CYS INVESTMENTS

890 Winter Street, Suite 200
Waltham, Massachusetts 02451

March 29, 2012

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

On behalf of the Board of Directors, it is my pleasure to invite you to our 2012 Annual Meeting of Stockholders (the "Annual Meeting") to be held at the offices of K&L Gates LLP, State Street Financial Center, One Lincoln Street, 19th Floor, Boston, Massachusetts 02111, on Thursday, May 10, 2012, at 9:30 a.m., Eastern Time, for the purposes set forth below:

1. To elect the Board of Directors, with each director serving a one-year term and until his or her successor is elected and qualified;
2. To hold an advisory vote on named executive officer ("NEO") compensation;
3. To hold an advisory vote on the frequency of future advisory votes on NEO compensation;
4. To ratify the selection of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the year ending December 31, 2012; and
5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

****PLEASE VOTE NOW**** **YOUR VOTE IS IMPORTANT** ****PLEASE VOTE NOW****

Stockholders of record at the close of business on March 8, 2012 will be entitled to notice of and to vote at the Annual Meeting. **It is important your shares are represented at the Annual Meeting regardless of the size of your holdings.** Whether or not you plan to attend the Annual Meeting in person, please vote your shares as promptly as possible via the internet, by telephone, or by signing, dating, and returning your proxy card. **Voting promptly saves us the expense of a second mailing or telephone campaign and reduces the risk that the Annual Meeting is adjourned because of the lack of a quorum.** Voting via the internet or by telephone helps reduce postage and proxy tabulation costs.

Stockholders please note that the New York Stock Exchange regulations require you to vote this proxy in order for your shares to be counted in proposals (1) through (3). Your broker will not have any discretion to vote your shares on your behalf for these matters without direction from you.

If you wish to attend the Annual Meeting in person, please register in advance by emailing Investor Relations at ir@cysinv.com or by phone at (617) 639-0440. Attendance at the Annual Meeting will be limited to persons that register in advance and present proof of stock ownership on the record date and picture identification. *If you hold shares directly in your name as the stockholder of record, proof of ownership could include a copy of your account statement or a copy of your stock certificate(s). If you hold shares through an intermediary, such as a broker, bank or other nominee, proof of stock ownership could include a proxy from your broker, bank or other nominee or a copy of your brokerage or bank account statement. Additionally, if you intend to vote your shares at the meeting and hold your shares through an intermediary, you must request a "legal proxy" from your broker, bank or other nominee and bring this legal proxy to the meeting.*

We have enclosed a proxy statement, proxy card and self-addressed envelope. Please complete, date and sign the proxy card and return it promptly in the envelope provided, which requires no postage if mailed in the United States. As detailed on the proxy card, you also may vote by telephone or on the Internet. If you attend the Annual Meeting, you may withdraw your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS,

Thomas A. Rosenbloom
Secretary

2012 ANNUAL MEETING OF STOCKHOLDERS

OF

CYS INVESTMENTS, INC.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the board of directors (the "Board of Directors" or the "Board") of CYS Investments, Inc. (the "Company," "we" or "us") for use at our 2012 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, May 10, 2012, at 9:30 a.m., Eastern Time, at the offices of K&L Gates LLP, State Street Financial Center, One Lincoln Street, 19th Floor, Boston, Massachusetts 02111, and at any adjournment or postponement of the meeting, and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This proxy statement, the accompanying proxy card and our annual report to stockholders, which includes our annual report on Form 10-K with audited financial statements for the year ended December 31, 2011, are first being sent to our stockholders on or about April 3, 2012.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on May 10, 2012: This proxy statement, the accompanying proxy card and our annual report to stockholders are available on the Internet at www.cysinv.com. On this site, you will be able to access this proxy statement, the accompanying proxy card, our annual report to stockholders, and any amendments or supplements to the foregoing material that is required to be furnished to stockholders.

QUESTIONS AND ANSWERS

Q. How will we solicit proxies for the Annual Meeting?

A. We are soliciting proxies by mailing this proxy statement and proxy card to our stockholders. In addition to solicitation by mail, some of our directors, officers and employees may make additional solicitations by telephone or in person without extra pay. We will pay the solicitation costs and will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners.

Q. Who is entitled to vote?

A. All stockholders of record as of the close of business on March 8, 2012, which is the record date, are entitled to vote at the Annual Meeting.

Q. What is the quorum for the Annual Meeting?

A. A quorum at the Annual Meeting will consist of a majority of the votes entitled to be cast by the holders of all shares of common stock outstanding. No business may be conducted at the meeting if a quorum is not present. As of the record date, 114,305,993 shares of our common stock were issued and outstanding. If less than a majority of our outstanding shares entitled to vote are represented at the Annual Meeting, the

chairman of the meeting may adjourn or postpone the Annual Meeting to another date, time or place, not later than 120 days after the original record date of March 8, 2012. Notice need not be given of the new date, time or place if announced at the meeting before an adjournment or postponement is taken.

Q. How many votes do I have?

A. You are entitled to one vote for each whole share of our common stock you held as of the record date. Our stockholders do not have the right to cumulate their votes for directors.

Q. How do I vote?

A. You may vote your shares at the Annual Meeting in person. If you cannot attend the Annual Meeting in person, or you wish to have your shares voted by proxy even if you do attend the Annual Meeting, you may vote by duly authorized proxy on the Internet, by telephone or by mail. Maryland law provides that a vote by Internet or telephone carries the same validity as your completion and delivery of a proxy card.

In order to vote on the Internet, you must first go to http://www.investorvote.com/cys if you are a registered shareholder, or to http://www.proxy.com if you hold your shares through a broker. In either case, please have your proxy card in hand and follow the instructions.

In order to vote by telephone, you must call 1-(800)-652-VOTE if you are a registered shareholder or 1-(800)-454-VOTE if you hold your shares through a broker. In either case, please have your proxy card in hand and follow the instructions.

In order to vote by mail, please complete, date, sign and return the proxy card in the self-addressed stamped envelope provided.

Authorizing your proxy by one of the methods described above will not limit your right to attend the Annual Meeting and vote your shares in person. Your proxy (one of the individuals named in your proxy card) will vote your shares per your instructions. If you fail to provide instructions on a properly submitted proxy, your proxy will vote, as recommended by the Board of Directors, to elect (FOR) the director nominees listed in "Proposal 1 – Election of Directors," to approve (FOR) our NEO compensation as listed in "Proposal 2 – Advisory Vote on Named Executive Officer Compensation," to approve an annual vote (1 YEAR) on our NEO compensation as listed in "Proposal 3 – Advisory Vote on the Frequency of Future Advisory Votes on Named Executive Officer Compensation," and in favor (FOR) of "Proposal 4 – Ratification of Appointment of Independent Registered Public Accounting Firm."

Q. How do I vote my shares that are held by my broker?

A. If you have shares held by a broker, you may instruct your broker to vote your shares by following the instructions that the broker provides to you. Most brokers allow you to authorize your proxy by mail, telephone and on the Internet.

Q. What am I voting on?

A. You will be voting on:

- Proposal 1: the election of eight directors to hold office until our 2013 annual meeting of stockholders and until their successors are duly elected and qualified;
- Proposal 2: an advisory vote on NEO compensation;
- Proposal 3: an advisory vote regarding the frequency of future advisory votes on NEO compensation; and
- Proposal 4: the ratification of the appointment of Deloitte & Touche LLP to act as our independent registered public accounting firm for the year ending December 31, 2012.

Q. What vote is required to approve the proposals assuming that a quorum is present at the Annual Meeting?

A.

Proposal	Required Vote to Approve the Proposal
Election of Directors	A plurality of the votes cast.
Advisory Vote on NEO Compensation	A majority of the votes cast.
Advisory Vote Regarding the Frequency of Future Advisory Votes on NEO Compensation	A majority of the votes cast.
Ratification of the Appointment of our Independent Registered Public Accounting Firm	A majority of the votes cast.

Q. How are abstentions and broker non-votes treated?

A. A "broker non-vote" occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Pursuant to Maryland law, abstentions and broker non-votes are counted as present for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not count "for" or "against" the election of directors, the advisory vote regarding NEO compensation, the advisory vote regarding the frequency of future advisory votes on NEO compensation or the ratification of Deloitte & Touche LLP as our independent public accountants, and thus will have no effect on the result of the vote on these proposals.

Under the rules of the New York Stock Exchange (the "NYSE"), brokerage firms may have the discretionary authority to vote their customers' shares on certain routine matters for which they do not receive voting instructions, including the ratification of the independent registered public accounting firm. The uncontested election of directors is not considered a "routine" matter for purposes of broker discretionary voting. Additionally, the Securities and Exchange Commission (the "SEC") has specifically prohibited broker discretionary voting of uninstructed shares with respect to the advisory vote on NEO compensation and the advisory vote regarding the frequency of future advisory votes on NEO compensation.

Q. Will there be any other items of business on the agenda?

A. The Board of Directors does not know of any other matters that may be brought before the Annual Meeting nor does it foresee or have reason to believe that proxy holders will have to vote for substitute or alternate nominees for election to the Board of Directors. In the event that any other matter should come before the Annual Meeting or any nominee is not available for election, the persons named in the enclosed proxy will have discretionary authority to vote all proxies with respect to such matters in accordance with their discretion.

Q. What happens if I submit my proxy without providing voting instructions on all proposals?

A. Proxies properly submitted will be voted at the Annual Meeting in accordance with your directions. If the properly-submitted proxy does not provide voting instructions on a proposal, **the proxy will be voted to elect (FOR) each of the director nominees listed in "Proposal 1 – Election of Directors," to approve (FOR) our NEO compensation as listed in "Proposal 2 – Advisory Vote on Named Executive Officer Compensation," to approve an annual vote (ONE YEAR) on our NEO compensation as listed in "Proposal 3 – Advisory Vote on the Frequency of Future Advisory Votes on Named Executive Officer Compensation," and in favor (FOR) of "Proposal 4 – Ratification of Appointment of Independent Registered Public Accounting Firm."**

Q. Will anyone contact me regarding this vote?

A. No arrangements or contracts have been made with any solicitors as of the date of this proxy statement, although we reserve the right to engage solicitors if we deem them necessary. Some of our directors, officers and employees may make solicitations. Such solicitations may be made by mail, telephone, facsimile, e-mail or in person.

Q. Who has paid for this proxy solicitation?

A. We have paid the entire expense of preparing, printing and mailing the proxy materials and any additional materials furnished to stockholders. Proxies may be solicited by our directors, officers or employees personally or by telephone without additional compensation for such activities. We also will request persons, firms and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send appropriate solicitation materials to such beneficial owners. We will reimburse such holders for their reasonable expenses.

Q. May stockholders ask questions at the Annual Meeting?

A. Yes. There will be time allotted at the end of the meeting when our representatives will answer questions from the floor.

Q. What does it mean if I receive more than one proxy card?

A. It probably means your shares are registered differently and are in more than one account. Sign and return all proxy cards to ensure that all your shares are voted.

Q. Can I change my vote after I have voted?

A. Yes. Proxies properly submitted by mail, phone or the Internet do not preclude a stockholder from voting in person at the meeting. A stockholder may revoke a proxy at any time prior to its exercise by filing with our corporate secretary a duly executed revocation of proxy, by properly submitting by mail, phone or the Internet a proxy to our corporate secretary bearing a later date or by appearing at the meeting and voting in person. Attendance at the meeting will not by itself constitute revocation of a proxy.

Q. Can I find additional information on the Company's web site?

A. Yes. Our web site is located at *www.cysinv.com*. Although the information contained on our web site is not part of this proxy statement, you can view additional information on the web site, such as our corporate governance guidelines, our code of business conduct and ethics, charters of our board committees and reports that we file with the SEC.

PROPOSAL 1: ELECTION OF DIRECTORS

Our Board of Directors currently consists of seven members. Each director serves a one-year term and until his or her successor is duly elected and qualified. The term for each director expires at each annual meeting of stockholders.

Our nominating and corporate governance committee analyzes the composition of our Board or Directors each year. In connection with this review, the nominating and corporate governance committee concluded that it would be beneficial to add another director that has fixed income, derivatives and risk management experience. After interviewing several candidates identified by members of our Board of Directors, the nominating and corporate governance committee concluded that Tanya S. Beder should be nominated for election to serve as a member of our Board of Directors due to her extensive fixed income, derivatives and risk management experience. The nominating and corporate governance committee also concluded that all of our current members should be nominated to serve another term. Accordingly, our Board of Directors agreed with all of these conclusions and has increased the size of the board to facilitate Ms. Beder's election to the Board of Directors.

At the 2012 Annual Meeting, directors will be elected to serve until the 2013 annual meeting and until their successors are duly elected and qualified. The Board of Directors has nominated our current directors, Kevin E. Grant, Douglas Crocker, II, Jeffrey P. Hughes, Stephen P. Jonas, Raymond A. Redlingshafer, Jr., James A. Stern, and David A. Tyson, PhD, and our director nominee, Ms. Beder, to serve as directors (the "Nominees") until the 2013 annual meeting and until their successors are duly elected and qualified. The Board of Directors anticipates that each Nominee will serve, if elected, as a director. However, if any Nominee is unable to accept election, the proxies will be voted for the election of such other person or persons as the Board of Directors may recommend.

The Board of Directors recommends a vote FOR each Nominee.

Information Regarding the Nominees

We believe that all of the nominees are intelligent, collegial, insightful, proactive with respect to management and risk oversight, diligent and exercise good judgment. The biographical descriptions below set forth certain information with respect to each nominee for election as a director at the Annual Meeting, including the experience, qualifications, attributes or skills of each nominee that led us to conclude that such person should serve as a director.

