

Cypress Sharpridge Investments, Inc.

Form 10-Q

April 23, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 001-33740

Cypress Sharpridge Investments, Inc.

(Exact name of registrant as specified in its charter)

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| | |
|--|---|
| Maryland (State or other jurisdiction of incorporation or organization) | 20-4072657 (IRS Employer Identification No.) |
| 65 East 55th Street New York, New York (Address of principal executive offices) | 10022 (Zip Code) |
| (212) 612-3210 (Registrant's telephone number, including area code) | |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|---------------------------------|--------------------------------------|
| Class | Outstanding at April 23, 2010 |
| Common Stock (\$0.01 par value) | 18,767,654 |

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Table of Contents**PART I Financial Information****Item 1. Financial Statements****CYPRESS SHARPRIDGE INVESTMENTS, INC.****STATEMENTS OF ASSETS AND LIABILITIES**

| | March 31, 2010 (Unaudited) | December 31, 2009* |
|---|---------------------------------------|-------------------------------|
| ASSETS: | | |
| Investments in securities, at fair value (cost, \$1,788,097,306 and \$1,846,995,280, respectively) | \$ 1,808,070,824 | \$ 1,853,251,613 |
| Interest rate swap contracts, at fair value | | 1,131,487 |
| Cash and cash equivalents | 775,729 | 1,889,667 |
| Receivable for securities sold | 24,827,457 | 2,724,805 |
| Interest receivable | 6,807,387 | 6,886,816 |
| Prepaid insurance | 174,239 | 89,642 |
| Prepaid and deferred offering costs | 222,266 | 222,266 |
| Total assets | 1,840,877,902 | 1,866,196,296 |
| LIABILITIES: | | |
| Repurchase agreements | 1,487,589,168 | 1,372,707,572 |
| Interest rate swap contracts, at fair value | 10,539,628 | 4,925,333 |
| Payable for securities purchased | 82,390,486 | 229,838,772 |
| Distribution payable | 10,318,464 | 10,316,082 |
| Accrued interest payable (including accrued interest on repurchase agreements of \$230,248 and \$353,856, respectively) | 4,922,748 | 3,387,431 |
| Related party management fee payable | 353,408 | 356,873 |
| Accrued expenses and other liabilities | 317,790 | 373,251 |
| Total liabilities | 1,596,431,692 | 1,621,905,314 |
| Contingencies (note 10) | | |
| NET ASSETS | \$ 244,446,210 | \$ 244,290,982 |
| Net Assets consist of: | | |
| Common Stock, \$0.01 par value, 500,000,000 shares authorized (18,760,844 and 18,756,512 shares issued and outstanding, respectively) | \$ 187,608 | \$ 187,565 |
| Additional paid in capital | 309,698,999 | 309,368,569 |
| Accumulated net realized gain (loss) on investments | (97,911,278) | (87,363,976) |
| Net unrealized appreciation (depreciation) on investments | 9,433,890 | 2,462,487 |
| Undistributed net investment income | 23,036,991 | 19,636,337 |
| NET ASSETS | \$ 244,446,210 | \$ 244,290,982 |
| NET ASSET VALUE PER SHARE | \$ 13.03 | \$ 13.02 |

* Derived from audited financial statements.

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See notes to financial statements.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****SCHEDULES OF INVESTMENTS****MARCH 31, 2010 (UNAUDITED)****INVESTMENTS IN SECURITIES UNITED STATES OF AMERICA**

| | Face Amount | Fair Value |
|---|---------------|---------------|
| Fixed Income Securities - 739.7%^(d) | | |
| Mortgage Pass-Through Agency RMBS - 733.9%^(d) | | |
| Fannie Mae Pools - 593.2%^(d) | | |
| 2.835%, due 3/1/2034 ^{(a)(b)} | \$ 36,464,115 | \$ 37,774,634 |
| 2.853%, due 1/1/2035 ^{(a)(b)} | 28,276,520 | 29,301,544 |
| 3.2%, due 5/1/2034 ^(b) | 7,456,363 | 7,745,297 |
| 3.272%, due 9/1/2034 ^{(a)(b)} | 26,169,837 | 27,118,493 |
| 3.334%, due 8/1/2037 ^{(a)(b)} | 22,731,123 | 23,583,540 |
| 3.693%, due 7/1/2039 ^{(a)(b)} | 9,021,585 | 9,322,906 |
| 3.721%, due 9/1/2039 ^{(a)(b)} | 34,430,844 | 35,642,809 |
| 3.77%, due 4/1/2035 ^{(a)(b)} | 9,422,333 | 9,787,448 |
| 3.811%, due 9/1/2039 ^{(a)(b)} | 34,409,034 | 35,716,577 |
| 3.891%, due 7/1/2039 ^{(a)(b)} | 24,233,022 | 24,834,001 |
| 3.99%, due 10/1/2039 ^{(a)(b)} | 49,565,544 | 51,766,255 |
| 3.997%, due 9/1/2039 ^{(a)(b)} | 23,602,576 | 24,652,891 |
| 4%, due 1/1/2025 ^(a) | 48,749,911 | 49,473,360 |
| 4%, due 1/1/2025 ^(a) | 76,081,662 | 77,210,714 |
| 4%, due 12/1/2024 ^(a) | 24,844,059 | 25,212,745 |
| 4%, due 2/1/2025 ^(a) | 49,430,683 | 50,164,234 |
| 4%, due 3/1/2025 ^(a) | 50,345,601 | 51,092,730 |
| 4.006%, due 9/1/2039 ^{(a)(b)} | 45,214,366 | 46,920,304 |
| 4.016%, due 7/1/2039 ^{(a)(b)} | 26,115,359 | 26,846,589 |
| 4.072%, due 6/1/2039 ^{(a)(b)} | 23,795,121 | 24,758,823 |
| 4.096%, due 9/1/2039 ^{(a)(b)} | 37,273,190 | 38,717,526 |
| 4.118%, due 8/1/2033 ^{(a)(b)} | 5,216,549 | 5,425,211 |
| 4.5%, due 10/1/2024 ^(a) | 47,333,248 | 49,079,844 |
| 4.5%, due 10/1/2024 ^(a) | 45,571,294 | 47,252,875 |
| 4.5%, due 10/1/2024 ^(a) | 14,012,167 | 14,529,216 |
| 4.5%, due 10/1/2024 ^(a) | 34,110,214 | 35,368,881 |
| 4.5%, due 11/1/2024 ^(a) | 59,204,130 | 61,388,763 |
| 4.5%, due 11/1/2024 ^(a) | 13,859,034 | 14,370,432 |
| 4.5%, due 2/1/2025 ^(a) | 73,850,790 | 76,575,884 |
| 4.5%, due 4/1/2030 ^(a) | 30,500,151 | 31,043,359 |
| 4.5%, due 5/1/2024 ^(a) | 15,122,609 | 15,680,633 |
| 4.5%, due 5/1/2024 ^(a) | 16,501,304 | 17,110,203 |
| 4.5%, due 5/1/2030 ^(a) | 50,000,000 | 50,719,000 |
| 4.5%, due 6/1/2024 ^(a) | 30,381,446 | 31,502,522 |
| 4.5%, due 6/1/2024 ^(a) | 20,782,437 | 21,549,309 |
| 4.5%, due 6/1/2024 ^(a) | 25,339,142 | 26,274,157 |
| 4.5%, due 9/1/2024 ^(a) | 2,890,910 | 2,997,585 |
| 4.5%, due 9/1/2024 ^(a) | 25,908,632 | 26,864,661 |
| 4.5%, due 9/1/2024 ^(a) | 27,627,150 | 28,646,592 |
| 5.285%, due 3/1/2038 ^{(a)(b)} | 21,757,129 | 23,008,164 |
| 5.495%, due 11/1/2037 ^{(a)(b)} | 6,500,355 | 6,874,125 |
| 5.5%, due 9/1/2023 ^(a) | 43,816,683 | 46,849,674 |
| 5.861%, due 8/1/2037 ^{(a)(b)} | 38,861,810 | 40,742,722 |

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| | | |
|---|---------------|---------------|
| 5.945%, due 11/1/2036 ^{(a)(b)} | 29,630,243 | 31,111,755 |
| 6%, due 4/1/2038 ^(a) | 22,336,877 | 23,729,357 |
| 6%, due 5/1/2037 ^(a) | 13,142,202 | 13,730,973 |
| Total Fannie Mae Pools | 1,401,889,354 | 1,450,069,317 |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****SCHEDULES OF INVESTMENTS (Continued)****MARCH 31, 2010 (UNAUDITED)**

| | Face Amount | Fair Value |
|--|----------------------|----------------------|
| Freddie Mac Pools - 130.2%^(d) | | |
| 3.421%, due 4/1/2035 ^(b) | 10,541,231 | 10,936,527 |
| 4.5%, due 1/1/2025 ^(a) | 38,957,089 | 40,394,605 |
| 4.5%, due 12/1/2024 ^(a) | 18,331,074 | 19,007,490 |
| 4.5%, due 12/1/2024 ^(a) | 17,281,408 | 17,919,092 |
| 4.5%, due 2/1/2025 ^(a) | 50,116,907 | 51,966,221 |
| 4.5%, due 7/1/2024 ^(a) | 62,857,542 | 65,176,985 |
| 4.748%, due 12/1/2038 ^{(a)(b)} | 9,947,291 | 10,496,382 |
| 4.972%, due 5/1/2038 ^{(a)(b)} | 40,734,238 | 43,170,146 |
| 5.5%, due 9/1/2023 | 6,389,195 | 6,836,438 |
| 5.761%, due 11/1/2036 ^{(a)(b)} | 23,922,827 | 25,231,405 |
| 5.826%, due 1/1/2036 ^(b) | 3,420,589 | 3,570,239 |
| 5.971%, due 10/1/2037 ^{(a)(b)} | 22,033,569 | 23,575,919 |
| Total Freddie Mac Pools | 304,532,960 | 318,281,449 |
| Ginnie Mae Pools - 10.5%^(d) | | |
| 4.0%, due 1/1/2040 ^{(a)(b)} | 24,931,870 | 25,749,885 |
| Total Ginnie Mae Pools | 24,931,870 | 25,749,885 |
| Total Mortgage Pass-Through Agency RMBS (cost - \$1,755,626,698) | 1,731,354,184 | 1,794,100,651 |
| Collateralized Loan Obligation Securities - 5.7%^(d) | | |
| AMMC CLO V, LTD ^(c) | 2,249,000 | 624,098 |
| AMMC CLO VII, LTD ^{(c)(e)} | 3,900,000 | 1,248,000 |
| ARES VIR CLO, LTD ^{(c)(e)} | 3,775,000 | 1,283,500 |
| AVENUE CLO V, LTD ^{(c)(e)} | 2,000,000 | 160,000 |
| BALLYROCK CLO 2006-2, LTD ^(c) | 4,270,000 | 2,647,400 |
| CARLYLE HIGH YIELD PARTNERS VIII, LTD ^(c) | 3,000,000 | 900,000 |
| EATON VANCE CDO IX, LTD ^{(c)(e)} | 2,500,000 | 743,750 |
| FLAGSHIP CLO V, LTD ^(c) | 3,750,000 | 1,500,000 |
| PRIMUS CLO I, LTD ^{(c)(e)} | 2,500,000 | 643,750 |
| START III CLO, LTD ^(c) | 3,000,000 | 2,983,500 |
| TRIMARAN CLO VII, LTD ^(c) | 2,000,000 | 1,100,000 |
| Total Collateralized Loan Obligation Securities (cost - \$26,582,177) | 32,944,000 | 13,833,998 |
| Structured Notes - 0.1%^(d) | | |
| RESIX 2006-B B9, 6.23%, due 7/15/2038 ^{(b)(c)} | 1,847,507 | 55,425 |
| RESIX 2006-B B10, 7.73%, due 7/15/2038 ^{(b)(c)} | 539,792 | 10,796 |
| RESIX 2007-B B11, 8.73%, due 4/15/2039 ^{(b)(c)} | 3,497,675 | 69,954 |

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| | | |
|---|-------------------------|-------------------------|
| Total Structured Notes (cost - \$5,888,431) | 5,884,974 | 136,175 |
| Total Investments in Securities (cost - \$1,788,097,306) | \$ 1,770,183,158 | \$ 1,808,070,824 |

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CYPRESS SHARPRIDGE INVESTMENTS, INC.

SCHEDULES OF INVESTMENTS (Continued)

MARCH 31, 2010 (UNAUDITED)

| | Notional Amount | Fair Value |
|---|------------------------|------------------------|
| Unrealized Appreciation (Depreciation) on Interest Rate Swap Contracts - (4.3%)(d) | | |
| April 2012 Expiration, Pay Rate 1.691%, Receive Rate 3-Month LIBOR | \$ 240,000,000 | \$ (2,470,311) |
| June 2012 Expiration, Pay Rate 2.266%, Receive Rate 3-Month LIBOR | 200,000,000 | (4,178,718) |
| July 2012 Expiration, Pay Rate 2.125%, Receive Rate 3-Month LIBOR | 200,000,000 | (3,549,348) |
| November 2013 Expiration, Pay Rate 2.213%, Receive Rate 3-Month LIBOR | 100,000,000 | (341,251) |
| Total Unrealized Appreciation (Depreciation) on Interest Rate Swap Contracts (Cost, \$0) | \$ 740,000,000 | \$ (10,539,628) |

