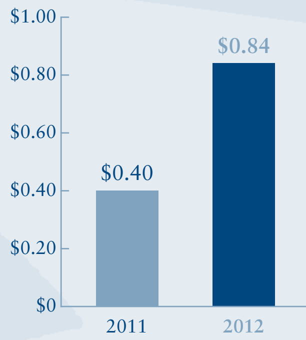
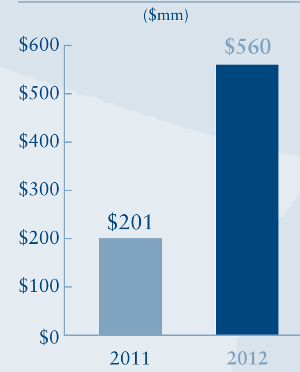
2012 ANNUAL REPORT

NEWCASTLE

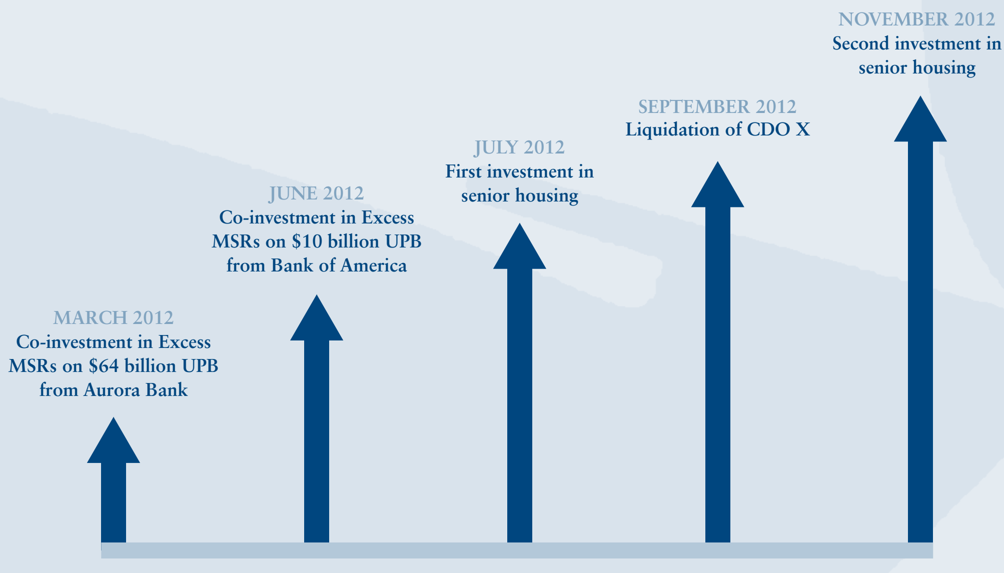
Investment Corp.





*Capital Invested represents the aggregate amount of unrestricted cash used to acquire investments during the period, net of acquisition financing.

2012 NEWCASTLE HIGHLIGHTS



NYSE: NCT

Newcastle is a real estate investment company that invests across the residential and commercial markets. Newcastle focuses on generating strong operating results and making new investments to drive dividend growth. Newcastle is organized and conducts its operations to qualify as a real estate investment trust (REIT) and is managed by an affiliate of Fortress Investment Group, a global investment management firm.

FELLOW SHAREHOLDERS:

2012 was a transformational year for our company, and we would like to take this time to reflect on what we have accomplished over the past year as well as where we are headed. We entered the year with an ambitious agenda—focused on both driving returns from our existing investments and identifying new opportunities that could generate strong results for our shareholders. Over the course of the year we made progress on both fronts. We expanded our strategy to encompass residential investments in addition to our traditional commercial focus. Since diversifying, beginning in late 2011, we have invested or committed to invest over $1 billion for our shareholders.

Our focus on growth helped to propel our financial performance. During the year we earned $429 million of GAAP income and increased book value by $881 million, or $4.62 per share. Core earnings were $150 million, or $1.03 per share, and cash available for distribution increased by 45% to $112 million, from $77 million in 2011.

As a result of our strong financial results, we raised our dividend twice during the year. In 2012, we paid total dividends of $0.84 per share—up 110% from 2011.

INVESTMENT ACTIVITY & PERFORMANCE:

Throughout the year we remained steadfastly focused on delivering value for our shareholders by investing over $550 million across four main investment lines:

- **Excess MSRs:** Following our initial co-investment in residential mortgage servicing rights ("Excess MSRs") in late 2011, we invested approximately $220 million to acquire interests in Excess MSRs on about $75 billion of unpaid principal balance ("UPB") of mortgage loans throughout 2012. Subsequent to year-end, we announced our largest commitment to date to purchase an additional $360 million interest in the Excess MSRs on nearly $220 billion of UPB from Bank of America.

  We felt at the time, and continue to believe, that mortgage servicing investments within the $10 trillion U.S. mortgage market present an exciting opportunity, as non-bank servicers continue to supplant bank servicers struggling with regulatory and operating headwinds. In the past two years alone, more than $1 trillion of MSRs have been transferred to non-bank servicers, and we expect that over $2 trillion of additional MSRs will follow in the coming years.

  As of January 31, 2013, we have received total cash flows of $62 million, or 21% of our initial invested capital, over an average term of eight months. Two of the primary metrics we monitor include: 1) prepayment rates (the rate at which mortgages prepay or default and therefore exit the servicing pool) and 2) recapture rates (the portion of prepaid loans that are refinanced by our servicing partner, Nationstar, and remain in the servicing pool). Life-to-date prepayment rates are lower at 14%, versus our projection of 21%. Recapture rates are beginning to trend higher, especially among our most seasoned pools.

  As a result, the expected internal rate of return ("IRR") for our portfolio is 19%, higher than our initial projection. These are extraordinary unleveraged returns, particularly in a world of near zero short term interest rates.

- **Non-Agency RMBS:** In the second quarter of 2012, we began opportunistically investing in non-agency RMBS securities. Through January 31, 2013, we had purchased $680 million of securities at an average price of 62% of face value, or $420 million, using a mix of debt and equity.

  Non-agency RMBS, in our view, provide an attractive way to participate in the recovery of the housing market. Targeting Nationstar-serviced non-agency securities should allow us to benefit from their high-touch servicing practices to lower delinquencies and defaults, therefore improving the credit profile of our holdings. Throughout the year, our non-agency RMBS have steadily rallied and we believe there is price appreciation yet to be realized.

  As of the end of January, our portfolio had generated $27 million of life-to-date cash flow. Assuming we apply our targeted levels of leverage, we believe the expected IRR on this portfolio would be 16%. Currently, we are using more modest leverage levels of 35%, resulting in an expected IRR of 9%.

- **Real Estate Debt:** In 2012, we purchased $213 million of commercial real estate debt at an average price of 94% of par. At year-end, our real estate debt portfolio consisted of $3.0 billion of assets financed with $2.0 billion of primarily match funded, non-recourse debt. The weighted average carrying value of the portfolio improved from a price of 81% to 85% of par, or $107 million, over the course of the year.

In total, we expect $725–$750 million of net principal recovery from our real estate debt investments if held to maturity over an average life of approximately five years; however, we are taking a much more active approach to optimizing our recovery over a shorter period of time.

As an example, in September 2012, we accelerated principal recovery through our liquidation of CDO X. In connection with the sale of our interests in CDO X to the owner of the senior notes and another third party, we received $130 million of cash and recorded a gain of $224 million. In addition, we were able to opportunistically repurchase eight CDO X assets, from which we expect to receive $50 million of profit over an average life of 2.4 years.

Our goal is to identify opportunities, similar to that of CDO X, which will allow us to optimize recoveries over shorter timelines. We plan to reinvest the proceeds in senior housing assets, portfolio restructurings and opportunistic debt investments.

- **Senior Housing:** The senior housing industry is characterized by a significant supply-demand imbalance and high fragmentation. The target demographic for senior housing consumers (75+) is estimated to grow at a rate nearly three times faster than the base population; however, new construction starts remain at all-time lows. With more than 22,000 senior housing properties estimated to be worth $300 billion and nearly 70% of those properties owned by "mom and pops" (i.e., owners of 15 or fewer properties), we believe that a significant opportunity to create value through consolidation exists.

  We plan to take advantage of these macroeconomic trends by leveraging Fortress's seasoned senior housing professionals to help procure and manage properties. Fortress has been one of the most active owners and operators of senior housing over the past decade, with interests in the ownership or operation of nearly 1,000 properties.

  Our strategy is to target assets that initially have the potential to generate low- to mid-teens levered returns and, over the next couple of years, could produce returns of over 20%. In the third quarter of 2012, we made our first senior housing investment by purchasing 8 properties. By the end of the year, following two more acquisitions, our portfolio consisted of 12 properties with a gross initial investment value of $201 million. At year-end, our portfolio has performed better than our initial expectations.

BUSINESS OUTLOOK:

While only a few months into 2013, we have been very active on the investment front. In addition, at the beginning of the year, we announced our intention to spin off our subsidiary, New Residential Investment Corp. We are excited about the progress made to date, and we plan to complete the spin off in the coming months. We believe both Newcastle and New Residential will have very active investment pipelines following the spin off.

Newcastle will continue to focus on maximizing recoveries in our existing CDOs and other debt investments. We intend to pursue collapse strategies and other opportunities to extract value from these investments. Furthermore, we will continue to add new investments to our senior housing portfolio. Our near-term pipeline consists of $250–$300 million of potential investments. We also intend to pursue additional opportunities that fall within our investment guidelines.

New Residential will target investments in Excess MSRs, non-agency RMBS, non-performing loans and other adjacent assets. In addition to our landmark co-investment in Excess MSRs on $220 billion of UPB described above, we recently announced a co-investment in a $4.2 billion UPB pool of consumer loans from HSBC. Though we do not anticipate investments in consumer loans will be a primary focus for New Residential, we are particularly excited about this opportunistic investment. Our servicing and co-investment partner, Springleaf Financial, is a proven high quality servicer, and we believe the investment will generate attractive returns for shareholders.

2012 was an exceptional year for Newcastle, and 2013 is already proving to be as active if not more so. We are excited about the opportunities ahead of us, and we believe there is still a long runway for growth in the years to come. We remain focused on positioning the company for continued success and look forward to updating you on our progress throughout the year.

KENNETH M. RIIS
Chief Executive Officer and President
March 21, 2013

FORM 10-K

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

FORM 10-K

X **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

or

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

For the transition period from ____________ to ____________

Commission File Number: 001-31458

Newcastle Investment Corp.
(Exact name of registrant as specified in its charter)

Maryland	81-0559116
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 798-6100

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class:	Name of exchange on which registered:
Common Stock, $0.01 par value per share	New York Stock Exchange (NYSE)
9.75% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share	New York Stock Exchange (NYSE)
8.05% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share	New York Stock Exchange (NYSE)
8.375% Series D Cumulative Redeemable Preferred Stock, $0.01 par value per share	New York Stock Exchange (NYSE)

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

X Yes _____ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

_____ Yes X No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes _____ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

X Yes ____ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K ___

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

Large Accelerated Filer X Accelerated Filer ___ Non-accelerated Filer ___ Smaller Reporting Company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check One):

______Yes X No

The aggregate market value of the common stock held by non-affiliates as of June 30, 2012 (computed based on the closing price on such date as reported on the NYSE) was: $949 million.

The number of shares outstanding of the registrant's common stock was 253,025,645 as of February 27, 2013.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, and our financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- reductions in cash flows received from our investments;
- our ability to take advantage of opportunities in additional asset classes or types of assets, including, without limitation, senior living facilities, at attractive risk-adjusted prices or at all;
- our ability to take advantage of investment opportunities in interests in excess mortgage servicing rights ("Excess MSRs");
- our ability to deploy capital accretively;
- the risks that default and recovery rates on our real estate securities and loan portfolios deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets, including, but not limited to, our Excess MSRs;
- the risk that projected recapture rates on the portfolios underlying our Excess MSRs are not achieved, or that other assumptions underlying our projected returns prove to be incorrect;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- changes in economic conditions generally and the real estate and debt securities markets specifically;
- adverse changes in the financing markets we access affecting our ability to finance our investments, or in a manner that maintains our historic net spreads;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the quality and size of the investment pipeline and the rate at which we can invest our cash, including cash inside our collateralized debt obligations ("CDOs");
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities, loans or real estate are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans;
- the availability and cost of capital for future investments;
- competition within the finance and real estate industries; and
- other risks detailed from time to time below, particularly under the heading "Risk Factors," and in our other reports filed with or furnished to the Securities and Exchange Commission (the "SEC").

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views only as of the date of this report. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements provide to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See "Business – Corporate Governance and Internet Address; Where Readers Can Find Additional Information."

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

NEWCASTLE INVESTMENT CORP.
FORM 10-K

INDEX

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	17
Item 1B.	Unresolved Staff Comments	46
Item 2.	Properties	46
Item 3.	Legal Proceedings	47
Item 4.	Mine Safety Disclosures	47
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	47
Item 6.	Selected Financial Data	49
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	51
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	84
Item 8.	Financial Statements and Supplementary Data	87
	Report of Independent Registered Public Accounting Firm	88
	Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	89
	Consolidated Balance Sheets as of December 31, 2012 and 2011	90
	Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010	92
	Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010	93
	Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2012, 2011 and 2010	94
	Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010	95
	Notes to Consolidated Financial Statements	97
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	151
Item 9A.	Controls and Procedures	151
	Management's Report on Internal Control over Financial Reporting	151
Item 9B.	Other Information	152
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	152
Item 11.	Executive Compensation	152
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	152
Item 13.	Certain Relationships and Related Transactions, and Director Independence	152
Item 14.	Principal Accounting Fees and Services	152
	PART IV	
Item 15.	Exhibits; Financial Statement Schedules	153
	Signatures	157

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PART I

Item 1. Business.

Overview

Newcastle Investment Corp. ("Newcastle") is a real estate investment and finance company. We invest in, and actively manage, a portfolio of real estate securities, loans, excess mortgage servicing rights ("Excess MSRs"), real estate related assets, such as senior living facilities, and other assets. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments. We often seek to hedge our interest rate risk. We emphasize portfolio management, asset quality, liquidity, diversification, match funded financing and credit risk management.

We conduct our business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered Excess MSRs, (iv) investments in senior living assets financed with non-recourse debt ("nonrecourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. Further details regarding the revenues, net income (loss) and total assets of each of our segments for each of the last three fiscal years are presented in Note 3 to Part II, Item 8, "Financial Statements and Supplementary Data."

The following table summarizes our segments at December 31, 2012:

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A)(C)	Recourse (D)	Unlevered Other (E)	Corporate	Inter-segment Elimination (F)	Total
GAAP										
Investments	$ 1,411,731	$ 5,998	$ 245,036	$ 181,887	$ 755,421	$ 1,049,029	$ 107,189	$ -	$ (62,336)	$3,693,955
Cash and restricted cash	2,064	-	-	9,720	-	-	-	222,178	-	233,962
Derivative assets	-	-	-	165	-	-	-	-	-	165
Other assets	7,422	7	33	4,946	113	2,740	1,924	202	(157)	17,230
Total assets	1,421,217	6,005	245,069	196,718	755,534	1,051,769	109,113	222,380	(62,493)	3,945,312
Debt	(1,095,598)	-	-	(120,525)	(651,540)	(925,191)	-	(51,243)	62,336	(2,781,761)
Derivative liabilities	(31,576)	-	-	-	-	-	-	-	-	(31,576)
Other liabilities	(5,681)	-	(406)	(5,084)	(2,684)	(171)	(77)	(44,969)	157	(58,915)
Total liabilites	(1,132,855)	-	(406)	(125,609)	(654,224)	(925,362)	(77)	(96,212)	62,493	(2,872,252)
Preferred stock	-	-	-	-	-	-	-	(61,583)	-	(61,583)
GAAP book value	$ 288,362	$ 6,005	$ 244,663	$ 71,109	$ 101,310	$ 126,407	$ 109,036	$ 64,585	$ -	$1,011,477

(A) Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent we receive net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, our exposure to the economic losses from such structures is limited to our invested equity in them and economically their book value cannot be less than zero. Therefore, impairment recorded in excess of our investment, which results in negative GAAP book value for a given non-recourse financing structure, cannot economically be incurred and will eventually be reversed through amortization, sales at gains, or as gains at the deconsolidation or termination of such non-recourse financing structure.