Name	Age	Background Information
Kevin E. Grant	51	Mr. Grant has served as our Chief Executive Officer, President and the Chairman of our Board of Directors since our inception in January 2006. He also has served as our Chief Investment Officer since September 2011. Mr. Grant formed Sharpridge Capital Management, L.P. ("Sharpridge"), which was one of the sub-advisors to our former manager, in January 2005, where he has served as Chief Executive Officer since formation. Mr. Grant served as the Chief Executive Officer and President of our former manager from January 2006 until August 2011. Prior to forming Sharpridge, Mr. Grant was Vice President and Portfolio Manager at Fidelity Investments ("Fidelity"). As a Portfolio Manager of Fidelity, Mr. Grant had direct or indirect responsibility for management of fixed income assets in mutual funds and institutional separate accounts. Over the course of his career at Fidelity, Mr. Grant's mutual fund responsibilities included the Mortgage Securities Fund, Investment Grade Bond Fund, Total Bond Fund, the fixed income portion of Fidelity Puritan Fund and Strategic Income Fund. In addition, Mr. Grant managed many separate accounts for Fidelity's institutional clients. Prior to joining Fidelity in 1993, Mr. Grant was head of Mortgage Strategy for Morgan Stanley & Co. Incorporated. He began his investing career at Aetna Bond Investors in 1985.

Name	Age	Background Information
		We believe that Mr. Grant should serve as a member of our Board of Directors due to his long and distinguished career as a residential mortgage-backed securities and fixed income portfolio manager.
Douglas Crocker, II	71	Mr. Crocker has served as a member of our Board of Directors since November 2006. Mr. Crocker is currently a director of Ventas, Inc. (NYSE: VTR), a health care real estate investment trust ("REIT"). Mr. Crocker also serves as a director of Post Properties (NYSE: PPS), a multifamily REIT. Mr. Crocker serves as a trustee for Acadia Realty Trust (NYSE: AKR), a REIT which owns and operates shopping centers. From March 1993 through December 2002, Mr. Crocker was Chief Executive Officer, President and a trustee of Equity Residential (NYSE: EQR), an apartment REIT, and served as the company's Vice Chairman from January 2003 through May 2003. Mr. Crocker formerly served as a trustee of DePaul University. Mr. Crocker is a former Chairman of the Multifamily Council of the Urban Land Institute and former member of the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). Mr. Crocker is a past Chairman of the National Multi Housing Council. Mr. Crocker has also served as a director of REIS Inc. (NASDAQ: REIS) and Reckson Associates Realty Corp. within the past five years, although he no longer serves as a director of either of those companies. Due to his significant experience as an executive officer and director of other publicly traded REITs, we believe Mr. Crocker should serve as a member of our Board of Directors.
Jeffrey P. Hughes	71	Mr. Hughes has served as a member of our Board of Directors since February 2006. Mr. Hughes is Vice Chairman of The Cypress Group ("Cypress"). At Cypress, Mr. Hughes is the principal operating officer and advises and assists on investments, primarily in the financial services area. Mr. Hughes is currently a director of Financial Guaranty Insurance Company. Mr. Hughes has served as a director of CPI International Inc. (NASDAQ: CPII), Scottish Re Group Limited and Medicus Insurance Holdings, Inc. within the past five years, although he no longer serves as a director of any of these companies. Prior to founding Cypress in 1994, Mr. Hughes was a senior investment banker with Lehman Brothers Inc. and its predecessors ("Lehman"), which he joined in 1968 and was elected partner in 1976. Over the course of his career at Lehman, Mr. Hughes established the firm's private financing department, served as a senior investment banker for industrial, energy and consumer products companies and was head of its financial institutions group. Mr. Hughes began his career as an attorney with Simpson Thacher & Bartlett LLP. Due to his significant investment and capital markets experience as well as his experience as a director of other public companies, we believe Mr. Hughes should serve as a member of our Board of Directors.
Stephen P. Jonas	59	Mr. Jonas has served as a member of our Board of Directors since September 2009. Mr. Jonas retired in 2007 as Executive Director of Fidelity Management & Research Company, the investment management organization of Fidelity, the largest mutual fund company in the United States. Mr. Jonas was a member of Fidelity's Management Committee and served on Fidelity's Board of Directors as well as the Board of Trustees of

Name	Age	Background Information
		the Fidelity Funds. Mr. Jonas joined Fidelity in 1987 as Vice President of Finance for the retail customer phone operations. He then held a series of senior operational and financial positions, which included Chief Financial Officer of Fidelity Management & Research Company, Chief Financial Officer of Fidelity Brokerage Group and Chief Financial Officer of Fidelity Personal Investments and Brokerage Group. Mr. Jonas served as Executive Vice President and Chief Financial Officer of Fidelity from 1998 to 2002, and Chief Administrative Officer until 2004, when he was named President of Enterprise Operations and Risk Services. He was appointed to his last position in 2005 and retired in 2007, when he was responsible for the investment management of $1.2 trillion of mutual fund assets. Prior to joining Fidelity, Mr. Jonas was with Wang Laboratories in Lowell, Massachusetts from 1978 to 1987, where he held a series of senior financial and operational positions in the Customer Services Division. Previously, he was Chief Financial Officer for Graphic Systems, Inc. in Hudson, New Hampshire from 1975 to 1978. Mr. Jonas serves on the Board of Trustees for Simmons College in Massachusetts, where he is currently Chairman of its investment committee. Due to his significant experience as a chief financial officer, a director and a risk manager at Fidelity, we believe Mr. Jonas should serve as a member of our Board of Directors.
Raymond A. Redlingshafer, Jr.	56	Mr. Redlingshafer has served as a member of our Board of Directors since November 2006. Mr. Redlingshafer is a Senior Managing Director with Clayton Holdings, LLC ("Clayton"), a financial services firm that provides risk analysis, loss mitigation and operational solutions to the mortgage industry. Prior to joining Clayton in January 2010, Mr. Redlingshafer was a Managing Director and an independent consultant for the Pentalpha Capital Group ("Pentalpha"), an independent financial services firm that provides advisory and consulting services related to the capital markets and operating issues affecting the global credit markets, from December 2007 to January 2010. Prior to working as an independent consultant for and subsequently joining Pentalpha, Mr. Redlingshafer was a Managing Director of KC Partners, a private equity firm, from October 2006 to October 2007. Mr. Redlingshafer was President and Chief Investment Officer of New York Mortgage Trust, Inc. ("New York Mortgage Trust") (NASDAQ: NYMT) from March 2003 to July 2005. Mr. Redlingshafer also served as a director of New York Mortgage Trust, although he no longer serves as a director there. While Mr. Redlingshafer was at New York Mortgage Trust, it was a REIT that focused on owning and managing a leveraged portfolio of residential mortgage-backed securities. Prior to joining New York Mortgage Trust, from January 2000 to April 2001 Mr. Redlingshafer was a Managing Director of Pedestal Capital Markets, Inc., an institutional mortgage-backed security trading platform. As a Vice President of Mortgage Capital Markets at Salomon Brothers from 1998 to 2000, Mr. Redlingshafer had roles in sales, trading and finance, working with origination as well as buy-side accounts. Prior to Salomon Brothers, he was National Director of Securities Marketing for the Federal Home Loan Mortgage Corporation ("Freddie Mac"), where he managed a sales team which marketed Freddie Mac securities to institutional fixed income investors. Prior to becoming the National Director of Securities Marketing for Freddie Mac, Mr.

Name	Age	Background Information
		Redlingshafer held a number of positions at the firm, including starting the Adjustable Rate Mortgage trading desk. Mr. Redlingshafer began his career with Goldman Sachs & Co. as a whole loan mortgage trader and was one of the original members of the firm's mortgage department. Due to his experience in the residential mortgage-backed securities market, we believe Mr. Redlingshafer should serve as a member of our Board of Directors.
James A. Stern	61	Mr. Stern has served as a member of our Board of Directors since February 2006. Mr. Stern is the Chairman and Chief Executive Officer of Cypress. At Cypress, Mr. Stern manages the firm's investing activities and serves as a director of Affinia Holdings. Mr. Stern has also served as a director of Medpointe Inc., Cooper-Standard Automotive Inc. and Lear Corporation (NYSE: LEA) within the past five years, although he no longer serves as a director of any of those companies. Prior to founding Cypress in 1994, Mr. Stern was head of Lehman's Merchant Banking Group. Over the course of his career at Lehman, Mr. Stern was a member of the firm's management committee and co-head of investment banking. In addition to his business activities, Mr. Stern has been a member of Tufts University's Board of Trustees since 1982, and currently serves as its Chairman. Due to his significant investment and capital markets experience as well as his experience as a director of other public companies, we believe Mr. Stern should serve as a member of our Board of Directors.
David A. Tyson, PhD	54	Mr. Tyson has served as a member of our Board of Directors since April 2006. Mr. Tyson is President of RiversEdge Portfolio Advisors LLC ("RiversEdge"), an investment risk management consultancy based in Connecticut. Starting in 2010, RiversEdge also began to provide consulting services through Capital Markets Risk Advisors. Mr. Tyson also founded RiversEdge Convertible Portfolio Advisors in 2007 to manage convertible portfolios for institutional accounts. Prior to founding RiversEdge, Mr. Tyson held several financial roles at Travelers Life & Annuity ("Travelers"), and Citigroup's other proprietary insurance companies. Mr. Tyson was Vice Chairman of Citigroup Investments from 2000 until 2003 and Chief Investment Officer of Traveler's and Citigroup's other proprietary insurance companies from 2000 until 2004. From 1994 until 2000, Mr. Tyson held the position of President and Chief Operating Officer of Travelers Asset Management International Corporation and served as Chairman and Chief Executive Officer from 2000 to 2004. Over the course of his 19-year career at Travelers, Mr. Tyson was responsible for global fixed income asset class management and asset-liability matching for Citigroup's insurance companies. In addition, he managed third party hedge fund investments, internal hedge fund groups, specialty fixed income groups, and a registered investment advisor which had oversight responsibility for strategies including collateralized debt obligations, syndicated bank loans, core and specialty fixed income variable annuity funds, and many third party insurance accounts. As Chief Investment Officer, Mr. Tyson was actively involved in all of Traveler's alternative and special investments, and served on numerous insurance and fiduciary investment management committees including the Global Asset Liability Committee for all of Citigroup. Prior to joining Travelers in 1985,

Name	Age	Background Information
		Mr. Tyson was with Equitable Investment Management Company from 1979 to 1985. Due to his significant investment and risk management experience, we believe Mr. Tyson should serve as a member of our Board of Directors.
Tanya S. Beder	56	Ms. Beder currently serves as the Chairman of SBCC Group Inc. ("SBCC"), which she founded in 1987 and returned to as Chairman in 2006. SBCC is a consulting firm whose projects include assisting corporate management, institutional investors, large financial firms and other clients in solving problems under crisis and providing strategic advice to seize opportunities. Ms. Beder also currently serves as a trustee of the American Century mutual fund complex in Mountain View, California, where she serves on the Audit & Compliance Committee and chairs the Risk Committee. Prior to rejoining SBCC, Ms. Beder was the Chief Executive Officer of Tribeca Global Management LLC, a $2.6 billion multi-strategy asset management firm with operations in Singapore, London and New York. Ms. Beder co-founded Capital Market Risk Advisors, Inc., which specializes in risk measurement, risk management and asset/liability management, due diligence, compliance, portfolio construction and risk attribution, in 1994 and served as its President for five years, heading the research, quantitative, project analysis and client-facing aspects of the business. Ms. Beder also served as Managing Director of Caxton Associates LLC, a $10 billion asset management firm. Ms. Beder spent time in various positions with The First Boston Corporation and Credit Suisse First Boston where she was a part of the first team of derivatives traders and marketers for currency and interest rate swaps, caps, collars, floors, futures and options, designed and conducted education seminars for customers regarding derivatives and their applications and established a fixed income research area regarding derivatives and applications to mortgage-backed securities, collateralized mortgage obligations and asset-backed securities and capital market transactions. While Ms. Beder has no public company board experience, she currently serves or has served on a number of advisory boards including The National Academies Board on Mathematical Sciences and Their Applications, the Advisory Board of the Columbia University Financial Engineering Program, the Mathematical Finance Advisory Board of New York University, the International Association of Financial Engineers ("IAFE"), where she is co-chair of the Investor Risk Committee, and the Fischer Black Memorial Foundation, which is the educational arm of the IAFE. Due to her significant fixed income, derivatives and risk management experience, we believe Ms. Beder should serve as a member of our Board of Directors.

Director Independence

Our Corporate Governance Guidelines require that a majority of our directors be independent. Our Board of Directors has adopted the categorical standards prescribed by the NYSE to assist the Board of Directors in evaluating the independence of each of the directors. The categorical standards describe various types of relationships that could potentially exist between a board member and the Company and sets thresholds at which such relationships would be deemed to be material. Provided that no relationship or transaction exists that would

disqualify a director under the categorical standards and the Board of Directors determines, taking into account all facts and circumstances, that no other material relationship between the Company and the director exists of a type not specifically mentioned in the categorical standards, the Board of Directors will deem such person to be independent. A director shall not be independent if he or she satisfies any one or more of the following criteria:

- a director who is, or who has been within the last three years, an employee of the Company, or whose immediate family member is, or has been within the last three years, an executive officer of the Company;
- a director who has received, or who has an immediate family member serving as an executive officer who has received, during any twelve-month period within the last three years more than $120,000 in direct compensation from the Company (excluding director and committee fees and pension/other forms of deferred compensation for prior service that is not contingent in any way on continued service);
- (i) a director who is or whose immediate family member is a current partner of a firm that is the Company's internal or external auditor; (ii) a director who is a current employee of such a firm; (iii) a director who has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (iv) a director who was or whose immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;
- a director who is or has been within the last three years, or whose immediate family member is or has been within the last three years, employed as an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee; or
- a director who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million or 2% of such other company's consolidated gross revenues (as reported for the last completed fiscal year).

Under these criteria, our Board of Directors has determined that the following members of our Board of Directors are independent: Messrs. Crocker, Hughes, Jonas, Redlingshafer, Stern, and Tyson. We presently have seven directors, including these six independent directors. Furthermore, our Board of Directors has determined that, pursuant to the same criteria under which current members of our Board of Directors are evaluated, Ms. Beder would be an independent director should she be elected to serve on our Board of Directors.

Executive Sessions of our Non-Management Directors

As required by the NYSE rules, the independent directors or the non-management directors of our Board of Directors regularly meet in executive session, without management present. Generally, these executive sessions occur either before or after a regularly scheduled meeting of the Board of Directors, and, in some instances, both before and after a board meeting. In 2011, the independent directors or the non-management directors of the Board of Directors met in executive session 28 times without management. Our lead independent director, Mr. Tyson, presides over such executive sessions.