LEGEND

- (a) Securities or a portion of the securities are pledged as collateral for repurchase agreements or interest rate swap contracts.
- (b) The coupon rate shown on floating or adjustable rate securities represents the rate at March 31, 2010.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may only be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2010, the fair value of these securities amounted to \$13,970,173 or 5.8% of net assets.
- (d) Percentage of net assets.
- (e) Non-income producing security.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****SCHEDULES OF INVESTMENTS (Continued)****DECEMBER 31, 2009*****INVESTMENTS IN SECURITIES UNITED STATES OF AMERICA**

| | Face Amount | Fair Value |
|---|---------------|---------------|
| Fixed Income Securities 758.6% | | |
| Mortgage Pass-Through Agency RMBS 754.7% | | |
| Fannie Mae Pools 652.2% | | |
| 2.907%, due 1/1/2035 ^{(a)(b)} | \$ 29,968,527 | \$ 31,010,529 |
| 2.993%, due 4/1/2036 ^{(a)(b)} | 39,693,779 | 41,083,061 |
| 3.004%, due 7/1/2036 ^{(a)(b)} | 34,473,372 | 35,679,941 |
| 3.007%, due 10/1/2036 ^{(a)(b)} | 33,776,514 | 34,958,692 |
| 3.024%, due 6/1/2036 ^{(a)(b)} | 32,282,832 | 33,412,732 |
| 3.281%, due 9/1/2034 ^{(a)(b)} | 28,217,356 | 29,147,118 |
| 3.533%, due 8/1/2037 ^{(a)(b)} | 24,301,362 | 25,125,421 |
| 3.71%, due 7/1/2039 ^(b) | 9,464,706 | 9,674,350 |
| 3.726%, due 3/1/2034 ^{(a)(b)} | 38,348,806 | 39,680,660 |
| 3.736%, due 5/1/2034 ^{(a)(b)} | 7,506,917 | 7,763,278 |
| 3.744%, due 9/1/2039 ^{(a)(b)} | 35,213,718 | 35,962,010 |
| 3.815%, due 9/1/2039 ^{(a)(b)} | 34,774,099 | 35,599,984 |
| 3.99%, due 10/1/2039 ^{(a)(b)} | 52,564,978 | 54,059,795 |
| 3.997%, due 9/1/2039 ^{(a)(b)} | 24,760,921 | 25,472,797 |
| 4%, due 12/1/2024 ^(a) | 25,206,097 | 25,367,574 |
| 4%, due 1/1/2025 ^(a) | 49,442,119 | 49,758,858 |
| 4%, due 2/1/2025 | 75,000,000 | 75,480,469 |
| 4%, due 3/1/2025 | 50,000,000 | 49,984,375 |
| 4.028%, due 9/1/2039 ^{(a)(b)} | 48,482,758 | 49,914,454 |
| 4.053%, due 7/1/2039 ^(b) | 41,086,634 | 42,324,164 |
| 4.071%, due 6/1/2039 ^{(a)(b)} | 23,842,099 | 24,599,324 |
| 4.089%, due 7/1/2039 ^{(a)(b)} | 39,480,789 | 40,711,405 |
| 4.1%, due 9/1/2039 ^{(a)(b)} | 47,540,515 | 48,996,443 |
| 4.11%, due 8/1/2033 ^{(a)(b)} | 6,230,747 | 6,470,257 |
| 4.5%, due 1/1/2025 | 75,000,000 | 76,945,313 |
| 4.5%, due 10/1/2024 ^(a) | 14,215,383 | 14,624,075 |
| 4.5%, due 10/1/2024 ^(a) | 35,133,397 | 36,143,482 |
| 4.5%, due 10/1/2024 ^(a) | 49,070,971 | 50,481,761 |
| 4.5%, due 10/1/2024 ^(a) | 48,847,852 | 50,252,228 |
| 4.5%, due 11/1/2024 ^(a) | 61,023,597 | 62,778,025 |
| 4.5%, due 11/1/2024 ^(a) | 14,050,143 | 14,454,084 |
| 4.5%, due 5/1/2024 ^(a) | 17,126,118 | 17,618,494 |
| 4.5%, due 6/1/2024 ^(a) | 32,265,407 | 33,193,038 |
| 4.5%, due 6/1/2024 ^(a) | 21,583,471 | 22,203,996 |
| 4.5%, due 6/1/2024 ^(a) | 27,170,767 | 27,951,927 |
| 4.5%, due 9/1/2024 ^(a) | 27,005,239 | 27,781,640 |
| 4.5%, due 9/1/2024 ^(a) | 28,600,339 | 29,422,599 |
| 4.5%, due 9/1/2024 ^(a) | 2,928,860 | 3,013,065 |
| 4.562%, due 4/1/2035 ^{(a)(b)} | 9,767,018 | 10,141,290 |
| 5.29%, due 3/1/2038 ^{(a)(b)} | 23,875,089 | 25,188,219 |
| 5.5%, due 9/1/2023 ^(a) | 47,390,027 | 50,204,995 |
| 5.564%, due 11/1/2037 ^{(a)(b)} | 7,238,022 | 7,681,351 |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****SCHEDULES OF INVESTMENTS (Continued)****DECEMBER 31, 2009***

| | Face Amount | Fair Value |
|--|----------------------|----------------------|
| 5.859%, due 8/1/2037 ^{(a)(b)} | \$ 43,151,052 | \$ 45,822,102 |
| 5.937%, due 11/1/2036 ^{(a)(b)} | 32,327,827 | 34,369,653 |
| 5.983%, due 12/1/2036 ^{(a)(b)} | 31,889,626 | 33,890,062 |
| 6%, due 4/1/2038 ^(a) | 25,259,295 | 26,873,364 |
| 6%, due 5/1/2037 ^(a) | 15,167,653 | 16,088,329 |
| 6.113%, due 5/1/2037 ^{(a)(b)} | 22,463,223 | 23,923,332 |
| Total Fannie Mae Pools | 1,544,210,021 | 1,593,284,115 |
| Freddie Mac Pools 92.1% | | |
| 4.145%, due 4/1/2035 ^{(a)(b)} | 11,093,925 | 11,503,069 |
| 4.5%, due 7/1/2024 | 66,102,683 | 67,961,821 |
| 4.788%, due 12/1/2038 ^{(a)(b)} | 11,411,495 | 11,960,387 |
| 4.978%, due 5/1/2038 ^{(a)(b)} | 42,663,027 | 44,975,363 |
| 5.5%, due 9/1/2023 ^(a) | 7,126,262 | 7,542,435 |
| 5.79%, due 11/1/2036 ^{(a)(b)} | 39,662,375 | 41,981,830 |
| 5.956%, due 1/1/2036 ^{(a)(b)} | 4,413,530 | 4,633,676 |
| 5.996%, due 10/1/2037 ^{(a)(b)} | 32,382,377 | 34,406,275 |
| Total Freddie Mac Pools | 214,855,674 | 224,964,856 |
| Ginnie Mae Pools 10.4% | | |
| 4.0%, due 1/1/2040 ^(b) | 25,000,000 | 25,562,500 |
| Total Ginnie Mae Pools | 25,000,000 | 25,562,500 |
| Total Mortgage Pass-Through Agency RMBS (cost \$1,808,695,017) | 1,784,065,695 | 1,843,811,471 |
| Collateralized Loan Obligation Securities 3.8% | | |
| AMMC CLO V, LTD ^{(c)(e)} | 2,249,000 | 494,780 |
| AMMC CLO VII, LTD ^{(c)(e)} | 3,900,000 | 585,000 |
| ARES VIR CLO, LTD ^{(c)(e)} | 3,775,000 | 792,750 |
| AVENUE CLO V, LTD ^(c) | 2,000,000 | 80,000 |
| BALLYROCK CLO 2006-2, LTD ^(c) | 4,270,000 | 1,750,700 |
| CARLYLE HIGH YIELD PARTNERS VIII, LTD ^(c) | 3,000,000 | 210,000 |
| EATON VANCE CDO IX, LTD ^(c) | 2,500,000 | 600,000 |
| FLAGSHIP CLO V, LTD ^(c) | 3,750,000 | 825,000 |
| PRIMUS CLO I, LTD ^{(c)(e)} | 2,500,000 | 500,000 |
| START III CLO, LTD ^(c) | 3,000,000 | 2,660,400 |
| TRIMARAN CLO VII, LTD ^(c) | 2,000,000 | 700,000 |
| Total Collateralized Loan Obligation Securities (cost \$27,145,692) | 32,944,000 | 9,198,630 |

Structured Notes 0.1%

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| | | |
|---|-------------------------|-------------------------|
| RESIX 2006-B B9, 6.233%, due 7/15/2038 ^{(b)(c)} | 1,849,306 | 55,479 |
| RESIX 2006-B B10, 7.733%, due 7/15/2038 ^{(b)(c)} | 1,849,306 | 36,986 |
| RESIX 2006-C B11, 7.483%, due 7/15/2038 ^{(b)(c)} | 708,387 | 14,168 |
| RESIX 2007-A B11, 6.733%, due 2/15/2039 ^{(b)(c)} | 3,246,274 | 64,925 |
| RESIX 2007-B B11, 8.733%, due 4/15/2039 ^{(b)(c)} | 3,497,675 | 69,954 |
| Total Structured Notes (cost \$11,154,571) | 11,150,948 | 241,512 |
| Total Investments in Securities (cost \$1,846,995,280) | \$ 1,828,160,643 | \$ 1,853,251,613 |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****SCHEDULES OF INVESTMENTS (Continued)****DECEMBER 31, 2009***

| | Notional Amount | Fair Value |
|--|------------------------|-----------------------|
| Unrealized Appreciation (Depreciation) on Interest Rate Swap Contracts (1.6%^(d)) | | |
| April 2012 Expiration, Pay Rate 1.691%, Receive Rate 3-Month LIBOR | \$ 240,000,000 | \$ (543,716) |
| June 2012 Expiration, Pay Rate 2.266%, Receive Rate 3-Month LIBOR | 200,000,000 | (2,558,748) |
| July 2012 Expiration, Pay Rate 2.125%, Receive Rate 3-Month LIBOR | 200,000,000 | (1,822,869) |
| November 2013 Expiration, Pay Rate 2.213%, Receive Rate 3-Month LIBOR | 100,000,000 | 1,131,487 |
| Total Unrealized Appreciation (Depreciation) on Interest Rate Swap Contracts (Cost, \$0) | \$ 740,000,000 | \$ (3,793,846) |

LEGEND

- * Derived from audited financial statements.
- (a) Securities or a portion of the securities are pledged as collateral for repurchase agreements or interest rate swap contracts.
- (b) The coupon rate shown on floating or adjustable rate securities represents the rate at December 31, 2009.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may only be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2009, the fair value of these securities amounted to \$9,440,142 or 3.9% of net assets.
- (d) Percentage of net assets.
- (e) Non-income producing security.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****STATEMENTS OF OPERATIONS (UNAUDITED)**

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------|
| | 2010 | 2009 |
| INVESTMENT INCOME - Interest income | \$ 16,936,967 | \$ 9,321,345 |
| EXPENSES: | | |
| Interest | 986,412 | 1,389,508 |
| Management fees | 1,075,550 | 711,769 |
| Related party management compensation | 330,473 | 430,295 |
| General, administrative and other | 825,414 | 420,174 |
| Total expenses | 3,217,849 | 2,951,746 |
| Net investment income | 13,719,118 | 6,369,599 |
| GAINS AND (LOSSES) FROM INVESTMENTS: | | |
| Net realized gain (loss) on investments | (7,252,882) | 1,441,876 |
| Net unrealized appreciation (depreciation) on investments | 13,717,185 | 5,537,245 |
| Net gain (loss) from investments | 6,464,303 | 6,979,121 |
| GAINS AND (LOSSES) FROM SWAP CONTRACTS: | | |
| Net swap interest income (expense) | (3,294,420) | (2,029,146) |
| Net unrealized appreciation (depreciation) on swap contracts | (6,745,782) | 1,694,602 |
| Net gain (loss) from swap contracts | (10,040,202) | (334,544) |
| NET INCOME | \$ 10,143,219 | \$ 13,014,176 |
| NET INCOME PER COMMON SHARE: | | |
| Basic | \$ 0.54 | \$ 1.70 |
| Diluted | \$ 0.54 | \$ 1.70 |

See notes to financial statements.

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CYPRESS SHARPRIDGE INVESTMENTS, INC.

STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

| | Three Months Ended March 31, 2010 |
|---|--|
| Net income: | |
| Net investment income | \$ 13,719,118 |
| Net realized gain (loss) on investment securities | (7,252,882) |
| Net unrealized appreciation (depreciation) on investments | 13,717,185 |
| Net gain (loss) on swap contracts | (10,040,202) |
| Net income | 10,143,219 |
| Capital transactions: | |
| Distributions to shareholders | (10,318,464) |
| Amorization of related party compensation | 330,473 |
| Increase (Decrease) in net assets from capital transactions | (9,987,991) |
| Total increase in net assets | 155,228 |
| Net assets: | |
| Beginning of period | 244,290,982 |
| End of period | \$ 244,446,210 |

See notes to financial statements.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 10,143,219 | \$ 13,014,176 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Purchase of investment securities | (281,251,252) | (217,927,409) |
| Proceeds from disposition of investment securities | 186,004,089 | 51,341,204 |
| Proceeds from paydowns of investment securities | 144,651,088 | 25,617,016 |
| Amortization of related party compensation | 330,473 | 430,295 |
| Amortization of premiums on investment securities | 477,535 | 133,339 |
| Net realized (gain) loss on investments | 7,252,882 | (1,441,876) |
| Net realized (gain) loss on paydowns | 1,763,632 | 222,738 |
| Net unrealized (appreciation) depreciation on swap contracts | 6,745,782 | (1,694,602) |
| Net unrealized (appreciation) depreciation on investments | (13,717,185) | (5,537,245) |
| Change in assets and liabilities: | | |
| Receivable for securities sold | (22,102,652) | (54,072,570) |
| Interest receivable | 79,429 | (320,324) |
| Prepaid insurance | (84,597) | (830,733) |
| Payable for securities purchased | (147,448,286) | 130,257,137 |
| Related party management fee payable | (3,465) | 20,216 |
| Accrued interest payable | 1,535,317 | 2,203,863 |
| Accrued expenses and other liabilities | (55,461) | (404,780) |
| Net cash used in operating activities | (105,679,452) | (58,989,555) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from repurchase agreements | 4,110,677,556 | 2,194,541,402 |
| Repayments of repurchase agreements | (3,995,795,960) | (2,139,161,492) |
| Offering costs paid | | (469,944) |
| Distributions paid | (10,316,082) | |
| Net cash provided by financing activities | 104,565,514 | 54,909,966 |
| Net decrease in cash and cash equivalents | (1,113,938) | (4,079,589) |
| CASH AND CASH EQUIVALENTS - Beginning of period | 1,889,667 | 7,156,140 |
| CASH AND CASH EQUIVALENTS - End of period | \$ 775,729 | \$ 3,076,551 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 3,108,816 | \$ 2,521,023 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION | | |
| Distributions declared, not yet paid | \$ 10,318,464 | \$ |
| Change in accrued offering costs | \$ | \$ (405,132) |

See notes to financial statements.

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CYPRESS SHARPRIDGE INVESTMENTS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Cypress Sharpridge Investments, Inc. (the "Company") was formed as a Maryland corporation on January 3, 2006, and commenced operations on February 10, 2006. The Company is externally managed and advised by Cypress Sharpridge Advisors LLC (the "Manager"), a Delaware limited liability company, pursuant to a management agreement (the "Management Agreement"). The Manager is a joint venture between Cypress CSI Advisors LLC, a sponsor of private equity funds and leveraged buyouts of U.S. companies in the industrial, consumer, media and financial sectors, and Sharpridge Capital Management, L.P., a fixed income asset management company. Certain individuals associated with Cypress CSI Advisors LLC and Sharpridge Capital Management, L.P. serve on the Company's board of directors and the Manager's investment committee.

The Company has elected to be taxed and intends to continue to qualify as a real estate investment trust ("REIT") and is required to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), with respect thereto. The Company's strategy had been to invest a majority of its capital in residential mortgage-backed securities ("RMBS") that are issued and guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government such as the Government National Mortgage Association ("Ginnie Mae") ("Agency RMBS"), and subordinated tranches of asset-backed securities, including collateralized debt or loan obligations ("CLOs"). In March 2008, the board of directors amended the investment guidelines, pursuant to which the Company will invest exclusively in Agency RMBS. In March 2010, the board of directors further amended the investment guidelines so that the Company may also invest in collateralized mortgage obligations issued by Fannie Mae, Freddie Mac or Ginnie Mae. The Company's common stock trades on the New York Stock Exchange under the symbol "CYS".

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The accompanying interim unaudited financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for investment companies ("GAAP") and the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The interim unaudited financial statements should be read in conjunction with the Company's audited financial statements as of and for the year ended December 31, 2009, included in the annual report on Form 10-K. The results for interim periods are not necessarily indicative of the results to be expected for the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those management estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash held in banks and highly liquid investments with original maturities of three months or less. Interest income earned on cash and cash equivalents is recorded in interest income.

Interest Rate Swap Contracts

The Company utilizes interest rate swaps to hedge the interest rate risk associated with the financing of its portfolio. Specifically, the Company seeks to hedge the exposure to potential interest rate mismatches between the interest earned on investments and the borrowing costs caused by fluctuations in short term interest rates. In a simple interest rate swap, one investor pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, an investor may pay a fixed rate and receive a floating rate. Interest rate swaps are asset/liability management tools.

