

MFA FINANCIAL, INC.  
Form 8-K  
November 04, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): **November 4, 2016**

**MFA FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction  
of incorporation  
or organization)

**1-13991**  
(Commission File Number)

**13-3974868**  
(IRS Employer  
Identification No.)

**350 Park Avenue, 20th Floor**  
**New York, New York**  
(Address of principal executive offices)

**10022**  
(Zip Code)

Registrant's telephone number, including area code: **(212) 207-6400**

**Not Applicable**

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(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

(e) *New Employment Agreements with William S. Gorin and Craig L. Knutson*

**Gorin and Knutson New Employment Agreements**

On November 4, 2016, MFA Financial, Inc. ( "MFA" or the "Company" ) entered into new employment agreements (each, a "New Employment Agreement" ) with each of William S. Gorin, the Company's chief executive officer, and Craig L. Knutson, the Company's president and chief operating officer. (Mr. Gorin and Mr. Knutson are sometimes hereinafter referred to as the "Executive" or together, the "Executives." ) The New Employment Agreements will replace and supersede each of Mr. Gorin's and Mr. Knutson's existing employment agreement with the Company, which expire on December 31, 2016. The New Employment Agreements become effective as of January 1, 2017. Set forth below is a summary of the material terms and conditions of the New Employment Agreements.

Term

Each of the New Employment Agreements has a fixed term running through December 31, 2019.

Base Salary

Mr. Gorin's New Employment Agreement provides for a base salary of \$800,000 per annum. Mr. Knutson's New Employment Agreement provides for a base salary of \$700,000 per annum.

Annual Performance-Based Bonus

The New Employment Agreements provide that each Executive is eligible to receive an annual performance-based bonus (the "Annual Bonus" ) based on the Company's and each Executive's individual performance during each of the 12-month periods beginning on December 1, 2016, 2017 and 2018 and ending on November 30 of the next succeeding year (each 12-month period being a "Performance Period" ). Pursuant to the terms of each Executive's New Employment Agreement, Mr. Gorin's target annual bonus (the "Overall Target Bonus" ) during each Performance Period is 2.50 times his then-current annual base salary (i.e., \$2,000,000 based on a base salary of \$800,000), and Mr. Knutson's Overall Target Bonus during each Performance Period is 2.25 times his then-current annual base salary (i.e., \$1,575,000 based on a base salary of \$700,000).

The New Employment Agreements provide that each Executive's Annual Bonus is comprised of two components. In the case of each Executive (i) a portion of his Annual Bonus will be payable based on MFA's adjusted return on average equity ( "ROAE" ) during the applicable Performance

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Period (such portion of the Annual Bonus hereinafter referred to as the ROAE Bonus ) and (ii) a portion of his Annual Bonus will be based on the Executive s

individual performance and the Company's performance and risk management (such portion of the Annual Bonus hereinafter referred to as the IRM Bonus).

*ROAE Bonus.* With respect to the ROAE Bonus, for each Performance Period the target amount of the ROAE Bonus (the Target ROAE Bonus) for each Executive will be equal to 75% of such Executive's Overall Target Bonus. Based on his Overall Target Bonus, Mr. Gorin's Target ROAE Bonus will be \$1,500,000 and Mr. Knutson's Target ROAE Bonus will be \$1,181,250. The New Employment Agreements provide that each Executive will be eligible to receive from zero to 200% of his respective Target ROAE Bonus (i.e., up to \$3,000,000 in the case of Mr. Gorin and up to \$2,362,500 in the case of Mr. Knutson).

For purposes of determining the ROAE Bonus, adjusted ROAE will be calculated by dividing (i) MFA's net income as determined in accordance with GAAP (but excluding non-cash, non-operating expense items such as depreciation and amortization expense and, in certain circumstances, any gains or losses from hedging instruments) by (ii) MFA's average stockholders' equity (based on stockholders' equity as of the last day of each month during the Performance Period) as determined in accordance with GAAP (but excluding accumulated other comprehensive income or loss, stockholders' equity attributable to preferred stock and such other items as may be determined by the Compensation Committee of the Board of Directors (the Compensation Committee)).