We have implemented procedures for interested parties, including stockholders, who wish to communicate directly with our independent directors. We believe that providing a method for interested parties to communicate directly with our independent directors, rather than the full Board of Directors, provides a confidential, candid and efficient method of relaying any interested party's concerns or comments. See "—Communication with the Board of Directors, Independent Directors and the Audit Committee."

Board Committees

Our Board of Directors has established and adopted a written charter for an audit committee, compensation committee, and nominating and corporate governance committee. Each of these committees currently has three directors and is composed exclusively of independent directors, as defined in the rules and listing qualifications of the NYSE and, with respect to the members of the audit committee, Rule 10A-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

On September 1, 2011 we internalized our management (the "Internalization"), and, as a result, the Board of Directors has determined that Messrs. Hughes and Stern, both of whom were previously not independent because of their relationship to our former manager, satisfy the applicable independence standards. The Board has also determined that Ms. Beder would be an independent director in the event she is elected to serve on our Board of Directors. As a result, we anticipate that Messrs. Hughes and Stern and Ms. Beder will each serve as a member of at least one of the board committees following the Annual Meeting.

Audit Committee

The audit committee is responsible for reviewing and discussing with management and our independent public accountants our annual and quarterly financial statements, engaging independent public accountants, reviewing with the independent public accountants the plans and results of the audit engagement, approving professional services provided by the independent public accountants, reviewing the performance and independence of the independent public accountants, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls. Our audit committee may designate a sub-committee of at least one member to address specific issues on behalf of the committee. Mr. Jonas, one of our independent directors, chairs our audit committee and serves as our "audit committee financial expert," as that term is defined by the SEC. Messrs. Redlingshafer and Tyson are also members of the audit committee. Each member of the audit committee is financially literate and able to read and understand fundamental financial statements. None of the audit committee members serve on audit committees of other public companies. The audit committee has the power to investigate any matter brought to its attention within the scope of its duties and to retain counsel for this purpose where appropriate.

The audit committee is responsible for reviewing any transactions that involve potential conflicts of interest, including any potential conflicts involving executive officers, directors and their immediate family members. See "Code of Business Conduct and Ethics." Because the facts and circumstances regarding potential conflicts are difficult to predict, the Board of Directors has not adopted a written policy for evaluating conflicts of interests. In the event a conflict of interest arises, the audit committee will review, among other things, the facts and circumstances of the conflict, our applicable corporate governance policies, the effects of any potential waivers of those policies, applicable state law, and the NYSE continued listing rules and regulations, and may consider the advice of counsel, before making any decisions regarding the conflict.

In addition, the audit committee is responsible for reviewing and approving "related person transactions." See "Certain Relationships and Related Transactions—Related Person Transaction Policy."

The audit committee held six meetings in 2011.

Compensation Committee

The compensation committee exercises all powers delegated to it by the Board of Directors in connection with compensation matters, which include reviewing the Company's overall director compensation structure, policies and programs, administering the issuance of any equity awards under our 2006 Stock Incentive Plan (the "2006 Plan"), administering the issuance of any incentive compensation issued under our 2011 Incentive Compensation Plan (the "Plan"), making recommendations to the Board of Directors with respect to the 2006

Plan and the Plan and any other incentive compensation plans and equity-based plans, making determinations as to appropriate levels of executive officer compensation and other matters. Our compensation committee may designate a sub-committee of at least one member to address specific issues on behalf of the committee. Mr. Crocker chairs our compensation committee. Messrs. Redlingshafer and Tyson are members of the compensation committee.

In 2011, the compensation committee retained FTI Consulting, Inc. ("FTI") to help the compensation committee create a fair, reasonable and balanced compensation program for our directors and our executive officers as part of the board's review and analysis of the Internalization of our management structure that will motivate and reward these individuals for performance while closely aligning their interests with the interests of our stockholders. Under this engagement, the compensation committee asked FTI to engage in periodic discussions with the compensation committee to review current trends and significant developments in the areas of employment contracts, compensation plans and philosophies and changes in tax and accounting rules that affect compensation.

The compensation committee held four meetings in 2011.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee (i) is responsible for seeking, considering and recommending to the full Board of Directors qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting of stockholders, (ii) makes recommendations to the Board of Directors regarding candidates to fill vacancies in the Board of Directors, (iii) periodically prepares and submits to the Board of Directors for adoption the committee's selection criteria for director nominees, (iv) reviews and makes recommendations on matters involving general operation of the Board of Directors and our corporate governance, (v) annually recommends to the Board of Directors nominees for each committee of the Board of Directors and (vi) reviews periodically with the Board of Directors the succession plans with respect to the Chief Executive Officer. In addition, the committee annually facilitates the assessment of the Board of Directors' performance as a whole and of the individual directors and officers and reports thereon to the Board of Directors. Our nominating and corporate governance committee may designate a sub-committee of at least one member to address specific issues on behalf of the committee. Mr. Redlingshafer chairs our nominating and corporate governance committee. Messrs. Crocker and Tyson are members of the nominating and corporate governance committee.

The nominating and corporate governance committee held six meetings in 2011.

Other Committees

Our Board of Directors may from time to time establish other committees to facilitate the management of the Company.

Code of Business Conduct and Ethics

Our Board of Directors has established a code of business conduct and ethics that applies to our officers, directors and employees. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and
- accountability for adherence to the code.

Any waiver of the code of business conduct and ethics of our executive officers or directors may be made only by our Board of Directors or one of its committees.

Our code of business conduct and ethics expressly prohibits the continuation of any conflict of interest by an officer, director or employee except under guidelines approved by the Board of Directors. Our code of business conduct and ethics requires any employee to report any actual conflict of interest to a supervisor, manager or other appropriate personnel.

Board Meetings

The Board of Directors held 18 meetings (including regularly scheduled and special meetings) in 2011, and each director attended at least 75% of the board meetings and each director's respective committee meetings.

Director Attendance at the Annual Meeting

The Company has a policy that directors attend the annual meeting of stockholders; however, some or all of our directors may be unable to attend the 2012 Annual Meeting due to scheduling conflicts or other obligations that may arise. All of our directors attended the 2011 annual meeting of stockholders.

Director Education

To assist members of the Board of Directors in remaining current with their board duties, committee responsibilities and industry developments, we encourage our directors to participate in various board member education programs, including but not limited to those sponsored by the NYSE-Corporate Board Member Board Education Program and the National Association of Corporate Directors. These programs offer our directors access to a wide range of in-person, peer-based and webinar educational programs on corporate governance, committee duties, board leadership and industry developments.

Compensation Committee Interlocks and Insider Participation

Messrs. Crocker, Redlingshafer, and Tyson served on our compensation committee during our fiscal year ended December 31, 2011. None of the members of our compensation committee is or has been one of our employees or officers. None of our executive officers currently serves, or during the past fiscal year has served, as a member of the board of directors or compensation committee of another entity that has one or more executive officers serving on our Board of Directors or compensation committee.

Director Compensation for 2011

Our chairman of the board is the only member of our Board of Directors who also serves as one of our executive officers or employees and does not receive additional compensation for serving on our Board of Directors. In the future, to the extent our chairman of the board is not one of our executive officers or employees, the chairman may be entitled to receive an annual retainer fee, a fee for each full board meeting attended in person or telephonically and/or a fee for each committee meeting attended in person or telephonically and that occurs on a date different from a full board meeting date at the discretion of the compensation committee of our Board of Directors. In 2011, each director, other than Mr. Grant, received $12,500 per quarter, payable in shares of our restricted common stock, and $5,000 per quarter, payable in cash. Shares of restricted stock that we granted to our directors in 2011 are subject to forfeiture restrictions that lapse on the first anniversary of the date of each grant. These shares are issued pursuant to the 2006 Plan. Furthermore, the chairperson of our audit committee received an additional annual cash retainer of $15,000 and each other member of our audit committee received an additional annual cash retainer fee of $5,000. The chairpersons of our compensation committee and our nominating and corporate governance committee both received an additional cash retainer of $10,000.

Additionally, Messrs. Crocker, Redlingshafer, and Jonas each received a cash retainer of $12,000 for their service in connection with the Internalization. Mr. Tyson received an additional cash retainer of $22,000 for his service as the Lead Independent Director in connection with the Internalization. Messrs. Crocker, Jonas, Redlingshafer and Tyson also received 1,500 shares of stock for their service in connection with the Internalization. We also reimbursed our directors for their reasonable travel expenses incurred in connection with their attendance at full board and committee meetings.

The following table summarizes the compensation that we paid to certain of our directors in 2011:

2011 Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards [1]	Total
Douglas Crocker, II	$42,000	$78,684	$120,684
Jeffrey P. Hughes	20,000	59,664	79,664
Stephen P. Jonas	47,000	78,684	125,684
Raymond A. Redlingshafer, Jr.	47,000	78,684	125,684
James A. Stern	20,000	59,664	79,664
David A. Tyson, PhD	47,000	78,684	125,684

(1) All stock awards were granted pursuant to the 2006 Plan. The dollar value is computed in accordance with Accounting Standards Codification 718, *Share-Based Payment*, and reflects the grant date fair value of stock awards granted in 2011. See Note 8 to our financial statements as of December 31, 2011 and for the year ended December 31, 2011 included in our Annual Report on Form 10-K for a discussion of the assumptions used to value our stock awards to directors. Messrs. Crocker, Jonas, Hughes, Redlingshafer, Stern and Tyson each received 4,741 shares of restricted stock during 2011. Each individual received: 1,164 shares with a grant date fair value of $15,027 on January 1, 2011; 1,179 shares with a grant date fair value of $14,950 on April 1, 2011; 1,179 shares with a grant date fair value of $14,950 on July 1, 2011 and 1,219 shares with a grant date fair value of $14,738 on October 1, 2011. These restricted stock awards are subject to forfeiture restrictions that will lapse on the first anniversary of the date of grant. Additionally, Messrs. Crocker, Jonas, Redlingshafer and Tyson each received 1,500 shares of stock with a grant date fair value of $19,020 on November 1, 2011 in connection with the Internalization. As of December 31, 2011, Messrs. Crocker, Jonas, Hughes, Redlingshafer, Stern and Tyson each had outstanding 4,741 shares of restricted stock.

In December 2011, our Board of Directors approved the following compensation for our non-employee directors for 2012 that was effective as of January 1, 2012:

- an annual payment of $60,000, payable in equal amounts each quarter in shares of our restricted common stock;
- an annual cash retainer of $25,000, payable in equal amounts each quarter;
- an additional annual cash retainer of $15,000, $12,500 and $10,000 for the chairperson of our audit committee, compensation committee and nominating and corporate governance committee, respectively;
- an additional annual cash retainer of $5,000 and $4,000 for each other member of our audit committee and compensation committee, respectively; and
- an additional $15,000 cash retainer to our lead independent director.

Our Board of Directors may revise our directors' compensation in its discretion.

Our minimum share ownership guidelines require each non-employee director to maintain a minimum equity investment in our company of five times the then-current annual cash retainer fee paid to non-employee directors without regard to (i) fees for service as a lead director, (ii) additional fees for service as a member or chair of certain committees, (iii) meeting fees, or (iv) fees for any other activity undertaken as a director on behalf of our company that is not in the ordinary course of business. Each non-employee director must achieve the minimum equity investment no later than January 2, 2017. Until the minimum equity investment is met, a non-employee director must retain all of our common stock granted to him or her as compensation. From time to

time the nominating and corporate governance committee of the Board of Directors will review each non-employee director's compliance with the guidelines and may grant exceptions to the guidelines as it deems appropriate and market-competitive on a case-by-case basis. Taking into account any permitted transition period, all of our non-employee directors are currently in compliance with the minimum share ownership guidelines.

Nomination of Directors

Before each annual meeting of stockholders, the nominating and corporate governance committee considers the nomination of all directors whose terms expire at the next annual meeting of stockholders and also considers new candidates whenever there is a vacancy on the Board of Directors or whenever a vacancy is anticipated due to a change in the size or composition of the Board of Directors, a retirement of a director, or for any other reasons. In addition to considering incumbent directors, the nominating and corporate governance committee identifies director candidates based on recommendations from the directors, stockholders, management, and others. The committee may in the future engage the services of third-party search firms to assist in identifying or evaluating director candidates. No such firm was engaged in 2011.

Our nominating and corporate governance committee charter provides that the nominating and corporate governance committee will consider nominations for board membership by stockholders. The rules that must be followed to submit nominations are contained in our bylaws and include the following: (i) the nomination must be received by the committee at least 120 days, but not more than 150 days, before the first anniversary of the mailing date for proxy materials applicable to the annual meeting prior to the annual meeting for which such nomination is proposed for submission; and (ii) the nominating stockholder must submit certain information regarding the director nominee, including the nominee's written consent.

The nominating and corporate governance committee evaluates annually the effectiveness of the Board of Directors as a whole and of each individual director and identifies any areas in which the Board of Directors would be better served by adding new members with different skills, backgrounds or areas of experience. The Board of Directors considers director candidates, including those nominated by stockholders, based on a number of factors including: whether the board member will be "independent," as such term is defined by the NYSE listing standards; whether the candidate possesses the highest personal and professional ethics, integrity and values; whether the candidate contributes to the overall diversity of the Board of Directors; and whether the candidate has an inquisitive and objective perspective, practical wisdom and mature judgment. Candidates are also evaluated on their understanding of our business, experience and willingness to devote adequate time to carrying out their duties. The nominating and corporate governance committee also monitors the mix of skills, experience and background to assure that the Board of Directors has the necessary composition to effectively perform its oversight function.

We do not have a formal policy about diversity, but the nominating and corporate governance committee does consider certain types of diversity when nominating director candidates to the Board of Directors, including differences of viewpoint, professional experience, education, skill, other personal qualities and attributes, race, gender and national origin.

Corporate Governance Matters

We have adopted a code of business conduct and ethics that applies to all our executive officers and employees and each member of our Board of Directors. We anticipate that any waivers of our code of business conduct and ethics will be posted on our web site. Current copies of the following documents are available at our web site at www.cysinv.com in the "Corporate Governance" area of the "Investor Relations" section:

- audit committee charter;
- compensation committee charter;

- nominating and corporate governance committee charter;
- code of business conduct and ethics; and
- corporate governance guidelines.