(B) Represents unlevered investments in CDO securities issued by Newcastle. These CDOs have been deconsolidated as we do not have the power to direct the relevant activities of the CDOs.

(C) The following table summarizes the investments and debt in the non-recourse other segment:

	December 31, 2012			
	Investments		Debt	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount*	Carrying Value*
Manufactured housing loan portfolio I	$ 118,746	$ 100,124	$ 90,551	$ 81,963
Manufactured housing loan portfolio II	153,193	150,123	117,907	117,191
Residential mortgage loans	52,352	38,709	-	-
Subprime mortgage loans subject to call options	406,217	405,814	406,217	405,814
Real estate securities	63,505	53,979	44,585	40,572
Operating real estate	N/A	6,672	6,000	6,000
	$ 794,013	$ 755,421	$ 665,260	$ 651,540

* An aggregate face amount of $71.1 million (carrying value of $62.3 million) of debt represents financing provided by the CDO segment (and included as investments in the CDO segment), which is eliminated upon consolidation.

(D) The $925.2 million of recourse debt is comprised of (i) $772.9 million of repurchase agreements secured by $820.5 million carrying amount of FNMA/FHLMC securities, (ii) $1.4 million of repurchase agreements secured by $21.0 million face amount of senior notes issued by Newcastle CDO VI, which was repurchased by Newcastle in December 2010 and eliminated in consolidation, and (iii) a $150.9 million repurchase agreement secured by $228.5 million carrying value of non-agency residential mortgage backed securities ("RMBS").

(E) The following table summarizes the investments in the unlevered other segment as of December 31, 2012:

	Outstanding Face Amount	Carrying Value	Number of Investments
Real estate securities*	$ 229,299	$ 68,863	38
Real estate related loans	80,298	29,831	2
Residential mortgage loans	3,645	2,471	130
Other investments	N/A	6,024	1
	$ 313,242	$ 107,189	171

* During the year ended December 31, 2012, Newcastle purchased 17 non-agency RMBS with an aggregate face amount of $90.9 million for an aggregate purchase price of approximately $61.7 million, or an average price of 67.9% of par. As of December 31, 2012, these securities had an aggregate face amount of $89.3 million and a carrying value of $61.3 million.

(F) Represents the elimination of investments and financings and their related income and expenses between the CDO segment and the other non-recourse segment as the corresponding inter-segment investments and financings are presented on a gross basis within each of these segments.

Our investments currently cover the following distinct categories:

1) Real Estate Securities: We underwrite, acquire and manage a diversified portfolio of credit sensitive real estate securities, including commercial mortgage backed securities (CMBS), senior unsecured REIT debt issued by REITs, real estate related asset backed securities (ABS), including subprime securities, and FNMA/FHLMC securities. As of December 31, 2012, our real estate securities represented 42.9% of our assets. As described below, we intend to spin-off approximately 17.1% of these assets.

2) Real Estate Related Loans: We acquire and originate loans to real estate owners, including B-notes, mezzanine loans, corporate bank loans, and whole loans. As of December 31, 2012, our real estate related loans represented 21.4% of our assets.

3) Residential Mortgage Loans: We acquire residential mortgage loans, including manufactured housing loans and subprime mortgage loans. As of December 31, 2012, our residential mortgage loans represented 7.5% of our assets.

4) Operating Real Estate: We acquire and manage direct and indirect interests in operating real estate, including senior living assets. As of December 31, 2012, our operating real estate represented 5.4% of our assets.

5) Excess Mortgage Servicing Rights: Since December 2011, we have made investments in Excess MSRs on five pools of residential mortgage loans with an aggregate unpaid principal balance ("UPB") as of December 31, 2012 of $76.5 billion. As of December 31, 2012, our investments in Excess MSRs represented 6.2% of our assets. As described below, we intend to spin-off these assets.

In addition, Newcastle had restricted and unrestricted cash and other miscellaneous net assets, which represented 16.6% of our assets at December 31, 2012. As described below, we intend to spin off a portion of these assets, which consist primarily of cash.

Newcastle's stock is traded on the New York Stock Exchange under the symbol "NCT." Newcastle is a real estate investment trust for federal income tax purposes and is externally managed and advised by an affiliate of Fortress Investment Group LLC, or Fortress. For its services, our manager is entitled to a management fee and incentive compensation pursuant to a management agreement. Fortress, through its affiliates, and principals of Fortress collectively owned 4.9 million shares of our common stock and Fortress, through its affiliates, had options to purchase an additional 9.7 million shares of our common stock, which were issued in connection with our equity offerings, representing approximately 7.8% of our common stock on a fully diluted basis, as of December 31, 2012.

Significant Developments

Excess MSRs

We have made investments in Excess MSRs on five pools of residential mortgage loans with an aggregate unpaid principal balance ("UPB") as of December 31, 2012 of $76.5 billion. We completed our first Excess MSR investment in December 2011 and completed two additional investments in the Excess MSRs on four pools of mortgage loans in 2012.

On January 4, 2013, we invested $27 million for a one-third interest in the Excess MSRs on a $13 billion UPB Ginnie Mae loan pool from Nationstar Mortgage Holdings Inc. ("Nationstar"). Nationstar will service the loans and will retain a one-third interest in the Excess MSRs; a Fortress Fund will acquire the remaining one-third interest.

On January 6, 2013, we agreed to co-invest in Excess MSRs on a portfolio of residential mortgage loans with an approximately $215 billion UPB, as of November 30, 2012, from Nationstar in conjunction with Nationstar's purchase of MSRs from Bank of America. We committed to invest approximately $340.0 million to acquire an approximately one-third interest in the Excess MSRs. The majority of the investment is expected to close in the first quarter of 2013, subject to regulatory and third-party approvals. As in the transaction described above, Nationstar is the servicer and owns a one-third interest. A Fortress Fund acquired the remaining one-third interest. The loans comprise four pools, of which 47% are expected to be loans that are owned, insured or guaranteed by Agency/Government entities and 53% are expected to be non-conforming loans in private label securitizations. On January 31, 2013, we completed the first closing of this co-investment. The first closing related to Excess MSRs on loans with an aggregate UPB of approximately $58 billion as of December 31, 2012, that are owned, insured, or guaranteed by Fannie Mae or Freddie Mac.

On February 27, 2013, we entered into an agreement to co-invest in non-performing mortgage loans with a UPB of approximately $83.0 million as of December 31, 2012. We have invested approximately $35.0 million to acquire a 70% interest in the non-performing mortgage loans. Nationstar has co-invested pari passu with us in 30% of the non-performing mortgage loans and will be the servicer of the loans performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer.

We intend to spin off these and certain other assets, as described below.

Residential Assets

Since the beginning of the second quarter of 2012, we have purchased non-Agency RMBS serviced by Nationstar outside of our CDOs with an aggregate face amount of approximately $433.5 million and a fair value of approximately $289.8 million as of December 31, 2012. Subsequent to December 31, 2012, we acquired an additional $321.6 million face amount of non-Agency RMBS for approximately $190.6 million. As of December 31, 2012, we financed $344.2 million face amount of the securities with approximately $150.9 million of repurchase agreements at a cost of one-month LIBOR plus 200 basis points and a weighted average advance rate of 66%. We intend to spin off these assets and certain other assets, as described below.

Senior Living Assets

During 2012, we completed three acquisitions of senior living assets as follows:

In July 2012, we completed the acquisition of eight senior housing facilities for an aggregate purchase price of approximately $143.3 million plus acquisition-related costs. These assets comprise more than 800 beds in senior living facilities located in California, Oregon, Utah, Arizona and Idaho.

In November 2012, we completed the acquisition of three senior housing facilities for an aggregate purchase price of approximately $22.6 million plus acquisition-related costs. These assets comprise more than 350 beds in senior living facilities located in Utah.

In December 2012, we completed the acquisition of a senior housing facility for an aggregate purchase price of approximately $21.5 million plus acquisition-related costs. This asset comprises more than 200 beds in a senior living facility located in Texas.

Sale of CDO X

In September 2012, we completed the sale of 100% of our interests in CDO X to the sole owner of the senior notes and another third party, in connection with the liquidation and termination of CDO X. We received $130 million for $89.75 million face amount of subordinated notes and all of our equity in CDO X. As a result, we recorded a gain on sale of $224.3 million and deconsolidated CDO X in the quarter ended September 30, 2012.

Spin-Off of Residential Assets

Our Board of Directors has unanimously approved a plan to spin off all of our Excess MSRs and certain other assets. We intend to effect the spin-off in the first half of 2013 by distributing shares of our subsidiary, New Residential Investment Corp. ("New Residential"). New Residential will be a publicly traded real estate investment trust that primarily targets opportunistic investments in residential real estate related investments, including, but not limited to Excess MSRs, RMBS, and non-performing loans and other real estate related investments. New Residential's investment guidelines will be purposefully broad to enable it to make investments in a wide array of assets, including mortgage servicing advances and non-real estate related assets such as consumer loans. New Residential will be externally managed by FIG LLC, an affiliate

of Fortress Investment Group LLC, pursuant to a new management agreement with terms that are substantially similar to the terms of Newcastle's management agreement. Following the spin-off, we currently expect Newcastle business strategy will be primarily focused on commercial real estate related investments, senior housing and other strategic opportunities, including, but not limited to, opportunities to liquidate, or "collapse", its CDOs.

New Residential has filed a registration statement with the U.S. Securities and Exchange Commission ("SEC") with respect to the planned spin-off. The spin-off is subject to certain conditions, such as the SEC declaring effective New Residential's registration statement, the filing and approval of an application to list New Residential's common stock on the NYSE (under the symbol "NRZ") and the formal declaration of the distribution by our Board of Directors.

Our Investment Strategy

Newcastle's investment strategy focuses predominantly on opportunistic investments in real estate related assets. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, including, but not limited to, any assets that can be held by real estate investment trusts. We do not have specific policies as to the allocation among type of real estate related assets or investment categories since our investment decisions depend on changing market conditions. Instead, we focus on relative value and in-depth risk/reward analysis. Our focus on relative value means that assets which may be unattractive under particular market conditions may, if priced appropriately to compensate for risks such as projected defaults and prepayments, become attractive relative to other available investments. We generally utilize a match funded financing strategy, when appropriate and available, and active management as part of our investment strategy.

The following summarizes our consolidated investment portfolio at December 31, 2012 (dollars in millions):

Investment [9]	Outstanding Face Amount	Amortized Cost Basis [1]	Percentage of Total Amortized Cost Basis	Carrying Value	Number of Investments	Credit [2]	Weighted Average Life (years) [3]
I. Residential Servicing & Securities							
Excess MSRs Investments	$ 245	$ 236	7.4%	$ 245	5	--	5.4
Non-Agency RMBS [4]	434	275	8.7%	290	29	CC	6.8
Total Residential Servicing & Securities Assets	679	511	16.1%	535			6.3
II. Commercial Real Estate Debt & Other Assets							
Commercial Assets							
CMBS	475	337	10.6%	376	76	BB-	3.2
Mezzanine Loans	528	443	13.9%	443	17	77%	2.2
B-Notes	171	162	5.1%	162	6	68%	2.1
Whole Loans	30	30	0.9%	30	3	48%	1.1
CDO Securities [5]	96	67	2.1%	71	5	BB	3.3
Other Investments [6]	25	25	0.8%	25	1	--	--
Total Commercial Assets	1,325	1,064	33.4%	1,107			2.6
Residential Assets							
MH and Residential Loans	332	290	9.1%	290	8,881	705	6.1
Subprime Securities	124	47	1.5%	66	40	CCC	5.0
Real Estate ABS	10	2	0.1%	1	3	CCC-	4.7
	466	339	10.7%	357			5.8
FNMA/FHLMC securities	769	811	25.5%	813	58	AAA	3.5
Total Residential Assets	1,235	1,150	36.2%	1,170			4.4
Corporate Assets							
REIT Debt	63	62	2.0%	66	10	BBB-	1.8
Corporate Bank Loans	392	209	6.6%	209	7	CC	3.6
Total Corporate Assets	455	271	8.6%	275			3.3
Senior Living Properties Investments [7]	188	182	5.7%	182	12	--	--
Total Commercial Real Estate Debt & Other Assets	3,203	2,667	83.9%	2,734			3.4
TOTAL / WA	$ 3,882	$ 3,178	100.0%	$ 3,269			4.0
Reconciliation to GAAP total assets:							
Subprime mortgage loans subject to call option [8]				405			
Real estate held-for-use				7			
Cash and restricted cash				234			
Other				30			
GAAP total assets				$ 3,945			

WA – Weighted average, in all tables.

(1) Net of impairment.
(2) Credit represents the weighted average of minimum rating for rated assets, the loan-to-value ratio (based on the appraised value at the time of purchase or refinancing) for non-rated commercial assets, or the FICO score for non-rated residential assets and an implied AAA rating for FNMA/FHLMC securities. Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.
(3) Weighted average life is based on the timing of expected principal reduction on the asset.
(4) Represents non-Agency RMBS purchased outside of our CDOs since April 2012.
(5) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $107 million.
(6) Represents an equity investment in a real estate owned property.
(7) Face amount of senior living property investments represents the gross carrying amount, which excludes accumulated depreciation and amortization.
(8) Our subprime mortgage loans subject to call option are excluded from the statistics because they result from an option, not an obligation, to repurchase such loans, are noneconomic until such option is exercised, and are offset by an equal liability on the consolidated balance sheet.
(9) The following tables summarize certain supplemental data relating to our investments (dollars in tables in thousands):

Excess MSRs

Collateral Characteristics:

	Current Carrying Amount	Original Principal Balance	Current Principal Balance	Number of Loans	WA FICO Score (A)	WA Coupon	WA Maturity (months)	Average Loan Age (months)	Adjustable Rate Mortgage % (B)	1 Month CPR (C)	1 Month CRR (D)	1 Month CDR (E)	1 Month Recapture Rate
		Collateral Characteristics											
Pool 1													
Original Pool	$ 33,977	$ 9,940,385	$ 7,927,465	53,477	685	6.0%	277	73	19.5%	23.2%	19.5%	4.5%	40.8%
Recaptured Loans	1,997	-	475,746	2,305	753	4.3%	324	5	0.2%	2.8%	2.8%	0.0%	0.0%
Recapture Agreements	4,936	-	-	-	-	-	-	-	-	-	-	-	-
	40,910	9,940,385	8,403,211	55,782	689	5.9%	280	69	18.4%	22.2%	18.7%	4.2%	40.6%
Pool 2													
Original Pool	33,187	10,383,891	9,239,244	47,285	680	5.3%	319	61	11.0%	19.6%	16.4%	3.7%	43.2%
Recaptured Loans	748	-	157,876	721	747	4.2%	327	1	0.0%	0.2%	0.2%	0.0%	0.0%
Recapture Agreements	5,387	-	-	-	-	-	-	-	-	-	-	-	-
	39,322	10,383,891	9,397,120	48,006	681	5.2%	319	60	10.8%	19.3%	16.1%	3.6%	43.2%
Pool 3													
Original Pool	30,272	9,844,114	9,030,073	55,496	668	4.7%	290	73	37.2%	15.1%	10.7%	4.9%	22.9%
Recaptured Loans	202	-	39,653	232	728	4.0%	323	1	0.0%	0.7%	0.7%	0.0%	0.0%
Recapture Agreements	4,960	-	-	-	-	-	-	-	-	-	-	-	-
	35,434	9,844,114	9,069,726	55,728	668	4.7%	290	73	37.0%	15.0%	10.7%	4.9%	22.9%
Pool 4													
Original Pool	12,076	6,250,549	5,768,822	28,523	671	3.8%	316	61	58.3%	14.2%	5.4%	9.3%	22.4%
Recaptured Loans	73	-	19,311	93	750	4.1%	341	2	0.0%	0.3%	0.3%	0.0%	0.0%
Recapture Agreements	2,887	-	-	-	-	-	-	-	-	-	-	-	-
	15,036	6,250,549	5,788,133	28,616	671	3.8%	316	61	58.1%	14.2%	5.4%	9.3%	22.4%
Pool 5													
Original Pool	109,652	47,572,905	43,895,651	185,761	650	4.8%	300	65	57.1%	16.5%	5.2%	11.9%	1.7%
Recapture Loans	30	-	6,910	29	739	3.6%	343	1	6.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	4,652	-	-	-	-	-	-	-	-	-	-	-	-
	114,334	47,572,905	43,902,561	185,790	650	4.8%	300	65	57.1%	16.5%	5.2%	11.9%	1.7%
Total/WA	$ 245,036	$ 83,991,844	$ 76,560,751	373,922	662	4.9%	300	65	44.9%	17.1%	8.7%	9.0%	25.3%

Continued on next page.