During the term of the interest rate swap, the Company makes or receives periodic payments and unrealized gains or losses are recorded as a result of marking the swap to its fair value. When the swap is terminated, the Company will record a realized gain or loss equal to the difference

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between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. The periodic payments and any realized or unrealized gains or losses are reported under gains and losses from swap contracts in the statement of operations. Swaps involve a risk that interest rates will move contrary to the Company's expectations, thereby increasing its payment obligation.

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CYPRESS SHARPRIDGE INVESTMENTS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 946, *Clarification of the Scope of Audit and Accounting Guide Investment Companies* (ASC 946), prior to its deferral in February 2008. Under ASC 946, the Company uses financial reporting for investment companies, and accordingly, its investments and interest rate swap contracts are carried at fair value with changes in fair value included in earnings. Consequently, there is no impact to designating interest rate swaps as cash flow or fair value hedges under the provisions of ASC 815, *Accounting for Derivative Instruments and Hedging Activities*.

The Company is exposed to credit loss in the event of nonperformance by the counterparty to the swap, limited to any gains recognized. However, the Company does not anticipate nonperformance by any counterparty. Should interest rates move unexpectedly, the Company may not achieve the anticipated benefits of the interest rate swap and may realize a loss.

Investment Valuation

Valuation of the Company's investments is determined by the Manager. Investments are valued at their fair value based on quotations from brokers and dealers. The Manager normally seeks prices from at least three such brokers or dealers, although the Manager may rely on price quotes from fewer than three brokers or dealers in certain circumstances. The Manager reviews all prices used to ensure that current market conditions are represented. This review includes comparisons of similar market transactions or comparisons to a pricing model. The resulting unrealized gains and losses are reflected in the statement of operations.

Investment Transactions and Income

The Company records its transactions in securities on a trade date basis. Realized gains and losses on securities transactions are recorded on an identified cost basis. Interest income and expense are recorded on the accrual basis. Interest income on Agency RMBS and structured notes is accrued based on outstanding principal amount of the securities and their contractual terms. Interest on CLOs is accrued at a rate determined based on estimated future cash flows and adjusted prospectively as future cash flow amounts are recast. For CLO securities placed on nonaccrual status or when the Company cannot reliably estimate cash flows, the cost recovery method is used. Amortization of premium and accretion of discount are recorded using the yield to maturity method, and are included in interest income in the statement of operations.

Share-Based Compensation

The Company accounts for share-based compensation issued to its non-management directors and executive officers and certain officers and employees of its Manager and its sub-advisors and other individuals who provide services to the Company, as designated by its Manager (Manager Designees), using the fair value based methodology prescribed by ASC 718, *Share-Based Payment* (ASC 718). Compensation cost related to restricted common stock and common stock options issued to the Manager Designees is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. Compensation cost related to non-management directors is measured at its estimated fair value at the grant date and amortized and expensed over the vesting period. The Company has elected to use the straight line method pursuant to ASC 718 to amortize compensation expense for the restricted common stock and common stock options granted to the Manager Designees.

Income Taxes

The Company has elected to be taxed as a REIT and intends to continue to comply with provisions of the Code with respect thereto. As a REIT, the Company generally will not be subject to federal or state income tax. To maintain its qualification as a REIT, the Company must distribute at least 90% of its REIT taxable income to its stockholders and meet certain other tests relating to assets and income.

Earnings Per Share (EPS)

Basic EPS is computed using the two class method in accordance with ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (ASC 260), by dividing net income (loss) after adjusting for the impact of nonvested stock awards deemed to be participating securities, by the weighted average number of common shares outstanding calculated excluding nonvested

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stock awards. The impact of nonvested stock awards that are deemed participating securities and other dilutive instruments is included in the calculation of diluted EPS. Diluted EPS also reflects the potential additional dilution of common stock options and warrants, if they are not anti-dilutive. See note 3 for EPS computations.

Recent Accounting Pronouncements

In January 2010, the FASB provided additional disclosure requirements for fair value measurements under ASC 820, *Fair Value Measurements and Disclosures*. The new pronouncement requires a reporting entity to disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, the reconciliation for fair value measurements using significant unobservable inputs (Level 3) should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). The Company adopted the pronouncement in January 2010, and it did not have a material effect on the Company's financial statements.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)****3. EARNINGS PER SHARE**

Components of the computation of basic and diluted EPS were as follows:

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------|
| | 2010 | 2009 |
| Net income | \$ 10,143,219 | \$ 13,014,176 |
| Less dividends paid: | | |
| Common shares | (10,013,643) | |
| Unvested shares | (304,821) | |
| Undistributed (overdistributed) earnings | (175,245) | 13,014,176 |
| Basic weighted-average shares outstanding: | | |
| Common shares | 18,206,590 | 7,596,256 |
| Basic earnings per common share: | | |
| Distributed earnings | \$ 0.55 | \$ |
| Undistributed earnings | (0.01) | 1.70 |
| Basic earnings per common share | \$ 0.54 | \$ 1.70 |
| Diluted weighted-average shares outstanding: | | |
| Common shares | 18,206,590 | 7,596,256 |
| Net effect of dilutive warrants | 13,229 | |
| | 18,219,819 | 7,596,256 |
| Diluted earnings per common share: | | |
| Distributed earnings | \$ 0.55 | \$ |
| Undistributed earnings | (0.01) | 1.70 |
| Diluted earnings per common share | \$ 0.54 | \$ 1.70 |

4. INVESTMENTS IN SECURITIES AND INTEREST RATE SWAP CONTRACTS

The Company's valuation techniques are based on observable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs would reflect the Company's market assumptions. ASC 820 classifies these inputs into the following hierarchy:

Level 1 Inputs Quoted prices for identical instruments in active markets.

Level 2 Inputs Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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Level 3 Inputs Instruments with primarily unobservable value drivers.

Disclosures about the fair value of securities and derivatives, based on the level of inputs is summarized below:

March 31, 2010

| | Fair Value Measurements Using | | | |
|---------------------------|-------------------------------|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Assets | | | | |
| Agency RMBS | \$ | \$ 1,794,101 | \$ | \$ 1,794,101 |
| CLOs and Structured Notes | | 13,970 | | 13,970 |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| | Level 1 | Fair Value Measurements Using | | |
|------------------------------|---------|-------------------------------|---------|--------------|
| | | Level 2 | Level 3 | Total |
| | | (in thousands) | | |
| Total | \$ | \$ 1,808,071 | \$ | \$ 1,808,071 |
| Liabilities | | | | |
| Interest rate swap contracts | \$ | \$ 10,540 | \$ | \$ 10,540 |
| Total | \$ | \$ 10,540 | \$ | \$ 10,540 |

December 31, 2009

| | Level 1 | Fair Value Measurements Using | | | Total |
|------------------------------|---------|-------------------------------|---------|----------------|-------|
| | | Level 2 | Level 3 | (in thousands) | |
| Assets | | | | | |
| Agency RMBS | \$ | \$ 1,843,811 | \$ | \$ 1,843,811 | |
| CLOs and Structured Notes | | 9,440 | | 9,440 | |
| Interest rate swap contracts | | 1,132 | | 1,132 | |
| Total | \$ | \$ 1,854,383 | \$ | \$ 1,854,383 | |
| Liabilities | | | | | |
| Interest rate swap contracts | \$ | \$ 4,925 | \$ | \$ | 4,925 |
| Total | \$ | \$ 4,925 | \$ | \$ | 4,925 |

The Agency RMBS portfolio consisted of Agency RMBS as follows:

March 31, 2010

| Security Description | Par Amount (in thousands) | Fair Value (in thousands) | Coupon | Weighted Average | |
|--|------------------------------|------------------------------|--------|--------------------------------------|---|
| | | | | Months to Reset ⁽¹⁾ | Constant Prepayment Rate ⁽²⁾ |
| Agency RMBS collateralized by hybrid ARMs | \$ 472,427 | \$ 492,796 | 4.4% | 47.6 | 32.8% |
| Agency RMBS collateralized by short-reset hybrid ARMs ⁽³⁾ | 203,252 | 211,586 | 3.9 | 10.0 | 29.6 |
| Agency RMBS collateralized by fixed rate mortgages | 1,055,675 | 1,089,719 | 4.5 | N/A | 12.3 |
| Total Agency RMBS | \$ 1,731,354 | \$ 1,794,101 | | | |

December 31, 2009

| Security Description | Par Amount (in thousands) | Fair Value (in thousands) | Coupon | Weighted Average | |
|--|------------------------------|------------------------------|--------|--------------------------------------|---|
| | | | | Months to Reset ⁽¹⁾ | Constant Prepayment Rate ⁽²⁾ |
| Agency RMBS collateralized by hybrid ARMs | \$ 565,396 | \$ 586,834 | 4.5% | 46.8 | 23.4% |
| Agency RMBS collateralized by short-reset hybrid ARMs ⁽³⁾ | 263,728 | 275,717 | 4.5 | 13.3 | 19.0 |
| Agency RMBS collateralized by monthly reset ARMs | 140,226 | 145,134 | 3.0 | 1 | 11.2 |
| Agency RMBS collateralized by fixed rate mortgages | 814,716 | 836,126 | 4.5 | N/A | 9.0 |
| Total Agency RMBS | \$ 1,784,066 | \$ 1,843,811 | | | |

⁽¹⁾ Months to Reset is the number of months remaining before the fixed rate on a hybrid ARM becomes a variable rate. At the end of the fixed period, the variable rate will be determined by the margin and the pre-specified caps of the ARM.

⁽²⁾ Constant Prepayment Rate is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the constant prepayment rate is an annualized version of the prior three month prepayment rate. Securities with no prepayment history are excluded from this calculation.

⁽³⁾ Short-reset is defined as 24 months or less to reset.

In early March 2010, both Freddie Mac and Fannie Mae announced they would purchase from the pools of mortgage loans underlying their mortgage pass-through certificates all mortgage loans that are more than 120 days delinquent. Freddie Mac implemented its purchase program in February 2010 with actual purchases beginning in March 2010. Fannie Mae began their process

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

in March 2010 and announced it would implement the initial purchases over a period of three months, beginning in April 2010. The impact of these programs thus far is reflected in the CPR of the Company's portfolio. Further, both agencies announced that on an ongoing basis they would purchase loans from the pools of mortgage loans underlying their mortgage pass-through certificates that became 120 days delinquent.

As of March 31, 2010 and December 31, 2009, the Company's Agency RMBS were purchased at a net premium to their par value, with a weighted-average amortized cost of \$101.4 at each such date, due to the average interest rates on these investments being higher than prevailing market rates. As of March 31, 2010 and December 31, 2009, approximately \$24.6 million and \$25.0 million, respectively, of unamortized premium was included in the cost basis of the securities.

Actual maturities of Agency RMBS are generally shorter than stated contractual maturities (which range up to 30 years), as they are affected by the contractual lives of the underlying mortgages, periodic payments and prepayments of principal. As of March 31, 2010 and December 31, 2009, the average final contractual maturity of the Company's Agency RMBS portfolio is in year 2030 and 2031, respectively. Based on current estimates, the Agency RMBS will have an average expected life of less than five years. Interest income on Agency RMBS for the three months ended March 31, 2010 and 2009 was \$16.4 million and \$9.0 million, respectively.

In order to mitigate its interest rate exposure, the Company enters into interest rate swap contracts. The Company did not enter into or terminate any interest rate swap contracts during the three months ended March 31, 2010 and 2009. As of March 31, 2010 and December 31, 2009, the Company had pledged Agency RMBS with a fair value of \$24.3 and \$19.5 million, respectively, as collateral on interest rate swap contracts. Below is a summary of our interest rate swap contracts:

Derivatives not designated as hedging instruments under ASC 815^(a)**As of March 31, 2010**

| Expiration Date | Pay Rate | Receive Rate | Notional Amount ^(c) | Fair Value | Statement of Assets and Liabilities Location |
|-----------------|----------|------------------------------|--------------------------------|----------------|--|
| April 2012 | 1.6910% | 3-Month LIBOR ^(b) | \$ 240,000,000 | \$ (2,470,311) | Interest rate swap contracts, at fair value |
| June 2012 | 2.2660% | 3-Month LIBOR ^(b) | 200,000,000 | (4,178,718) | Interest rate swap contracts, at fair value |
| July 2012 | 2.1250% | 3-Month LIBOR ^(b) | 200,000,000 | (3,549,348) | Interest rate swap contracts, at fair value |
| November 2013 | 2.2125% | 3-Month LIBOR ^(b) | 100,000,000 | (341,251) | Interest rate swap contracts, at fair value |

Derivatives not designated as hedging instruments under ASC 815^(a)**As of December 31, 2009**

| Expiration Date | Pay Rate | Receive Rate | Notional Amount ^(c) | Fair Value | Statement of Assets and Liabilities Location |
|-----------------|----------|------------------------------|--------------------------------|--------------|--|
| April 2012 | 1.6910% | 3-Month LIBOR ^(b) | \$ 240,000,000 | \$ (543,716) | Interest rate swap contracts, at fair value |
| June 2012 | 2.2660% | 3-Month LIBOR ^(b) | 200,000,000 | (2,558,748) | Interest rate swap contracts, at fair value |
| July 2012 | 2.1250% | 3-Month LIBOR ^(b) | 200,000,000 | (1,822,869) | Interest rate swap contracts, at fair value |
| November 2013 | 2.2125% | 3-Month LIBOR ^(b) | 100,000,000 | 1,131,487 | Interest rate swap contracts, at fair value |

| Derivatives not designated as hedging | Location of Gain or (Loss) Recognized in | Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended | |
|--|--|--|----------------|
| | | March 31, 2010 | March 31, 2009 |
| Instruments under ASC 815^(a) | Income on Derivative | | |
| Interest rate swap contracts | Net gain (loss) from swap contracts | \$ (10,040,202) | \$ (334,544) |

^(a) See note 2 for additional information on the Company's purpose for entering into interest rate swaps and the decision not to designate them as hedging instruments.

^(b) London InterBank Offered Rate (LIBOR).

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****Credit Risk***

As of March 31, 2010 and December 31, 2009, the Company has reduced its exposure to credit losses on its mortgage assets by purchasing Agency RMBS. The payment of principal and interest on the Agency RMBS are guaranteed by Freddie Mac, Fannie Mae and Ginnie Mae. In September 2008, both Freddie Mac and Fannie Mae were placed in the conservatorship of the United States government. While it is hoped that the conservatorship will help stabilize Freddie Mac's and Fannie Mae's losses and overall financial position, there can be no assurance that it will succeed or that, if necessary, Freddie Mac or Fannie Mae will be able to satisfy their guarantees of Agency RMBS.

The Company's CLOs and structured notes do not have the backing of Fannie Mae, Freddie Mac or Ginnie Mae. Payment of principal and interest is dependent on the performance of the underlying loans, which are subject to borrower default and possible losses.

5. BORROWINGS

The Company leverages its Agency RMBS portfolio through the use of repurchase agreements. Each of the borrowing vehicles used by the Company bears interest at floating rates based on a spread above or below the LIBOR. The fair value of borrowings under repurchase agreements approximates their carrying amount due to the short-term nature of these financial instruments.

Certain information with respect to the Company's borrowings is summarized in the following tables. Each of the borrowings listed is contractually due in one year or less (dollars in thousands).

