Order of the Board of Directors

Stephen J. Benedetti

Executive Vice President,

Chief Financial Officer, Chief Operating Officer and Secretary

April 6, 2016

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Dynex Capital, Inc.MMMMMMMMMMMMMMM C123456789IMPORTANT ANNUAL MEETING INFORMATION 000004000000000.000000 ext 000000000.000000 extENDORSEMENT_LINE______________ SACKPACK_____________ 000000000.000000 ext 000000000.000000 extMMMMMMMMM000000000.000000 ext 000000000.000000 extMR A SAMPLE Electronic Voting InstructionsDESIGNATION (IF ANY) Available 24 hours a day, 7 days a week!ADD 1Instead of mailing your proxy, you may choose one of the voting ADD 2 methods outlined below to vote your proxy.ADD 3ADD 4 VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.ADD 5 Proxies submitted by the Internet or telephone must be received by ADD 6 11:59 p.m., Eastern Time, on May 16, 2016.Vote by Internet• Go to www.envisionreports.com/DYNX• Or scan the QR code with your smartphone • Follow the steps outlined on the secure websiteVote by telephone• Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone • Follow the instructions provided by the recorded message Using a black ink pen, mark your votes with an X as shown in X this example. Please do not write outside the designated areas.Annual Meeting Proxy Card 1234 5678 9012 345qIF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. qA Proposals — The Board of Directors recommends a vote FOR all the nominees listed in Proposal 1 and FOR Proposals 2 and 3.1. ELECTION OF DIRECTORSNominees: 01 - Thomas B. Akin 02 - Byron L. Boston 03 - Michael R. Hughes + 04 - Barry A. Igdaloff 05 - Valerie A. Mosley 06 - Robert A. Salcetti 07 - James C. Wheat, IIIMark here to vote Mark here to WITHHOLD For All EXCEPT - To withhold authority to vote for any FOR all nominees vote from all nominees nominee(s), write the name(s) of such nominee(s) below.____For Against Abstain2. Proposal to provide advisory approval of the compensation of the Company's named executive officers.For Against Abstain3. Proposal to ratify the selection of BDO USA, LLP, independent certified public accountants, as auditors for the Company for the 2016 fiscal year.B Non-Voting ItemsChange of Address — Please print new address below. Comments — Please print your comments below.C Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign BelowNOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.Date (mm/dd/yyyy) — Please print date below. Signature 1 — Please keep signature within the box. Signature 2 — Please keep signature within the box.MMMMMMMC 1234567890 J N T MR A SAMPLE (THIS AREA IS SET UP TO ACCOMMODATE 140 CHARACTERS) MR A SAMPLE AND MR A SAMPLE ANDMR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND1UPX 2766311 MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND + 02BK5B

Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Shareholders To Be Held on May 17, 2016:The Proxy Statement and the 2015 Annual Report to Shareholders are available at: http://www.envisionreports.com/DYNXqIF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. qProxy — Dynex Capital, Inc.Annual Meeting of Shareholders – May 17, 2016THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANYThe undersigned hereby appoints Stephen J. Benedetti and Alison G. Griffin, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Dynex Capital, Inc. Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Shareholders of the Company to be held May 17, 2016 or at any adjournment thereof, with all powers which the undersigned would possess if present at the meeting.THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED “FOR” ALL NOMINEES LISTED IN PROPOSAL 1, “FOR” PROPOSAL 2 AND “FOR” PROPOSAL 3.(Continued and to be marked, dated and signed, on the other side)