Excess MSRs

Collateral Characteristics:

	Collateral Characteristics						
	Uncollected Payments (F)	Delinquency 30 Days (F)	Delinquency 60 Days (F)	Delinquency 90+ Days (F)	Loans in Foreclosure	Real Estate Owned	Loans in Bankruptcy
Pool 1							
Original Pool	9.9%	5.8%	2.1%	1.2%	3.9%	0.9%	2.6%
Recaptured Loans	0.3%	0.4%	0.0%	0.0%	0.0%	0.0%	0.1%
Recapture Agreements	-	-	-	-	-	-	-
	9.3%	5.5%	1.9%	1.1%	3.7%	0.8%	2.5%
Pool 2							
Original Pool	14.1%	5.1%	1.9%	1.5%	7.4%	0.2%	5.1%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	-	-	-	-	-	-	-
	13.9%	5.0%	1.9%	1.4%	7.3%	0.2%	5.0%
Pool 3							
Original Pool	14.4%	4.4%	1.6%	1.4%	7.5%	2.2%	3.5%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	-	-	-	-	-	-	-
	14.4%	4.3%	1.6%	1.4%	7.5%	2.2%	3.5%
Pool 4							
Original Pool	19.1%	3.8%	1.6%	1.3%	12.1%	2.1%	4.7%
Recaptured Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	-	-	-	-	-	-	-
	19.0%	3.7%	1.6%	1.3%	12.1%	2.1%	4.7%
Pool 5							
Original Pool	28.8%	9.5%	2.3%	4.5%	17.4%	3.0%	5.1%
Recapture Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recapture Agreements	-	-	-	-	-	-	-
	28.8%	9.5%	2.3%	4.5%	17.4%	3.0%	5.1%
Total/WA	22.4%	7.4%	2.1%	3.2%	13.1%	2.2%	4.6%

(A) Weighted average FICO scores are reported based on information provided by the loan servicer on a monthly basis. The loan servicer generally updates the FICO score on a monthly basis.

(B) Adjustable Rate Mortgage % represents the percentage of the total principal balance of the pool that corresponds to adjustable rate mortgages.

(C) Constant prepayment rate represents the annualized rate of the prepayments during the month as a percentage of the total principal balance of the pool.

(D) 1 Month CRR, or the voluntary prepayment rate, represents the annualized rate of the voluntary prepayments during the month as a percentage of the total principal balance of the pool.

(E) 1 Month CDR, or the involuntary prepayment rate, represents the annualized rate of the involuntary prepayments (defaults) during the month as a percentage of the total principal balance of the pool.

(F) Uncollected Payments represents the percentage of the total principal balance of the pool that corresponds to loans for which the most recent payment was not made. Delinquency 30 Days, Delinquency 60 Days and Delinquency 90+ Days represent the percentage of the total principal balance of the pool that corresponds to loans that are delinquent by 30-59 days, 60-89 days or more than 90 days, respectively.

Non-Agency RMBS (A)

Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
	Security Characteristics							
Pre 2004	CC	12	$ 28,738	$ 22,280	8.2%	$ 22,909	18.8%	3.7%
2004	B-	4	41,434	21,202	7.7%	24,722	16.6%	3.8%
2005	D	1	2,529	1,413	0.5%	1,603	0.0%	0.0%
2006	CC	5	220,749	133,993	48.8%	139,678	5.8%	2.7%
2007 and later	CCC-	7	140,060	95,598	34.8%	100,844	13.1%	3.3%
Total/WA	CC	29	$ 433,510	$ 274,486	100.0%	$ 289,756	10.0%	3.0%

Vintage (B)	Average Loan Age (years)	Collateral Factor (F)	3 month CPR (G)	Delinquency (H)	Cumulative Losses to Date
	Collateral Characteristics				
Pre 2004	9.7	0.07	10.2%	16.3%	3.3%
2004	8.3	0.08	11.0%	20.5%	3.7%
2005	7.1	0.22	10.1%	22.0%	14.3%
2006	6.5	0.28	7.2%	28.6%	22.1%
2007 and later	6.0	0.46	10.6%	29.8%	26.5%
Total / WA	6.7	0.31	8.9%	27.4%	20.5%

(A) Represents non-agency RMBS purchased outside of our CDOs since April 2012.
(B) The year in which the securities were issued.
(C) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had approximately $1.5 million of non-agency RMBS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2012.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(F) The ratio of original unpaid principal balance of loans still outstanding.
(G) Three month average constant prepayment rate.
(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

CMBS

Deal Vintage (A)	Average Minimum Rating (B)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Delinquency 60+/FC/REO (C)	Principal Subordination (D)	Weighted Average Life (years) (E)
Pre 2004	B	17	$ 60,384	$ 55,223	16.4%	$ 52,017	12.1%	19.2%	1.0
2004	BB+	17	79,600	69,408	20.6%	70,535	1.7%	7.1%	2.0
2005	BB-	9	80,133	29,709	8.8%	49,009	5.8%	6.8%	2.7
2006	B+	21	148,646	94,999	28.2%	105,401	7.0%	12.6%	3.3
2007	CCC+	4	15,237	2,521	0.7%	4,539	5.5%	7.0%	1.5
2010	BB	3	35,000	32,990	9.8%	37,499	0.0%	2.0%	7.9
2011	BB+	5	55,992	52,116	15.5%	57,391	0.0%	4.1%	5.3
Total / WA	BB-	76	$ 474,992	$ 336,966	100.0%	$ 376,391	5.2%	9.6%	3.2

(A) The year in which the securities were issued.
(B) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had $1.5 million of CMBS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2012.
(C) The percentage of underlying loans that are 60+ days delinquent, in foreclosure or considered real estate owned (REO).
(D) The percentage of the outstanding face amount of securities that is subordinate to our investments.
(E) Weighted average life is based on the timing of expected principal reduction on the asset.

Mezzanine Loans, B-Notes and Whole Loans

Asset Type	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average First Dollar Loan to Value (A)	Weighted Average Last Dollar to Loan Value (A)	Delinquency (B)
Mezzanine Loans	17	$ 527,793	$ 442,529	69.8%	$ 442,529	66.8%	77.2%	2.3%
B-Notes	6	171,258	161,610	25.5%	161,610	58.2%	68.1%	0.0%
Whole Loans	3	30,130	30,130	4.7%	30,130	0.0%	48.4%	0.0%
Total/WA	26	$ 729,181	$ 634,269	100.0%	$ 634,269	62.0%	73.9%	1.6%

(A) Loan to value is based on the appraised value at the time of purchase or refinancing.
(B) The percentage of underlying loans that are non-performing, in foreclosure, under bankruptcy filing or considered real estate owned.

CDO Securities (A)

Collateral Manager	Primary Collateral Type	Number	Average Minimum Rating (B)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (C)
Third Party	CMBS	1	CC	$ 5,500	$ 3,088	4.6%	$ 3,850	53.5%
Newcastle	CMBS	3	CCC	18,806	3,979	5.9%	5,998	10.0%
Newcastle	ABS	1	BBB	71,972	60,471	89.5%	61,177	52.3%
TOTAL/WA		5	BB	$ 96,278	$ 67,538	100.0%	$ 71,025	44.1%

(A) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $107 million.
(B) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no CDO assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2012.
(C) The percentage of the outstanding face amount of securities that is subordinate to our investments.

Manufactured Housing and Residential Loans

Deal	Average FICO Score (A)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Average Loan Age (years)	Original Balance	Delinquency 90+/FC/REO (B)	Cumulative Loss to Date
Manufactured Housing Loans Portfolio I	703	$ 119,319	$ 98,233	33.9%	$ 98,233	11.2	$ 327,855	1.1%	8.9%
Manufactured Housing Loans Portfolio II	703	156,265	149,723	51.6%	149,723	13.6	434,739	1.7%	7.3%
Residential Loans Portfolio I	712	52,352	38,598	13.3%	38,598	9.7	646,357	9.1%	0.5%
Residential Loans Portfolio II	737	3,779	3,499	1.2%	3,499	8.3	83,950	64.4%	0.0%
Total / WA	705	$ 331,715	$290,053	100.0%	$ 290,053	12.1	$ 1,492,901	3.3%	6.7%

(A) Based on updated FICO scores provided by the loan servicer of the manufactured housing loan portfolios and original FICO scores for the residential loan portfolios as the loan servicers of the residential loan portfolios do not provide updated FICO scores.
(B) The percentage of loans that are 90+ days delinquent or in foreclosure or considered real estate owned (REO).

Subprime Securities (A)

	Security Characteristics							
Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
Pre 2004	CCC+	6	$ 5,472	$ 2,381	5.1%	$ 3,856	27.8%	3.2%
2004	CCC	6	11,738	2,877	6.1%	5,846	6.2%	2.6%
2005	CC	18	55,363	7,629	16.1%	13,735	16.4%	3.9%
2006	B+	5	39,029	25,706	54.3%	31,549	41.9%	4.2%
2007	CCC-	5	13,103	8,722	18.4%	11,234	25.4%	3.8%
Total / WA	CCC	40	$ 124,705	$ 47,315	100.0%	$ 66,220	24.9%	3.8%

Vintage (B)	Average Loan Age (years)	Collateral Factor (F)	3 Month CPR (G)	Delinquency (H)	Cumulative Losses to Date
	Collateral Characteristics				
Pre 2004	9.5	0.05	11.2%	19.6%	2.6%
2004	8.6	0.14	13.8%	12.8%	2.8%
2005	7.7	0.20	11.0%	29.8%	10.7%
2006	6.8	0.27	10.5%	23.3%	21.3%
2007	6.0	0.41	9.7%	28.5%	25.4%
Total / WA	7.4	0.23	11.0%	25.6%	14.5%

Real Estate ABS

Asset Type	Average Minimum Rating (C)	Number	Outstanding Face Amount	Amortized Cost Basis Amount	Percentage of Total Amortized Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
	Security Characteristics							
Small Business Loans	CCC-	3	$ 10,098	$ 1,547	100.0%	$ 1,475	3.0%	21.4%
Total / WA	CCC-	3	$ 10,098	$ 1,547	100.0%	$ 1,475	3.0%	21.4%

Asset Type	Average Loan Age (years)	Collateral Factor (F)	3 Month CPR (G)	Delinquency (H)	Cumulative Loss to Date
	Collateral Characteristics				
Small Business Loans	10.0	0.21	2.7%	38.3%	21.4%
Total / WA	10.0	0.21	2.7%	38.3%	21.4%

(A) Includes subprime retained securities in the securitizations of Subprime Portfolios I and II. For further information on these securitizations, see Note 5 to our consolidated financial statements included herein.
(B) The year in which the securities were issued.
(C) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no ABS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2012.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(F) The ratio of original unpaid principal balance of loans still outstanding.
(G) Three month average constant prepayment rate.
(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

REIT Debt

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Retail	BBB+	2	$ 9,500	$ 8,986	14.5%	$ 10,116
Diversified	B-	1	12,000	11,990	19.3%	12,060
Office	BBB-	2	12,000	12,063	19.4%	12,388
Multifamily	BBB	2	12,500	12,503	20.2%	13,182
Healthcare	BBB-	3	16,700	16,527	26.6%	18,428
Total / WA	BBB-	10	$ 62,700	$ 62,069	100.0%	$ 66,174

Corporate Bank Loans

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Media	CCC-	2	161,601	60,035	28.7%	60,035
Resorts	NR	3	204,678	128,991	61.8%	128,991
Restaurant	B	2	25,625	19,837	9.5%	19,837
Total / WA	CC	7	$ 391,904	$ 208,863	100.0%	$ 208,863

(A) Ratings provided above were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time. We had no corporate assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2012.

Senior Living Portfolio

Investment characteristics:

Portfolio	Acquisition Date	Number of Communities	Number of Beds	Gross Initial Investment (A)	Purchase Price	Costs Capitalized Sebsequent to Acquisition	Accumulated Depreciation/ Amortization and Closing Adjustments	Carrying value (B)	Outstanding Debt
BPM	July 2012	8	831	$ 149,267	$ 143,300	$ 218	$ 5,387	$ 138,131	$ 88,400
Utah	November 2012	3	358	$ 24,002	$ 22,578	$ 78	$ 394	$ 22,262	$ 16,000
Courtyards	December 2012	1	221	$ 22,415	$ 21,500	$ -	$ 6	$ 21,494	$ 16,125
		12	1,410	$ 195,684	$ 187,378	$ 296	$ 5,787	$ 181,887	$ 120,525

Performance information:

Portfolio	Average Occupancy		Average Revenue Per Occupied Bed (C)	
	Three Months Ended December 31, 2012	At Acquisition	Three Months Ended December 31, 2012	At Acquisition
BPM	89.1%	87.7%	$ 4,224	$ 4,208
Utah	N/A	82.0%	N/A	$ 2,428
Courtyards (D)	N/A	N/A	N/A	N/A

(A) Purchase price plus related acquisition costs.

(B) Combined GAAP carrying value of long-lived assets and intangible assets, net of accumulated depreciation and amortization.

(C) Total monthly revenue divided by the average number of occupied beds.

(D) There is no performance information as the acquisition of the portfolio closed on December 27, 2012.

The following table summarizes the geographic location of our senior living portfolios:

Location	Number of Communities	Number of Beds
Arizona	1	107
California	3	325
Idaho	1	121
Texas	1	221
Oregon	2	163
Utah	4	473
	12	1,410

Credit Risk Management

Credit risk refers to the ability of each individual borrower under our loans and securities to make required interest and principal payments on the scheduled due dates. We strive to reduce credit risk by actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where feasible and appropriate, repositioning our investments to upgrade their credit quality and yield. A significant portion of our investments are financed with collateralized debt obligations, known as CDOs. Our CDO financings offer us the structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

Further, while the expected yield on our real estate securities, which comprise a meaningful portion of our assets, is sensitive to the performance of the underlying loans, the first risk of default and loss - referred to as a “first loss” position- is borne by the more subordinated securities or other features of the securitization transaction, in the case of commercial mortgage and asset backed securities, and the issuer’s underlying equity and subordinated debt, in the case of senior unsecured REIT debt securities. We also invest in loans and securities which represent “first loss” positions; in other words, they do not benefit from credit support although we believe at acquisition they predominantly benefit from underlying collateral value in excess of their carrying amounts.

Our Financing and Hedging Activities

We employ leverage as part of our investment strategy. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2012 and as of the date of this Annual Report, we have complied with the general investment guidelines adopted by our board of directors that limit total leverage. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

We strive to maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing, including common and preferred stock offerings, collateralized debt obligations (CDOs), other securitizations, term loans, and trust preferred securities, as well as short term financing in the form of loans and repurchase agreements. Further details regarding the forms of financing that we are currently able to utilize are presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "– Market Considerations" and "– Liquidity and Capital Resources."