Each committee reviews its written charter annually.

Mr. Grant serves as our Chairman, Chief Executive Officer, President, and Chief Investment Officer. Mr. Tyson serves as our lead independent director. Our lead independent director chairs executive sessions of the independent directors of our Board of Directors and meetings of the full Board of Directors if the Chairman is ever absent and otherwise serves as a liaison between the independent directors, the full Board of Directors and management.

We believe that it is in the best interests of our stockholders for Mr. Grant to serve as our Chairman because of his unique insight into the Company as well as the residential mortgage backed securities market. We believe that a lead independent director and six of our seven directors being independent mitigates the risk that having our Chief Executive Officer serve as our Chairman may cause management to have undue influence on our Board of Directors.

Board Oversight of Risk

Following the Internalization, our Board of Directors dissolved its risk management committee that had overseen management's risk management responsibilities. The risk management committee interacted directly with our executive officers and our former manager and its sub-advisors regarding enterprise risk management and reported to and assisted the board and the audit committee in assessing risk management and our overall risk profile. However, we now believe that our Board of Directors is best situated to oversee our risk management practices and assess and manage our overall risk profile. As a result, our Board of Directors resolved to assume the responsibilities that had previously been handled by the risk management committee. The various committees of our Board of Directors assist it in fulfilling these responsibilities.

Communication with the Board of Directors, Independent Directors and the Audit Committee

Our Board of Directors or any individual director may be contacted by any party via mail at the address listed below:

Board of Directors
CYS Investments, Inc.
890 Winter Street, Suite 200
Waltham, Massachusetts 02451
Attn: Secretary

We believe that providing a method for interested parties to communicate directly with our independent directors, rather than the full board, provides a confidential, candid and efficient method of relaying any interested party's concerns or comments. As discussed above, the presiding director of independent sessions of the Board of Directors is Mr. Tyson. The independent directors can be contacted by any party via mail at the address listed below:

Independent Directors
CYS Investments, Inc.
890 Winter Street, Suite 200
Waltham, Massachusetts 02451
Attn: Secretary

The audit committee of our Board of Directors or any individual member of the audit committee may be contacted by any party via mail at the address listed below:

Audit Committee
CYS Investments, Inc.
890 Winter Street, Suite 200
Waltham, Massachusetts 02451
Attn: Secretary

The Company does not screen mail, except when warranted for security purposes, and all such letters will be forwarded to our Board of Directors and any such specified committee or individual directors.

Biographical Information Regarding Named Executive Officers

Name	Age	Background Information
Kevin E. Grant *Chairman of the Board, Chief Executive Officer, President, and Chief Investment Officer*	51	Background information about Mr. Grant may be found under "Information Regarding the Nominees" in this proxy statement.
Frances R. Spark *Chief Financial Officer and Treasurer*	53	Ms. Spark has served as our Chief Financial Officer and Treasurer, the Chief Financial Officer and Treasurer of our former manager and the Chief Financial Officer of Sharpridge since August 2009. Ms. Spark served as a member of our Board of Directors from our initial capitalization in February 2006 to September 2009. She served as the chair of our audit committee from March 2007 to September 2009. In 1999, Ms. Spark founded a consulting firm, Spark Consulting, through which she has provided, and may from time to time in the future provide, financial management, strategic advisory and business consulting services to public and private companies. Ms. Spark held the position of Chief Financial Officer for MVC Capital, Inc. (NYSE: MVC), a business development company, from January 2004 to September 2005 and also acted as an investment professional for MVC. Ms. Spark has also worked as a turnaround consultant and been involved in restructuring of public and private companies. Prior to Spark Consulting, Ms. Spark was the Controller at The Beacon Group, a private investment firm now part of CCMP Capital from 1997 to 1998, and from 1993 to 1996. Ms. Spark was the Chief Financial Officer of Hyperion Capital Management, a New York investment management firm specializing in mortgage-backed securities. From 1987 to 1992, Ms. Spark held a number of financial roles at Prudential Securities in both the United States and the United Kingdom. Ms. Spark is a Chartered Accountant and worked with KPMG in the United Kingdom from 1981 until 1987.

Name	Age	Background Information
Richard E. Cleary *Chief Operating Officer and Assistant Secretary*	48	Mr. Cleary has served as our Chief Operating Officer, the Chief Operating Officer of our former manager and the Chief Operating Officer of Sharpridge since January 2006 and has served as our Assistant Secretary and the Assistant Secretary of our former manager since June 2007. Prior to joining us and our Manager in January 2006, Mr. Cleary was a Partner at Merathon Advisory, a strategic consulting firm focused on private equity and information services from 2004 to 2006. From 2000 to 2004, Mr. Cleary was the Director of Corporate and Business Development of OneSource Information Services ("OneSource"). Prior to OneSource, Mr. Cleary's work experience included building Thomson Financial's First Call research and quantitative services businesses in Asia, and serving as a principal with Schooner Capital, a private equity firm. At Schooner Capital, Mr. Cleary led investments in digital assets management, including portfolio company Iron Mountain's digital archive business. Mr. Cleary's other prior work experience was at Donaldson, Lufkin & Jenrette Securities and Xerox Corporation.
Thomas A. Rosenbloom *Executive Vice President of Business Development, General Counsel and Secretary*	49	Mr. Rosenbloom has served as our Secretary since June 2007 and as our Executive Vice President of Business Development, General Counsel and Secretary since September 2011. He also served as the General Counsel of Sharpridge from May 2007 to August 2011 and the Secretary of our former manager from June 2007 to August 2011. Prior to joining Sharpridge in May 2007, from February 2005 through May 2007 Mr. Rosenbloom was a partner with Foley & Lardner, LLP, and a member of the firm's Private Equity & Venture Capital and Transactional & Securities Practices. Mr. Rosenbloom was also a member of the firm's Emerging Technologies, Life Sciences, and Nanotechnology Industry Teams. From 1996 through January 2005, Mr. Rosenbloom was a partner with Epstein, Becker & Green, P.C. During Mr. Rosenbloom's tenure at Foley & Lardner and Epstein, Becker & Green, both national law firms, he represented middle-market public companies, entrepreneurs, founders, emerging businesses, start-up corporations, and partnerships in diverse industries. Mr. Rosenbloom managed and negotiated mergers and acquisitions, private equity and venture capital financings, and private placements. While in private practice, Mr. Rosenbloom was responsible for developing and managing all aspects of client relationships, including analyzing and evaluating financing, acquisition, and divestiture opportunities, writing, and developing business plans, and providing other planning and financial advice, including with respect to intellectual property protection, labor and employment, immigration and real estate matters. Mr. Rosenbloom currently serves as a member of the Board of Directors for one of his former clients, and has served as a member of the Board of Directors or as an advisor for several of his former clients.

NAMED EXECUTIVE OFFICER COMPENSATION FOR 2011

Compensation, Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") describes the compensation program that was in place for 2011 for our principal executive officer (Mr. Grant), our principal financial officer (Ms. Spark), and our two other executive officers (Messrs. Cleary and Rosenbloom) (collectively, our "Named Executive Officers" or "NEOs"). We had no other executive officers in 2011. In particular, this CD&A explains the overall objectives, elements and policies underlying our executive compensation program. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Future compensation programs that we adopt may differ materially from currently planned programs.

Executive Summary

Prior to September 1, 2011, we were an externally-managed company and our executive officers were employees of Sharpridge, one of our former manager's sub-advisors. As a result of the Internalization, we acquired all of Sharpridge's assets, entered into employment agreements with each of our NEOs, hired all of Sharpridge's other employees, adopted the Plan and terminated the management agreement with our manager.

Prior to the termination of our management agreement, we paid annual management fees to our manager as follows:

- 1.50% of our net assets up to $250 million of net assets;
- 1.25% of net assets above $250 million but less than or equal to $500 million; and
- 1.00% of net assets greater than $500 million.

In addition, we reimbursed our manager for certain expenses incurred on our behalf.

The management fees we paid to our manager were used to, among other things, compensate our NEOs, who were employees of Sharpridge. Additionally, we established the 2006 Plan, and our compensation committee periodically granted shares of restricted stock and options to our NEOs from the 2006 Plan based on allocations directed by our manager.

One of the main factors in pursuing Internalization was to better manage our expenses as our net assets increase. An important function of our compensation program is to ensure that the total amount of expensed compensation for each fiscal year contributes to an expense ratio (i.e. expenses as a percentage of net assets) that is lower than our expense ratio prior to Internalization. Although expense control is an important part of our compensation philosophy, we recognize the need to attract, retain and motivate talented executives, and believe the main way to achieve this goal is to provide our NEOs with competitive compensation packages. Furthermore, in order to motivate our NEOs to generate returns for our stockholders, we believe a substantial portion of our NEOs' compensation should be linked to our performance, and a significant amount of any incentive compensation paid to our NEOs should be in the form of long-term equity awards. We also believe that, in certain situations, our executives may deserve incentive compensation even if we do not meet our financial objectives; therefore, a portion of incentive compensation may be payable at the discretion of our compensation committee.

Our Performance in 2011

The compensation committee's 2011 compensation decisions supported our general executive compensation philosophy and reflected what we believe was exceptional financial and operational performance during the year. In particular:

- Reflecting our strong financial performance, we delivered total shareholder return of 21% in 2011. We have also delivered total shareholder return of 81% since we become a public company (June 2009) through December 31, 2011.
- We increased our net income from $22.4 million, or $0.73 per diluted share, in 2010 to $291.9 million, or $3.66 per diluted share, in 2011.
- We increased our net asset value per share from $11.59 as of December 31, 2010 to $13.02 as of December 31, 2011.
- We reduced our operating expenses as a percentage of net assets from 2.68% in 2010 to 2.34% in 2011.

2011 Incentive Compensation Decisions

Based on our NEOs' contributions to the achievements described above, as well as their contributions towards exceeding the performance goals set forth in the Plan, each of our NEOs received the maximum amount of incentive compensation possible under the Plan.

Compensation Consultant and Benchmarking

The compensation committee retained FTI as its compensation consultant to advise it and the non-management members of the Board of Directors, as applicable, on matters related to our NEOs' compensation and compensation program design for 2011. The compensation committee has determined that FTI meets the criteria for an independent consultant in accordance with SEC guidelines for such services.

In 2011, FTI provided the compensation committee and the non-management members of the Board, as applicable, with comparative market data on compensation practices and programs based on an analysis of peer companies and provided guidance on best practices. Using this market data, FTI advised the compensation committee and the non-management members of the Board, as applicable, and made recommendations with respect to setting salary levels and establishing performance goals and incentive award levels. For 2011, FTI compared our executive compensation structure and levels to executive compensation at a comparative group of nine companies. Our comparative group consisted of REITs whose portfolios, investment focus, and operations are similar to ours.

The reference group set forth below (the "Comparable Companies") was approved by the compensation committee as the appropriate benchmark for 2011 comparative purposes. These companies report compensation data for executive positions with responsibilities similar in breadth and scope to those of our executive officers, and we believe these companies generally compete with us for executive talent and stockholder investment:

Anworth Mortgage Asset Corporation
BRT Realty Trust
Capital Trust, Inc.
CapLease, Inc.
Capstead Mortgage Corporation
Franklin Street Properties
MFA Financial, Inc.
RAIT Investment Trust
Redwood Trust, Inc.

From the Comparable Companies, FTI identified a sub-set of these companies whose business focus is most similar to ours (the "Core Peer Group"). The Core Peer Group consists of the following companies:

Annaly Capital Management, Inc.[1]
Anworth Mortgage Asset Corporation
Capstead Mortgage Corporation
MFA Financial, Inc.
Redwood Trust, Inc.

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(1) Because Annaly Capital Management, Inc. ("Annaly") operates on a significantly larger scale than us, FTI utilized compensation data for Annaly from 2002, when its size was comparable to our size.

The compensation committee will annually review the Comparable Companies and the Core Peer Group to ensure that the companies included remain comparable to us in terms of size and operations. The compensation committee may change the composition of the groups from time to time as appropriate.

In determining 2011 compensation targets for our NEOs, the compensation committee, in consultation with FTI, considered the competitive positioning of our executive compensation levels relative to market data for the following components of pay: base salary; total annual compensation (base salary plus annual incentives); long-term incentives (annualized expected value of long-term incentives); and total direct compensation (base salary plus annual incentives plus annualized expected value of long-term incentives).

Base Salary Compared to Benchmarks

Because we are a relatively new public company and started directly compensating our NEOs as of September 1, 2011 upon completion of the Internalization, our compensation committee set the initial base salaries for these officers at or below the median level. However, our compensation committee set Mr. Rosenbloom's salary above his peer group range for general counsels because of his expanded duties as the executive vice president of business development, which requires him to work closely with our Chief Executive Officer and Chief Financial Officer to develop business opportunities and growth strategies for us.

Our compensation committee will review each NEO's salary on an annual basis to determine if any changes to base salary are warranted.

Incentive Compensation Compared to Benchmarks.

Most of our peer group companies view annual bonus and long-term incentive compensation as separate components of their overall compensation program and may have separate criteria for each component. Our Plan requires our executives to achieve the performance goals set forth in the Plan before receiving any bonus or long-term equity awards. Our compensation committee believes that issuing both cash and equity incentive awards through the Plan allows us to better monitor the effects of our compensation program and minimizes discretionary awards.

Elements of Our Compensation Program

Base Salary

The base salary payable to each NEO provides a fixed component of compensation intended to reflect the executive's position and responsibilities. Base salary is generally targeted to approximate the competitive market median of the Comparable Companies and Core Peer Group, but may deviate from this target based on an individual's sustained performance, contribution, experience, expertise, and specific roles within our company as compared to the benchmark data. Base salary will be reviewed annually and may be adjusted to better match competitive market levels or to recognize an executive's professional growth and development or increased responsibility. The compensation committee also considers the success of the executive officer in developing and

executing our strategic plans, exercising leadership, and creating stockholder value, but does not assign any specific weights to these factors. Because 2011 was the first year the compensation committee set base salaries, it has not yet considered whether any adjustments to base salaries are warranted.