The actual amount of ROAE Bonus to be paid to the Executive will be based on the Company's adjusted ROAE for the applicable Performance Period relative to a target (the ROAE Target) that is the greater of (A) the sum of (i) the average weekly interest rate (the 2-Year Treasury Rate) on the 2-year U.S. Treasury note and (ii) 400 basis points or (B) 8%; provided that the ROAE Target shall not exceed 10%.

To the extent that MFA's adjusted ROAE for a Performance Period is (x) less than the ROAE Target for such Performance Period and (y) less than or equal to the 2-Year Treasury Rate during such Performance Period, then no ROAE Bonus will be paid to the Executive (the Zero Bonus Factor). To the extent that MFA's adjusted ROAE for a Performance Period is 16% or greater, then the Executive will be paid two (2) times his Target ROAE Bonus. To the extent that MFA's adjusted ROAE for a Performance Period is greater than the Zero Bonus Factor but less than 16%, then the Executive will, based on a formula more particularly described in each of the New Employment Agreements, be paid a multiple of between zero and two (2) times his Target ROAE Bonus, with the Executive being paid the Target ROAE Bonus to the extent that MFA's ROAE for a Performance Period equals the ROAE Target for such Performance Period.

*IRM Bonus.* With respect to the IRM Bonus, for each Performance Period the target amount of the IRM Bonus (the Target IRM Bonus) for each Executive will be equal to 25% of such Executive's Overall Target Bonus. Based on his Overall Target Bonus, Mr. Gorin's Target IRM Bonus will be \$500,000 and Mr. Knutson's Target IRM Bonus will be \$393,750. The New Employment Agreements provide that each Executive will be eligible to receive from zero to 200% of his Target IRM Bonus (i.e., up to \$1,000,000 in the case of Mr. Gorin and up to \$787,500 in the case of Mr. Knutson).

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The actual amount of the IRM Bonus to be paid to the Executive will be determined by the Compensation Committee in its discretion based upon any factors it deems relevant and appropriate, including, without limitation, MFA's leverage strategy relative to other similarly situated companies as well as relative to its own business plan, MFA's total stockholder return (both on an absolute basis, as well as relative to relevant indices and other similarly situated companies) and the Executive's individual performance.

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Under the terms of each of the New Employment Agreements payment of the Executive's Annual Bonus will be made in cash up to an amount equal to his then-current base salary. To the extent that the amount of the Executive's Annual Bonus is greater than his then-current annual base salary, 67% of such excess amount will be paid in cash and 33% of such excess amount will be paid in the form of fully-vested shares of MFA common stock that will be restricted from sale or transfer for the three-year period following its grant, or, if earlier, until the Executive's death or disability or a change in control of MFA (as such term is defined in each New Employment Agreement).

### Equity Awards

Under his New Employment Agreement, Mr. Gorin will receive annual grants of restricted stock units ( RSUs ), consisting of 82,500 time-based RSUs ( TRSUs ) and a target amount of 122,500 performance-based RSUs ( PRSUs ), in each of 2017, 2018 and 2019. Similarly, under his New Employment Agreement, Mr. Knutson will receive annual grants of RSUs, consisting of 70,000 TRSUs and a target amount of 105,000 PRSUs, in each of 2017, 2018 and 2019.

*TRSUs.* Subject to exceptions in certain circumstances described below in Payments and Other Benefits upon Termination of Employment, each grant of TRSUs to be granted to Messrs. Gorin and Knutson will vest on the third December 31st to occur following the date of grant, subject to the Executive's continued employment with the Company. In addition, subject to exceptions in certain circumstances described below, unvested TRSUs will be forfeited as of the date of the Executive's termination of employment with the Company. Upon vesting, each Executive will receive one share of MFA common stock for each TRSU that vests. To the extent that dividends are paid on MFA common stock during the period in which the TRSUs are outstanding, each Executive will receive a cash payment equal to the amount of dividends that he would have received had he owned a number of shares of MFA common stock equal to the number of outstanding TRSUs as of the date on which the dividend is declared (such payment(s) hereinafter referred to as a dividend equivalent ).