Our manager may elect for us to bear a level of refinancing risk on a short term or longer term basis, such as is the case with investments financed with repurchase agreements, when, based on all of the relevant factors, the manager determines that bearing such risk is advisable or unavoidable.

We attempt to reduce refinancing and interest rate risks through the use of match funded financing structures, when appropriate and available, whereby we seek (i) to match the maturities of our debt obligations with the maturities of our assets and (ii) to match the interest rates on our investments with like-kind debt (i.e., floating rate assets are financed with floating rate debt and fixed rate assets are financed with fixed rate debt), directly or through the use of interest rate swaps, interest rate caps or other financial instruments, or through a combination of these strategies. We believe this allows us to reduce the risk that we have to refinance our liabilities prior to the maturities of our assets and to reduce the impact of changing interest rates on our earnings.

We have entered into hedging transactions to protect our positions from interest rate fluctuations and other changes in market conditions, and we may continue to do so, when feasible and appropriate. These transactions predominantly include interest rate swaps, interest rate caps and may include the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments, and may be subject to margin calls. These instruments may be used to hedge as much of the interest rate risk as our manager determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. Our manager elects to have us bear a level of interest rate risk that could otherwise be hedged when our manager believes, based on its analysis, that bearing such risks is advisable or unavoidable. We engage in hedging for the purpose of protecting against interest rate risk and not for the purpose of speculating on changes in interest rates. We note that new hedging transactions with respect to many types of hedging instruments may impose liquidity constraints on us or may be uneconomical for us to obtain. As a result, we currently face meaningful challenges in entering into hedging transactions to protect new investments from interest rate fluctuations and other changes in market conditions.

Further details regarding our hedging activities are presented in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate and Credit Spread Sensitive Instruments and Fair Value."

Debt Obligations

The following table presents certain summary information regarding our debt obligations and related hedges as of December 31, 2012 (dollars in thousands):

						Collateral					
Debt Obligation	Outstanding Face Amount	Carrying Value	Weighted Average Funding Cost (1)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (2)	Amortized Cost Basis (2)	Carrying Value (2)	Weighted Average Maturity (Years)	Floating Rate Face Amount (2)	Aggregate Notional Amount of Current Hedges (3)
CDO Bonds Payable	$ 1,090,915	$ 1,091,354	2.08%	2.5	$ 1,069,432	$ 1,693,212	$ 1,289,762	$ 1,349,395	2.9	$ 805,422	$ 312,043
Other Bonds and Notes Payable	187,963	183,390	5.07%	4.0	-	271,939	250,248	250,248	6.1	26,636	-
Repurchase Agreements (4)	929,435	929,435	0.81%	0.1	929,435	1,112,796	1,034,078	1,049,029	4.6	1,112,796	-
Mortgage Notes Payable	120,525	120,525	3.79%	5.8	55,525	N/A	181,888	181,888	N/A	-	23,400
Junior Subordinated Notes Payable	51,004	51,243	7.40%	22.3	-	-	-	-	-	-	-
Subtotal debt obligations	2,379,842	2,375,947	2.02%	2.3	$ 2,054,392	$ 3,077,947	$ 2,755,976	$ 2,830,560	3.8	$ 1,944,854	$ 335,443
Financing on Subprime Mortgage Loans Subject to Call Option	406,217	405,814									
Total debt obligations	$ 2,786,059	$ 2,781,761									

(1) Including the effect of applicable hedges.
(2) Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash in senior living entities.
(3) Including a $23.4 million notional amount interest rate cap agreement for the mortgage notes payable, and $69.1 million and $88.5 million notional amount interest rate swap agreements in CDOs IV and VI, respectively, which were economic hedges not designated as hedges for accounting purposes.
(4) These repurchase agreements were partially secured by $21.0 million face amount of notes issued by Newcastle CDO VI, which was repurchased by Newcastle in December 2010 and eliminated in consolidation. As of December 31, 2012, the maximum recourse to Newcastle was $1.4 million.

Further details regarding our debt obligations are presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” as well as Note 10 to Part II, Item 8, “Financial Statements and Supplementary Data.”

Formation

We were formed in June 2002 and completed our initial public offering in October 2002.

The following table presents information on shares of our common stock issued since our formation:

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation - 2006	45,713,817		
2007	7,065,362	$27.75-$31.30	$201.3
2008	9,871	N/A	$0.1
2009	123,463	N/A	$0.1
2010	9,114,671	$3.13	$28.5
2011	43,153,825	$4.55 - $6.00	$210.9
2012	67,344,636	$6.22 - $6.71	$434.9
December 31, 2012	172,525,645		
January 2013	57,500,000	$9.35	$526.2
February 2013	23,000,000	$10.48	$237.4

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors. Includes prices of shares issued in exchange for preferred shares.

Investment Guidelines

Our general investment guidelines, adopted by our board of directors, include:

- no investment is to be made which would cause us to fail to qualify as a REIT;
- no investment is to be made which would cause us to be regulated as an investment company;
- no more than 20% of our total equity, determined as of the date of such investment, is to be invested in any single asset;
- our leverage (as defined in our governing documents) is not to exceed 90% of the sum of our total debt and our total equity; and
- we are not to co-invest with the manager or any of its affiliates unless (i) our co-investment is otherwise in accordance with these guidelines and (ii) the terms of such co-investment are at least as favorable to us as to the manager or such affiliate (as applicable) making such co-investment.

In addition, our manager is required to seek the approval of the independent members of our board of directors before we engage in a material transaction with another entity managed by our manager or any of its affiliates. These investment guidelines may be changed by our board of directors without the approval of our stockholders.

The Management Agreement

We are party to a management agreement with FIG LLC, an affiliate of Fortress Investment Group LLC, dated June 23, 2003, pursuant to which FIG LLC, our manager, provides for the day-to-day management of our operations.

The management agreement requires our manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. Our manager manages our operations under the direction of our board of directors. The manager is responsible for, among other things, (i) the purchase and sale of real estate securities, loans, Excess MSRs and other real estate related assets, (ii) the financing of our real estate securities and loans and other real estate related assets, (iii) management of our real estate, including arranging for purchases, sales, leases, maintenance and insurance, (iv) the purchase, sale and servicing of loans for us, and (v) investment advisory services. Our manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our assets and operations as may be appropriate.

We pay our manager an annual management fee equal to 1.5% of our gross equity, as defined in the management agreement. The management agreement provides that we will reimburse our manager for various expenses incurred by our manager or its officers, employees and agents on our behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for us by providers retained by our manager or, if provided by our manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

To provide an incentive for our manager to enhance the value of our common stock, our manager is entitled to receive an incentive return (the "Incentive Compensation") on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) our funds from operations (defined as the net income available for common stockholders before the Incentive Compensation, excluding extraordinary items, plus depreciation of operating real estate, and after adjusting for unconsolidated subsidiaries, if any) per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in our initial public offering and the value attributed to the net assets transferred to us by Newcastle Investment Holdings, and in any of our subsequent offerings (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding. Our manager earned no incentive compensation during 2012, 2011, or 2010.

The management agreement provides for automatic one year extensions. Our independent directors review our manager's performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fee earned by our manager is not fair, subject to our manager's right to prevent such a management fee compensation termination by accepting a mutually acceptable reduction of fees. Our manager must be provided with 60 days' prior notice of any such termination and would be paid a termination fee equal to the amount of the management fee earned by our manager during the twelve month period preceding such termination, which may make it difficult and costly for us to terminate the management agreement. Following any termination of the management agreement, we shall be entitled to purchase our manager's right to receive the Incentive Compensation at a price determined as if our assets were sold for cash at their then current fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the Incentive Compensation to our manager. In addition, if we do not purchase our manager's Incentive Compensation, our manager may require us to purchase the same at the price discussed above. In addition, the management agreement may be terminated by us at any time for cause.

Property Management Agreements

In 2012, Newcastle entered into property management agreements with certain subsidiaries of Fortress. Pursuant to the agreements, Fortress, through its subsidiaries, will manage twelve senior living properties owned by Newcastle and will receive management fees equal to 6.0% of revenues (as defined in the agreements) for the first two years of the agreements and 7.0% thereafter. In addition, Fortress, through its subsidiaries, will receive reimbursement for certain expenses, including all of the compensation expense associated with the 1,021 on-site employees. The property management agreements have an initial term of ten years and provide for automatic one-year extensions after the initial term, subject to termination rights.

Policies with Respect to Certain Other Activities

Subject to the approval of our board of directors, we have the authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares or any other securities and may engage in such activities in the future.

We also may make loans to, or provide guarantees of certain obligations of, our subsidiaries.

Subject to the percentage ownership and gross income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

We may engage in the purchase and sale of investments.

Our officers and directors may change any of these policies and our investment guidelines without a vote of our stockholders.

In the event that we determine to raise additional equity capital, our board of directors has the authority, without stockholder approval (subject to certain NYSE requirements), to issue additional common stock or preferred stock in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property.

Decisions regarding the form and other characteristics of the financing for our investments are made by our manager subject to the general investment guidelines adopted by our board of directors.

Competition

We are subject to significant competition in seeking investments. We compete with several other companies for investments, including other REITs, mortgage servicers, insurance companies and other investors including funds and companies affiliated with our manager. Some of our competitors have greater resources than we possess, or have greater access to capital or various types of financing than are available to us, and we may not be able to compete successfully for investments or provide attractive investments returns relative to our competitors. See Part 1, Item 1A, "Risk Factors – We are subject to significant competition, and we may not compete successfully."

Compliance with Applicable Environmental Laws

Properties we own (directly or indirectly) or may acquire are or would be subject to various foreign, federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances or petroleum product released at, on, under or in its property. These laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of the hazardous or toxic substances. The costs of investigation, remediation or removal of these substances may be substantial and could exceed the value of the property. An owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Our operating costs and values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, and our income and ability to make distributions to our stockholders could be affected adversely by the existence of an environmental liability with respect to our properties. We endeavor to ensure that properties we own or acquire will be in compliance in all material respects with all foreign, federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances or petroleum products.

Employees

As described above under "– The Management Agreement," we are managed by FIG LLC, an affiliate of Fortress Investment Group LLC. As a result, we have no employees. From time to time, certain of our officers may enter into written agreements with us that memorialize the provision of certain services; these agreements do not provide for the payment of any cash compensation to such officers from us. The employees of FIG LLC are not a party to any collective bargaining agreement.

Corporate Governance and Internet Address; Where Readers Can Find Additional Information

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors; the Audit, Nominating and Corporate Governance, and Compensation committees of our board of directors are composed exclusively of independent directors. We have adopted corporate governance guidelines, and our manager has adopted a code of business conduct and ethics, which delineate our standards for our officers and directors, and employees of our manager.

Newcastle files annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the ''Exchange Act''), with the Securities and Exchange Commission ("SEC"). Readers may read and copy any document that Newcastle files at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

Our internet site is http://www.newcastleinv.com. We make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the ''Investor Relations—Corporate Governance" section are charters for the company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report.

Item 1A. Risk Factors

Risks relating to our management, business and company include, specifically:

Risks Related to the Financial Markets

We do not know what impact the Dodd-Frank Act will have on our business.

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Act"). The Dodd-Frank Act affects almost every aspect of the U.S. financial services industry, including certain aspects of the markets in which we operate. The Act imposes new regulations on us and how we conduct our business. For example, the Act will impose additional disclosure requirements for public companies and generally require issuers or originators of asset-backed securities to retain at least five percent of the credit risk associated with the securitized assets. In addition, as a result of the Act, we were required to register as an investment adviser with the SEC, which increases our regulatory compliance costs and subjects us to the Investment Advisers Act of 1940, as amended (the "Advisers Act"). The Advisers Act imposes numerous obligations on registered investment advisers, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Non-compliance with the Advisers Act or other federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputational damage.

The Act will impose mandatory clearing, exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. The Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants," who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs. In addition, the new regulation of over-the-counter derivatives and a recently-adopted implementing rule may require us to register with and be regulated by the U.S. Commodity Futures Trading Commission ("CFTC") as a commodity pool operator ("CPO"). The Commodity Exchange Act and CFTC regulations impose various requirements on CPOs, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. Complying with these requirements could increase our expenses and negatively impact our financial results.

Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable. Moreover, new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could adversely affect the performance of certain of our trading strategies. Importantly, many key aspects of the changes imposed by the Act will be established by various regulatory bodies and other groups over the next several years. As a result, we do not know how significantly the Act will affect us. It is possible that the Act could, among other things, increase our costs of operating as a public company, impose restrictions on our ability to securitize assets and reduce our investment returns on securitized assets.

We do not know what impact certain U.S. government programs intended to stabilize the economy and the financial markets will have on our business.

In recent years, the U.S. government has taken a number of steps to attempt to strengthen the financial markets and U.S. economy, including direct government investments in, and guarantees of, troubled financial institutions as well as government-sponsored programs such as the Term Asset-Backed Securities Loan Facility program (TALF) and the Public Private Investment Partnership Program (PPIP). The U.S. government continues to evaluate or implement an array of other measures and programs intended to help improve U.S. financial and market conditions. While conditions appear to have improved relative to the depths of the global financial crisis, it is not clear whether this improvement is real or will last for a significant period of time. It is not clear what impact the government's future actions to improve financial and market conditions will have on our business. To date, we have not benefited in a direct, material way from any government programs, and we may not derive any meaningful benefit from these programs in the future. Moreover, if any of our competitors are able to benefit from one or more of these initiatives, they may gain a significant competitive advantage over us.

Legislation that permits modifications to the terms of outstanding loans has negatively affected our business, financial condition and results of operations.

The U.S. government has enacted legislation that enables government agencies to modify the terms of a significant number of residential and other loans to provide relief to borrowers without the applicable investor's consent. These modifications allow for outstanding principal to be deferred, interest rates to be reduced, the term of the loan to be extended or other terms

to be changed in ways that can permanently eliminate the cash flow (principal and interest) associated with a portion of the loan. These modifications are currently reducing, or in the future may reduce, the value of a number of our current or future investments, including investments in mortgage-backed securities and Excess MSRs. As a result, such loan modifications are negatively affecting our business, results of operations and financial condition. In addition, certain market participants propose reducing the amount of paperwork required by a borrower to modify a loan, which could increase the likelihood of fraudulent modifications and materially harm the U.S. mortgage market and investors that have exposure to this market. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Relating to Our Manager

We are dependent on our manager and may not find a suitable replacement if our manager terminates the management agreement.

We have no employees. Our officers and other individuals who perform services for us are employees of our manager. We are completely reliant on our manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. We are subject to the risk that our manager will terminate the management agreement and that we will not be able to find a suitable replacement for our manager in a timely manner, at a reasonable cost or at all. Furthermore, we are dependent on the services of certain key employees of our manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

There are conflicts of interest in our relationship with our manager.

Our chairman serves as an officer of our manager. Our management agreement with our manager was not negotiated at arm's-length, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

There are conflicts of interest inherent in our relationship with our manager insofar as our manager and its affiliates — including investment funds, private investment funds, or businesses managed by our manager — invest in real estate securities, real estate related loans, Excess MSRs, operating real estate, including senior living facilities, and other assets, and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Members of our board of directors and employees of our manager who are our officers may serve as officers and/or directors of these other entities. In addition, our manager or its affiliates may have investments in and/or earn fees from such other investment vehicles that are higher than their economic interests in us and which may therefore create an incentive to allocate investments to such other investment vehicles. Our manager or its affiliates may determine, in their discretion, to make a particular investment through another investment vehicle rather than through us and have no obligation to offer to us the opportunity to participate in any particular investment opportunity. For example, Fortress has a fund primarily focused on investments in Excess MSRs. These funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size and performance of each fund.