Annual Incentive Compensation

Pursuant to the Plan, we provide our NEOs with the opportunity to earn incentive awards for achieving corporate financial and non-financial goals on an annual basis. The overall size of the Plan was capped at an amount equal to 1.00% of our average net assets for 2011, prorated for the period from September 1, 2011 to December 31, 2011. In 2011, our average net assets was approximately $988,976,000; therefore, the maximum amount payable under the Plan was $3,296,587 (1/3 x (1.00% x $988,976,000)). The Plan contained two components, a quantitative component and a qualitative component. Each component, as well as the compensation rationale for each component, is described below:

Quantitative Component

The size of the quantitative component of the Plan was contingent upon our achieving returns on net assets ("RONA") over specified hurdle rates for the fiscal year. Our RONA was calculated as follows:

- The sum of our Core Earnings (as defined below), plus adjustments for "drop income," plus or minus the accretion or dilution, as the case may be, resulting from the issuance of stock in capital raising transactions, divided by
- Our average net assets for 2011.

We believe that RONA was the appropriate metric for determining our NEOs' incentive compensation for the following reasons:

- Our Core Earnings represents our portfolio yield without the effects from mark-to-market adjustments on our assets and realized gains or losses from the sale of our assets. Core Earnings is a non-GAAP financial measure 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 and cap contracts. Because our primary investment objective is to generate income from the difference between the yields on our assets and our financing costs, rather than generating returns based on the market price fluctuations of our assets, we believe that Core Earnings is the appropriate metric to base our performance requirements under the Plan.
- We believe it was appropriate for RONA to factor in our "drop income" earned during a fiscal year. Because we purchase many of our assets on a forward-settling basis, the settlement periods for many of our asset purchases are longer than the standard settlement period. In order to compensate us for any lost interest income due to the extended settlement times (because we cannot earn interest on securities that have not yet settled), the forward purchase agreements we enter into provide for a discount off of the actual purchase price of the securities. This discount is known as "drop income" and is recognized whenever we settle our forward purchases. Because our drop income is akin to interest income earned on our settled assets during the period between the purchase and settlement dates, we believe it was appropriate to adjust our Core Earnings to include drop income when calculating RONA.
- Our RONA also included the effects of accretion or dilution from stock issuances in order to reward our executives for completing accretive equity offerings and protect us from having to pay our executives for performance that may have been achieved in part through dilutive equity offerings. We recognize that, because RONA is not affected by actual stockholder returns but rather returns on our net assets, it is possible that dilutive equity offerings could have contributed to our RONA exceeding target levels, while causing our stockholders to possibly suffer losses due to dilution in our net asset value per share. Alternatively, we believe that it was appropriate for our RONA to reflect any accretion in our net asset value per share resulting from additional equity issuances because such accretion can benefit our stockholders.

The compensation committee used RONA to determine incentive compensation because it believes that basing incentive compensation on RONA properly aligns management incentives with stockholder return and value creation.

The total size of the quantitative component of the Plan was determined as follows:

Size of Quantitative Component as a Percentage of RONA Above the Corresponding Hurdle Rates	RONA Hurdle Rates
10%	7%-9%
15%	9%-11%
20%	11%-14%

Our compensation committee set the minimum hurdle rate at 7.00% because it believes that this is the minimum amount of returns expected by our stockholders based on our current leverage levels.

Because we believe that our executive officers should receive increased incentive compensation for delivering superior returns, the percentage of excess RONA that was used to calculate the incentive compensation pool increased as our RONA exceeded increased hurdle rates; however, in order to minimize the effects of our incentive compensation plan on our expense ratio, we capped the Plan at 1.00% of our average net assets.

Qualitative Component

Due to the size of the quantitative component of the Plan for 2011 (i.e., the maximum payout under the Plan was earned under the quantitative component), the compensation committee could not grant any awards under the qualitative component of the Plan. Had the overall Plan caps not been reached due to the size of the quantitative component, the qualitative component of the Plan would have been determined as follows:

- for aggregate bonus awards granted under the quantitative component of the Plan less than 0.25% of our average net assets, the compensation committee may have set the size of the qualitative component at an amount so that the aggregate size of the bonus pool equaled 0.25% of our average net assets.
- for aggregate bonus awards granted under the quantitative component of the Plan of 0.25% or greater of our average net assets, the compensation committee may have adjusted the size of the bonus pool by 25% of the quantitative component, and this additional amount may have been awarded under the qualitative component of the Plan.

In determining whether to grant awards from the qualitative component of the Plan, the compensation committee would have considered the following factors in addition to any other factor it deemed relevant: (i) counterparty relations, (ii) leverage and liquidity management, (iii) investor relations, (iv) relative total return performance, (v) leadership in environmental, social responsibility and other corporate governance initiatives and (vi) leadership or other third-party/industry recognition or accolades. In order to promote team cohesion, the compensation committee would have considered the above factors on a team basis, rather than on an individual basis. Therefore, amounts payable under the qualitative component of the Plan would have been allocated to each NEO in the same manner as the quantitative component.

Types of Awards under the Plan

Cash Awards

Except when a participant elected to receive his or her awards under the Plan entirely in the form of long-term equity incentive awards, recipients of awards under the Plan received their awards in both cash and long-term equity incentive awards. Under the Plan, 50% of awards eligible to be received by the NEOs were cash awards; *provided, however*, that the cash component of the incentive compensation pool could not exceed 0.50% of our average net assets for 2011 (prorated for the period from the effective date of the Plan through

December 31, 2011) (the "Cash Cap"), which equaled $1,648,293. The aggregate cash portion of the Plan was $1,483,334 in 2011, which was below the Cash Cap, because Mr. Grant and certain other employees opted to receive all of their incentive compensation in the form of shares of restricted stock. The Cash Cap may have been increased by our compensation committee at its discretion. Our compensation committee believes that, although it is important to align the interests of our NEOs with the interest of our stockholders by issuing equity grants, a certain portion of an NEOs incentive compensation should be in the form of cash in order to provide them with additional liquidity.

Long-Term Equity Awards

In order to lower our expense ratio and align the interests of our NEOs with the interests of our stockholders, 50% of the aggregate 2011 incentive compensation pool was payable in the form of restricted stock. If the cash component of the Plan exceeded the Cash Cap, the compensation committee could have increased the amount of the long-term equity component of the Plan by the excess of the cash component over the Cash Cap. The restricted stock was granted from the 2006 Plan, and such shares vest ratably over a five-year period. Because returns on the common stock of REITs generally take the form of dividends as opposed to price appreciation, the compensation committee believes that shares of restricted stock, which pay dividends, are a more appropriate form of equity compensation than awards in the form of stock options, which generally only increase in value if a stock price rises. Long-term equity awards issued pursuant to the Plan were the only types of awards granted under the 2006 Plan.

Allocations of Incentive Compensation

Our incentive compensation allocations for 2011 were set forth in the Plan and were based on the relative responsibility levels of each NEO, subject to caps that are based on a percentage of each NEO's base salary. Because Mr. Grant is our chief executive officer and chief investment officer and has ultimate responsibility over portfolio and other business decisions, our success or failure is highly dependent on his ability to manage our portfolio and operate our business. Therefore, our compensation committee believed that he should receive a significantly higher allocation of the annual incentive compensation pool. Our other NEOs receive similar allocations of our annual incentive compensation pool, with Ms. Spark receiving a slightly higher allocation due to her responsibilities as our chief financial officer. The table below shows the allocation percentages for each of our NEOs.

Name	Allocation Percentage[1]
Kevin E. Grant	35%
Frances R. Spark	10%
Richard E. Cleary	8%
Thomas A. Rosenbloom	8%

(1) Notwithstanding the allocation percentages in the table above, the amount of incentive compensation payable to each of Mr. Grant, Ms. Spark, Mr. Cleary, and Mr. Rosenbloom were capped at 500%, 100%, 100%, and 100%, respectively, of each of their base salaries.

Our compensation committee has the discretion to adjust these allocation percentages based on their review of each NEOs performance and contribution to the company. Because of his contributions to our financial success in 2011 and because he requested to receive 100% of his incentive compensation in the form of restricted stock, the compensation committee increased Mr. Grant's allocation percentage from 35% to 38% of the aggregate incentive compensation pool for 2011, which was less than his 500% base salary cap. The other NEOs received the maximum amount of incentive compensation up to their base salary caps, which was less than their respective allocation percentages of the aggregate incentive compensation pool for 2011.

Role of CEO in Compensation Decisions

In making its compensation decisions for 2011, the compensation committee relied in part on Mr. Grant's review of the performance of Ms. Spark, Mr. Cleary and Mr. Rosenbloom. Although Mr. Grant was involved in the compensation setting process, the compensation committee requested that he not be present at meetings when it made its final compensation decisions, which allowed the committee to independently discuss any and all recommendations.

Risk Considerations

The compensation committee recognized that utilizing RONA to determine incentive compensation could create an incentive for management to take unnecessary risks in the management of our portfolio and our business, especially with respect to our leverage ratio. Because our RONA could be increased due to increased leverage, the Plan prescribed a leverage limit (which could have been adjusted by the compensation committee in its discretion) whereby awards based on results attributed to amounts in excess of such limit would not have been paid. In 2011, the leverage ratio applied to the Plan was 8 to 1. Our leverage ratio as of December 31, 2011 was 7.7 to 1. The compensation committee understands that our leverage ratio changes frequently in the ordinary course of our business and operations. We provide the Board of Directors and the compensation committee monthly reports that include, among other information, an estimate of our leverage ratio as of the end of each month the report covers. Accordingly, the compensation committee is able to monitor our leverage ratio on a constant basis.

Except for stock options granted to Mr. Grant upon our initial capitalization in 2006, we have since only issued restricted stock from the 2006 Plan. The forfeiture restrictions on such restricted stock lapse over a period of several years. We believe that these lapsing periods encourage our executives to focus on sustaining our long-term performance and minimize the risk of our executives focusing on short-term gains at the expense of our long-term performance.

Benefits and Perquisites

The NEOs are generally eligible to participate in the same benefit programs that we offer to other employees, including:

- health, dental and vision insurance;
- short-term disability, long-term disability and life insurance;
- paid time off and paid holidays; and
- contributions to our Simplified Employee Retirement Plan ("SEP").

We believe these benefits are competitive with overall market practices. In addition, we may provide additional perquisites and other personal benefits to enable us to attract and retain superior employees for key positions in the future. The compensation committee will periodically review the perquisites and other personal benefits provided to each NEO and determine if they are consistent with current market practice.

Severance Benefits

Under our existing employment agreements, our NEOs are entitled to receive severance benefits upon certain qualifying terminations of employment (subject to any required payment delay pursuant to Section 409A of the Internal Revenue Code of 1986 (the "Code")). The various levels of severance benefits for each of Mr. Grant, Ms. Spark, Mr. Cleary, and Mr. Rosenbloom were determined by the compensation committee to be appropriate for each individual based on the executive's duties and responsibilities to us and were the result of arms-length negotiations with these individuals. The amount of the severance benefit is balanced against our need to be responsible to our stockholders and also takes into account the potential impact that severance payments may have in a change in control transaction.

We believe it is in the best interest of our stockholders to have a "double trigger" requirement for payment of severance benefits upon a change in control transaction. Therefore, in order for our NEOs to receive severance payments upon a change in control transaction, such transaction must be followed by either (i) a termination of the NEO by us other than for "cause" or (ii) a termination by the NEO for "good reason." Having a double trigger severance requirement upon a change in control transaction will prevent a potential acquirer from having to automatically pay out severance benefits to our NEOs upon a change of control, which would lower an acquirer's cost of an acquisition of us that may be in the best interests of stockholders.

See “Potential Payouts Upon Termination of Employment” for a detailed description of our executives’ severance benefits.

Tax Considerations

Section 162(m) of the Code places a limit of $1 million on the amount of compensation that we may deduct in any year with respect to each of our NEOs other than the Chief Financial Officer, unless the compensation is performance-based compensation and meets certain other requirements, as described in Section 162(m) and the related regulations. We generally consider qualification for deductibility under Section 162(m) for compensation paid to our NEOs, including restricted stock granted pursuant to the Plan. The compensation committee believes, however, that our executive compensation program should be flexible, maximize our ability to recruit, retain and reward high-performing executives and promote varying corporate goals. Accordingly, the compensation committee may approve compensation that exceeds the $1 million limit or does not otherwise meet the requirements of Section 162(m), but that is deemed to be in our best interests.

Minimum Share Ownership Guidelines for Executive Officers

Our minimum share ownership guidelines require each executive officer to maintain a minimum equity investment in our company based upon a multiple (five times, in the case of the Chief Executive Officer, and three times, in the case of all other executive officers) of his or her then current base salary. Each executive officer must achieve the minimum equity investment within five years from the date he or she first becomes subject to the guidelines. Until the minimum equity investment is met, such officer must retain all of our common stock granted to the officer as compensation less any shares of our common stock forfeited by such officer to pay withholding taxes upon the vesting of such shares. From time to time the Nominating & Corporate Governance Committee of the Board will review each executive officer’s compliance with the guidelines, and may grant exceptions to the guidelines as it deems appropriate and market competitive on a case-by-case basis. Taking into account any permitted transition period, all of our executive officers are currently in compliance with the minimum share ownership guidelines.

Adjustment or Recovery of Awards

Under Section 304 of the Sarbanes-Oxley Act, if we are required to restate our financial results due to material noncompliance with any financial reporting requirement as a result of misconduct, our Chief Executive Officer and Chief Financial Officer must reimburse us for (i) any bonus or other incentive-based or equity-based compensation received during the twelve months following the public issuance of the non-compliant document and (ii) any profits realized from the sale of our securities during those twelve months. Following the SEC’s adoption of final rules regarding executive compensation recoupment policies pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, we will consider and adopt a separate executive compensation recoupment policy in accordance with the final rules.