March 31, 2010

| | |
|---|--------------|
| Outstanding borrowings | \$ 1,487,589 |
| Interest accrued thereon | \$ 230 |
| Weighted average borrowing rate | 0.26% |
| Weighted average remaining maturity (in days) | 35.83 |
| Fair value of the collateral ⁽¹⁾ | \$ 1,567,098 |

December 31, 2009

| | |
|---|--------------|
| Outstanding borrowings | \$ 1,372,708 |
| Interest accrued thereon | \$ 354 |
| Weighted average borrowing rate | 0.28% |
| Weighted average remaining maturity (in days) | 27.6 |
| Fair value of the collateral ⁽¹⁾ | \$ 1,445,191 |

⁽¹⁾ Collateral for borrowings consists of Agency RMBS.

At March 31, 2010 and December 31, 2009, the Company did not have any securities sold under agreement to repurchase where the amount at risk exceeded 10% of the Company's net assets.

Market Risk

The current situation in the mortgage sector and the current weakness in the broader mortgage market could adversely affect one or more of the Company's lenders and could cause one or more of the Company's lenders to be unwilling or unable to provide additional financing. This could potentially increase the Company's financing costs and reduce liquidity. If one or more major market participants fail, it could negatively impact the marketability of all fixed income securities, including Agency RMBS. This could negatively impact the value of the securities in the Company's portfolio, thus reducing its net asset value. Furthermore, if the Company's lenders are unwilling or unable to provide additional financing, the Company could be forced to sell its Agency RMBS at an inopportune time when prices are depressed. Even with the current

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situation in the mortgage sector, the Company does not anticipate having difficulty converting its assets to cash or extending financing terms due to the fact the principal and interest payments on the Company's Agency RMBS are guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae. In addition, the Company continues to diversify its borrowing arrangements among a number of counterparties to reduce its exposure to any one lender.

6. SHARE CAPITAL

The Company authorized 500,000,000 shares of common stock having par value of \$0.01 per share. As of March 31, 2010 and December 31, 2009, the Company had issued and outstanding 18,760,844 and 18,756,512 shares of common stock, respectively, and warrants to purchase an additional 78,190 shares of common stock.

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Below is a description of the warrants outstanding at March 31, 2010 and December 31, 2009:

March 31, 2010

| Expiration | Additional shares of common stock | Exercise Price |
|----------------|--------------------------------------|----------------|
| April 30, 2011 | 78,190 | \$ 11.00 |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)***December 31, 2009*

| Expiration | Additional shares of common stock | Exercise Price |
|-------------------|--|-----------------------|
| April 30, 2011 | 78,190 | \$ 11.00 |

The Company is also authorized to issue shares of preferred stock. As of March 31, 2010 and December 31, 2009, no such shares were issued or outstanding.

7. STOCK OPTIONS AND RESTRICTED STOCK

The Company has adopted a stock incentive plan (the "2006 Stock Incentive Plan") that provides for the grant of non-qualified common stock options, stock appreciation rights, restricted common stock and other share-based awards. The compensation committee of the Company's board of directors (the "Committee") administers the plan. Awards under the 2006 Stock Incentive Plan may be granted to the Company's directors and executive officers and Manager Designees.

The exercise price for any stock option granted under the 2006 Stock Incentive Plan may not be less than 100% of the fair value of the shares of common stock at the time the common stock option is granted. Each common stock option must terminate no later than ten years from the date it is granted. The 2006 Stock Incentive Plan authorizes a total of 3,333,333 shares that may be used to satisfy awards under the plan. New shares will be issued on the exercise of any option. As of March 31, 2010 and December 31, 2009, the remaining shares that have been authorized but not yet issued under the 2006 Stock Incentive Plan were 2,382,516 and 2,386,848, respectively. The following table summarizes restricted common stock transactions for the three months ended March 31, 2010 and 2009:

| Three months ended March 31, 2010 | Officers and Employees⁽¹⁾ | Directors | Total |
|--|---|------------------|--------------|
| Unvested Shares as of December 31, 2009 | 538,000 | 14,988 | 552,988 |
| Issued | | 4,332 | 4,332 |
| Vested | | (3,100) | (3,100) |
| Unvested Shares as of March 31, 2010 | 538,000 | 16,220 | 554,220 |
| | | | |
| Three months ended March 31, 2009 | Officers and Employees⁽¹⁾ | Directors | Total |
| Unvested Shares as of December 31, 2008 | 81,307 | 11,155 | 92,462 |
| Issued | | 3,100 | 3,100 |
| Vested | (43,140) | (2,581) | (45,721) |
| Unvested Shares as of March 31, 2009 | 38,167 | 11,674 | 49,841 |

⁽¹⁾ Includes grants to the Company's executive officers and Manager Designees.

The shares of restricted common stock granted to the Company's executive officers, Manager Designees and directors were valued using the fair value at the time of grant, which was \$13.51 and \$12.89 for shares granted on January 1, 2010 and 2009, respectively. Pursuant to ASC 718 the

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Company is required to value any unvested shares of restricted common stock granted to the Company's executive officers and Manager Designees at the fair value at each reporting period. The Company valued the unvested restricted common stock at \$13.38 and \$13.51 per share at March 31, 2010 and December 31, 2009, respectively. Unrecognized compensation cost related to unvested restricted common stock granted as of March 31, 2010 and December 31, 2009 was \$6,972,514 and \$7,314,402, respectively.

There were no common stock option transactions for the three months ended March 31, 2010 and 2009. As of March 31, 2010 and December 31, 2009, there were 131,088 options outstanding and exercisable, with a weighted average exercise price of \$30.00. The common stock options are valued using the Black-Scholes model using the following assumptions:

| | Three Months Ended March 31, 2009 |
|----------------|--|
| Expected life | 7.0 years |
| Discount rate | 2.832% |
| Volatility | 86.78% |
| Dividend yield | 15.69% |

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The estimated fair value of the common stock options was \$3.31 per share for the three months ended March 31, 2009. The components of share based compensation expense for the three months ended March 31, 2010 and 2009 were as follows:

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2010 | 2009 |
| Options granted to CEO | \$ | \$ 57,278 |
| Restricted shares granted to officers and employees ⁽¹⁾ | 276,661 | 328,483 |
| Restricted shares granted to certain directors | 53,812 | 44,534 |
| Total shared based compensation expense | \$ 330,473 | \$ 430,295 |

⁽¹⁾ Includes grants to the Company's executive officers and Manager Designees.

8. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's board of directors. The Management Agreement was executed on February 10, 2006. The initial term of the Management Agreement expired on December 31, 2008, and it was automatically renewed for a one-year term and will continue to be automatically renewed for one-year terms on each anniversary date thereafter. The Management Agreement may be terminated upon the affirmative vote of at least two-thirds of the Company's independent directors, or by a vote of the holders of a majority of the outstanding shares of the Company's common stock. In the event the Management Agreement is terminated as described above, the Company shall pay to the Manager a termination fee in accordance with the provisions of the Management Agreement.

The Management Agreement provides, among other things, that the Company pays to the Manager, in exchange for managing the day-to-day operations of the Company, certain fees and reimbursements, consisting of a base management fee and reimbursement for out-of-pocket and certain other costs incurred by the Manager and on behalf of the Company. The base management fee, which is paid monthly, is equal to 1/12 of (A) 1.50% of the first \$250,000,000 of Net Assets (as defined in the Management Agreement), (B) 1.25% of such Net Assets that are greater than \$250,000,000 and less than or equal to \$500,000,000, and (C) 1.00% of such Net Assets that are greater than \$500,000,000.

For the three months ended March 31, 2010 and 2009, the Company incurred \$937,197 and \$409,780 in base management fees, respectively. The Company is required to reimburse the Manager for its pro-rata portion of rent, utilities, legal and investment services, market information systems and research publications and materials which amounted to \$138,353 and \$301,989 for the three months ended March 31, 2010 and 2009, respectively. In addition, the Company recognized share-based compensation expense related to common stock options and restricted common stock granted to the Company's executive officers and Manager Designees which is included in related party management compensation on the statement of operations and described in note 7.

9. INCOME TAXES

The Company has elected to be taxed as a REIT under Section 856 of the Code and intends to continue to comply with the provisions of the Code. As a REIT, the Company generally is not subject to federal or state income tax. To maintain its qualification as a REIT, the Company must distribute at least 90% of its REIT taxable income to its stockholders each year and meet certain other tests relating to assets and income. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate rates. The Company may also be subject to certain state and local taxes. Under certain circumstances, even though the Company qualifies as a REIT, federal income and excise taxes may be due on its undistributed taxable income. No provision for income taxes has been provided in the accompanying financial statements related to the REIT, because the Company has paid or will pay dividends in amounts approximating its taxable income.

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Book/tax differences primarily relate to amortization of realized losses on swaps, offering costs, related party management compensation expense and income on CLOs.

The tax character of the \$2.10 of distributions declared to shareholders during 2009 was determined to be \$0.48 as ordinary income and \$1.62 as return of capital.

10. CONTINGENCIES

The Company enters into certain contracts that contain a variety of indemnifications, principally with the Manager and brokers. The maximum potential amount of future payment the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 31, 2010 and December 31, 2009.

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CYPRESS SHARPRIDGE INVESTMENTS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK OR CONCENTRATIONS OF CREDIT RISK

In the normal course of its business, the Company trades various financial instruments and enters into various investment activities with off-balance sheet risk, including interest rate swap contracts. These financial instruments contain varying degrees of off-balance sheet risk whereby losses resulting from changes in the fair values of the securities underlying the financial instruments or the Company's obligations thereunder may ultimately exceed the amount recognized in the statement of assets and liabilities.

The contract amounts of the swap contracts do not represent the Company's risk of loss due to counterparty nonperformance. The Company's exposure to credit risk associated with counterparty nonperformance on swap contracts is limited to the unrealized gains, if any, inherent in such contracts which are recognized in the statement of assets and liabilities. Any counterparty nonperformance of these transactions is not expected to have a material effect on the Company's financial condition.

The Company's investments are primarily concentrated in securities that pass through collections of principal and interest from underlying mortgages, and there is a risk that some borrowers on the underlying mortgages will default. Therefore, mortgage-backed securities may bear some exposure to credit losses. However, the Company mitigates credit risk by primarily holding securities that are either guaranteed by government (or government-sponsored) agencies.

The Company bears certain other risks typical in investing in a portfolio of mortgage-backed securities. The principal risks potentially affecting the Company's financial position, results of operations and cash flows include the risks that: (a) interest rate changes can negatively affect the fair value of the Company's mortgage-backed securities, (b) interest rate changes can influence borrowers' decisions to prepay the mortgages underlying the securities, which can negatively affect both cash flows from, and the fair value of, the securities, and (c) adverse changes in the fair value of the Company's mortgage-backed securities and/or the inability of the Company to renew short term borrowings under repurchase agreements can result in the need to sell securities at inopportune times and incur realized losses.

The Company enters into derivative transactions with counterparties as hedges of interest rate exposure and in the course of investing. In the event of nonperformance by a counterparty, the Company is potentially exposed to losses, although the counterparties to these agreements are primarily major financial institutions with investment grade ratings.

The Company is subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase.

The Company's principal trading activities are primarily with brokers and other financial institutions located in North America. All securities transactions of the Company are cleared by multiple major securities firms pursuant to customer agreements. At March 31, 2010 and December 31, 2009, substantially all the investments in securities and receivable for securities sold are positions with and amounts due from these brokers. The Company had substantially all of its individual counterparty concentrations with these brokers and their affiliates.

12. FINANCIAL HIGHLIGHTS

In accordance with financial reporting requirements applicable to investment companies, the Company has included below certain financial highlight information for the three months ended March 31, 2010 and 2009.

Table of Contents**CYPRESS SHARPRIDGE INVESTMENTS, INC.****NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| | Per Share | | | |
|---|-------------------------------------|------------|---------------|------------|
| | Three Months Ended March 31, | | 2009 | |
| | 2010 | | | |
| Net asset value, beginning of period | \$ 13.02 | | \$ 12.89 | |
| Net income: | | | | |
| Net investment income | 0.73 | (a) | 0.83 | (a) |
| Net gain (loss) from investments and swap contracts | (0.19) | (a) | 0.87 | (a) |
| Net income | 0.54 | | 1.70 | |
| Capital transactions: | | | | |
| Distributions to shareholders | (0.55) | (a) | | |
| Issuance of common shares and amortization of restricted shares | 0.02 | (a) | 0.05 | (a) |
| Net decrease in net asset value from capital transactions | (0.53) | | 0.05 | |
| Net asset value, end of period | \$ 13.03 | | \$ 14.64 | |
| Total return (%) | 4.30 % | (b) | 13.58% | (b) |
| Ratios to Average Net Assets | | | | |
| Expenses before interest expense | 3.63 % | (c) | 5.97% | (c) |
| Expenses | 5.23% | (c) | 11.27% | (c) |
| Net investment income | 22.31% | (c) | 24.32% | (c) |

(a) Calculated based on average shares outstanding during the period. Average shares outstanding include vested and unvested restricted shares and differs from weighted average shares outstanding used in calculating EPS (see note 3).

(b) Calculated based on net asset value per share. Not computed on an annualized basis.

(c) Computed on an annualized basis.

13. SUBSEQUENT EVENTS

On April 1, 2010, an aggregate of 6,810 shares of restricted common stock were granted to certain directors as a portion of their compensation for serving on the Company's board of directors.

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

In this quarterly report on Form 10-Q, we refer to Cypress Sharpridge Investments, Inc. as we, us, our company, or our, unless we specifically state otherwise or the context indicates otherwise. The following defines certain of the commonly used terms in this quarterly report on Form 10-Q: RMBS refers to residential mortgage-backed securities; agency securities or Agency RMBS refers to our RMBS that are issued or guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), or an agency of the U.S. government, such as the Government National Mortgage Association (Ginnie Mae); hybrids refers to hybrid adjustable-rate mortgage loans that have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; and ARMs refers to hybrids and adjustable-rate mortgage loans which typically have interest rates that adjust annually to an increment over a specified interest rate index.

The following discussion should be read in conjunction with our financial statements and accompanying notes included in Item 1 of this quarterly report on Form 10-Q as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on February 10, 2010.

Forward Looking Statements

When used in this quarterly report on Form 10-Q, in future filings with the Securities and Exchange Commission (SEC) or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, are intended to identify forward-looking statements meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions. The forward-looking statements we make in this quarterly report on Form 10-Q include, but are not limited to, statements about the following:

our investment, financing and hedging strategy and the success of these strategies;

the effect of increased prepayment rates on our portfolio;

our ability to convert our assets into cash or extend the financing terms related to our assets;

our ability to quantify risks based on historical experience;

our ability to be taxed as a real estate investment trust (REIT) and to maintain an exemption from registration under the Investment Company Act of 1940, as amended (the Investment Company Act);

our assessment of counterparty risk;

our liquidity;

our asset valuation policies;

our distribution policy; and

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the effect of recent U.S. Government actions on the housing and credit markets.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

the factors referenced in this quarterly report on Form 10-Q and our annual report on Form 10-K for the fiscal year ended December 31, 2009, including those set forth under the section captioned Risk Factors;

changes in our investment, financing and hedging strategy;

the adequacy of our cash flow from operations and borrowings to meet our short term liquidity requirements;

the liquidity of our portfolio;

unanticipated changes in our industry, interest rates, the credit markets, the general economy or the real estate market;

changes in interest rates and the market value of our Agency RMBS;

changes in the prepayment rates on the mortgage loans underlying our Agency RMBS;

our ability to borrow to finance our assets;

changes in government regulations affecting our business;

our ability to maintain our qualification as a REIT for federal income tax purposes;

our ability to maintain our exemption from registration under the Investment Company Act; and

risks associated with investing in real estate assets, including changes in business conditions and the general economy.