Our management agreement with our manager generally does not limit or restrict our manager or its affiliates from engaging in any business or managing other pooled investment vehicles that invest in investments that meet our investment objectives, except that under our management agreement neither our manager nor any entity controlled by or under common control with our manager is permitted to raise or sponsor any new pooled investment vehicle whose investment policies, guidelines or plan target as its primary investment category investment in U.S. dollar-denominated credit sensitive real estate related securities reflecting primarily U.S. loans or assets. Our manager intends to engage in additional real estate related management and investment opportunities in the future, which may compete with us for investments or result in a change in our current investment strategy.

The ability of our manager and its officers and employees to engage in other business activities, subject to the terms of our management agreement with our manager, may reduce the amount of time our manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material transactions with our manager or another entity managed by our manager or one of its affiliates, including, but not limited to, certain financing arrangements, purchases of debt, co-investments, investments in Excess MSRs, servicing advances, senior living facilities and other assets that present an actual, potential or perceived conflict of interest. For instance, we recently entered into agreements with an affiliate of our manager to manage the senior living facilities that we own. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our common and preferred securities and a resulting increased risk of litigation and regulatory enforcement actions.

The management compensation structure that we have agreed to with our manager, as well as compensation arrangements that we may enter into with our manager in the future (in connection with new lines of business or other activities), may incentivize our manager to invest in high risk investments. In addition to its management fee, our manager is currently entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations (as defined in the management agreement). In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations or, in the case of any future incentive compensation arrangement, other financial measures on which incentive compensation may be based, may lead our manager to place undue emphasis on the maximization of such measures at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation, particularly in light of the fact that our manager has not received any incentive compensation since 2008. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Moreover, because our manager receives compensation in the form of options in connection with the completion of our common equity offerings, our manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders.

If the spin off of New Residential is completed, our manager, FIG LLC, will enter into a separate management agreement with New Residential, and the terms of that management agreement will be substantially similar to the terms of Newcastle's existing management agreement. As a result, FIG LLC will be entitled to earn a management fee from New Residential and will be eligible to receive incentive compensation based in part upon New Residential's achievement of targeted level of funds from operations tested from the date of the spin off and without regard to Newcastle's prior performance.

It would be difficult and costly to terminate our management agreement with our manager.

It would be difficult and costly for us to terminate our management agreement with our manager. The management agreement may only be terminated annually upon (i) the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our common stock, that there has been unsatisfactory performance by our manager that is materially detrimental to us or (ii) a determination by a simple majority of our independent directors that the management fee payable to our manager is not fair, subject to our manager's right to prevent such a termination by accepting a mutually acceptable reduction of fees. Our manager will be provided 60 days' prior notice of any such termination and will be paid a termination fee equal to the amount of the management fee earned by the manager during the twelve-month period preceding such termination. In addition, following any termination of the management agreement, the manager may require us to purchase its right to receive incentive compensation at a price determined as if our assets were sold for their fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the incentive compensation to our manager. These provisions may increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our manager without cause.

Our directors have approved very broad investment guidelines for our manager and do not approve each investment decision made by our manager.

Our manager is authorized to follow very broad investment guidelines. Consequently, our manager has great latitude in determining the types and categories of assets it may decide are proper investments for us including the latitude to invest in types and categories of assets that may differ significantly from those in which we currently invest. Our directors periodically review our investment guidelines and our investment portfolio. However, our board does not review or pre-approve each proposed investment or our related financing arrangements. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors even if the transactions contravene the terms of the management agreement.

We may change our investment strategy without stockholder consent, which may result in our making investments that are different, riskier or less profitable than our current investments.

Our investment strategy may evolve in light of existing market conditions and investment opportunities, and this evolution may involve additional risks depending upon the nature of the assets in which we invest and our ability to finance such assets on a short or long-term basis. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions and changes in market conditions may therefore result in changes in the investments we target. Decisions to make investments in new asset categories present risks that may be difficult for us to adequately assess and could therefore reduce our ability to pay dividends on both our common stock and preferred stock or have adverse effects on our liquidity or financial condition. A change in our investment strategy may also increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations. In addition, a change in our investment strategy may

increase our use of non-match-funded financing, increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Our failure to accurately assess the risks inherent in new asset categories or the financing risks associated with such assets could adversely affect our results of operations and our financial condition.

We are actively exploring new business opportunities and asset categories, which may be unsuccessful, divert managerial attention or require significant financial resources, which could have a negative impact on our financial results.

Consistent with our broad investment guidelines and our investment objectives, we have acquired and are actively exploring additional opportunities to acquire Excess MSRs and additional classes of operating real estate, including senior living facilities. See "—We invest in Excess MSRs, and such investments could have a negative impact on our financial results," and "—We invest in senior living facilities, which are subject to various risks that could have a negative impact on our financial results." We may also pursue opportunities to invest in a variety of other types of assets, including, but not limited to, servicing advances and consumer loans.

Although we currently believe that we will have significant investment opportunities in the future, these opportunities may not materialize and our ability to act on new investment opportunities may be constrained by requirements of the Investment Company Act of 1940, as amended (the "1940 Act"), and federal tax law. We also believe investing in our target assets will provide us attractive risk-adjusted returns, but, assuming we are successful in acquiring these assets, they may not achieve the returns we anticipate and may not even be profitable. Moreover, these investments may not be successful, as a result of our manager's limited experience with certain types of assets, or for other reasons. Further, new business opportunities may divert managerial attention from more profitable opportunities, and they may require significant financial resources. Any or all of the foregoing could have a negative impact on our financial results.

Our manager will not be liable to us for any acts or omissions performed in accordance with the management agreement, including with respect to the performance of our investments.

Pursuant to our management agreement, our manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Under the terms of our management agreement, our manager, its officers, partners, members, managers, directors, personnel, other agents, any person controlling or controlled by our manager and any person providing sub-advisory services to our manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to our management agreement, except because of acts constituting bad faith, willful misconduct or gross negligence, as determined by a final non-appealable order of a court of competent jurisdiction. In addition, we have agreed to indemnify our manager, its officers, partners, members, managers, directors, personnel, other agents, any person controlling or controlled by our manager and any person providing sub-advisory services to our manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager not constituting bad faith, willful misconduct or gross negligence, pursuant to our management agreement.

Our manager's due diligence of investment opportunities or other transactions may not identify all pertinent risks, which could materially affect our business, financial condition, liquidity and results of operations.

Our manager intends to conduct due diligence with respect to each investment opportunity or other transaction it pursues. It is possible, however, that our manager's due diligence processes will not uncover all relevant facts, particularly with respect to any assets we acquire from third parties. In these cases, our manager may be given limited access to information about the investment and will rely on information provided by the target of the investment. In addition, if investment opportunities are scarce, the process for selecting bidders is competitive, or the timeframe in which we are required to complete diligence is short, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. Accordingly, investments and other transactions that initially appear to be viable may prove not to be over time due to the limitations of the due diligence process or other factors.

Risks Relating to Our Business

Market conditions could negatively impact our business, results of operations and financial condition.

The market in which we operate is affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- Interest rates and credit spreads;

- The availability of credit, including the price, terms and conditions under which it can be obtained;
- The quality, pricing and availability of suitable investments and credit losses with respect to our investments;
- The ability to obtain accurate market-based valuations;
- Loan values relative to the value of the underlying real estate assets;
- Default rates on both residential and commercial mortgages and the amount of the related losses;
- Prepayment speeds, delinquency rates and legislative/regulatory changes with respect to our investments in Excess MSRs;
- The actual and perceived state of the real estate markets, market for dividend-paying stocks and the U.S. economy and public capital markets generally;
- Unemployment rates; and
- The attractiveness of other types of investments relative to investments in real estate or REITs generally.

Changes in these factors are difficult to predict, and a change in one factor can affect other factors. For example, during 2007, increased default rates in the subprime mortgage market played a role in causing credit spreads to widen, reducing availability of credit on favorable terms, reducing liquidity and price transparency of real estate related assets, resulting in difficulty in obtaining accurate mark-to-market valuations, and causing a negative perception of the state of the real estate markets and of REITs generally. These conditions worsened during 2008, and intensified meaningfully during the fourth quarter of 2008 as a result of the global credit and liquidity crisis, resulting in extraordinarily challenging market conditions. Since then, market conditions have generally improved, but they could deteriorate in the future, including, as a result of increased taxes and pending mandatory reductions in federal spending during 2013.

A prolonged economic slowdown, a lengthy or severe recession, or declining real estate values could harm our operations.

We believe the risks associated with our business are more severe during periods similar to those we recently experienced in which an economic slowdown or recession is accompanied by declining real estate values. Declining real estate values generally reduce the level of new mortgage loan originations, since borrowers often use increases in the value of their existing properties to support the purchase of, or investment in, additional properties. Borrowers may also be less able to pay principal and interest on our loans, and the loans underlying our securities and Excess MSRs, if the economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans and securities in the event of default because the value of our collateral may be insufficient to cover our basis. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our net interest income from loans and securities in our portfolio and our income from Excess MSRs, as well as our ability to originate, sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders. For more information on the impact of market conditions on our business and results of operations see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations."

The geographic distribution of the residential mortgage loans underlying, and collateral securing, certain of our investments subjects us to geographic real estate market risks, which could adversely affect the performance of our investments, our results of operations and our financial condition.

The geographic distribution of the residential mortgage loans underlying, and collateral securing, certain of our investments, including our Excess MSRs and non-Agency RMBS, exposes us to risks associated with the real estate industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; and changes in the interest rates. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, the performance of our investments, our results of operations and our financial condition could suffer a material adverse effect.

The coverage tests applicable to our CDO financings may have a negative impact on our operating results and cash flows.

We have retained, and may in the future retain or repurchase, subordinate classes of bonds issued by certain of our subsidiaries in our CDO financings. Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would generally result in principal and/or interest cash flow that would otherwise be distributed to more junior classes of securities (including those held by us) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, failure to satisfy the coverage tests could adversely affect our operating results and cash flows by temporarily or

permanently directing funds that would otherwise come to us to holders of the senior classes of bonds. In addition, the redirected funds would be used to pay down financing, which currently bears an attractive rate, thereby reducing our future earnings from the affected CDO. The ratings assigned to the assets in each CDO affect the results of the tests governing whether a CDO can distribute cash to the various classes of securities in the CDO. As a result, ratings downgrades of the assets in a CDO can result in a CDO failing its tests and thereby cause us not to receive cash flows from the affected CDO.

We had approximately $1.5 million of assets in our consolidated CDOs as of December 31, 2012 that are under negative watch for possible downgrade by at least one of the rating agencies. One or more of the rating agencies could downgrade some or all of these assets at any time, and any such downgrade could negatively affect – and possibly materially affect – our future cash flows. As of the December 2012 remittance date for CDO IV and as of the February 2013 remittance date for CDO VI, these CDOs were not in compliance with their applicable over collateralization tests and consequently, we are not receiving residual cash flows from these CDOs, other than senior management fees and cash flow distributions from senior classes of bonds we own. Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

Our ability to rebalance will depend upon a variety of factors, such as the availability of suitable securities, market prices, available cash, whether the reinvestment period of the applicable CDO has ended, and other factors that may be beyond our control. For example, one strategy we have employed to facilitate compliance with over collateralization tests has been to repurchase notes issued by our CDOs and subsequently cancel them in accordance with the terms of the relevant governing documentation. However, there can be no assurance that the trustee of our CDOs will not impose guidelines for such cancelations that would make it more difficult or impossible to employ this strategy in the future. While there are other permissible methods to rebalance or otherwise correct CDO test failures, such methods may be extremely difficult to employ as a result of market conditions or other factors, and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's Investors Service to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance.

Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of distributed to us. For more information regarding noncompliance with the terms of certain of our CDO financings in the near future, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources" and "–Debt Obligations."

We may experience an event of default or be removed as collateral manager under one or more of our CDOs, which would negatively affect us in a number of ways.

The documentation governing our CDOs specifies certain events of default, which, if they occur, would negatively affect us. Events of default include, among other things, failure to pay interest on senior classes of securities within the CDO, breaches of covenants, representations or warranties, bankruptcy, and failure to satisfy specific over collateralization and interest coverage tests. If an event of default occurs under any of our CDOs, it could negatively affect our cash flows, business, results of operations and financial condition.

In addition, we can be removed as manager of a CDO if certain events occur, including the failure to satisfy specific over collateralization and interest coverage tests, failure to satisfy certain "key man" requirements or an event of default occurring for the failure to pay interest on the related senior classes of securities of the CDO. If we are removed as collateral manager, we would no longer receive management fees from — and no longer be able to manage the assets of — the applicable CDO, which could negatively affect our cash flows, business, results of operations and financial condition. On June 17, 2011, CDO V failed additional over collateralization tests. The consequences of failing these tests are that an event of default has occurred, and we may be removed as the collateral manager under the documentation governing CDO V. So long as the event of default continues, we will not be permitted to purchase or sell any collateral in CDO V. If we are removed as the collateral manager of CDO V, we would no longer receive the senior management fees from such CDO. As of December 31, 2012, we have not been removed as collateral manager. Based upon our current calculations, we estimate that if we are removed as the collateral manager of CDO V, the loss of senior management fees would not have a material negative impact on our cash flows, business, results of operations or financial condition. Given current market conditions, it is possible that events of default may occur in other CDOs, and we could be removed as the collateral manager of those CDOs if certain events of default occur. Moreover, our cash flows, business, results of operations and/or financial condition could be materially and negatively impacted if certain events of default occur.

We have assumed the role of manager of numerous CDOs previously managed by a third party, and we may assume the role of manager of additional CDOs in the future. Each such engagement exposes us to a number of potential risks.

Changes within our industry may result in CDO collateral managers being replaced. In such instances, we may seek to be engaged as the collateral manager of CDOs currently managed by third parties. For example, in February 2011, one of our subsidiaries became the collateral manager of certain CDOs previously managed by C-BASS Investment Management LLC ("C-BASS").

While being engaged as the collateral manager of such CDOs potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we purchased the management rights with respect to the C-BASS CDOs pursuant to a bankruptcy proceeding. As a result, we were not able to conduct extensive due diligence on the CDO assets even though many classes of securities issued by the CDOs were rated as "distressed" by the rating agencies as of the most recent rating date prior to our becoming the collateral manager of the CDOs. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we determined that it would be prudent to register the subsidiary that became the collateral manager of the C-BASS CDOs as a registered investment adviser, which has increased our regulatory compliance costs. In addition to defending against litigation and complying with regulatory requirements, being engaged as collateral manager may require us to invest other resources for various other reasons, which could detract from our ability to capitalize on future opportunities. Moreover, being engaged as collateral manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. In addition to the risk that we face if we are successful in becoming the manager of additional CDOs, we may attempt but fail to become the collateral manager of CDOs in the future, which could harm our reputation and subject us to costly litigation. Finally, if we include the financial performance of the C-BASS CDOs or other CDOs for which we become the collateral manager in our public filings, we are subject to the risk that, particularly during the period immediately after we become the collateral manager, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

Our investments have previously been — and in the future may be — subject to significant impairment charges, which adversely affect our results of operations.

We are required to periodically evaluate our investments for impairment indicators. The value of an investment is impaired when our analysis indicates that, with respect to a loan, it is probable that we will not be able to collect the full amount we intended to collect from the loan or, with respect to a security, it is probable that the value of the security is other than temporarily impaired. The judgment regarding the existence of impairment indicators is based on a variety of factors depending upon the nature of the investment and the manner in which the income related to such investment was calculated for purposes of our financial statements. If we determine that an impairment has occurred, we are required to make an adjustment to the net carrying value of the investment, which could adversely affect our results of operations in the applicable period and thereby adversely affect our ability to pay dividends to our stockholders.