Compensation of Our Named Executive Officers for 2011 Performance

In order to provide stockholders with a more complete description of our NEOs' compensation, we are providing additional information not required by the SEC. The table below shows each NEO's total direct compensation for services rendered in the portion of 2011 following the completion of the Internalization. In contrast to the Summary Compensation Table, which discloses the grant date fair value of equity awards granted in a given year, the table below discloses the grant date fair value of equity awards granted in the first quarter of 2012 for performance during 2011. This table supplements, and does not replace, the Summary Compensation Table.

			2011 Incentive Compensation Plan		2006 Equity Incentive Plan		
Name	**Year**	**Salary**	**Stock Awards[1]**	**Cash Awards**	**Stock Awards[3]**	**Other[5]**	**Total Direct Compensation**
Kevin E. Grant	2011	$250,000	$1,250,000	$ —[2]	$2,002,500[4]	$49,000	$3,551,500
Frances R. Spark	2011	166,667	83,334	83,334	—	49,000	382,335
Richard E. Cleary	2011	150,000	75,000	75,000	—	49,000	349,000
Thomas A. Rosenbloom	2011	150,000	75,000	75,000	—	49,000	349,000
Total Compensation							**$4,631,835**

(1) All of these awards were granted on February 13, 2012, but relate to 2011 performance.

(2) Although Mr. Grant was entitled to receive 50% of his total incentive compensation for 2011 in cash, he elected to receive 100% of his incentive compensation in the form of restricted stock.

(3) Represents the grant date fair value of restricted stock awarded in addition to the awards under the Plan determined in accordance with FASB Accounting Standards Codification Topic 718.

(4) Represents the grant date fair value for the 150,000 shares of restricted stock Mr. Grant received as a retention bonus upon signing his employment agreement on September 1, 2011 in connection with the completion of Internalization. These shares vest ratably over a five-year period beginning September 1, 2011.

(5) Represents $49,000 in compensation for each of our NEOs related to our contributions on their behalf to our SEP.

2012 Incentive Compensation Plan

Our compensation committee is currently in the process of creating our 2012 Incentive Compensation Plan. Although we expect that plan to be conceptually similar to the Plan, it is possible that material differences may exist between that plan and the Plan.

Compensation Committee Report

Our compensation committee has reviewed and discussed the "Compensation Discussion and Analysis" contained in this proxy statement with management and, based on such review and discussions, the compensation committee recommended to the Board that the "Compensation Discussion and Analysis" be included in the proxy statement.

Douglas Crocker, II (Chairman)
Raymond A. Redlingshafer, Jr.
David A. Tyson, PhD.

Summary Compensation Table

The table below sets forth the compensation we paid or accrued with respect to the fiscal year ended December 31, 2011 to all of our NEOs serving in their positions at December 31, 2011. As a result of the Internalization, we have only been paying compensation to our NEOs since September 1, 2011; therefore, the results in the table below represent amounts paid or accrued from September 1, 2011 through December 31, 2011.

Name and Position	Year	Salary	Bonus	Stock Awards[1]	Non-Equity Incentive Plan Compensation	All Other Compensation[4]	Total
Kevin E. Grant *Chairman of the Board, Chief Executive Officer, Chief Investment Officer and President*	2011	$250,000	$—	$2,002,500[2]	$625,000[3]	$49,000	$2,926,500
Frances R. Spark *Chief Financial Officer and Treasurer*	2011	166,667	—	—	83,334	49,000	299,001
Richard E. Cleary *Chief Operating Officer and Assistant Secretary*	2011	150,000	—	—	75,000	49,000	274,000
Thomas A. Rosenbloom *Executive Vice President of Business Development, General Counsel and Secretary*	2011	150,000	—	—	75,000	49,000	274,000

(1) Represents the grant date fair value of restricted stock awarded in 2011 determined in accordance with FASB Accounting Standards Codification Topic 718. See footnote 8 to our financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on February 13, 2011, for a description of the assumptions used in determining the grant date fair value of these shares.

(2) Represents the grant date fair value for the 150,000 shares of restricted stock Mr. Grant received as a retention bonus upon signing his employment agreement on September 1, 2011 in connection with the completion of Internalization. These shares vest ratably over a five-year period beginning September 1, 2011.

(3) Mr. Grant elected to receive all of his non-equity incentive compensation for 2011 in the form of restricted stock. As a result, this amount was not paid or accrued in 2011.

(4) Represents $49,000 in compensation for each of our NEOs related to our contributions on their behalf to our SEP.

Discussion of Summary Compensation Table

Employment Agreements

Prior to Internalization, we were externally managed and were party to a management agreement with our former manager. Pursuant to that management agreement, we paid our manager a base management fee, a portion of which was used by our manager to compensate our executive officers. Prior to Internalization, we did not pay any direct compensation to our executive officers and they were not our employees. Upon the effective date of the Internalization, we entered into employment agreements with Mr. Grant, Ms. Spark, Mr. Cleary and Mr. Rosenbloom. Pursuant to the terms of the employment agreements:

- Mr. Grant serves as our Chairman, Chief Executive Officer, Chief Investment Officer and President; Ms. Spark serves as our Chief Financial Officer and Treasurer; Mr. Cleary serves as our Chief Operating Officer and Assistant Secretary; and Mr. Rosenbloom serves as our Executive Vice President of Business Development, General Counsel, and Secretary;
- Mr. Grant receives an annual base salary of $750,000, Ms. Spark receives an annual base salary of $500,000, and Messrs. Cleary and Rosenbloom each receive an annual base salary of $450,000;

- each of the executives is entitled to participate in our annual incentive plans, including the Plan, and each of these individuals is provided a percentage of the aggregate incentive compensation pool under the Plan (subject to caps based on a percentage of base salary) as described under "Compensation, Discussion & Analysis—Elements of our Compensation Program—Allocations of Incentive Compensation." Because the NEOs were not employed by us until September 1, 2011, the base salary disclosed in the Summary Compensation Table is the amount paid to each executive from September 1, 2011 through December 31, 2011;
- Mr. Grant was granted a retention bonus of 150,000 shares of our restricted stock, which vest ratably over a five-year period beginning September 1, 2011; and
- with the exception of Mr. Grant, each of the executives is subject to a one-year non-competition agreement following termination of their employment for a reason other than "cause" or by the executive for "good reason." Mr. Grant is subject to a two-year non-competition agreement following termination of his employment for a reason other than "cause" or by the executive for "good reason."

Also, each executive is entitled to certain severance benefits upon a termination of employment by us without "cause" or a termination of employment by the executive for "good reason" and upon a termination due to "disability," each described in more detail below in "Potential Payments Upon Termination of Employment."

Bonus

Due to their discretionary nature, amounts granted under the qualitative component of the Plan would have been deemed to be "bonuses" and not grants of "non-equity incentive compensation." Because our compensation committee did not grant any awards under the qualitative component of the Plan, no amounts were included in the "Bonus" column of the Summary Compensation Table.

Incentive Compensation Awards

See "Description of Plan-Based Awards" for a description of our incentive compensation awards for 2011.

Stock Awards

Pursuant to Mr. Grant's employment agreement, as of September 1, 2011 all of his unvested shares of restricted stock were automatically vested and he received an additional 150,000 shares of our restricted stock with a grant date fair value of $2,002,500. Equity awards from the Plan for 2011 performance were granted on February 13, 2012 and, therefore, are not included in the Summary Compensation Table for 2011.

Grants of Plan-Based Awards

The following table reflects our grants of plan-based awards during 2011:

Name	Grant Date	Grant Type	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		All Other Stock Awards; Number of Shares of Stock or Units[1]	Grant Date Fair Value of Stock and Option Awards[3]
			Threshold	Maximum		
Kevin E. Grant	9/01/11	Restricted Stock	N/A	N/A	150,000[2]	$2,002,500
	2/13/12	Annual Incentive (cash)	$0-$216,339	$625,000	—	—
Frances R. Spark	2/13/12	Annual Incentive (cash)	0-61,811	83,334	—	—
Richard E. Cleary	2/13/12	Annual Incentive (cash)	0-49,449	75,000	—	—
Thomas A. Rosenbloom	2/13/12	Annual Incentive (cash)	0-49,449	75,000	—	—

(1) Stock awards related to 2011 performance were granted on February 13, 2012 and are, therefore, not included in the table.

(2) Granted pursuant to the 2006 Plan.

(3) Represents the grant date fair value of restricted stock awarded determined in accordance with FASB Accounting Standards Codification Topic 718. See footnote 8 to our financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on February 13, 2011, for a description of the assumptions used in determining the grant date fair value of these shares.

Description of Plan-Based Awards

As described in "Compensation, Discussion & Analysis—Elements of our Compensation Program—Annual Incentive Compensation," the Plan contained both a quantitative and a qualitative component. If the minimum quantitative targets were not met in 2011, the compensation committee may still have granted our employees awards pursuant to the qualitative component of the Plan, up to an aggregate of 0.25% of our average net assets for 2011. Had the quantitative targets not been met for 2011, the maximum amount of awards payable under the qualitative component would have been $823,967 (1/3* (0.25% * $988,760,000)), and such amount would have been allocated to each NEO pursuant to his or her allocation percentage. The threshold amounts in the Plan-Based Awards table represents the range of possible payouts to each NEO under the qualitative component of the Plan if no amounts were paid under the quantitative component.

The Plan did not provide for one specific "target" rate, but rather rewarded employees if RONA exceeded various hurdle rates between 7% and 14%, with the amounts awarded dependent upon the hurdle rate achieved. The amount of the incentive compensation pool was calculated by multiplying (i) the size of the quantitative component by (ii) the product of (A) the hurdle rate range and (B) our average net assets for 2011. In 2011, our RONA was 18.03%, therefore, the total quantitative portion of our incentive compensation pool under this formula was $10,878,736. This amount was calculated as follows:

Size of Quantitative Component for Corresponding Hurdle Rate Range		Hurdle Rate Range[1]		Average Net Assets for 2011		Amount of Incentive Compensation Pool[2]
10%	X	(2%	X	$988,976,000)	=	$ 1,977,952
15%	X	(2%	X	$988,976,000)	=	2,966,928
20%	X	(3%	X	$988,976,000)	=	5,933,856
Total						$10,878,736
Maximum Available Amount (assuming full fiscal year)						$ 9,889,760[3]
Pro rated Maximum Available Amount						$ 3,296,587[4]

(1) Represents the difference between the corresponding hurdle rates (7%-9%, 9%-11% and 11%-14%). No awards were paid with respect to excess RONA above 14%.

(2) Calculated by multiplying (i) the size of the quantitative component by (ii) the product of (A) the corresponding hurdle rate range and (B) the average net assets for 2011. For example, the incentive compensation for a RONA of 9.00% would have been calculated as follows: (0.10 * (0.02 * $988,976,000) = $1,977,952.

(3) The maximum available aggregate amount under the Plan equals 1.00% of average net assets for 2011.

(4) Represent entire incentive compensation pool prorated for the period from September 1, 2011 (plan inception) through December 31, 2011.

The aggregate incentive compensation pool shall be allocated amongst the NEOs as follows:

Name	Allocation	Amount of Allocated Incentive Compensation	Maximum Amount of Incentive Compensation as a Percentage of Base Salary	Maximum Award[1]	Amount of Award Received in Cash[2]	Total Incentive Compensation for 2011
Kevin E. Grant	35.00%	$1,153,805	500%	$1,250,000	$ —[3]	$1,250,000[3]
Frances R. Spark	10.00	329,659	100	166,667	83,334	166,667
Richard E. Cleary	8.00	263,727	100	150,000	75,000	150,000
Thomas A. Rosenbloom	8.00	263,727	100	150,000	75,000	150,000
Total		$2,010,918		$1,716,667	$233,334	$1,716,667

(1) Represents amounts actually received related to 2011 performance.

(2) Pursuant to the Plan, employees receive 50% of their incentive compensation in cash and 50% in shares of restricted stock.

(3) Due to our exceptional performance in 2011 and because Mr. Grant elected to receive 100% of his incentive compensation in shares of restricted stock, our compensation committee waived Mr. Grant's allocation percentage and granted him the maximum allowable award based on his percentage of base salary cap (which equaled 38% of the incentive allocation pool).

Outstanding Equity Awards at Fiscal Year End

The following table reflects our outstanding equity awards as of December 31, 2011:

	Option Awards			Stock Awards	
Name	Number of Securities Underlying Unexercised Options Exercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
Kevin E. Grant	131,088[1]	$30.00	February 2016	150,000[2]	$1,971,000
Frances R. Spark	—	—		66,000[3]	867,240
Richard E. Cleary	—	—		66,000[3]	867,240
Thomas A. Rosenbloom	—	—		66,000[3]	867,240

(1) All of Mr. Grant's options are fully vested.

(2) The awards vest ratably over a five-year period commencing September 1, 2012.

(3) Of these shares, 42,000 shares vest as follows: 12,000 on December 17, 2012, 12,000 on December 17, 2013 and 18,000 on December 17, 2014. In addition, 24,000 shares vest ratably over a four year period commencing November 3, 2012.

Options Exercised and Stock Vested

The following table reflects our NEO's restricted shares that vested during 2011:

	Stock Awards	
Name	Number of Shares Acquired on Vesting	Value Realized on Vesting
Kevin E. Grant	257,000	$3,430,950
Frances R. Spark	15,000	193,710
Richard E. Cleary	15,000	193,710
Thomas A. Rosenbloom	15,000	193,710

Pension Benefits

We do not maintain a pension plan.

Nonqualified Deferred Compensation

We did not have a deferred compensation plan in 2011.

Potential Payments Upon Termination of Employment

The following summaries set forth potential payments payable to our NEOs upon termination of employment or a change in control of us under their current employment agreements. Post employment payments to our NEOs are determined by reference to their base salary and incentive compensation.