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These and other risks, uncertainties and factors, including those described elsewhere in this report, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a specialty finance company created with the objective of achieving consistent risk-adjusted investment income. We seek to achieve this objective by investing, on a leveraged basis, in Agency RMBS. We are currently managed by Cypress Sharpridge Advisors LLC, a joint venture between affiliates of The Cypress Group and Sharpridge Capital Management, L.P.

We earn investment income from our investment portfolio, and we use leverage to seek to enhance our returns. Our net investment income is generated primarily from the difference, or net spread, between the interest income we earn on our investment portfolio and the cost of our borrowings and hedging activities. The amount of net investment income we earn on our investments depends in part on our ability to control our financing costs, which comprise a significant portion of our operating expenses. Although we leverage our portfolio investments in Agency RMBS to seek to enhance our potential returns, leverage also may exacerbate losses.

While we use hedging to mitigate some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates. This is because there are practical limitations on our ability to insulate our portfolio from all potential negative consequences associated with changes in short term interest rates in a manner that will allow us to seek attractive spreads on our portfolio.

In addition to investing in issued pools of Agency RMBS, we occasionally utilize forward-settling purchases of Agency RMBS where the pool is to-be-announced, or TBAs. Pursuant to these TBA transactions, we agree to purchase, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date.

In March 2010, the board of directors amended our investment guidelines to permit investments in collateralized mortgage obligations issued by a government agency or a government sponsored entity that are collateralized by Agency RMBS (CMOs). As of March 31, 2010, we had not invested in any CMOs.

In February 2006, we completed our initial capitalization pursuant to which we raised net proceeds of \$78.0 million. In December 2006, we completed an additional private offering in which we raised \$105.8 million in net proceeds. In May 2008, we completed an additional private offering in which we raised \$14.0 million in net proceeds. In June 2009, we successfully completed an initial public offering of 10.5 million shares of common stock, raising \$105.8 million in net proceeds after offering expenses and the underwriters' exercise of their over-allotment option.

We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code) with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we may be subject to some federal, state and local taxes on our income.

Factors that Affect our Results of Operations and Financial Condition

A variety of industry and economic factors may impact our results of operations and financial condition. These factors include:

interest rate trends;

prepayment rates on mortgages underlying our Agency RMBS, and credit trends insofar as they affect prepayment rates;

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competition for investments in Agency RMBS;

recent actions taken by the U.S. Federal Reserve and the U.S. Treasury; and

other market developments.

In addition, a variety of factors relating to our business may also impact our results of operation and financial condition. These factors include:

our degree of leverage;

our access to funding and borrowing capacity;

our borrowing costs;

our hedging activities;

changes in the credit ratings of the securities in our portfolio;

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the market value of our investments; and

the REIT requirements and the requirements to qualify for a registration exemption under the Investment Company Act. We anticipate that, for any period during which changes in the interest rates earned on our assets do not coincide with interest rate changes on the corresponding liabilities, such assets will reprice more slowly than the corresponding liabilities. Consequently, changes in interest rates, particularly short term interest rates, may significantly influence our net investment income.

Our net investment income may be affected by a difference between actual prepayment rates and our projections. Prepayments on loans and securities may be influenced by changes in market interest rates and homeowners' ability and desire to refinance their mortgages. To the extent we have acquired assets at a premium or discount to par value, changes in prepayment rates may impact our anticipated yield.

Trends and Recent Market Impacts

The following trends and recent market impacts may also affect our business:

Interest Rate Environment and Liquidity

Actions by the U.S. Federal Reserve and the U.S. Treasury over the past two years appear to have stabilized the investing and financing environment for Agency RMBS. The liquidity facilities created by the U.S. Federal Reserve during 2007 and 2008 and its lowering of the Federal Funds Target Rate to 0-0.25%, along with the reduction of the 30-day LIBOR to 0.25% as of March 31, 2010, have lowered our financing costs (which most closely correlates with the 30-day LIBOR) and stabilized the availability of repurchase agreement financing. The following table shows 30-day LIBOR and the U.S. Federal Funds Target Rate at the end of each respective fiscal quarter:

| Date | 30-Day LIBOR | Federal Funds Target Rate |
|--------------------|---------------------|----------------------------------|
| March 31, 2010 | 0.249% | 0.25% |
| December 31, 2009 | 0.231% | 0.25% |
| September 30, 2009 | 0.246% | 0.25% |
| June 30, 2009 | 0.309% | 0.25% |
| March 31, 2009 | 0.500% | 0.25% |
| December 31, 2008 | 0.436% | 0.25% |
| September 30, 2008 | 3.926% | 2.00% |
| June 30, 2008 | 2.463% | 2.00% |

Source: Bloomberg

Actions taken by the Federal Housing Finance Agency (FHFA) to place Fannie Mae and Freddie Mac under conservatorship and the U.S. Federal Reserve's purchase of Agency RMBS have likewise stabilized the market for our assets. Despite the fall in short term interest rates, yields on U.S. Treasury securities have risen with the yield on five-year U.S. Treasury notes rising by 89 basis points during the year ended March 31, 2010. Despite this rise in yields on U.S. Treasury securities, the market prices of Agency RMBS rose in the year ended March 31, 2010. We believe this is an unusual circumstance and reflective of the stabilization of the Agency RMBS market. The following table is illustrative of this situation by comparing market levels for two benchmark securities, the yield on five-year U.S. Treasury Notes and the price of 15-year Fannie Mae 4.5% Agency RMBS:

| Date | Five-Year US Treasury Note | Market Price of 15-Year Fannie Mae 4.5% Agency RMBS |
|--------------------|-----------------------------------|--|
| March 31, 2010 | 2.55% | \$ 103.670 |
| December 31, 2009 | 2.68% | \$ 102.984 |
| September 30, 2009 | 2.31% | \$ 103.547 |

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| | | | |
|--------------------|-------|----|---------|
| June 30, 2009 | 2.56% | \$ | 102.000 |
| March 31, 2009 | 1.66% | \$ | 103.000 |
| December 31, 2008 | 1.55% | \$ | 102.375 |
| September 30, 2008 | 2.98% | \$ | 97.200 |
| June 30, 2008 | 3.33% | \$ | 96.750 |

Source: Bloomberg

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Yields on three-year interest rate swaps, currently one of our primary hedging vehicles, rose by only 13 basis points during the 12 months ended March 31, 2010. Yields on mortgage securities were stable during the same period. The yield on a par-priced Fannie Mae Agency RMBS backed by 30-year mortgage loans rose by 40 basis points over the 12 months ended March 31, 2010. Our financing costs have fallen as financing rates have roughly tracked the interest rate cuts adopted by the U.S. Federal Reserve, which has consequently improved the net interest margin on our portfolio.

In addition, the U.S. Federal Reserve program to purchase \$200 billion in direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks and \$1.25 trillion in Agency RMBS issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae was initiated with the intention to reduce the cost and increase the availability of credit for the purchase of houses, which in turn was expected to support housing markets and foster improved conditions in financial markets more generally. The purchases of direct obligations began during the first week of December 2008 and the purchases of Agency RMBS began on January 5, 2009. Under the U.S. Federal Reserve's program, it has purchased \$1.25 trillion of Agency RMBS and terminated the program on March 31, 2010. In addition, through the course of 2009 the U.S. Treasury purchased \$250 billion of Agency RMBS. One of the effects of these programs has been the increase in price of agency securities, which has caused a decrease in our net interest margin. Now that the program has been terminated, it may cause a decrease in demand for these securities, which likely would reduce their market price.

Conservatorship of Fannie Mae and Freddie Mac

Payments on the Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. Because of the guarantee and the underwriting standards associated with mortgages underlying Agency RMBS, they have historically had high price stability and been considered to present low credit risk. However, the recent turmoil in the residential mortgage sector severely weakened the financial condition of Fannie Mae and Freddie Mac and as a result Agency RMBS experienced increased price volatility. Consequently, in 2008 the U.S. Government placed Fannie Mae and Freddie Mac under federal conservatorship. In connection with the placement of Fannie Mae and Freddie Mac in conservatorship, the U.S. Treasury agreed to provide certain financial support to these entities. We expect that the U.S. Government's conservatorship of Fannie Mae and Freddie Mac will allow these institutions to continue to issue Agency RMBS. No assurance can be given, however, that the conservatorship of Fannie Mae and Freddie Mac will continue to have a positive effect on the supply of Agency RMBS. For example, at a hearing on January 22, 2010, the Chairman of the House Financial Services Committee stated that the committee will be recommending to the U.S. Congress to abolish Fannie Mae and Freddie Mac in favor of a new system of providing housing finance.

Prior to December 2009, the financing arrangement between the U.S. Treasury and Fannie Mae and Freddie Mac required these entities to cap their Agency RMBS portfolio at \$900 billion each and then begin reducing their portfolio of Agency RMBS by 10% per year beginning in 2010. In December 2009, the U.S. Treasury loosened this requirement by allowing the portfolio reduction requirements to be applied to the maximum allowable size of the portfolios, rather than the actual size of the portfolios. Also, the U.S. Treasury originally was going to require Fannie Mae and Freddie Mac to pay a quarterly commitment fee to the U.S. Treasury beginning on March 31, 2010. In December 2009, the U.S. Treasury postponed that start date to December 31, 2010. The change to Fannie Mae's and Freddie Mac's portfolio reduction requirements could extend the time period by which these entities sell portions of their Agency RMBS portfolios in the market, which, in turn, could cause the supply of Agency RMBS to be smaller than we originally anticipated.

Yield Curve

For the 12 months ended March 31, 2010, LIBOR and the U.S. Federal Funds Target Rate fell while yields on longer dated Treasury and other securities rose resulting in a steepening yield curve. During this period, the 30-day LIBOR fell by approximately 25 basis points to a historic low of 0.249% at March 31, 2010, while the yield on three-year U.S. Treasury notes increased by approximately 45 basis points and the yield on 10-year U.S. Treasury notes increased by approximately 116 basis points. The market prices of our Agency RMBS backed by hybrid ARMs and fixed rate mortgages correlate more closely with the longer end of the yield curve. As a result, with the yield curve remaining steep, these securities continue to produce high yields relative to our financing costs. For our Agency RMBS portfolio, an increase in short term interest rates would increase our financing rates and, therefore, reduce our net interest margin.

Prepayment Rates and Loan Modification Programs

In early March 2010, both Freddie Mac and Fannie Mae announced they would purchase from the pools of mortgage loans underlying their mortgage pass-through certificates all mortgage loans that are more than 120 days delinquent. Freddie Mac implemented its purchase program in February 2010 with actual purchases beginning in March 2010. Fannie Mae began their process in March 2010 and announced it would implement the initial purchases over a period of three months, beginning in April 2010. The impact of these programs thus far is reflected in the CPR of our portfolio. Further, both agencies announced that on an ongoing basis they would purchase loans from the pools of mortgage loans underlying their mortgage pass-through certificates that became 120 days delinquent. For several months, we expect to experience elevated prepayments as a result of these purchase programs, particularly in ARMs where the credit experience is relatively poor. We believe our

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holdings of Agency RMBS backed by 15 year mortgages will protect us from these prepayments as the delinquency rate of 15 year mortgages is very low, according to data released by Fannie Mae and Freddie Mac. Over the past quarter, we have focused our investment activities largely in the 15 year market due to their stable

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prepayments, relatively short cash flows, modest dollar prices, attractive yield, and their very low delinquency rates. In April 2010, the effect of these purchase programs on our portfolio was lower than expected. The constant prepayment rate of our overall portfolio was 17.5% for the month of April 2010 compared to 22.0% for the first quarter of 2010.

During 2009, prepayment rates on Agency RMBS moved up only slightly by the end of the year. During the first quarter of 2010, prepayment rates have risen, primarily due to the delinquent loan purchase programs described above. The following table shows the prepayment rates for Agency RMBS backed by fixed rate mortgages:

| | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fannie Mae | 16.4 | 22.2 | 21.7 | 21.4 | 23.4 | 22.6 | 18.3 | 15.0 | 13.7 | 15.7 | 14.9 | 18.5 |
| Freddie Mac | 17.3 | 24.5 | 24.1 | 23.8 | 24.8 | 24.4 | 19.3 | 13.9 | 12.5 | 14.2 | 15.7 | 18.2 |
| Ginnie Mae | 23.8 | 24.4 | 25.6 | 28.2 | 29.6 | 24.0 | 19.5 | 17.5 | 20.7 | 21.0 | 23.2 | 29.0 |

| | Jan-10 | Feb-10 | Mar-10 |
|-------------|--------|--------|--------|
| Fannie Mae | 15.7 | 14.9 | 27.7 |
| Freddie Mac | 14.7 | 40.8 | 18.2 |
| Ginnie Mae | 13.8 | 14.8 | 13.3 |

During the second half of 2008, the U.S. Government, through the Federal Housing Administration (FHA) and the Federal Deposit Insurance Corporation (FDIC), commenced implementation of programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. One such program is the Hope for Homeowners program, which is effective from October 1, 2008 through September 30, 2011 and will enable certain distressed borrowers to refinance their mortgages into FHA-insured loans. In addition, in February 2009 the U.S. Treasury announced the Homeowner Affordability and Stability Plan (HASP), which is a multi-faceted plan intended to prevent residential mortgage foreclosures by, among other things:

allowing certain homeowners whose homes are encumbered by Fannie Mae or Freddie Mac conforming mortgages to refinance those mortgages into lower interest rate mortgages with either Fannie Mae or Freddie Mac;

creating the Homeowner Stability Initiative, which is intended to utilize various incentives for banks and mortgage servicers to modify residential mortgage loans with the goal of reducing monthly mortgage principal and interest payments for certain qualified homeowners; and

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allowing judicial modifications of Fannie Mae and Freddie Mac conforming residential mortgages loans during bankruptcy proceedings.

Programs such as the Hope for Homeowners program and HASP may have the effect of increasing prepayment rates and reducing the principal or interest payments on residential mortgage loans held by certain types of borrowers. The effect of such programs for holders of Agency RMBS could be that such holders would experience changes in the anticipated yields of their Agency RMBS due to (i) increased prepayment rates on their Agency RMBS and (ii) lower interest and principal payments on their Agency RMBS.

Credit Spreads

Over the past several years, the credit markets generally experienced tightening credit spreads (specifically, spreads between U.S. Treasury securities and other securities that are identical in all respects except for ratings) mainly due to the strong demand for lending opportunities. Generally, when credit spreads tighten the value of Agency RMBS increases, which would result in an increase in our book value. During 2008, credit spreads widened due to the turmoil in the credit markets. However, as a result of the actions of the U.S. Treasury and U.S. Federal Reserve in late 2008 and 2009, credit spreads have tightened again, which has resulted in an increase in our book value. If credit spreads were to widen again, we expect the market value of Agency RMBS would decrease, which could reduce our book value but also create an attractive opportunity to reinvest principal and interest from our existing portfolio as well as deploy new capital into higher-yielding Agency RMBS.

For a discussion of additional risks relating to our business see **Risk Factors** disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on February 10, 2010 and **Quantitative and Qualitative Disclosures About Market Risk**.