As has been widely publicized, the recent market conditions have resulted in a number of financial institutions recording an unprecedented amount of impairment charges, and we were also affected by these conditions. These challenging conditions have reduced the market trading activity for many real estate securities, resulting in less liquid markets for those securities. These lower valuations have affected us by, among other things, decreasing our net book value and contributing to our decision to record impairment charges.

The lenders under our repurchase agreements may elect not to extend financing to us, which could quickly and seriously impair our liquidity.

We have historically financed a meaningful portion of our investments not held in CDOs with repurchase agreements, which are short-term financing arrangements, and we may enter into additional repurchase agreements in the future. Under the terms of these agreements, we sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher specified price. During the term of the repurchase agreement – generally 30 days – the counterparty makes funds available to us and holds the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we are required to repurchase the security for the specified repurchase price, with the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend – or "roll" – the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. As we have experienced recently and may experience in the future, counterparties electing

to roll our repurchase agreements may charge higher spread and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of December 31, 2012, we had $929.4 million outstanding under repurchase agreement financings. Moreover, these repurchase agreement obligations are with five counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty in a timely manner.

Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.

We leverage a meaningful portion of our portfolio through borrowings, generally through the use of credit facilities, warehouse facilities, repurchase agreements, mortgage loans on real estate, securitizations, including the issuance of CDOs, private or public offerings of debt by subsidiaries, loans to entities in which we hold, directly or indirectly, interests in pools of properties or loans, and other borrowings. Our investment policies do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets, subject to an overall limit on our use of leverage to 90% (as defined in our governing documents) of the value of our assets on an aggregate basis. During the recent financial crisis, the return we were able to earn on our investments and cash available for distribution to our stockholders was significantly reduced due to changes in market conditions causing the cost of our financing to increase relative to the income that can be derived from our assets. While our liquidity position has improved, we cannot assure you that we will be able to sustain our improved liquidity position.

We may become party to agreements that require cash payments at periodic intervals. Failure to make such required payments may adversely affect our business, financial condition and results of operations.

We are currently party to repurchase agreements that may require us to post additional margin as collateral at any time during the term of the agreement, based on the value of the collateral. We may become party to additional financing agreements that require us to make cash payments at periodic intervals or upon the occurrence of certain events. Events could occur or circumstances could arise, which we may not be able to foresee, that may cause us to be unable to make any such cash payments when they become due. Failure to make the payments required under our financing documents would give the lenders the right to require us to repay all amounts owed to them under the applicable financing immediately.

We are subject to counterparty default and concentration risks.

In the ordinary course of our business, we enter into various types of financing arrangements with counterparties. Currently, the majority of our financing arrangements take the form of repurchase agreements, securitization vehicles, loans, hedge contracts, swaps and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight.

We are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress consistent with the conditions we are currently experiencing, which are precisely the times when defaults may be most likely to occur.

In addition, our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

In addition, with respect to our CDOs, certain of our derivative counterparties are required to maintain certain ratings to avoid having to post collateral or transfer the derivative to another counterparty. If a counterparty was downgraded below these levels, it may not be able to satisfy its obligations under the derivative, which could have a material negative effect on the applicable CDO.

With respect to our Excess MSRs, we are subject to counterparty concentration risk as a result of our co-investments with Nationstar. All of our investments in Excess MSRs to date relate to loans serviced by Nationstar. If Nationstar is terminated as the servicer of the underlying mortgages, Newcastle's right to receive its portion of the excess mortgage servicing amount is also terminated. Moreover, in the event that Nationstar files for bankruptcy, our expected returns on these investments would be severely impacted. See "—We will be dependent on mortgage servicers, including Nationstar to service the mortgage loans underlying the Excess MSRs that we acquire." Moreover, Nationstar has no obligation to offer us any future co-investment opportunity on the same terms of prior transactions, or at all, and we may not be able to find suitable counterparties other than Nationstar from which to acquire Excess MSRs, which could impact our business strategy.

The counterparty risks that we face have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers). For example, the consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties. We are currently party to repurchase agreements with two counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which has negatively impacted us in several ways, including, decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations and financial condition.

We may not match fund certain of our investments, which may increase the risks associated with these investments.

One component of our investment strategy is to use match funded financing structures for certain of our investments, which match assets and liabilities with respect to maturities and interest rates. When available, this strategy mitigates the risk of not being able to refinance an investment on favorable terms or at all. However, our manager may elect for us to bear a level of refinancing risk on a short-term or longer-term basis, as in the case of investments financed with repurchase agreements, when, based on its analysis, our manager determines that bearing such risk is advisable or unavoidable (which is generally the case with respect to the residential mortgage loans and FNMA/FHLMC securities in which we invest). In addition, we may be unable, as a result of conditions in the credit markets, to match fund our investments. For example, non-recourse term financing not subject to margin requirements was generally not available or economical for the past three years and is currently still difficult to obtain, which impairs our ability to match fund our investments. Moreover, we may not be able to enter into interest rate swaps. Lastly, lenders may be unwilling to finance certain types of assets, such as Excess MSRs, because of the challenges with perfecting security interests in the underlying collateral. A decision not to, or the inability to, match fund certain investments, exposes us to additional risks.

Furthermore, we anticipate that, in most cases, for any period during which our floating rate assets are not match funded with respect to maturity, the income from such assets may respond more slowly to interest rate fluctuations than the cost of our borrowings. Because of this dynamic, interest income from such investments may rise more slowly than the related interest expense, with a consequent decrease in our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us from these investments.

Accordingly, if we do not or are unable to match fund our investments with respect to maturities and interest rates, we will be exposed to the risk that we may not be able to finance or refinance our investments on economically favorable terms or may have to liquidate assets at a loss.

We may not be able to finance our investments on attractive terms or at all, and financing for Excess MSRs may be particularly difficult or impossible to obtain.

When we acquire securities and loans that we finance on a short-term basis with a view to securitization or other long-term financing, we bear the risk of being unable to securitize the assets or otherwise finance them on a long-term basis at attractive prices or in a timely matter, or at all. If it is not possible or economical for us to securitize or otherwise finance such assets on a long-term basis, we may be unable to pay down our short-term credit facilities, or be required to liquidate the assets at a loss in order to do so. For example, our ability to finance investments with securitizations or other long-term

non-recourse financing not subject to margin requirements has been impaired since 2007 as a result of market conditions. These conditions make it highly likely that we will have to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. In addition, there is no established market for financing of investments in Excess MSRs, and it is possible that one will not develop. Any such financing would likely require the consent of the applicable government sponsored enterprise ("GSE") or other owner of the underlying loans, and such consent may be costly or impossible to obtain. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural, economic and indemnification, or other, terms that expose us to risks to which we have not previously been exposed and that could negatively affect our returns from our investments.

As non-recourse long-term financing structures become available to us and are utilized, such structures expose us to risks which could result in losses to us.

We may use securitization and other non-recourse long-term financing for our investments to the extent available. In such structures, our lenders typically would have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

The loans we invest in and the loans underlying the securities we invest in are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, changes in the availability of credit on favorable terms, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Residential mortgage loans, manufactured housing loans and subprime mortgage loans are secured by single-family residential property and are also subject to risks of delinquency and foreclosure, and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including, among other things, changes in the borrower's employment status, changes in national, regional or local economic conditions, changes in interest rates or the availability of credit on favorable terms, changes in regional or local real estate values, changes in regional or local rental rates and changes in real estate taxes.

In the event of default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our cash flow from operations. Foreclosure of a loan, particularly a commercial loan, or any other restructuring archives related to an investment, can be an expensive and lengthy process, which would negatively affect our anticipated return on the foreclosed loan or such other investment. In addition, as part of any foreclosure or other restructuring, we may acquire control of a property securing a defaulted loan, which would expose us to additional risks

specific to the property, including, but not limited to, the risks related to any business conducted on such property. As part of a restructuring we may also exchange our debt for, or otherwise acquire, equity of an entity, which may involve contested negotiations and expose us to risks associated with owning the entity.

Mortgage and asset backed securities are bonds or notes backed by loans and/or other financial assets and include commercial mortgage back securities (CMBS), FNMA/FHLMC securities, and real estate related asset backed securities (ABS). The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. While we intend to focus on real estate related asset backed securities, there can be no assurance that we will not invest in other types of asset backed securities.

Our investments in mortgage and asset backed securities will be adversely affected by defaults under the loans underlying such securities. To the extent losses are realized on the loans underlying the securities in which we invest, we may not recover the amount invested in, or, in extreme cases, any of our investment in such securities.

Our investments in debt securities are subject to specific risks relating to the particular issuer of the securities and to the general risks of investing in subordinated real estate securities.

Our investments in debt securities involve special risks. REITs generally are required to invest substantially in real estate or real estate-related assets and are subject to the inherent risks associated with real estate-related investments discussed in this report. Our investments in debt are subject to the risks described above with respect to mortgage loans and mortgage-backed securities and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of and net income from real property;
- risks generally incident to interests in real property; and
- risks that may be presented by the type and use of a particular property.

Debt securities may be unsecured and may also be subordinated to other obligations of the issuer. We may also invest in debt securities that are rated below investment grade. As a result, investments in debt securities are also subject to risks of:

- limited liquidity in the secondary trading market;
- substantial market price volatility resulting from changes in prevailing interest rates or credit spreads;
- subordination to the prior claims of senior lenders to the issuer;
- the possibility that earnings of the debt security issuer may be insufficient to meet its debt service; and
- the declining creditworthiness and potential for insolvency of the issuer of such debt securities during periods of rising interest rates and economic downturn.

These risks may adversely affect the value of outstanding debt securities and the ability of the issuers thereof to repay principal and interest.

We invest in Excess MSRs, and such investments could have a negative impact on our financial results.

Subject to maintaining our qualification as a REIT and our exemption from the 1940 Act, we expect to continue to co-invest in Excess MSRs with Nationstar, which is a leading residential mortgage servicer and is majority-owned by funds managed by our manager. We may also invest in Excess MSRs with other servicers.

A mortgage servicing right ("MSR") provides a mortgage servicer with the right to service a pool of mortgages in exchange for a portion of the interest payments made on the underlying mortgages. This amount typically ranges from 25 to 50 basis points ("bps") times the unpaid principal balance ("UPB") of the mortgages. The MSR can be divided into two components: a basic fee and an Excess MSR. The basic fee is the amount of compensation for the performance of servicing duties, and the Excess MSR, is the amount that exceeds the basic fee. For example, if an MSR is 30 bps and the basic fee is 5 bps, then the Excess MSR is 25 bps.

We record Excess MSRs on our balance sheet at fair value, and changes in their fair value are reflected in our consolidated results of operations. The determination of the fair value of Excess MSRs requires our management to make numerous estimates and assumptions that could materially differ from actual results. Such estimates and assumptions include, without limitation, estimates of the future cash flows from the Excess MSRs, which in turn are based upon assumptions about interest rates as well as prepayment rates, delinquencies and foreclosure rates of the underlying mortgage loans.

The ultimate realization of the value of Excess MSRs, which are measured at fair value on a recurring basis, may be materially different than the fair values of such Excess MSRs as may be reflected in our consolidated statement of financial position as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our

consolidated financial position, results of operations and cash flows. Accordingly, there may be material uncertainty about the fair value of any Excess MSRs we acquire.

The values of Excess MSRs are highly sensitive to changes in interest rates. Historically, the value of Excess MSRs has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. We may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us. To the extent we do not utilize derivatives to hedge against changes in the fair value of Excess MSRs, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, Excess MSRs as interest rates change.

Prepayment speeds significantly affect the value of Excess MSRs. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. When we invest in Excess MSRs, we base the price we pay and the rate of amortization of those assets on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value. If the fair value of Excess MSRs decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

Moreover, delinquency rates have a significant impact on the value of Excess MSRs. An increase in delinquencies will generally result in lower revenue because typically we will only collect the mortgage servicing amount from GSEs or mortgage owners for performing loans. The price we pay for Excess MSRs is based on, among other things, our projections of the cash flows from related pools of mortgage loans. Our expectation of delinquencies is a significant assumption underlying those cash flow projections. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSRs could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

Furthermore, MSRs are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. If the servicer, actually or allegedly failed to comply with applicable laws, rules or regulations, it could be terminated as the servicer, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our ability to acquire Excess MSRs will be subject to the applicable REIT qualification tests, and we may have to hold these interests through taxable REIT subsidiaries, which would negatively impact our returns from these assets.

We will be dependent on mortgage servicers, including Nationstar, to service the mortgage loans underlying the Excess MSRs that we acquire.

Our investments in Excess MSRs are dependent on the mortgage servicer to perform the servicing obligations. As a result, we could be materially and adversely affected if the servicer is terminated. The duties and obligations of mortgage servicers are defined through contractual agreements, generally referred to as Servicing Guides in the case of GSEs, or Pooling and Servicing Agreements in the case of private-label securities (collectively, the "Servicing Guidelines"). Such Servicing Guidelines generally provide for the possibility for termination of the contractual rights of the servicer in the absolute discretion of the owner of the mortgages being serviced. In the event of such termination by a mortgage owner with respect to a particular servicer, the related Excess MSRs could potentially lose all value on a going forward basis. Moreover, the termination by a mortgage owner of a servicer could take effect across all mortgages of such mortgage owner. Therefore, to the extent we make multiple investments relating to mortgages owned by the same owner and serviced by the same servicer, all such investments, including our investments with Nationstar, could lose all their value in the event of the termination of the servicer by the mortgage owner.

We could also be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

- its failure to comply with applicable laws and regulation;
- its failure to perform its loss mitigation obligations;
- a downgrade in its servicer rating;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory scrutiny regarding foreclosure processes lengthening foreclosure timelines;
- a GSE’s or a whole-loan owner’s transfer of servicing to another party; or
- any other reason.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch are important to the conduct of a mortgage servicer's loan servicing business and a downgrade in a mortgage servicer's ratings could have an adverse effect on us and the value of our Excess MSRs. Downgrades in a mortgage servicer's servicer ratings could adversely affect their ability to finance servicing advances and maintain their status as an approved servicer by Fannie Mae and Freddie Mac. Downgrades in servicer ratings could also lead to the early termination of existing advance facilities and affect the terms and availability of match funded advance facilities that a mortgage servicer may seek in the future. A mortgage service's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could have an adverse effect on our operations since we will rely heavily on mortgage servicers to achieve our investment objective with respect to Excess MSRs.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying any Excess MSRs that we have acquired or may acquire in the future could result in:

- the validity and priority of our ownership of the Excess MSRs being challenged in a bankruptcy proceeding;
- payments made by such servicer to us, or obligations incurred by it, being avoided by a court under federal or state preference laws or federal or state fraudulent conveyance laws;
- a re-characterization of any sale of the Excess MSRs or other assets to us as a pledge of such assets in a bankruptcy proceeding; or
- any agreement pursuant to which we acquired the Excess MSRs being rejected in a bankruptcy proceeding.

Any of the foregoing events could have a material and adverse effect on us.

GSE initiatives and other actions may adversely affect returns from investments in Excess MSRs.

On January 17, 2011, the Federal Housing Finance Agency announced that it has instructed FNMA and FHLMC to study possible alternatives to the current residential mortgage servicing and compensation system used for single-family mortgage loans. It is too early to determine what the GSEs, including FNMA and FHLMC, may propose as alternatives to current servicing compensation practices, or when any such alternatives would become effective. Although we do not expect MSRs that have already been created to be subject to any changes implemented by FNMA and FHLMC, it is possible that, because of the significant role of FNMA and FHLMC in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives. These proposals are still evolving. To the extent the GSEs implement reforms that materially affect the market for conforming loans, there may be secondary effects on the subprime and Alt-A markets. These reforms may have a material adverse effect on the economics or performance of any Excess MSRs that we may acquire in the future.