*PRSUs.* Of the target amount of PRSUs to be granted annually to each Executive under his respective New Employment Agreement, one-half of such target amount (61,250 shares in the case of Mr. Gorin and 52,500 shares in the case of Mr. Knutson) will vest based on the Company's level of absolute total stockholder return ( TSR ) during the applicable performance period and one-half of such target amount will vest based on the Company's level of TSR during the applicable performance period relative to the TSR during such period of a peer group of companies designated by the Compensation Committee at the time of each grant. (The PRSUs that vest based on the Company's level of absolute TSR are hereinafter referred to as the



Absolute TSR PRSUs, and the PRSUs that vest based on the Company's level of relative TSR are hereinafter referred to as the Relative TSR PRSUs. ) Subject to exceptions in certain circumstances described below in Payments and Other Benefits upon Termination of Employment, each grant of PRSUs to be granted to Messrs. Gorin and Knutson will vest on the last day of the applicable performance period, subject to the level of performance achieved and the Executive's continued employment with the Company.

With respect to the Absolute TSR PRSUs, the actual number of Absolute TSR PRSUs that will vest will be based on the level of the Company's cumulative total stockholder return (i.e., share price appreciation or depreciation, as the case may be, plus dividends divided by initial share price) relative to an 8% per annum simple TSR for the three (3)-year performance period beginning on January 1 of the year of grant (e.g., the performance period for the PRSUs to be granted in 2017 will be January 1, 2017 through December 31, 2019). To determine the actual number of Absolute TSR PRSUs that will vest, the target amount of each grant of Absolute TSR PRSUs will be adjusted up or down at the end of the applicable three-year performance period based on the Company's cumulative TSR relative to an 8% per annum simple TSR objective from 0% of the target amount (reflecting 0% per annum TSR during the performance period) to 200% of the target amount (reflecting 16% per annum (or higher) TSR during the performance period), with 100% of the target amount vesting if TSR of 8% per annum is achieved during the performance period.

With respect to the Relative TSR PRSUs, the actual number of Relative TSR PRSUs that will vest will be based on the Company's cumulative TSR during the applicable three-year performance period (beginning on January 1 of the year of grant) as compared to the cumulative TSR of designated peer group companies for such performance period. To the extent that the Company's TSR rank is less than or equal to the 25th percentile when compared to the TSR of the members of the peer group, the Executive will vest in 0% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. To the extent that the Company's TSR rank is in the 50th percentile, the Executive will vest in 100% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. To the extent that the Company's TSR rank is greater than or equal to the 80th percentile, the Executive will vest in 200% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. (To the extent that the Company's TSR ranking falls in between the percentiles identified in the preceding sentences, the number of Relative TSR PRSUs that vest will be interpolated.)

Absolute TSR PRSUs and Relative TSR PRSUs that do not vest at the end of the performance period will be forfeited. Upon vesting, the Executive will receive one share of the Company's common stock for each Absolute TSR PRSU and Relative TSR PRSU that vests.

Dividend equivalents will not be paid in respect of the PRSUs during the performance period. Rather, dividend equivalents will accrue with respect to the PRSUs during the performance period, and to the extent that the underlying PRSUs vest, an amount equal to the accrued dividend equivalents related to the vested PRSUs will be paid to the Executive in the form of additional shares of MFA common stock based on the closing price of MFA common stock on the vesting date.



Payments and Other Benefits upon Termination of Employment

The New Employment Agreements contain provisions regarding the payment of severance and other benefits to each Executive under various circumstances in which his employment with MFA is terminated.

*Death or Disability.* In circumstances where termination of the Executive's employment is due to his death or disability (as such term is defined in each New Employment Agreement), the Executive or his legal representative or estate, as the case may be, will be entitled to the following:

(i) aggregate cash (payable in lump sum in the case of death and installments in the case of disability) equal to the sum of (A) his annual base salary and (B) the average of the annual bonuses received by such Executive over the three (3) preceding years (the Three Year Average Bonus );

(ii) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination;

(iii) in the case of disability only, reimbursement of health insurance premiums for the Executive and his eligible dependents for a period of 18 months following such termination; and

(iv) immediate vesting of all outstanding unvested equity-based awards; provided, however, that performance-based equity awards will continue to vest in accordance with their respective terms and conditions determined as though the Executive remained actively employed through the end of the applicable performance period.