Termination by Us Other Than for Cause or Termination by the Executive for Good Reason

If we terminate an executive officer's employment without "cause," or if the executive officer resigns for "good reason," we must immediately pay any unpaid portion of the executive's base salary. In addition, the executive is entitled to receive a severance payment equal to a multiple of his or her average base salary plus the average incentive compensation earned during the shorter of (i) the three fiscal years immediately preceding the year of termination or (ii) the period of time beginning on the date of the executive's employment agreement though the date of his or her termination of employment. The severance payment multiple for each of Mr. Grant, Ms. Spark, Mr. Cleary, and Mr. Rosenbloom is 2.5, 1.0, 1.0 and 1.0, respectively. One half of this severance

amount is payable by the later of (i) 30 days after the termination date or (ii) five business days after the effectiveness of the executive's liability release agreement, and the remaining severance amount is payable by March 15 of the year following the termination date. Additionally, upon a termination by us without "cause" or by the executive for "good reason," we shall reimburse the executive for the amount of premiums paid by him or her to continue coverage under our health plan for a period not to exceed 12 (or, in the case of Mr. Grant only, 24) months after termination (or, if the executive is not eligible to remain on our health plan for such time, we will reimburse him or her for premiums paid to continue coverage under COBRA or a similar state law for a period not to exceed 12 (or, in the case of Mr. Grant only, 24) months after termination).

"Good Reason" is defined by the employment agreements as the occurrence of one or more of the following without the executive's written consent:

- our failure to pay the executive any amounts due under his or her employment agreement in a timely manner;
- a material diminution in the executive's duties, authorities or responsibilities. However, "Good Reason" does not include: (i) with respect to Mr. Grant, the removal of the title of Chairman, Chief Investment Officer or President, so long as he retains his title of Chief Executive Officer; (ii) with respect to Ms. Spark, the removal of the title of Treasurer so long as she retains her title of Chief Financial Officer; (iii) with respect to Mr. Cleary, the removal of the title of Assistant Secretary so long as he retains his title of Chief Operating Officer, and (iv) with respect to Mr. Rosenbloom, the removal of the title of Executive Vice President of Business Development so long as he retains his titles of General Counsel and Secretary;
- a reduction in the executive's base salary below the initial base salary set forth in his or her employment agreement;
- the relocation of the executive's principal place of employment more than 50 miles from Waltham, Massachusetts (except for a relocation approved by a majority of the independent directors);
- a material breach by us of the employment agreement;
- with respect to Mr. Grant only, a failure to nominate him as a member of the Board of Directors; or
- our failure to obtain the assumption of the executive's employment agreement in writing by any successor following a "change in control" (as defined in the employment agreement.)

We have a 30-day cure period to cure the grounds asserted for a termination for "Good Reason."

"Cause" is defined by the employment agreements as the occurrence of one or more of the following:

- acts or omissions constituting recklessness or willful misconduct on the part of the executive in connection with the performance of his duties to us (subject to certain notice and cure provisions);
- a material breach by the executive of the terms of his or her employment agreement (subject to certain notice and cure provisions);
- the failure of the executive to adhere to the lawful directions of the Board that are reasonably consistent with the executive's duties and positions (subject to certain notice and cure provisions); or
- the executive's conviction or plea of guilty or *nolo contendre* for fraud, misappropriation or embezzlement in connection with our assets or to a felony.

If any payments, distributions or benefits provided or to be provided to the executive under the employment agreement or otherwise are determined to be subject to the excise tax imposed by Section 4999 of the Code on payments related to a change in control (parachute payments), each employment agreement provides that such parachute payments will be reduced to an amount that will avoid imposition of such excise taxes. However, the parachute payments will not be reduced if it is determined that the officer would have a greater net after-tax

benefit after paying the applicable excise taxes on the unreduced parachute payments. If the parachute payments are not reduced under the terms of the employment agreements, Section 280G of the Code may limit our ability to deduct such payments for Federal income tax purposes.

In addition, if we terminate an executive's employment without cause or if the executive terminates his or her employment for good reason, all unvested shares of restricted stock owned by the executive as of the termination date will become immediately vested.

Failure to Renew Employment Agreements

If Mr. Grant's employment is terminated due to our failure to renew his employment agreement, Mr. Grant will be entitled to receive a severance payment from us equal to two (2) times his base salary plus the incentive compensation earned during the shorter of (i) the three fiscal years immediately preceding the year of termination or (ii) the period of time beginning on the date of Mr. Grant's employment agreement through the date of his termination of employment. Our failure to renew the employment agreements of Ms. Spark, Mr. Cleary or Mr. Rosenbloom will be treated as a termination by us without cause for purposes of determining severance benefits.

Termination in Connection with a Change-in-Control Transaction

A "change-in-control" transaction is deemed to have occurred if:

- our stockholders approve of a plan for our complete liquidation or dissolution;
- we sell or dispose of all or substantially all of our assets;
- any person becomes the beneficial owner of greater than 50% of our voting shares;
- we are part of a merger, consolidation or statutory share exchange where our stockholders immediately prior to such event own less than 50% of the voting power of the surviving company following such event;
- during any period of two consecutive years, board members as of the effective date of the employment agreement (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board of Directors unless any new board member was approved by a vote of a majority of the Incumbent Directors; or
- the Board of Directors adopts a resolution stating that, as a result of any transaction or event, a "change-in-control" transaction has occurred.

Our NEOs will not receive any severance solely due to a change-in-control transaction. In order for our NEOs to receive severance benefits in connection with a change-in-control transaction, either (i) the NEO must have been terminated other than for "cause" within 24 months after a change-in-control transaction (in which case he or she shall receive the same termination benefits related to a termination by us other than for "cause") or (ii) the NEO must have terminated his or her employment for "good reason" within 12 months after a change-in-control transaction (in which case he or she shall receive the same termination benefits related to a termination for "good reason").

Termination upon Death or Disability

Death

Upon the death of an executive during his or her employment with us, we are obligated to pay his or her estate all accrued but unpaid amounts of his or her base salary and the pro rata portion of his or her incentive compensation for the year of his or her death. The amount of the incentive compensation paid in the year of an executive's death will equal the maximum performance bonus he or she would have been entitled to receive for

that year (as determined at the end of the year of his or her death) multiplied by a ratio equal to the number of days he or she was employed in the year of his or her death divided by 365. The incentive compensation will be paid at the same time and manner had the executive not died. In addition, the executive's beneficiaries will receive benefits in accordance with our retirement, insurance and other applicable programs and plans then in effect.

Disability

We are entitled to terminate an executive's employment due to his or her disability if he or she has been absent from the full-time performance of his or her duties with us for six consecutive months, and if, within 30 days after written notice by us, he or she has not returned to the full-time performance of his or her duties. We will continue to pay the executive's base salary during the period that the executive is first absent from the full-time performance of his or her duties and until the later of the date he or she is terminated from employment due to disability or the date he or she begins to receive long-term disability payments under our long-term disability plan. In addition, the executive will be entitled to receive a pro rata portion of the incentive compensation for the year of the executive's termination due to disability and a severance amount equal to 0.75 times (or, in the case of Mr. Grant only, two times) the average amount of the executive's base salary during the shorter of (i) three fiscal years immediately preceding the year of termination or (ii) the period of time from the effective date of his or her employment agreement to the date of termination. Disability severance amounts shall be payable by us in 12 (or, in the case of Mr. Grant only, 24) equal monthly installments beginning on the month immediately following the termination date.

We also will reimburse the executive for the amount of premiums paid by him or her to continue coverage under our health plan for a period not to exceed 12 months (or, in the case of Mr. Grant only, 24 months) after termination. If the executive is not eligible to remain on our health plan for such time, we will reimburse him or her for premiums paid to continue coverage under COBRA or a similar state law for a period not to exceed 12 months (or, in the case of Mr. Grant only, 24 months) after termination.

Termination by Us for Cause or by the Executive Without Good Reason

If we terminate the executive for cause or if the executive terminates employment without good reason:

- we are obligated to pay him or her only all accrued but unpaid amounts of his or her base salary and any previously awarded but unpaid incentive compensation; and
- we will not be required to provide any additional benefits to the executive and any of the executive's unvested equity awards shall be forfeited.

Potential Post-Employment Payments and Payments Upon a Change-In-Control

The following table presents the potential post-employment payments and payments our NEOs would be entitled to receive under their employment agreements following the payment trigger events in their respective employment agreements, which are included in the table below. We assumed that the triggering event took place on December 31, 2011 for purposes of the calculations in the table below.

Name	Benefit	Termination Without Cause or For Good Reason	Termination Without Cause Within 24 Months Following a Change of Control	Termination for Good Reason Within 12 Months Following a Change of Control	Termination Due to Failure to Renew Employment Agreement	Disability
Kevin E. Grant	Base Salary	$1,875,000	$1,875,000	$1,875,000	$1,500,000	$1,500,000
	Incentive Compensation	3,125,000	3,125,000	3,125,000	2,500,000	—
	Equity Awards[1]	1,971,000	1,971,000	1,971,000	1,971,000	1,971,000
	Healthcare Premiums[2]	32,661	32,661	32,661	32,661	32,661
	Total	$7,003,661	$7,003,661	$7,003,661	$6,003,661	$3,503,661
Frances R. Spark	Base Salary	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 375,000
	Incentive Compensation	166,667	166,667	166,667	166,667	—
	Equity Awards[1]	867,240	867,240	867,240	867,240	867,240
	Healthcare Premiums[2]	6,142	6,142	6,142	6,142	6,142
	Total	$1,540,049	$1,540,049	$1,540,049	$1,540,049	$1,248,382
Richard E. Cleary	Base Salary	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 337,500
	Incentive Compensation	150,000	150,000	150,000	150,000	—
	Equity Awards[1]	867,240	867,240	867,240	867,240	867,240
	Healthcare Premiums[2]	16,369	16,369	16,369	16,369	16,369
	Total	$1,483,609	$1,483,609	$1,483,609	$1,483,609	$1,221,109
Thomas A. Rosenbloom	Base Salary	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 337,500
	Incentive Compensation	150,000	150,000	150,000	150,000	—
	Equity Awards[1]	867,240	867,240	867,240	867,240	867,240
	Healthcare Premiums[2]	16,330	16,330	16,330	16,330	16,330
	Total	$1,483,570	$1,483,570	$1,483,570	$1,483,570	$1,221,070

(1) Represents the fair value of all unvested shares of restricted stock as of December 31, 2011.
(2) Represents the present value of all reimbursable health insurance premiums.

Equity Compensation Plans

The following table provides information as of December 31, 2011 with respect to shares of common stock that may be issued under our existing equity compensation plans:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans[1]
Equity Compensation Plans Approved by Stockholders[2]	131,088	$30.00	2,015,051
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	131,088	$30.00	2,015,051

(1) Excluding securities reflected in the column entitled "Number of Securities to be Issued upon Exercise of Outstanding Options."
(2) Includes only the 2006 Plan.

PROPOSAL 2: ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

Section 14A of the Exchange Act added by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") provides our stockholders with an advisory vote to approve our NEO compensation. This advisory vote gives our stockholders the opportunity to express their views on the compensation of our named executive officers. Although this vote is advisory and is not binding, the Board of Directors and the compensation committee plan to take into consideration the outcome of the vote when making future executive compensation decisions.

As described in detail under "Compensation Discussion and Analysis," our compensation program is designed to align the interests of management with those of our stockholders, apply a pay-for-performance philosophy and attract and retain top management talent, while at the same time reducing our expense ratio and managing expenses. Our Board of Directors believes that our current executive compensation program directly links executive compensation to our performance and properly aligns the interests of our executive officers with those of our stockholders. For example:

- A meaningful portion of the total compensation paid or awarded to our named executive officers is performance-based.
- The Board of Directors has adopted Stock Ownership Guidelines that apply to our executive officers and non-employee directors.
- In 2011, the Board conducted an extensive evaluation of our compensation practices with the support of FTI and adopted compensation practices that we believe align the interests of our executive officers with those of our stockholders.

See the information set forth under "Named Executive Officer Compensation for 2011" for more information on these elements of our NEO compensation program.

For these reasons, the Board of Directors strongly endorses the Company's NEO compensation program and recommends that stockholders vote in favor of the following resolution:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed under the compensation disclosure rules of the SEC, including the "Compensation Discussion and Analysis," compensation tables and narrative discussion contained in the proxy statement for the 2012 annual meeting of stockholders."

The Board of Directors recommends that the stockholders vote FOR the approval, on an advisory basis, of our named executive officer compensation.

PROPOSAL 3: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON NAMED EXECUTIVE OFFICER COMPENSATION

In Proposal 2 above, we ask our stockholders to vote, on an advisory basis, to approve the compensation of our NEOs. Section 14A of the Exchange Act also provides our stockholders with the opportunity to recommend, on an advisory basis, how frequently we should provide future advisory executive compensation votes. By voting on this Proposal 3, stockholders may tell us whether they would prefer to have an advisory NEO compensation vote each year, every two years or every three years.

After careful consideration, our Board of Directors has determined that having an advisory vote on NEO compensation each year is the most appropriate policy for our Company at this time and, therefore, recommends that you vote to have future advisory NEO compensation votes each year for the following reasons:

- As noted in Proposal 2 above, the Board of Directors conducted an extensive evaluation of our compensation practices in 2011 with the support of FTI and adopted compensation practices that we believe align the interests of our executive officers with those of our stockholders.
- An annual vote would give the Board of Directors and the compensation committee clear and timely feedback regarding the compensation of our NEOs in light of their most current performance.
- The primary focus of the disclosure of the compensation paid to our NEOs required to be included in our Proxy Statements is compensation granted in or for the prior fiscal year.
- The compensation committee evaluates the compensation of our NEOs on an annual basis. Thus, an annual advisory vote on NEO compensation would align stockholder feedback with this evaluation.
- An annual vote would provide stockholders the most frequently occurring opportunity to evaluate the effectiveness of our short- and long-term executive compensation programs and policies and any changes we have implemented in response to the views and input of stockholders, as well as the related performance of the Company over the cycle.

Although our Board believes that holding an advisory vote on NEO compensation each year currently reflects the appropriate balance, our Board may reassess this issue periodically and may vary our practice based on factors such as discussions with our stockholders and the adoption of any material changes to our compensation programs.

Stockholders can choose one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. Stockholders are not voting to approve or disapprove our Board's recommendation. The option of one year, two years or three years that receives a majority of votes cast by the Company's stockholders will be the frequency that has been selected by the stockholders. If none of the options receive a majority of the votes cast, we will consider the option that receives the most votes as the option selected by the stockholders. Because this is an advisory vote, the voting results will not be binding on the Company, the Board of Directors or the compensation committee, although our Board of Directors plans to consider the frequency receiving the most votes when deciding how often to have the advisory executive compensation votes in the future.