Changes to the minimum servicing amount for GSE loans could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

Currently, when a loan is sold into the secondary market for FNMA and FHLMC loans, the servicer is generally required to retain a minimum servicing amount ("MSA") of 25 basis points of the outstanding principal balance for fixed rate mortgages. As has been widely publicized, in September 2011, the Federal Housing Finance Agency ("FHFA") announced that a Joint Initiative on Mortgage Servicing Compensation was seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. Changes to the MSA structure could significantly impact our business in negative ways that we cannot predict or protect against. For example, the elimination of an MSA could radically change the mortgage servicing industry and could severely limit the supply of Excess MSRs available for us to invest in. In addition, a removal of, or a reduction in, the MSA could significantly reduce the recapture rate on the affected portfolio, which would negatively affect the investment return on our Excess MSRs. We cannot predict whether any changes to current MSA rules will occur or what impact any changes will have on our business, results of operations, liquidity or financial condition.

We are subject to significant competition, and we may not compete successfully.

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, mortgage servicers, insurance companies and other investors, including funds and companies affiliated with our manager. Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us may lead to the returns available from such investments decreasing, which may further limit our ability to generate our desired returns. We cannot assure you that

other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to complete successfully against any such companies.

Furthermore, we do not intend to build a mortgage servicing platform. Therefore, we may not be an attractive buyer for those sellers of MSRs that prefer to sell MSRs and their mortgage servicing platform in a single transaction. Since our business model does not currently include acquiring and running servicing platforms, to engage in a bid for such a business we would need to find a servicer to acquire and run the platform or we would need to incur additional costs to shut down the acquired servicing platform. The need to work with a servicer in these situations increases the complexity of such potential acquisitions, and Nationstar may be unwilling or unable to act as servicer or subservicer on any Excess MSRs acquisition we want to execute. The complexity of these transactions and the additional costs incurred by us if we were to execute future acquisition of this type could adversely affect our future operating results.

Following the closing of a CDO financing when we have locked in the liability costs for a CDO during the reinvestment period, the rate at which we are able to acquire eligible investments and changes in market conditions may adversely affect our anticipated returns.

During the reinvestment period, we must invest the restricted cash available for reinvestments in our CDOs. Until we are able to acquire sufficient assets, our returns will reflect income earned on uninvested cash and, having locked in the cost of liabilities for the particular CDO, the particular CDO's returns will be at risk of declining to the extent that yields on the assets to be acquired decline. In general, our ability to acquire appropriate investments depends upon the supply in the market of investments we deem suitable, and changes in various economic factors may affect our determination of what constitutes a suitable investment.

Our returns will be adversely affected when investments held in CDOs are prepaid or sold subsequent to the reinvestment period.

Real estate securities and loans are subject to prepayment risk. In addition, we may sell, and realize gains (or losses) on, investments. To the extent such assets were held in CDOs subsequent to the end of the reinvestment period, the proceeds are fully utilized to pay down the related CDO's debt. This causes the leverage on the CDO to decrease, thereby lowering our returns on equity.

Our investments in senior unsecured REIT securities are subject to specific risks relating to the particular REIT issuer and to the general risks of investing in subordinated real estate securities, which may result in losses to us.

Our investments in REIT securities involve special risks relating to the particular REIT issuer of the securities, including the financial condition and business outlook of the issuer. REITs generally are required to substantially invest in operating real estate or real estate related assets and are subject to the inherent risks associated with real estate related investments discussed in this report.

Our investments in REIT securities are also subject to the risks described above with respect to mortgage loans and mortgage backed securities and similar risks, including (i) risks of delinquency and foreclosure, and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, and (iv) risks that may be presented by the type and use of a particular commercial property.

REIT securities are generally unsecured and may also be subordinated to other obligations of the issuer. We may also invest in REIT securities that are rated below investment grade. As a result, investments in REIT securities are also subject to risks of: (i) limited liquidity in the secondary trading market, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders to the issuer, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest premature redemption proceeds in lower yielding assets, (v) the possibility that earnings of the REIT issuer may be insufficient to meet its debt service and dividend obligations and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT securities during periods of rising interest rates and economic downturn. These risks may adversely affect the value of outstanding REIT securities and the ability of the issuers thereof to repay principal and interest or make dividend payments.

The real estate related loans and other direct and indirect interests in pools of real estate properties or other loans that we invest in may be subject to additional risks relating to the structure and terms of these transactions, which may result in losses to us.

We invest in real estate related loans and other direct and indirect interests in pools of real estate properties or loans such as mezzanine loans and "B Note" mortgage loans. We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or other business assets or revenue streams or loans secured

by a pledge of the ownership interests of the entity owning real property or other business assets or revenue streams (or the ownership interest of the parent of such entity). These types of investments involve a higher degree of risk than long-term senior lending secured by business assets or income producing real property because the investment may become unsecured as a result of foreclosure by a senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to repay our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is repaid in full. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

We also invest in mortgage loans ("B Notes") that while secured by a first mortgage on a single large commercial property or group of related properties are subordinated to an "A Note" secured by the same first mortgage on the same collateral. As a result, if an issuer defaults, there may not be sufficient funds remaining for B Note holders. B Notes reflect similar credit risks to comparably rated commercial mortgage backed securities. In addition, we invest, directly or indirectly, in pools of real estate properties or loans. Since each transaction is privately negotiated, these investments can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction, while investments in pools of real estate properties or loans may be subject to varying contractual arrangements with third party co-investors in such pools. Further, B Notes typically are secured by a single property, and so reflect the risks associated with significant concentration. These investments also are less liquid than commercial mortgage backed securities.

Investment in non-investment grade loans may involve increased risk of loss.

We have acquired and may continue to acquire in the future certain loans that do not conform to conventional loan criteria applied by traditional lenders and are not rated or are rated as non-investment grade (for example, for investments rated by Moody's Investors Service, ratings lower than Baa3, and for Standard & Poor's, BBB- or below). The non-investment grade ratings for these loans typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these loans have a higher risk of default and loss than conventional loans. Any loss we incur may reduce distributions to our stockholders. There are no limits on the percentage of unrated or non-investment grade assets we may hold in our portfolio.

Insurance on real estate in which we have interests (including the real estate serving as collateral for our real estate securities and loans) may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore our economic position with respect to the affected real property. As a result of the events of September 11, 2001, insurance companies have limited or excluded coverage for acts of terrorism in insurance policies. As a result, we may suffer losses from acts of terrorism that are not covered by insurance.

In addition, the mortgage loans that are secured by certain of the properties in which we have interests contain customary covenants, including covenants that require property insurance to be maintained in an amount equal to the replacement cost of the properties. There can be no assurance that the lenders under these mortgage loans will not take the position that exclusions from coverage for losses due to terrorist acts is a breach of a covenant which, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans.

Many of our investments are illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.

The real estate properties that we own and operate and our other direct and indirect investments in real estate, real estate related and other assets are generally illiquid. In addition, the real estate securities that we purchase in connection with privately negotiated transactions are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. In addition, there are no established trading markets for a majority of our investments. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be limited.

Our securities have historically been valued based primarily on third party quotations, which are subject to significant variability based on the liquidity and price transparency created by market trading activity. The dislocation in the trading markets has reduced the trading for many real estate securities, resulting in less transparent prices for those securities. Consequently, it is currently more difficult for us to sell many of our assets than it has been historically because, if we were to sell such assets, we would likely not have access to readily ascertainable market prices when establishing valuations of them. Moreover, currently there is a relatively low market demand for the vast majority of the types of assets that we hold, which may make it extremely difficult to sell our assets. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

In addition, Excess MSRs are highly illiquid and subject to numerous restrictions on transfers. For example, the Servicing Guidelines of a mortgage owner generally require that holders of Excess MSRs obtain the mortgage owner's prior approval of any change of ownership of such Excess MSRs. Such approval may be withheld for any reason or no reason in the discretion of the mortgage owner. Additionally, investments in Excess MSRs are a new type of transaction, and there have been extremely few investment products that pursue a similar investment strategy. Accordingly, the risks associated with the transaction and structure are not fully known to buyers or sellers. As a result of the foregoing, there is some risk that we will be unable to locate a buyer at the time we wish to sell an Excess MSR. Additionally, there is some risk that we will be required to dispose of Excess MSRs either through an in-kind distribution or other liquidation vehicle, which will, in either case, provide little or no economic benefit to us, or a sale to a co-investor in the Excess MSR, which may be an affiliate. Therefore, we cannot provide any assurance that we will obtain any return or any benefit of any kind from any disposition of Excess MSRs.

Our ability to invest in, and dispose of our investments in, Excess MSRs may be subject to the receipt of third-party consents.

GSEs may require that we submit to costly or burdensome conditions as a prerequisite to their consent to our investments in Excess MSRs. GSE conditions may diminish or eliminate the investment potential of certain Excess MSRs by making such investments too expensive for us or by severely limiting the potential returns available from Excess MSRs. Moreover, we have not received and do not expect to receive any assurances from any GSEs that their conditions for the disposition of an investment in Excess MSRs will not change. Therefore the potential costs, issues or restrictions associated with receiving such GSEs' consent for any such dispositions by us cannot be determined with any certainty.

Our investments in Excess MSRs may involve complex or novel structures.

Our manager has extremely limited transaction history involving GSEs, and our investments in Excess MSRs may involve complex or novel structures. It is possible that a GSE's views on whether any such investment structure is appropriate or acceptable may not be known to us when we make an investment and may change from time to time for any reason or for no reason, even with respect to a completed investment. Accordingly, the terms of any future transaction may differ significantly from the terms of our existing investments in Excess MSRs. A GSE's evolving posture toward an acquisition or disposition structure through which we invest in or dispose of Excess MSRs may cause such GSE to impose new conditions on our existing investments in Excess MSRs, including the owner's ability to hold such Excess MSRs directly or indirectly through a grantor trust or other means. Such new conditions may be costly or burdensome and may diminish or eliminate the investment potential of the Excess MSRs that are already owned by us. Moreover, obtaining such consent may require us or our co-investment counterparties to agree to material structural, economic and indemnification, or other terms that expose us to risks which we have not previously been exposed and that could negatively affect our returns from our investments.

In addition, the requirements imposed by mortgage owners on servicers may require us to structure the terms, purchase price and form of consideration that we and the servicer pay differently in various deals. For example, if a mortgage owner imposes stricter requirements on a servicer to repurchase loans under certain circumstances, the servicer will be required to assume a significantly higher level of risk in connection with servicing the loans underlying the applicable mortgage servicing right and related Excess MSR than the servicer would assume if the mortgage owner did not impose such requirements. As a result, the base fee paid to the servicer with respect to those mortgage servicing rights may be higher – and the related Excess MSR may be lower – than in deals where the mortgage owner does not impose such requirements.

Interest rate fluctuations and shifts in the yield curve may cause losses.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our real estate securities, loans, floating rate debt obligations and interest rate swaps. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest

income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans at attractive prices, the value of our real estate securities, loans and derivatives and our ability to realize gains from the sale of such assets. In the past, we have utilized hedging transactions to protect our positions from interest rate fluctuations, but as a result of current market conditions we face significant obstacles to entering into new hedging transactions. As a result, we may not be able to protect new investments from interest rate fluctuations to the same degree as in the past, which could adversely affect our financial condition and results of operations.

In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our financing strategy is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

Interest rate changes may also impact our net book value as our real estate securities, real estate related loans and hedge derivatives are marked to market each quarter. Debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, which will decrease the book value of our equity.

Furthermore, shifts in the U.S. Treasury yield curve reflecting an increase in interest rates would also affect the yield required on our real estate securities and therefore their value. For example, increasing interest rates would reduce the value of the fixed rate assets we hold at the time because the higher yields required by increased interest rates result in lower market prices on existing fixed rate assets in order to adjust the yield upward to meet the market, and vice versa. This would have similar effects on our real estate securities portfolio and our financial position and operations to a change in interest rates generally.

We invest in RMBS collateralized by subprime mortgage loans, which are subject to increased risks.

We invest in RMBS backed by collateral pools of subprime residential mortgage loans. ''Subprime'' mortgage loans refer to mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of RMBS backed by subprime mortgage loans in which we may invest could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

The value of our RMBS may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process.

Allegations of deficiencies in servicing and foreclosure practices among several large sellers and servicers of residential mortgage loans that surfaced in 2010 raised various concerns relating to such practices, including the improper execution of the documents used in foreclosure proceedings (so-called "robo signing"), inadequate documentation of transfers and registrations of mortgages and assignments of loans, improper modifications of loans, violations of representations and warranties at the date of securitization and failure to enforce put-backs.

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Justice Department and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys

general lead to a proposed settlement agreement in early February 2012 with five of the nation's largest banks, pursuant to which the banks agreed to pay more than $25 billion to settle claims relating to improper foreclosure practices. The proposed settlement does not prohibit the states, the federal government, individuals or investors in RMBS from pursuing additional actions against the banks and servicers in the future.

The integrity of the servicing and foreclosure processes are critical to the value of the mortgage loan portfolios underlying our RMBS, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and our losses on, our non-Agency RMBS. Foreclosure delays may also increase the administrative expenses of the securitization trusts for the non-Agency RMBS, thereby reducing the amount of funds available for distribution to investors. In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the proposed $25 billion settlement is intended to be a "credit" to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains considerable uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS; as a result, there can be no assurance that any such principal reductions will not adversely affect the value of certain of our RMBS.

While we believe that the sellers and servicers would be in violation of their servicing contracts to the extent that they have improperly serviced mortgage loans or improperly executed documents in foreclosure or bankruptcy proceedings, or do not comply with the terms of servicing contracts when deciding whether to apply principal reductions, it may be difficult, expensive, and time consuming for us to enforce our contractual rights. We continue to monitor and review the issues raised by the alleged improper foreclosure practices. While we cannot predict exactly how the servicing and foreclosure matters or the resulting litigation or settlement agreements will affect our business, there can be no assurance that these matters will not have an adverse impact on our results of operations and financial condition.

We invest in senior living facilities, which are subject to various risks that could have a negative impact on our financial results.

Subject to maintaining our qualification as a REIT, we intend to continue to purchase senior living facilities. In connection with any such investment, we expect that we would engage an affiliate of our manager to manage the operations of these facilities, as we have previously done, for which we would pay a management fee. The income from any senior living facilities would be dependent on the ability of the managers of such facilities to successfully manage these properties. The managers would compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of tenants and managers. A manager's inability to successfully compete with other companies on one or more of the foregoing levels could adversely affect the senior living facility and materially reduce the income we would receive from an investment in such facility.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or applicable accounting rules. For example, as a result of new investments, including any investments in senior living facilities, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. Under certain circumstances, the SEC permits newly acquired businesses to be excluded for a limited period of time from management's annual assessment of the effectiveness of internal control. We have excluded the senior living assets acquired in 2012 from management's annual assessment of the effectiveness of internal control in 2012 and may avail ourselves of this flexibility with respect to any newly acquired business. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates, which could subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements, which could lead to a decline in our share price, impair our ability to raise capital and other adverse consequences.

In addition, private, federal and state payment programs as well as the effect of laws and regulations may also have a significant impact on the profitability of such facilities. The failure of a manager to comply with any of these laws could result in the loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal

and state healthcare programs, loss of license or closure of the facility. These events, among others, could result in the loss of part or all of any investment we make in a senior living facility.

Furthermore, the ability to successfully manage a senior living facility depends on occupancy levels. Any senior living facility in which we invest may have relatively flat or declining occupancy levels due to falling home prices, declining incomes, stagnant home sales and other economic factors. In addition, the senior housing segment may continue to experience a decline in occupancy due to the weak economy and the associated decision of certain residents to vacate a facility and instead be cared for at home. A material decline in occupancy levels and revenues may make it more difficult for the manager of any senior living facility in which we invest to successfully generate income for us. Alternatively, to avoid a decline in occupancy, a manager may reduce the rates charged, which would also reduce our revenues and therefore negatively impact the ability to generate income.