Financial Condition

As of March 31, 2010 and December 31, 2009, the Agency RMBS in our portfolio were purchased at a net premium to their par value, with a weighted-average amortized cost of \$101.4 at each such date, due to the average interest rates on these investments being higher than prevailing market rates. As of March 31, 2010 and December 31, 2009, we had approximately \$16.4 million and \$25.0 million, respectively, of unamortized premium included in the cost basis of our investments.

As of March 31, 2010 and December 31, 2009, our Agency RMBS portfolio consisted of the following assets:

March 31, 2010

| Security Description | Par Amount (in thousands) | Fair Value (in thousands) | Coupon | Weighted Average | |
|--|------------------------------|------------------------------|--------|-----------------------------------|---|
| | | | | Months to Reset ⁽¹⁾ | Constant Prepayment Rate ⁽²⁾ |
| Agency RMBS collateralized by hybrid ARMs | \$ 472,427 | \$ 492,796 | 4.4% | 47.6 | 32.8% |
| Agency RMBS collateralized by short-reset hybrid ARMs ⁽³⁾ | 203,252 | 211,586 | 3.9 | 10.0 | 29.6 |
| Agency RMBS collateralized by fixed rate mortgages | 1,055,675 | 1,089,719 | 4.5 | N/A | 12.3 |
| Total Agency RMBS | \$ 1,731,354 | \$ 1,794,101 | | | |

December 31, 2009

| Security Description | Par Amount (in thousands) | Fair Value (in thousands) | Coupon | Weighted Average | |
|--|------------------------------|------------------------------|--------|-----------------------------------|---|
| | | | | Months to Reset ⁽¹⁾ | Constant Prepayment Rate ⁽²⁾ |
| Agency RMBS collateralized by hybrid ARMs | \$ 565,396 | \$ 586,834 | 4.5% | 46.8 | 23.4% |
| Agency RMBS collateralized by short-reset hybrid ARMs ⁽³⁾ | 263,728 | 275,717 | 4.5 | 13.3 | 19.0 |
| Agency RMBS collateralized by monthly reset ARMs | 140,226 | 145,134 | 3.0 | 1 | 11.2 |

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| | | | | | |
|--|--------------|--------------|-----|-----|-----|
| Agency RMBS collateralized by fixed rate mortgages | 814,716 | 836,126 | 4.5 | N/A | 9.0 |
| Total Agency RMBS | \$ 1,784,066 | \$ 1,843,811 | | | |

⁽¹⁾ Months to Reset is the number of months remaining before the fixed rate on a hybrid ARM becomes a variable rate. At the end of the fixed period, the variable rate will be determined by the margin and the pre-specified caps of the ARM.

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- (2) Constant Prepayment Rate is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. Specifically, the constant prepayment rate is an annualized version of the prior three month prepayment rate. Securities with no prepayment history are excluded from this calculation.

- (3) Short-reset is defined as 24 months or less to reset.

Actual maturities of Agency RMBS are generally shorter than stated contractual maturities (which range up to 30 years), as they are affected by the contractual lives of the underlying mortgages, periodic payments and prepayments of principal. As of March 31, 2010 and December 31, 2009 the average final contractual maturity of the mortgage portfolio is in year 2030 and 2031, respectively.

The average expected life of our Agency RMBS reflects the estimated average period of time the securities in the portfolio will remain outstanding. The average expected lives of our Agency RMBS do not exceed five years, based upon prepayment models obtained through subscription-based financial information service providers. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, the mortgage rate of the outstanding loan, loan age, margin and volatility. The actual lives of the Agency RMBS in our investment portfolio could be longer or shorter than those estimates depending on the actual prepayment rates experienced over the lives of the applicable securities. As of March 31, 2010 and December 31, 2009 we had \$13.8 million and \$9.2 million of CLOs, respectively. In addition, as of March 31, 2010 and December 31, 2009 we had \$0.1 million and \$0.2 million of structured notes, respectively.

Hedging Instruments

We generally intend to hedge as much of the interest rate risk we determine is in the best interests of our stockholders. Our policies do not contain specific requirements as to the percentages or amount of interest rate risk that our Manager is required to hedge. No assurance can be given that our hedging activities will have the desired beneficial impact on our results of operations or financial condition.

Interest rate hedging may fail to protect or could adversely affect us because, among other things:

interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;

available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

due to prepayments on assets and repayments of debt securing such assets, the duration of the hedge may not match the duration of the related liability or asset;

the credit quality of the hedging counterparty may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

the hedging counterparty may default on its obligation to pay.

We engage in interest rate swaps as a means of mitigating our interest rate risk on forecasted interest expense associated with repurchase agreements for the term of the swap contract. An interest rate swap is a contractual agreement entered into by two counterparties under which each agrees to make periodic payments to the other for an agreed period of time based upon a notional amount of principal. Under the most common form of interest rate swap, commonly known as a fixed-floating interest rate swap, a series of fixed interest rate payments on a notional amount of principal is exchanged for a series of floating interest rate payments on such notional amount.

At March 31, 2010 and December 31, 2009 we were a party to four interest rate swaps with maturities between April 2012 and November 2013 with an aggregate notional amount of \$740.0 million and a fair value of approximately \$(10.5) million and \$(3.8) million, respectively. As of March 31, 2010 and December 31, 2009 the weighted average fixed rate on our interest rate swaps was 2.034% at each such date.

The current fair value of interest rate swaps is heavily dependent on the current market fixed rate, the corresponding term structure of floating rates (known as the yield curve) as well as the expectation of changes in future floating rates. As expectations of future floating rates change, the fair value of interest rate swaps changes.

Liabilities

We have entered into repurchase agreements to finance some of our purchases of Agency RMBS. These agreements are secured by our Agency RMBS and bear interest at rates that have historically moved in close relationship to LIBOR. At March 31, 2010, we had approximately \$1,487.6 million of liabilities pursuant to repurchase agreements with 17 counterparties that had weighted-average interest rates of approximately 0.26%, and maturities of between five and 86 days. In addition, as of March 31, 2010 we had approximately \$82.4 million in payables for securities purchased, a portion of which will be financed through repurchase agreements. Because we measure leverage as total liabilities divided by net assets, the approximately \$82.4 million payable for securities purchased is included in our March 31, 2010 leverage ratio of 6.5 to 1. At December 31, 2009, we had approximately \$1,372.7 million of liabilities pursuant to repurchase agreements with 16 counterparties that had weighted-average interest rates of approximately 0.28%, and maturities of between four and 68 days. In addition, as of December 31, 2009 we had approximately \$229.8 million in

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payables for securities purchased, a portion of which will be financed through repurchase agreements. Because we measure leverage as total liabilities divided by net assets, the approximately \$229.8 million payable for securities purchased is included in our December 31, 2009 leverage ratio of 6.6 to 1. Below is a summary of our payable for securities purchased as of March 31, 2010 and December 31, 2009.

March 31, 2010

| Forward Settling Purchases | Settle Date | Par Value | Payable |
|-----------------------------------|--------------------|------------------|----------------|
| FNMA - 20 Year 4.5% Fixed | 4/13/2010 | \$ 30,500,151 | \$ 31,260,774 |
| FNMA - 20 Year 4.5% Fixed | 5/13/2010 | 50,000,000 | 51,129,712 |
| | | \$ 80,500,151 | \$ 82,390,486 |

December 31, 2009

| Forward Settling Purchases | Settle Date | Par Value | Payable |
|-----------------------------------|--------------------|------------------|----------------|
| FNMA - 15 Year 4.0% Fixed | 1/19/2010 | \$ 75,000,000 | \$ 76,439,088 |
| GNMA - 30 Year 4.0% Hybrid ARM | 1/25/2010 | 25,000,000 | 25,541,301 |
| FNMA - 15 Year 4.5% Fixed | 2/17/2010 | 75,000,000 | 77,118,775 |
| FNMA - 15 Year 4.0% Fixed | 3/16/2010 | 50,000,000 | 50,739,608 |
| | | \$ 225,000,000 | \$ 229,838,772 |

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| | Three Months Ended March 31, | |
|--|-------------------------------------|----------------|
| | 2010 | 2009 |
| Investment income - Interest income | | |
| Interest Income - Agency RMBS | \$ 16,392,527 | \$ 8,951,983 |
| Interest Income - CLOs, Structured Notes & Cash Equivalents | 544,440 | 369,362 |
| Total interest income | 16,936,967 | 9,321,345 |
| EXPENSES: | | |
| Interest expense | 986,412 | 1,389,508 |
| Non-Investment expenses | 2,231,437 | 1,562,238 |
| Total expenses | 3,217,849 | 2,951,746 |
| Net investment income | 13,719,118 | 6,369,599 |
| Net gain (loss) from investments | 6,464,303 | 6,979,121 |
| GAINS AND (LOSSES) FROM SWAP CONTRACTS: | | |
| Net swap interest income (expense) | (3,294,420) | (2,029,146) |
| Net unrealized appreciation (depreciation) on swap contracts | (6,745,782) | 1,694,602 |
| Net gain (loss) from swap contracts | (10,040,202) | (334,544) |
| NET INCOME | \$ 10,143,219 | \$ 13,014,176 |
| Net income per common share (diluted) | \$ 0.54 | \$ 1.70 |
| Distributions per common share | \$ 0.55 | \$ |
| Key Portfolio Statistics* | | |
| Average Agency RMBS ⁽¹⁾ | \$ 1,723,303,293 | \$ 698,837,649 |
| Average repurchase agreements | 1,524,644,235 | 612,497,196 |
| Average net assets | 249,412,135 | 106,214,309 |
| Average yield on Agency RMBS ⁽²⁾ | 3.86% | 5.20% |
| Average cost of funds & hedge ⁽³⁾ | 1.14% | 2.26% |
| Interest rate spread net of hedge ⁽⁴⁾ | 2.72% | 2.94% |
| Leverage ratio (at period end) ⁽⁵⁾ | 6.5:1 | 7.0:1 |

(1) Our average Agency RMBS for the period was calculated by averaging the cost basis of our settled Agency RMBS during the period.

(2) Our average yield on Agency RMBS for the period was calculated by dividing our interest income from Agency RMBS by our average Agency RMBS.

(3) Our average cost of funds and hedge for the period was calculated by dividing our total interest expense, including our net swap interest income (expense), by our average repurchase agreements.

(4) Our interest rate spread net of hedge for the period was calculated by subtracting our average cost of funds from our average yield on Agency RMBS.

(5) Our leverage ratio was calculated by dividing total liabilities by net assets.

* All percentages are annualized.

Core Earnings:

Core Earnings represents a non-GAAP financial measure and is defined as net income (loss) excluding net realized gain (loss) on investments, net unrealized appreciation (depreciation) on investments, net realized gain (loss) on termination of swap contracts and unrealized appreciation (depreciation) on swap contracts. In order to evaluate the effective yield of the portfolio, management uses Core Earnings to reflect the net

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investment income of our portfolio as adjusted to reflect the net swap interest income (expense). Core Earnings allows management to isolate the interest income (expense) associated with our swaps in order to monitor and project our borrowing costs and interest rate spread. In addition, management utilizes Core Earnings as a key metric in conjunction with other portfolio and market factors to determine the appropriate leverage and hedging ratios, as well as the overall structure of the portfolio.

We adopted Accounting Standards Codification (ASC) 946, *Clarification of the Scope of Audit and Accounting Guide Investment Companies* (ASC 946), prior to its deferral in February 2008, while most, if not all, other public companies that invest only in Agency RMBS have not adopted ASC 946. Under ASC 946, we use the financial reporting specified for investment companies, and accordingly, our investments are carried at fair value with changes in fair value included in earnings. Most other public companies that invest only in Agency RMBS include most changes in the fair value of their investments within shareholders' equity, not in earnings. As a result, investors are not able to readily compare our results of operations to those of most of our competitors. We believe that the presentation of our Core Earnings is useful to investors because it provides a means of comparing our Core Earnings to those of our competitors. In addition, because Core Earnings isolates the net swap interest income (expense) it provides investors with an additional metric to identify trends in our portfolio as they relate to the interest rate environment.

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The primary limitation associated with Core Earnings as a measure of our financial performance over any period is that it excludes the effects of net realized gain (loss) from investments. In addition, our presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. As a result, Core Earnings should not be considered as a substitute for our GAAP net income (loss) as a measure of our financial performance or any measure of our liquidity under GAAP.

| Non-GAAP Reconciliation: | Three Months Ended March 31, | |
|--|-------------------------------------|----------------------|
| | 2010 | 2009 |
| NET INCOME | \$ 10,143,219 | \$ 13,014,176 |
| Net (gain) loss from investments | (6,464,303) | (6,979,121) |
| Net unrealized (appreciation) depreciation on swap contracts | 6,745,782 | (1,694,602) |
| Core Earnings | \$ 10,424,698 | \$ 4,340,453 |

Results of Operations***Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009***

Net Income. Net income decreased \$2.9 million to \$10.1 million for the three months ended March 31, 2010, compared to net income of \$13.0 million for the three months ended March 31, 2009. The major components of this increase are detailed below.

Net Gain (Loss) from swap contracts. Net gain (loss) from swap contracts decreased by \$9.7 million to \$(10.0) million for the three months ended March 31, 2010, compared to \$(0.3) million for the three months ended March 31, 2009. The net gain (loss) on swap contracts was primarily due to the change in swap rates combined with the change in the size of our interest rate swap portfolio. During the three months ended March 31, 2010 and 2009 we had \$740.0 million and \$240.0 million of notional amount of interest rate swaps outstanding, respectively. The following is a chart of 3-year swap rates for the period from December 31, 2008 to March 31, 2010:

Interest Income. Interest income, which consists of interest income on Agency RMBS, subordinated tranches of CLOs, structured notes and short term investments and other debt securities, increased by \$7.6 million to \$16.9 million for the three months ended March 31, 2010, as compared to \$9.3 million for the three months ended March 31, 2009. The change in interest income was

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primarily due to the increased size of our portfolio. During the three months ended March 31, 2010 our average Agency RMBS portfolio was \$1,723.3 million, compared to \$698.8 million during the three months ended March 31, 2009. However the increased income due to the size of our portfolio was offset by the decrease in the average yield on Agency RMBS. During the three months ended March 31, 2010 and 2009, our average yield on Agency RMBS was 3.86% and 5.20%, respectively. This was primarily caused by the increase in higher prices/lower yields caused by the U.S. Federal Reserve and Treasury Agency RMBS purchase programs described in the trends section above. Interest income on structured notes was \$0.1 million and \$0.2 million for the three months ended March 31, 2010 and 2009, respectively.