The Board of Directors recommends that stockholders vote to hold future advisory votes on executive compensation every year.

PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of our Board of Directors has selected the accounting firm of Deloitte & Touche LLP to serve as our independent registered public accountants for the year ending December 31, 2012, subject to ratification of this appointment by our stockholders. Deloitte & Touche LLP has served as our independent registered public accountants since our initial private offering in February 2006 and is considered by our management to be well qualified.

Fee Disclosure

The following is a summary of the fees billed to the Company by Deloitte & Touche LLP for professional services rendered for each of our last two fiscal years:

	Fiscal Year Ended	
	December 31, 2011	December 31, 2010
Audit Fees	$733,032	$621,783
Audit-Related Fees	$ —	$ —
Tax Fees	$115,772	$ 85,062
All Other Fees	$ 2,178	$ 2,178
Total	$850,982	$709,023

Audit Fees

"Audit Fees" consist of fees and expenses billed for professional services rendered for the audit of the financial statements and services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements. Audit Fees include fees for professional services rendered in connection with quarterly and annual financial statements and fees and expenses related to the issuance of consents and comfort letters by Deloitte & Touche LLP related to our public offerings and registration statements. In 2011 and 2010, fees and expenses related to the issuance of consents and comfort letters included in the total Audit Fees were $262,257 and $201,783, respectively.

Audit-Related Fees

"Audit-Related Fees" consist of fees and expenses for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not "Audit Fees."

Tax Fees

"Tax Fees" consist of fees and related expenses billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance and tax planning and structuring.

All Other Fees

"All Other Fees" consist of fees and expenses for products and services that are not "Audit Fees," "Audit-Related Fees" or "Tax Fees." In 2011, "All Other Fees" consisted of a subscription fee for Deloitte & Touche LLP's accounting technical library.

Pre-Approval Policy

All audit, tax and other services provided to us were reviewed and pre-approved by the audit committee or a member of the audit committee designated by the full committee to pre-approve such services. The audit committee or designated member concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

We expect that a representative of Deloitte & Touche LLP will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants.

AUDIT COMMITTEE REPORT

The audit committee oversees the Company's financial reporting process on behalf of the Board of Directors, in accordance with the audit committee charter. Management is responsible for the Company's financial statements and the financial reporting process, including the system of internal controls. The Company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles.

In fulfilling its oversight responsibilities, the audit committee reviewed with management and Deloitte & Touche LLP the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and discussed with management the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The audit committee also reviewed and discussed with management and Deloitte & Touche LLP the disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Controls and Procedures" included in the Annual Report on Form 10-K for the year ended December 31, 2011.

In addition, the audit committee discussed and received the written disclosures and the letter from the independent registered public accountants required by the applicable requirements of the Public Company Accounting Oversight Board, and the audit committee discussed with the independent registered public accountants the auditors' independence from management and us and the matters required to be discussed by the statement on Auditing Standards No. 61, as amended.

In reliance on the reviews and discussions referred to above, prior to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 with the SEC, the audit committee recommended to the Board of Directors (and the Board of Directors approved) that the audited financial statements be included in such annual report for filing with the SEC.

The members of the audit committee are not professionally engaged in the practice of auditing or accounting. Members of the audit committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accountants. Accordingly, the audit committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that Deloitte & Touche LLP is in fact "independent."

By the Audit Committee:
Stephen P. Jonas, Chairman
Raymond A. Redlingshafer, Jr.
David A. Tyson, PhD

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information regarding the beneficial ownership of our common stock as of March 8, 2012, with respect to:

- each of our directors;
- each of our director nominees;
- each of our NEOs; and
- all directors, director nominees and executive officers as a group.

Unless otherwise indicated, the business address for each of the identified stockholders is 890 Winter Street, Suite 200, Waltham, Massachusetts 02451. Except as indicated in the footnotes below, none of the executive officers or directors has pledged his shares of common stock as collateral, and each named beneficial owner has sole voting power and sole dispositive power. Based upon our review of filings made with the SEC, none of our stockholders is the beneficial owner of more than 5% of our common stock.

Name and Address of Beneficial Owner	Shares of Common Stock[1]	Percent of Common Stock[2]
Directors and Executive Officers:		
Kevin E. Grant[3]	485,153	*
Tanya Beder	—	*
Richard E. Cleary[4]	121,217	*
Douglas Crocker II[5]	39,075	*
Jeffrey P. Hughes[6]	118,591	*
Stephen P. Jonas[7]	122,356	*
Raymond A. Redlingshafer, Jr.[7]	24,139	*
Thomas A. Rosenbloom[8]	93,260	*
Frances R. Spark[8]	105,750	*
James A. Stern[9]	93,336	*
David A. Tyson[7]	25,739	*
All Executive Officers, Directors and Director Nominees as a Group (11 persons)	1,228,616	1.0%

* Represents ownership of less than 1.0%.

(1) In accordance with SEC rules, each listed person's beneficial ownership includes: (1) all shares the investor actually owns beneficially or of record; (2) all shares over which the investor has or shares voting or dispositive control; and (3) all shares the investor has the right to acquire within 60 days of March 8, 2012 (such as upon the exercise of options that are currently vested or which are scheduled to vest within 60 days).

(2) For purposes of this table, a person is deemed to be the beneficial owner of shares of common stock if that person has the right to acquire such shares within 60 days of March 8, 2012 by the exercise of any options. Options held by a person are deemed to have been exercised for the purpose of computing the percentage of outstanding shares of common stock beneficially owned by such person, but shall not be deemed to have been exchanged or exercised for the purpose of computing the percentage of outstanding shares of common stock beneficially owned by any other person.

(3) Includes (i) 243,633 unvested shares of restricted stock and (ii) options to acquire 131,088 shares of common stock at an exercise price of $30.00 per share.

(4) Includes 71,618 unvested shares of restricted stock. Mr. Cleary has pledged 12,166 shares of our common stock as security.

(5) Includes 3,634 unvested shares of restricted stock held by Mr. Crocker.

(6) Includes (i) 24,000 shares of common stock held in trusts for which Mr. Hughes is a trustee and (ii) 3,634 unvested shares of restricted stock.

(7) Includes 3,634 unvested shares of restricted stock.

(8) Includes 72,243 unvested shares of restricted stock.

(9) Includes (i) 16,667 shares of common stock held in a trust for which Mr. Stern is a trustee and (ii) 3,634 unvested shares of restricted stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act ("Section 16(a)") requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities ("10% Holders"), to file reports of ownership and changes in ownership with the SEC. Officers, directors and 10% Holders are required by SEC regulation to furnish us with copies of all Section 16(a) forms that they file. To our knowledge, based solely on review of the copies of such reports furnished to us, or written representations from reporting persons that all reportable transactions were reported, we believe that during the fiscal year ended December 31, 2011 the executive officers, directors and 10% Holders timely filed all reports they were required to file under Section 16(a).

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Options and Restricted Stock Awards

We have granted shares of restricted stock to our independent directors and shares of restricted stock and options to purchase shares of our common stock to certain officers and employees. See "Named Executive Officer Compensation for 2011—Compensation, Discussion and Analysis—Compensation of Our Named Executive Officers for 2011 Performance" and "Director Compensation for 2011" for a discussion of the restricted stock that we granted to our NEOs and directors in 2011.

Purchases of Common Stock by Executive Officers, Directors and Affiliates

Certain of our executive officers, directors, and employees own shares of our common stock as a result of purchases of our common stock in certain of our private offerings, our initial public offering and open market transactions. All of these securities were purchased at the same price paid by other third party investors.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements require, among other things, that we indemnify our directors and certain officers to the fullest extent permitted by law and advance to our directors and certain officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted.

Related Person Transaction Policy

Our Board of Directors has adopted a policy regarding the approval of any "related person transaction," which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, the amount involved exceeds $120,000 and a "related person" (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to our corporate secretary any related person transaction and (i) all material facts about the transaction, (ii) the benefits to us of the related party transaction, (iii) if applicable, the availability of other sources of comparable products and services and (iv) an assessment of whether the proposed transaction is on terms that are comparable to the terms available to an unrelated third party or to employees generally. Our corporate secretary would then assess whether the proposed transaction is a "related person transaction" and, if so, promptly communicate that information to the audit committee. Based on its consideration of all of the relevant facts and circumstances, the audit committee will decide whether or not to approve such transaction. If we become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction will be referred to the audit committee, which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any member of the audit committee who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

STOCKHOLDER PROPOSALS

Stockholder proposals intended to be presented at the 2013 annual meeting of stockholders, including a proposal for the election of a director, must be received by the corporate secretary of the Company no later than December 4, 2012 in order to be considered for inclusion in our proxy statement relating to the 2013 Annual Meeting pursuant to Rule 14a-8 under the Exchange Act ("Rule 14a-8").

Our bylaws currently provide that in order for a proposal of a stockholder to be presented at our 2013 Annual Meeting of Stockholders, other than a stockholder proposal included in our proxy statement pursuant to Rule 14a-8, it must be received at our principal executive offices no earlier than November 4, 2012 and on or before 5:00 p.m., Eastern Time, December 4, 2012. If the 2013 annual meeting of stockholders is scheduled to take place before April 10, 2013 or after June 9, 2013, then notice must be delivered no earlier than the close of business on the 150th day prior to the 2013 annual meeting of stockholders and not later than the close of business on the later of the 120th day prior to the 2013 annual meeting of stockholders or the tenth day following the day on which public announcement of the date of the 2013 Annual Meeting of Stockholders is first made public by the Company. Any such proposal should be mailed to: CYS Investments, Inc., 890 Winter Street, Suite 200, Waltham, Massachusetts 02451, Attention: Corporate Secretary. The stockholder filing the notice of nomination must include:

- As to the stockholder giving the notice:
  - the name and address of such stockholder or stockholder associated person, as they appear on our stock ledger, and current name and address, if different;
  - the class, series and number of shares of stock of the Company which are owned by such stockholder or any stockholder associated person, if any, and the nominee holder for, and number of, shares owned beneficially (within the meaning of Rule 13d-3 under the Exchange Act) but not of record by such stockholder and by such stockholder associated person;
  - any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such stockholder and/or stockholder associated person, the purpose or effect of which is to give such stockholder and/or stockholder associated person economic risk similar to ownership of shares of any class or series of the Company, including due to the fact that the value of such derivative, swap or other transactions are determined by reference to the price, value or volatility of any shares of any class or series of the Company, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the Company ("synthetic equity interests"), which synthetic equity interests shall be disclosed without regard to whether (x) the derivative, swap or other transactions convey any voting rights in such shares to such stockholder and/or stockholder associated person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such stockholder and/or stockholder associated person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions;
  - any proxy, contract, arrangement, understanding or relationship pursuant to which such stockholder and/or stockholder associated person has a right to vote any shares of any security of the Company;
  - any short interest in any security of the Company;
  - any rights to dividends on the shares of the Company owned beneficially by such stockholder and/or stockholder associated person that are separate or separable from the underlying shares of the Company;
  - any proportionate interest in shares of the Company or synthetic equity interests held, directly or indirectly, by a general or limited partnership in which such stockholder and or stockholder associated person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; and

- any performance-related fees (other than an asset-based fee) that such stockholder and/or stockholder associated person is entitled to based on any increase or decrease in the value of shares of the Company, if any, as of the date of such notice, including without limitation any such interests held by members of such stockholder's and/or stockholder associated person's immediate family sharing the same household; and

- As to each person whom the stockholder proposes to nominate for election as a director:
  - the name, age, business address and residence address of the person;
  - the class, series and number of shares of stock of the Company that are beneficially owned by the person;
  - the date such shares were acquired and the investment intent of such acquisition;
  - all other information relating to the person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the SEC; and
  - the written consent of the person to be named in the proxy statement as a nominee and to serve as a director if elected.

In order for a stockholder to bring other business before a stockholder meeting, timely notice must be received by us within the time limits described above. That notice must include:

- the information described above with respect to the stockholder proposing such business;
- a description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; and
- any material interest in such business of the stockholder and any stockholder associated person, individually or in the aggregate, including the anticipated benefit to the stockholder and any stockholder associated person.

A copy of the bylaws may be obtained from our corporate secretary by written request to the same address.

"HOUSEHOLDING" OF ANNUAL REPORT ON FORM 10-K AND PROXY STATEMENT

The SEC rules allow for the delivery of a single copy of an annual report to stockholders and proxy statement to any household at which two or more stockholders reside, if it is believed the stockholders are members of the same family. This delivery method, known as "householding," will save us printing and mailing costs. Duplicate account mailings will be eliminated by allowing stockholders to consent to such elimination, or through implied consent, if a stockholder does not request continuation of duplicate mailings. Brokers, dealers, banks or other nominees or fiduciaries that hold shares of our common stock in "street" name for beneficial owners of our common stock and that distribute proxy materials and annual reports they receive to beneficial owners may be householding. Depending upon the practices of your broker, bank or other nominee or fiduciary, you may need to contact them directly to discontinue duplicate mailings to your household. If you wish to revoke your consent to householding, you must contact your broker, bank or other nominee or fiduciary.

If you hold shares of common stock in your own name as a holder of record, householding will not apply to your shares. Also, if you own shares of common stock in more than one account, such as individually and also jointly with your spouse, you may receive more than one set of our proxy statements and annual reports to stockholders. To assist us in saving money and to provide you with better stockholder services, we encourage you to have all of your accounts registered in the same name and address. You may do this by contacting the Company's transfer agent, Computershare by telephone at (800) 622-6757 within the U.S. and Canada or (781) 575-4735 outside the U.S. and Canada in writing at P.O. Box 43078, Providence, Rhode Island 02940.

If you wish to request extra copies free of charge of any annual report to stockholders or proxy statement, please send your request to CYS Investments, Inc., 890 Winter Street, Suite 200, Waltham, Massachusetts 02451, Attention: Secretary. You can also refer to our web site at www.cysinv.com. Information at, or connected to, our web site is not and should not be considered part of this proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS,

Thomas A. Rosenbloom
Secretary

Waltham, Massachusetts
March 29, 2012