*Termination without Cause or Resignation for Good Reason.* In circumstances where termination of the Executive's employment is without cause (as such term is defined in the New Employment Agreement) or he resigns for good reason (as such term is defined in the New Employment Agreement), except as described below with respect to a change in control, the Executive will be entitled to the following:

(i) aggregate cash equal to two (2) times the sum of (A) his annual base salary and (B) the Three Year Average Bonus, which will be payable over the two (2) year period following termination;

(ii) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination; and

(iii) immediate vesting of all outstanding unvested equity-based awards that would otherwise vest within the 12 months following such termination; provided, however, that performance-based equity awards will continue to vest in accordance with their respective terms and

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conditions, and the Executive will be entitled to receive a pro rata share of the amount, if any, ultimately payable in respect of such award based on the Executive's length of service during the applicable performance period through the next

anniversary of the grant date of such award relative to the length of the applicable performance period.

*Termination by MFA upon Expiration of Agreement.* In the event the employment of Mr. Gorin or Mr. Knutson is terminated by the Company upon the expiration of his New Employment Agreement under circumstances that do not constitute cause, then he will be entitled to (i) continued payments of base salary during the six (6)-month period following termination, (ii) reimbursement of health insurance premiums for the Executive and his eligible dependents during the six (6)-month period following termination, (iii) immediate pro-rata vesting (based on the date of termination of service) of all outstanding unvested time-based equity-based awards, (iv) pro-rata vesting of performance-based equity awards in the amount, if any, ultimately payable in respect of such awards pro-rated based on the Executive's length of service during the applicable performance period through the termination date relative to the length of the applicable performance period and (v) any unpaid Annual Bonus for the Performance Period ending November 30, 2019.

*Termination Related to Change in Control.* Each New Employment Agreement provides that in the event the Executive's employment is terminated by the Company (other than for cause) or the Executive resigns for good reason, in either case, during the 12-month period following a change in control of the Company, he will be entitled to the following: (i) a lump sum payment equal to two (2) times the sum of (A) his annual base salary and (B) the Three Year Average Bonus; (ii) immediate vesting of all outstanding unvested equity-based awards (which, for performance-based equity awards, will be based on the target number of shares subject to such awards); (iii) reimbursement of health insurance premiums for the Executive and his eligible dependents for a period of 18 months following such termination; and (iv) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination.

#### Garden Leave

Each Executive must provide 90 days' notice prior to his resignation, and the Company must provide 90 days' notice prior to its terminating the Executive (which the Company may waive in the event of termination for cause), except, in either case, upon termination in connection with a change in control. During this 90-day period after any such notice has been given, the Executive will continue to receive base salary and benefits, but will be ineligible to receive an Annual Bonus for any Performance Period that was not completed as of the beginning of the 90-day period.

#### Other Terms and Provisions

In addition, each New Employment Agreement provides that if any payments or benefits provided to the Executive would constitute excess parachute payments within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and would be subject to the excise tax imposed under Section 4999 of the Code, the payments or benefits will be reduced by the



amount required to avoid the excise tax, if such reduction would give the Executive a better after-tax result than if he received the full payments and benefits and paid the excise tax.

The New Employment Agreements also contain customary confidentiality, non-disparagement, non-solicitation and non-competition covenants, as well as other terms customary for agreements applicable to senior executives.

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Copies of the New Employment Agreements are attached hereto as Exhibits 10.1 and 10.2. The above descriptions of the principal terms of the New Employment Agreements are summaries only and are qualified in their entirety by reference to the applicable exhibit, each of which is incorporated by reference into this Item 5.02.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

10.1 Employment Agreement, entered into as of November 4, 2016, by and between the Company and William S. Gorin

10.2 Employment Agreement, entered into as of November 4, 2016, by and between the Company and Craig L. Knutson

SIGNATURE

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

MFA FINANCIAL, INC.  
(REGISTRANT)

By: /s/ Harold E. Schwartz  
Name: Harold E. Schwartz  
Title: Senior Vice President and General  
Counsel

Date: November 4, 2016

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Employment Agreement, entered into as of November 4, 2016, by and between the Company and William S. Gorin
10.2	Employment Agreement, entered into as of November 4, 2016, by and between the Company and Craig L. Knutson