Interest on CLO and collateralized debt obligation (CDO) securities is accrued at a rate determined based on estimated future cash flows and adjusted prospectively as future cash flow amounts are recast. For CDO and CLO securities placed on nonaccrual status or when the Company cannot reliably estimate cash flows, the cost recovery method is used. Interest income on subordinated tranches of CLOs increased to \$0.4 million for the three months ended March 31, 2010, compared to and \$0.1 million for the three months ended March 31, 2009. Additionally, a component of the Company's net income for the three months ended March 31, 2010 was \$0.5 million of distributions from CLOs that were accounted for as a reduction of the cost basis and thereby excluded from our interest income and Core Earnings. This compared to \$0.8 million for the three months ended March 31, 2009. Total cash received on our CLO portfolio during the three months ended March 31, 2010 and 2009 was as follows:

| | Three Months Ended March 31, | |
|---------------------------------------|-------------------------------------|-------------------|
| | 2010 | 2009 |
| AMMC CLO V, LTD | \$ 89,842 | \$ |
| AVENUE CLO V, LTD | | 29,316 |
| BALLYROCK CLO 2006-2, LTD | 286,089 | 60,299 |
| CARLYLE HIGH YIELD PARTNERS VIII, LTD | 74,837 | 173,763 |
| EATON VANCE CDO IX, LTD | | 25,262 |
| FLAGSHIP CLO V, LTD | 220,556 | 298,258 |
| START III CLO, LTD | 130,853 | 143,944 |
| TRIMARAN CLO VII, LTD | 121,473 | 163,988 |
| Total | \$ 923,650 | \$ 894,830 |

Total Expenses. Interest expense decreased by \$0.4 million to \$1.0 million for the three months ended March 31, 2010, as compared to \$1.4 million for the three months ended March 31, 2009, due to the decrease in short-term interest rates. During the three months ended March 31, 2010, the average rate on our repurchase agreements was 0.26% compared with 0.82% during the three months ended March 31, 2009.

For the three months ended March 31, 2010, non-investment expenses increased by \$0.7 million to \$2.2 million compared to \$1.5 million for the three months ended March 31, 2009. However, expenses as a percentage of net assets decreased significantly during the three months ended March 31, 2010 compared to March 31, 2009 at a percent of 3.63% and 5.97% for the three months ended March 31, 2010 and 2009, respectively. The primary reason for the decrease was that we had a larger asset base, average net assets were \$249.4 million and \$106.2 million for the three months ended March 31, 2010 and 2009, respectively. Non-investment expenses consist of management fees payable to our Manager in accordance with our management agreement, amortization related to restricted stock and stock options granted to our executive officers, certain officers and employees of our Manager and its sub-advisors and other individuals who provide services to us, as designated by our Manager, and our independent directors, directors' fees, insurance premium expenses for directors and officers insurance and other general and administrative expenses, including legal and accounting fees.

Net Gain (Loss) From Investments. Net gain (loss) from investments decreased by \$0.5 million to \$6.5 million for the three months ended March 31, 2010, as compared to \$7.0 million for the three months ended March 31, 2009. For the three months ended March 31, 2010, net gain (loss) on our Agency RMBS was \$1.3 million compared to \$7.8 million for the three months ended March 31, 2009. Agency RMBS performed well during the three months ended March 31, 2010; however not as strongly as during the three months ended March 31, 2009 when the market was recovering from the dislocations that occurred in 2008. For example, the average price increase during the three months ended March 31, 2010 on our Agency RMBS backed by fixed rate mortgages and hybrid ARMs was 0.59 and 0.52 points, respectively compared to average price increases of 1.08 and 1.06 points, respectively for the three months ended March 31, 2009. In addition, net gain (loss) on our CLOs was \$5.2 million for the three months ended March 31, 2010, compared to \$(0.8) million for the three months ended March 31, 2009.

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During the three months ended March 31, 2010 two of our structured notes were extinguished and one was partially extinguished due to credit conditions. This represents \$5.3 million of the net realized loss on investments for the quarter. However, this had minimal impact on our earnings and net asset value as the structured notes had already been marked down to a fair value of \$0.2 million at December 31, 2009 with a cost basis of \$11.2 million. At March 31, 2010 the remaining structured notes had a fair value of \$0.1 million and a cost basis of \$5.9 million. We expect those remaining to also be extinguished at some time in the near future at which time the remaining cost basis (which the majority has already been recognized in unrealized losses) will be realized as a loss. During the three months ended March 31, 2009 there were no realized losses on our structured notes.

Contractual Obligations and Commitments

The base management fee under our management agreement is payable monthly in arrears in an amount equal to $\frac{1}{12^{\text{th}}}$ of (a) 1.50% of the first \$250,000,000 of our net assets, (b) 1.25% of our net assets that are greater than \$250,000,000 and less than or equal to \$500,000,000, and (c) 1.00% of our net assets that are greater than \$500,000,000. Pursuant to that agreement, our Manager is also entitled to receive, in certain circumstances, a termination fee and reimbursement of certain expenses as described therein. Such fees and expenses do not have fixed and determinable payments.

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We enter into repurchase agreements to finance some of our purchases of Agency RMBS. As of March 31, 2010 and December 31, 2009, we had outstanding approximately \$1,487.6 million and \$1,372.7 million, respectively, of liabilities pursuant to repurchase agreements that had weighted-average borrowing rates of approximately 0.26% and 0.28%, respectively, and maturities of between five and 86 days and four and 68 days, respectively. As of March 31, 2010 and December 31, 2009, interest payable on our repurchase agreements was \$0.2 million and \$0.4 million, respectively.

We enter into interest rate swap contracts as a means of mitigating our interest rate risk on forecasted interest expense associated with repurchase agreements for the term of the swap contract. At March 31, 2010 and December 31, 2009, we had the following interest rate swap contracts:

As of March 31, 2010

| Counterparty | Expiration Date | Pay Rate | Receive Rate | Notional Amount | Fair Value |
|--------------------------------|-----------------|----------|---------------|-----------------|-----------------|
| Deutsche Bank Group | April 2012 | 1.6910% | 3-Month LIBOR | \$ 240,000,000 | \$ (2,470,311) |
| Deutsche Bank Group | June 2012 | 2.2660% | 3-Month LIBOR | 200,000,000 | (4,178,718) |
| The Royal Bank of Scotland plc | July 2012 | 2.1250% | 3-Month LIBOR | 200,000,000 | (3,549,348) |
| The Royal Bank of Scotland plc | November 2013 | 2.2125% | 3-Month LIBOR | 100,000,000 | (341,251) |
| | | | | \$ 740,000,000 | \$ (10,539,628) |

As of December 31, 2009

| Counterparty | Expiration Date | Pay Rate | Receive Rate | Notional Amount | Fair Value |
|--------------------------------|-----------------|----------|---------------|-----------------|----------------|
| Deutsche Bank Group | April 2012 | 1.6910% | 3-Month LIBOR | \$ 240,000,000 | \$ (543,716) |
| Deutsche Bank Group | June 2012 | 2.2660% | 3-Month LIBOR | 200,000,000 | (2,558,748) |
| The Royal Bank of Scotland plc | July 2012 | 2.1250% | 3-Month LIBOR | 200,000,000 | (1,822,869) |
| The Royal Bank of Scotland plc | November 2013 | 2.2125% | 3-Month LIBOR | 100,000,000 | 1,131,487 |
| | | | | \$ 740,000,000 | \$ (3,793,846) |

We enter into certain contracts that contain a variety of indemnification obligations, principally with our Manager, brokers and counterparties to interest rate swap contracts and repurchase agreements. The maximum potential future payment amount we could be required to pay under these indemnification obligations is unlimited. We have not incurred any costs to defend lawsuits or settle claims related to these indemnification obligations. As a result, the estimated fair value of these agreements is minimal. Accordingly, we recorded no liabilities for these agreements as of March 31, 2010 and December 31, 2009.

In addition, as of March 31, 2010 and December 31, 2009, we had a \$82.4 million and \$229.8 million payable for securities purchased, respectively, a portion of which will be financed through repurchase agreements. Because we measure leverage as total liabilities divided by net assets, the amount of payable for securities purchased is included in our March 31, 2010 and December 31, 2009 leverage ratio of 6.5 to 1 and 6.6 to 1. Below is a summary of our payable for securities purchased as of March 31, 2010 and December 31, 2009:

March 31, 2010

| Forward Settling Purchases | Settle Date | Par Value | Payable |
|----------------------------|-------------|---------------|---------------|
| FNMA - 20 Year 4.5% Fixed | 4/13/2010 | \$ 30,500,151 | \$ 31,260,774 |
| FNMA - 20 Year 4.5% Fixed | 5/13/2010 | 50,000,000 | 51,129,712 |

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\$ 80,500,151 \$ 82,390,486

December 31, 2009

| Forward Settling Purchases | Settle Date | Par Value | Payable |
|-----------------------------------|--------------------|------------------|----------------|
| FNMA - 15 Year 4.0% Fixed | 1/19/2010 | \$ 75,000,000 | \$ 76,439,088 |
| GNMA - 30 Year 4.0% Hybrid ARM | 1/25/2010 | 25,000,000 | 25,541,301 |
| FNMA - 15 Year 4.5% Fixed | 2/17/2010 | 75,000,000 | 77,118,775 |
| FNMA - 15 Year 4.0% Fixed | 3/16/2010 | 50,000,000 | 50,739,608 |
| | | \$ 225,000,000 | \$ 229,838,772 |

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As of March 31, 2010 and December 31, 2009, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of March 31, 2010 and December 31, 2009, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

Liquidity and Capital Resources

During the three months ended March 31, 2010 and 2009 our operations used cash of \$(105.7) million and \$(59.0) million, respectively. During the three months ended March 31, 2010 and 2009 we had net (purchases) sales of securities (net of purchases, sales and paydown proceeds) of \$49.4 million and \$(141.0) million, respectively.

We held cash and cash equivalents of \$0.7million and \$1.9 million at March 31, 2010 and December 31, 2009, respectively. As of March 31, 2010, our source of funds, excluding our February 2006 private placement, and our December 2006 and May 2008 private offerings and our June 2009 initial public offering, consisted of net proceeds from repurchase agreements totaling \$1,487.6 million, with a weighted-average borrowing rate of 0.26%, which we used to finance the acquisition of Agency RMBS. As of March 31, 2010, we had established 25 borrowing arrangements with various investment banking firms and other lenders, 17 of which had outstanding borrowings. As of December 31, 2009, our source of funds, excluding our February 2006 private placement, December 2006 and May 2008 private offerings and our June 2009 initial public offering, consisted of net proceeds from repurchase agreements totaling \$1,372.7 million, with a weighted-average borrowing rate of 0.28%, which we used to finance the acquisition of Agency RMBS. We expect to continue to borrow funds in the form of repurchase agreements. As of December 31, 2009, we had established 25 borrowing arrangements with various investment banking firms and other lenders, 16 of which had outstanding borrowings.

The following tables present certain information regarding our risk exposure on our repurchase agreements as of March 31, 2010 and December 31, 2009:

March 31, 2010

| Counterparty | Total Outstanding Borrowings | % of Total | Amount at Risk (1) | Weighted Average Maturity in Days |
|---------------------------------------|------------------------------|------------|--------------------|-----------------------------------|
| Bank of America Securities LLC | \$ 76,810,000 | 5.2% | \$ 7,060,323 | 13 |
| Barclays Capital, Inc. | 127,776,683 | 8.6 | 7,854,216 | 67 |
| BNP Paribas | 96,585,000 | 6.5 | 4,741,406 | 82 |
| Cantor Fitzgerald & Co. | 51,024,000 | 3.4 | 3,079,678 | 54 |
| Credit Suisse First Boston | 47,964,756 | 3.2 | 1,985,462 | 19 |
| Daiwa Securities America, Inc. | 49,114,000 | 3.3 | 2,475,642 | 7 |
| Deutsche Bank Securities, Inc. | 145,270,000 | 9.8 | 10,768,509 | 12 |
| Goldman Sachs Group, Inc. | 167,577,000 | 11.3 | 8,801,572 | 60 |
| Greenwich Capital Markets, Inc. | 129,068,788 | 8.7 | 8,745,387 | 5 |
| ING Financial Markets LLC | 73,654,000 | 5.0 | 3,608,418 | 23 |
| Jefferies & Company, Inc. | 55,455,000 | 3.7 | 2,841,233 | 9 |
| LBBW Securities LLC | 105,386,000 | 7.1 | 5,883,111 | 19 |
| MF Global, Ltd. | 106,055,237 | 7.1 | 1,665,205 | 62 |
| Mizuho Securities USA, Inc. | 45,146,000 | 3.0 | 2,275,159 | 23 |
| Morgan Keegan & Co. | 39,382,000 | 2.6 | 1,153,369 | 5 |
| Nomura Securities International, Inc. | 42,539,350 | 2.9 | 2,367,805 | 26 |
| South Street Securities LLC | 128,781,354 | 8.6 | 9,451,537 | 49 |
| | \$ 1,487,589,168 | 100.0% | \$ 84,758,032 | |

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December 31, 2009

| Counterparty | Total Outstanding Borrowings | % of Total | Amount at Risk (1) | Weighted Average Maturity in Days |
|---------------------------------|------------------------------|------------|--------------------|-----------------------------------|
| Bank of America Securities LLC | \$ 93,068,000 | 6.8% | \$ 9,029,721 | 7 |
| Barclays Capital, Inc. | 107,654,754 | 7.8 | 6,157,773 | 60 |
| BNP Paribas | 99,865,000 | 7.3 | 5,096,043 | 29 |
| Cantor Fitzgerald & Co. | 47,521,000 | 3.5 | 2,730,716 | 53 |
| Credit Suisse First Boston | 48,635,251 | 3.5 | 1,636,061 | 19 |
| Daiwa Securities America, Inc. | 51,031,000 | 3.7 | 2,151,365 | 8 |
| Deutsche Bank Securities, Inc. | 125,247,000 | 9.1 | 9,140,161 | 7 |
| Goldman Sachs Group, Inc. | 134,802,000 | 9.8 | 8,005,697 | 42 |
| Greenwich Capital Markets, Inc. | 135,004,688 | 9.8 | 7,263,592 | 5 |
| ING Financial Markets LLC | 78,581,000 | 5.7 | 3,865,514 | 22 |
| Jefferies & Company, Inc. | 59,209,000 | 4.3 | 2,702,664 | 11 |
| LBBW Securities LLC | 58,992,000 | 4.3 | 2,622,859 | 15 |
| MF Global, Ltd. | 122,066,000 | 8.9 | 3,304,281 | 60 |
| Mizuho Securities USA, Inc. | 81,474,579 | 6.0 | 4,024,203 | 20 |
| Morgan Keegan & Co. | 41,894,000 | 3.1 | 3,110,849 | 4 |
| South Street Securities LLC | 87,662,300 | 6.4 | 6,401,808 | 50 |
| | \$ 1,372,707,572 | 100.0% | \$ 77,243,307 | |

(1) Equal to the fair value of securities plus accrued interest income, minus the sum of repurchase agreement liabilities and accrued interest expense.

Our repurchase agreements do not include substantive provisions other than those covenants and other customary provisions contained in the standard master repurchase agreement as published by the Bond Market Association (now the Securities Industry and Financial Markets Association). The repurchase agreements generally require us to transfer additional securities to the counterparty in the event the value of the securities then held by the counterparty in the margin account falls below specified levels and contain events of default in cases where we breach our obligations under the agreement. We receive margin calls from our repurchase agreement counterparties from time to time in the ordinary course of business similar to other entities in the specialty finance business. As of March 31, 2010 and December 31, 2009, we had approximately \$121.7 million and \$153.0 million, respectively, in Agency RMBS, cash and cash equivalents available to satisfy future margin calls. To date, we have maintained sufficient liquidity to meet margin calls, and we have never been unable to satisfy a margin call, although no assurance can be given that we will be able to satisfy requests from our lenders to post additional collateral in the future.

An event of default or termination event under the standard master repurchase agreement would give our counterparty the option to terminate all repurchase transactions existing with us and make any amount due by us to the counterparty to be payable immediately.

We have made and intend to continue to make regular quarterly distributions of all or substantially all of our REIT taxable income to holders of our common stock. In order to qualify as a REIT and to avoid federal corporate income tax on the income that we distribute to our stockholders, we are required to distribute at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, on an annual basis. This requirement can impact our liquidity and capital resources.

For our short term (one year or less) and long term liquidity, we also rely on the cash flow from operations, primarily monthly principal and interest payments to be received on our Agency RMBS, as well as any primary securities offerings authorized by our board of directors.

Based on our current portfolio, leverage rate and available borrowing arrangements, we believe that our cash flow from operations and the utilization of borrowings will be sufficient to enable us to meet anticipated short term (one year or less) liquidity requirements such as to fund our investment activities, pay fees under our management agreement, fund our distributions to stockholders and for general corporate expenses. However, an increase in prepayment rates substantially above our expectations could cause a temporary liquidity shortfall due to the timing of the necessary margin calls on the financing arrangements and the actual receipt of the cash related to principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to issue debt or additional equity securities or sell Agency RMBS

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in our portfolio. If required, the sale of Agency RMBS at prices lower than their amortized cost would result in realized losses. We believe that we have additional capacity through repurchase agreements to leverage our equity further should the need for additional short term (one year or less) liquidity arise.

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Our ability to meet our long term (greater than one year) liquidity and capital resource requirements will be subject to obtaining additional debt financing and equity capital. We may increase our capital resources by obtaining long term credit facilities or making public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock, commercial paper, medium-term notes, CDOs, collateralized mortgage obligations and senior or subordinated notes. Such financing will depend on market conditions for capital raises and for the investment of any proceeds. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, it may have an adverse effect on our business and results of operations.

We generally seek to borrow (on a recourse basis) between six and 10 times the amount of our net assets. At March 31, 2010 and December 31, 2009, our total liabilities were \$1,596.4 million and \$1,621.9 million, respectively, which represented a leverage ratio of 6.5 to 1 and 6.6 to 1, respectively.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors based in part on our REIT taxable income as calculated according to the requirements of the Internal Revenue Code; in each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2010 and December 31, 2009, the primary component of our market risk was interest rate risk, as described below. While we do not seek to avoid risk completely, we do believe that risk can be quantified from historical experience and seek to actively manage risk, to earn sufficient compensation to justify taking risks and to maintain capital levels consistent with the risks we undertake. Our board of directors has a risk management committee that oversees our risk management process. See *Business-Risk Management* in our annual report on Form 10-K for the fiscal year ended December 31, 2009 for a further discussion of our risk management committee and risk mitigation practices.

Interest Rate Risk

We are subject to interest rate risk in connection with our investments in Agency RMBS collateralized by ARMs, hybrid ARMs and fixed rate mortgage loans and our related debt obligations, which are generally repurchase agreements of limited duration that are periodically refinanced at current market rates. We seek to mitigate this risk through utilization of derivative contracts, primarily interest rate swap agreements.

Effect on Net Investment Income. We fund our investments in long term Agency RMBS collateralized by ARMs, hybrid ARMs and fixed rate mortgage loans with short term borrowings under repurchase agreements. During periods of rising interest rates, the borrowing costs associated with those Agency RMBS tend to increase while the income earned on such Agency RMBS (during the fixed rate component of such securities) may remain substantially unchanged. This results in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses.

We are a party to the interest rate swap contracts listed below as of March 31, 2010 and December 31, 2009:

As of March 31, 2010

| Counterparty | Expiration Date | Pay Rate | Receive Rate | Notional Amount | Fair Value |
|--------------------------------|-----------------|----------|---------------|-----------------|-----------------|
| Deutsche Bank Group | April 2012 | 1.6910% | 3-Month LIBOR | \$ 240,000,000 | \$ (2,470,311) |
| Deutsche Bank Group | June 2012 | 2.2660% | 3-Month LIBOR | 200,000,000 | (4,178,718) |
| The Royal Bank of Scotland plc | July 2012 | 2.1250% | 3-Month LIBOR | 200,000,000 | (3,549,348) |
| The Royal Bank of Scotland plc | November 2013 | 2.2125% | 3-Month LIBOR | 100,000,000 | (341,251) |
| | | | | \$ 740,000,000 | \$ (10,539,628) |

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As of December 31, 2009

| Counterparty | Expiration Date | Pay Rate | Receive Rate | Notional Amount | Fair Value |
|--------------------------------|-----------------|----------|---------------|-----------------|----------------|
| Deutsche Bank Group | April 2012 | 1.6910% | 3-Month LIBOR | \$ 240,000,000 | \$ (543,716) |
| Deutsche Bank Group | June 2012 | 2.2660% | 3-Month LIBOR | 200,000,000 | (2,558,748) |
| The Royal Bank of Scotland plc | July 2012 | 2.1250% | 3-Month LIBOR | 200,000,000 | (1,822,869) |
| The Royal Bank of Scotland plc | November 2013 | 2.2125% | 3-Month LIBOR | 100,000,000 | 1,131,487 |
| | | | | \$ 740,000,000 | \$ (3,793,846) |

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Hedging techniques are partly based on assumed levels of prepayments of our Agency RMBS. If prepayments are slower or faster than assumed, the life of the Agency RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.

Occasionally we invest in Agency RMBS collateralized by ARMs which are based on mortgages whose coupon rates reset monthly based on the Monthly Treasury Average MTA. However, our borrowing costs pursuant to our repurchase agreements are generally based on 30-day LIBOR, which may change more quickly than the MTA index. Hence, in a rapidly rising interest rate environment, we would expect our net interest margin to decrease, temporarily. In a falling interest rate environment, we would expect our net interest margin to rise temporarily. For a discussion of the effects of interest rate changes on our Agency RMBS collateralized by hybrid ARMs and fixed-rate mortgages, see *Extension Risk*.

Effect on Fair Value. Another component of interest rate risk is the effect changes in interest rates will have on the fair value of our assets. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various third-party financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

Extension Risk. We invest in Agency RMBS collateralized by hybrid ARMs, which have interest rates that are fixed for the first few years of the loan (typically three, five, seven or 10 years) and thereafter reset periodically on the same basis as Agency RMBS collateralized by ARMs. We compute the projected weighted-average life of our Agency RMBS collateralized by hybrid ARMs based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when Agency RMBS collateralized by fixed rate or hybrid ARMs is acquired with borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated weighted-average life of the fixed rate portion of the related Agency RMBS. This strategy is designed to protect us from rising interest rates by fixing our borrowing costs for the duration of the fixed rate period of the collateral underlying the related Agency RMBS.

We have structured our swaps to expire in conjunction with the estimated weighted average life of the fixed period of the mortgages underlying our Agency RMBS portfolio. However, in a rising interest rate environment, the weighted average life of the fixed rate mortgages underlying our Agency RMBS could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the term of the hedging instrument while the income earned on the remaining Agency RMBS would remain fixed for a period of time. This situation may also cause the market value of our Agency RMBS to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Interest Rate Cap Risk. Both the ARMs and hybrid ARMs that collateralize our Agency RMBS are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security's interest yield may change during any given period. However, our borrowing costs will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, the interest costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our Agency RMBS would effectively be limited by caps. This problem will be magnified to the extent that we acquire Agency RMBS that are collateralized by hybrid ARMs that are not fully indexed. In addition, the underlying mortgages may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our Agency RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net investment income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk. We intend to fund a substantial portion of our acquisitions of Agency RMBS with borrowings that, after the effect of hedging, have interest rates based on indices and repricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and repricing terms of the Agency RMBS. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our Agency RMBS and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Therefore, our cost of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above.

Our analysis of risks is based on our Manager's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results reflected herein.

Table of Contents**Prepayment Risk**

Prepayments are the full or partial repayment of principal prior to the original contractual maturity of a mortgage loan and typically occur due to refinancing of mortgage loans. Prepayment rates for existing Agency RMBS generally increase when prevailing mortgage interest rates fall. In addition, prepayment rates on Agency RMBS collateralized by ARMs and hybrid ARMs generally increase when the difference between long term and short term interest rates declines or becomes negative. Some ARMs underlying our Agency RMBS may bear initial teaser mortgage interest rates that are lower than their fully-indexed rates, which refers to the applicable index rates plus a margin. In the event that such an ARM is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, the holder of the related Agency RMBS would have held such security while it was less profitable and lost the opportunity to receive interest at the fully-indexed rate over the expected life of the Agency RMBS. We currently do not own any Agency RMBS collateralized by ARMs with teaser mortgage interest rates. Additionally, we currently own Agency RMBS that were purchased at a premium. The prepayment of such Agency RMBS at a rate faster than anticipated would result in a write-off of any remaining capitalized premium amount.

Our Manager seeks to mitigate our prepayment risk by investing in Agency RMBS with (i) a variety of prepayment characteristics, (ii) prepayment prohibitions and penalties and (iii) prepayment protections, as well as by balancing Agency RMBS purchased at a premium with Agency RMBS purchased at a discount.

Effect on Market Value and Net Investment Income

Another component of interest rate risk is the effect changes in interest rates will have on the market value of our assets and our net investment income. We face the risk that the market value of our assets and net investment income will increase or decrease at different rates than that of our liabilities, including our hedging instruments.

We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

The following sensitivity analysis table shows the estimated impact on the market value and net investment income of our interest rate-sensitive investments and repurchase agreement liabilities at March 31, 2010 and December 31, 2009, assuming a static portfolio and that rates instantaneously fall 25, 50 and 75 basis points and rise 25, 50 and 75 basis points.

March 31, 2010

| Change in Interest Rates | Projected Change in the Market Value of Our Assets | Projected Change in Our Net Investment Income |
|---------------------------------|---|--|
| - 75 basis points | 1.09% | 1.53% |
| - 50 basis points | 0.86% | 1.44% |
| - 25 basis points | 0.50% | 1.21% |
| No Change | 0.00% | 0.00% |
| + 25 basis points | -0.62% | -3.04% |
| + 50 basis points | -1.33% | -6.18% |
| + 75 basis points | -2.11% | -9.32% |

December 31, 2009

| Change in Interest Rates | Projected Change in the Market Value of Our Assets | Projected Change in Our Net Investment Income |
|---------------------------------|---|--|
| - 75 basis points | 0.83% | 2.50% |
| - 50 basis points | 0.65% | 1.35% |
| - 25 basis points | 0.38% | 0.29% |

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| | | |
|-------------------|--------|--------|
| No Change | 0.00% | 0.00% |
| + 25 basis points | -0.45% | -1.59% |
| + 50 basis points | -0.98% | -4.76% |
| + 75 basis points | -1.57% | -6.85% |

While the charts above reflect the estimated immediate impact of interest rate increases and decreases on a static portfolio, we rebalance our portfolio from time to time either to take advantage or minimize the impact of changes in interest rates. Additionally, the effects of interest rate changes on our portfolio illustrated in the above chart does not take into account the effect that our hedging instruments, mainly interest rate swaps, would have on the market value of our portfolio, but does take into account the effect that our hedging instruments, mainly interest rate swaps, would have on our net investment income. Generally, our interest rate swaps reset in

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the quarter following changes in interest rates. It is important to note that the impact of changing interest rates on market value and net investment income can change significantly when interest rates change beyond 75 basis points from current levels. Therefore, the volatility in the market value of our assets could increase significantly when interest rates change beyond 75 basis points. In addition, other factors impact the market value of and net investment income from our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the market value of our assets and our net investment income would likely differ from that shown above, and such difference might be material and adverse to our stockholders.

Risk Management

Our board of directors exercises its oversight of risk management principally through its Risk Management Committee. The Risk Management Committee oversees our senior management's and our Manager's risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks.

As part of our risk management process, our Manager seeks to actively manage the interest rate, liquidity and prepayment risks associated with our Agency RMBS portfolio. Our Manager seeks to mitigate our interest rate risk exposure by entering into various hedging instruments in order to minimize our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs.

Our Manager seeks to mitigate our liquidity risks by monitoring our liquidity position on a daily basis and maintaining a prudent level of leverage, which we currently consider to be between 6 and 10 times the amount of net assets in our overall portfolio, based on current market conditions and various other factors, including the health of the financial institutions that lend to us under our repurchase agreements and the presence of special liquidity programs provided by domestic and foreign central banks.

Our Manager seeks to mitigate our prepayment risk by investing in Agency RMBS with (i) a variety of prepayment characteristics, (ii) prepayment prohibitions and penalties and (iii) prepayment protections, as well as by balancing Agency RMBS purchased at a premium with Agency RMBS purchased at a discount.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2010, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

PART II. Other Information

Item 1. Legal Proceedings

The Company and the Manager are not currently subject to any material legal proceedings.

Item 1A. Risk Factors

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In March 2010, our board of directors amended our investment guidelines to allow us to invest in CMOs in addition to Agency RMBS. Although CMOs are generally subject to the same risks as our Agency RMBS, certain types of risks may be enhanced depending on the type of CMO in which we invest.

In March 2010, our board of directors amended our investment guidelines to allow us to invest in CMOs. The CMOs in which we are authorized to invest are securitizations issued by a government agency or a government sponsored entity that are collateralized by Agency RMBS that are divided into various tranches that have different characteristics (such as different maturities

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or different coupon payments), and, therefore, may carry greater risk than an investment in Agency RMBS. For example, certain CMO tranches, such as interest-only securities, principal only securities, support securities and securities purchased at a significant premium, are more sensitive to prepayment risks than other tranches or Agency RMBS. In addition, the yield on floating rate and inverse floating rate classes are sensitive to changes in the interest rate index used to calculate the coupon on such classes. If we were to invest in CMO tranches that were more sensitive to prepayment risks relative to other CMO tranches or Agency RMBS, we may increase our portfolio-wide prepayment risk.

Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to distribute cash to our stockholders.

We have operated and intend to continue to operate our business so as to be exempt from registration under the Investment Company Act because we are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. Specifically, we invest and intend to continue to invest so that at least 55% of the assets that we own on an unconsolidated basis consist of qualifying mortgages and other liens and interests in real estate, which are collectively referred to as qualifying real estate assets, and so that at least 80% of the assets we own on an unconsolidated basis consist of real estate related assets (including our qualifying real estate assets). We treat Fannie Mae, Freddie Mac and Ginnie Mae whole-pool residential mortgage pass-through securities issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. Although we treat CMOs as real estate related assets, we do not treat them as qualifying real estate assets.

If we fail to qualify for this exemption, we could be required to restructure our activities in a manner that, or at a time when, we would not otherwise choose to do so, which could negatively affect the value of shares of our common stock and our ability to make distributions to our stockholders. For example, if the market value of our investments in CLOs and structured notes, neither of which are qualifying real estate assets or real estate related assets, were to increase by an amount that resulted in less than 80% of our assets being invested in Agency RMBS, we might have to sell CLOs and structured notes in order to maintain our exemption from the Investment Company Act. Also, if the market value of our investments in CMOs, which are not qualifying real estate assets, were to increase by an amount that resulted in less than 55% of our assets being invested in Agency RMBS, we might have to sell CMOs in order to maintain our exemption from the Investment Company Act. These sales could occur during adverse market conditions, and we could be forced to accept a price below that which we believe is acceptable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved).

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits.

| Exhibit | Description of Exhibit |
|---------|------------------------|
|---------|------------------------|

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Number

| | |
|--------|---|
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1** | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2** | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |

* Filed herewith.

** Furnished herewith.

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SIGNATURES

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

CYPRESS SHARPRIDGE INVESTMENTS, INC.

Dated: April 23, 2010

BY: */s/* FRANCES R. SPARK
Frances R. Spark
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
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