Our ability to acquire senior living facilities will be subject to the applicable REIT qualification tests, and we may have to hold these interests through taxable REIT subsidiaries, which may negatively impact our returns from these assets.

Our investments in real estate securities and loans are subject to changes in credit spreads, which could adversely affect our ability to realize gains on the sale of such investments.

Real estate securities and loans are subject to changes in credit spreads. Credit spreads measure the yield demanded on securities and loans by the market based on their credit relative to a specific benchmark.

Fixed rate securities and loans are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities and loans are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities and loans, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our real estate securities and loan portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or "tighten," the value of our real estate securities portfolio would tend to increase. Such changes in the market value of our real estate securities and loan portfolios may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. During 2008 through the first quarter of 2009, credit spreads widened substantially. This widening of credit spreads caused the net unrealized gains on our securities, loans and derivatives, recorded in accumulated other comprehensive income or retained earnings, and therefore our book value per share, to decrease and resulted in net losses.

In addition, if the value of our loans subject to financing agreements were to decline, it could affect our ability to refinance such loans upon the maturity of the related repurchase agreements. Any credit or spread related losses incurred with respect to our loans would affect us in the same way as similar losses on our real estate securities portfolio as described above.

Any hedging transactions that we enter into may limit our gains or result in losses.

We have used (and may continue to use, when feasible and appropriate) derivatives to hedge a portion of our interest rate exposure, and this approach has certain risks, including the risk that losses on a hedge position will reduce the cash available for distribution to stockholders and that such losses may exceed the amount invested in such instruments. We have adopted a general policy with respect to the use of derivatives, which generally allows us to use derivatives where appropriate, but does not set forth specific policies and procedures or require that we hedge any specific amount of risk. From time to time, we use derivative instruments, including forwards, futures, swaps and options, in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of the items, generally our liabilities, that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements.

The REIT provisions of the Internal Revenue Code of 1986, as amended, or the Code, limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to

limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests.

Accounting for derivatives under U.S. generally accepted accounting principles, or GAAP, is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP in our financial statements could adversely affect our earnings.

Under certain conditions, increases in prepayment rates can adversely affect yields on many of our investments.

The value of the majority of assets in which we invest may be affected by prepayment rates on these assets. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining mortgage interest rates, prepayments on loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of floating rate assets may, because of the risk of prepayment, benefit less than fixed rate assets from declining interest rates. Conversely, in periods of rising interest rates, prepayments on loans generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments.

In addition, when market conditions lead us to increase the portion of our CDO investments that are comprised of floating rate securities, the risk of assets inside our CDOs prepaying increases. Since our CDO financing costs are locked in, reinvestment of such prepayment proceeds at lower yields than the initial investments, as a result of changes in the interest rate or credit spread environment, will result in a decrease of the return on our equity and therefore our net income.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. Management has certified in this report that our internal controls over financial reporting were effective as of December 31, 2012. In addition, management previously certified that our internal controls over financial reporting were effective as of December 31, 2011. However, management subsequently determined that there was a material weakness in our internal control over financial reporting with respect to our recording of the deconsolidation of CDO V in our consolidated financial statements for the year ended December 31, 2011, as described in Note 2 to the consolidated financial statements included herein. As of December 31, 2012, management had determined that such weakness had been remediated with our Manager's addition of new personnel focused on the accounting for significant transactions, and that no material weakness existed as of the end of the period covered by this report.

We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial

reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Environmental compliance costs and liabilities related to real estate that we own, or in which we have interests, may adversely affect our results of operations.

Our operating costs may be affected by the cost of complying with existing or future environmental laws, ordinances and regulations with respect to the properties, or loans secured by such properties, or by environmental problems that materially impair the value of such properties. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate properly, may adversely affect the owner's ability to borrow using such real property as collateral. Certain environmental laws and common law principles could be used to impose liability for releases of hazardous materials, including asbestos-containing materials, into the environment, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses it may be operated, and these restrictions may require expenditures. In connection with the direct or indirect ownership and operation of properties, we may be potentially liable for any such costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could adversely affect our results of operations and financial condition.

Lawsuits, investigations and indemnification claims could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

From time to time, we may be involved in lawsuits or investigations or receive claims for indemnification. Our efforts to resolve any such lawsuits, investigations or claims could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages or indemnification obligations. Such developments could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our REIT Status and Other Matters

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We operate in a manner intended to qualify us as a REIT for federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes, and the tax treatment of participation interests that we hold in mortgage loans and mezzanine loans, may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the Internal Revenue Service (the "IRS") will not contend that our interests in subsidiaries or other issuers violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT.

Our failure to qualify as a REIT would create issues under a number of our financings and other agreements and would cause our common and preferred stock to be delisted from the NYSE.

Our failure to qualify as a REIT would create issues under a number of our financing and other agreements. In addition, the New York Stock Exchange (the "NYSE") requires, as a condition to the continued listing of our common and preferred stock, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our common and preferred stock would promptly be delisted from the NYSE, which would decrease the trading activity of such stock. This could make it difficult to sell stock and could cause the market volume of the shares trading to decline.

If we were delisted as a result of losing our REIT status and desired to relist our stock on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE's listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our common and preferred stock could not trade on the NYSE.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We have historically financed a meaningful portion of our investments not held in CDOs with repurchase agreements, which are short-term financing arrangements and we may enter into additional repurchase agreements in the future. Under these agreements, we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We believe that, for purposes of the REIT asset and income tests, we should be treated as the owner of the assets that are the subject of any such sale and repurchase agreement, notwithstanding that those agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we might fail to qualify as a REIT.

The failure of our Excess MSRs to qualify as real estate assets, or the income from our Excess MSRs to qualify as mortgage interest, could adversely affect our ability to continue to make this type of investment or to qualify as a REIT.

We have received from the IRS a private letter ruling substantially to the effect that our Excess MSRs represent interests in mortgages on real property and thus are qualifying "real estate assets" for purposes of the REIT asset test, which generate income that qualifies as interest on obligations secured by mortgages on real property for purposes of the REIT income test. The ruling is based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements that we have made to the IRS. If any of the representations or statements that we have made in connection with the private letter ruling, are, or become, inaccurate or incomplete in any material respect with respect to one or more Excess MSR investments, or if we acquire an Excess MSR investment with terms that are not consistent with the terms of the Excess MSR investments described in the private letter ruling, then we will not be able to rely on the private letter ruling. If we are unable to rely on the private letter ruling with respect to an Excess MSR investment, the IRS could assert that such Excess MSR investments do not qualify under the REIT asset and income tests, and if successful, our ability to continue to make this type of investment and our ability to qualify as a REIT could be adversely affected.

Rapid changes in the values of assets that we hold may make it more difficult for us to maintain our qualification as a REIT or our exemption from the 1940 Act.

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exemption from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exemption from registration under the 1940 Act. If the decline in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we otherwise would not make absent the intent to maintain our qualification as a REIT and exemption from registration under the 1940 Act.

Dividends payable by REITs do not qualify for the reduced tax rates.

Dividends payable to domestic stockholders that are individuals, trusts or estates are generally taxed at reduced rates. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although these rules do not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could affect the value of our real estate assets negatively.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Compliance with these requirements must be carefully monitored on a continuing basis, and there can be no assurance that our manager's personnel responsible for doing so will be able to successfully monitor our compliance.

REIT distribution requirements could adversely affect our liquidity and our ability to execute our business plan.

In order to maintain our tax status as a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gains) each year to our stockholders. We intend to make distributions to our stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code. Certain of our assets may generate substantial mismatches between taxable income and available cash. As a result, the requirement to distribute a substantial portion of our net taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, or (iv) make taxable distributions of our capital stock in order to comply with REIT requirements. Further, amounts distributed will not be available to fund investment activities. If we fail to obtain debt or equity capital in the future, it could limit our ability to satisfy our liquidity needs, which could adversely affect the value of our common stock.

In January 2013, we experienced an "ownership change" for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards to reduce our future taxable income, potentially increasing our related REIT distribution requirement.

In order to maintain our tax status as a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gains) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders such that we distribute all or substantially all our net taxable income (if any) each year, subject to certain adjustments. In the past, we have used net operating loss and net capital loss carryforwards to facilitate the satisfaction of our distribution requirements. As a result of our January 2013 "ownership change", our future ability to utilize our net operating loss and net capital loss carryforwards to reduce our taxable income may be limited by certain provisions of the Code.

Specifically, the Code limits the ability of a company that undergoes an "ownership change" to utilize its net operating loss carryforwards and certain built-in losses to offset taxable income earned in years after the ownership change. An ownership change occurs if, during a three-year testing period, more than 50% of the stock of a company is acquired by one or more persons (or certain groups of persons) who own, directly or constructively, 5% or more of the stock of such company. An ownership change can occur as a result of a public offering of stock, as well as through secondary market purchases of our stock and certain types of reorganization transactions. Generally, when an ownership change occurs, the annual limitation on the use of net operating loss carryforwards and certain built-in losses is equal to the product of the applicable long-term tax exempt rate and the value of the company's stock immediately before the ownership change. We have substantial net operating and net capital loss carry forwards which we have used, and will continue to use, to offset our tax and distribution requirements. In January 2013, an "ownership change" for purposes of Section 382 of the Code occurred. Therefore, the provisions of Section 382 of the Code impose an annual limit on the amount of net operating loss carryforwards and built in losses that we can use to offset future taxable income. Such limitation may increase our dividend distribution requirement in the future, which could adversely affect our liquidity. We do not believe that the limitation as a result of the January 2013 ownership change will prevent us from satisfying our REIT distribution requirement for the current year and future years. No assurance, however, can be given that we will be able to satisfy our distribution requirement following a current or future ownership change or otherwise. If we were to fail to satisfy our distribution requirement, it would cause us to lose our REIT status and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future.

Certain properties are leased to our taxable REIT subsidiaries pursuant to special provisions of the Code.

We currently lease certain "qualified healthcare properties" to our taxable REIT subsidiaries ("TRSs") (or a limited liability company of which the TRS is a member). These TRSs in turn contract with an affiliate of our manager to manage the healthcare operations at these properties. The rents paid by the TRSs in this structure will be treated as qualifying rents from real property for purposes of the REIT requirements if (i) they are paid pursuant to an arm's-length lease of a qualified healthcare property and (ii) the operator qualifies as an "eligible independent contractor" with respect to the property. An operator will qualify as an eligible independent contractor if it meets certain ownership tests with respect to us, and if, at the time the operator enters into the management agreement, the operator is actively engaged in the trade or business of operating qualified healthcare properties for any person who is not a related person to us or the lessee. If any of the above conditions were not satisfied, then the rents would not be considered income from a qualifying source for purposes of the REIT rules, which could cause us to incur penalty taxes or to fail to qualify as a REIT.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as "market discount" for federal income tax purposes. Accrued market discount is generally recognized as taxable income over our holding period in the instrument in advance of the receipt of cash. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

In addition, we may acquire debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for federal tax purposes.

Moreover, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at the stated rate regardless of whether corresponding cash payments are received.

The IRS tax rules regarding recognizing capital losses and ordinary income for our non-recourse financings, coupled with current REIT distribution requirements, could result in our recognizing significant taxable net income without receiving an equivalent amount of cash proceeds from which to make required distributions. This disconnect could have a serious, negative effect on us.

We may experience issues regarding the characterization of income for tax purposes. For example, we may recognize significant ordinary income, which we would not be able to offset with capital losses, which would, in turn, increase the amount of income we would be required to distribute to stockholders in order to maintain our REIT status. We expect that this disconnect will occur in the case of one or more of our non-recourse financing structures, including off balance sheet structures such as our subprime securitizations and non-consolidated CDOs, where we incur capital losses on the related assets, and ordinary income from the cancellation of the related non-recourse financing if the ultimate proceeds from the assets are insufficient to repay such debt. Through December 31, 2012, no such cancellation of CDO debt had been effected as a result of losses incurred. However, we expect that such cancellation of indebtedness within our CDOs, consolidated or non-consolidated, may occur in the future. In the case of our subprime securitizations, $61.7 million of such cancellations had been effected through December 31, 2012, and we expect such cancellations will continue as losses are realized. This disconnect could also occur, and has occurred, as a result of the repurchase of our outstanding debt at a discount as the gain recorded upon the cancellation of indebtedness is characterized as ordinary income for tax purposes. We have repurchased our debt at a discount in the past, and we intend to attempt to do so in the future. During 2009 and 2010, we repurchased $787.8 million face amount of our outstanding CDO debt and junior subordinated notes at a discount, and recorded $521.1 million of gain. In compliance with tax laws, we had the ability to defer the ordinary income recorded as a result of this cancellation of indebtedness to future years and have deferred or intend to defer all or a portion of such gain for 2009 and 2010. While such deferral may postpone the effect of the disconnect on the ability to offset taxable income and losses, it does not eliminate it. Furthermore, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During the years ended December 31, 2011 and December 31, 2012, we repurchased $188.9 million and $34.1 million face amount of our outstanding CDO debt and notes payable at a discount and recorded $81.1 million and $23.2 million of gain for tax purposes, respectively, (of which only $66.1 million and $24.1 million gain relating to $171.8 million and $39.3 million face amount of debt repurchased, respectively, was recognized for GAAP purposes). The elimination of the ability to defer the

recognition of cancellation of indebtedness income introduces additional tax implications that may significantly reduce the economic benefit of repurchasing our outstanding CDO debt.

When we experience any of these disconnects, and to the extent that a distribution through stock dividends is not viable, we may not have sufficient cashflow to make the distributions necessary to satisfy our REIT distribution requirements, which would cause us to lose our REIT status and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future. Under current market conditions, this type of disconnect between taxable income and cash proceeds would be likely to occur at some point in the future if the current regulations that create the disconnect are not revised, but we cannot predict at this time when such a disconnect might occur.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital losses) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders in amounts such that we distribute all or substantially all of our net taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described herein, particularly in light of current market conditions. In the event of a sustained downturn in our operating results and financial performance relative to previous periods or sustained declines in the value of our asset portfolio, we may be unable to declare or pay quarterly distributions or make distributions to our stockholders, and we may elect to comply with our REIT distribution requirements by, after completing various procedural steps, distributing, under certain circumstances, a portion of the required amount in the form of common shares in lieu of cash. The timing and amount of distributions are in the sole discretion of our board of directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

The stock ownership limit imposed by the Internal Revenue Code for REITs and our charter may inhibit market activity in our stock and restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after our first year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 8% of the aggregate value of our outstanding capital stock, treating classes and series of our stock in the aggregate, or more than 25% of the outstanding shares of our Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine in its sole discretion. These ownership limits could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Moreover, if a REIT distributes less than 85% of its taxable income to its stockholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then it is required to pay an excise tax of 4% on any shortfall between the required 85% and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable REIT subsidiaries. Such subsidiaries will be subject to corporate level income tax at regular rates.

Complying with REIT requirements may cause us to forego, liquidate or contribute to a TRS otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result of these tests, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, forego otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a TRS that is subject to

regular corporate federal income tax. Thus, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively.

The existing REIT provisions of the Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions). As a result, we may have to limit our use of certain hedging techniques or implement those hedges through total return swaps. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Certain of our securitizations have resulted in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we would generally not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we could incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we might reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax.

Moreover, we may be precluded from selling equity interests in these securities to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

Maintenance of our 1940 Act exemption imposes limits on our operations.

We conduct our operations in reliance on an exemption from the 1940 Act, which we refer to as Section 3(c)(5)(C). The assets that we may acquire, therefore, are limited by the provisions of Section 3(c)(5)(C) and the rules, regulations and SEC guidance promulgated under Section 3(c)(5)(C). The SEC recently solicited public comment on a wide range of issues relating to Section 3(c)(5)(C), including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies. There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or SEC guidance regarding these exemptions, will not change in a manner that adversely affects our operations. If the SEC takes action that could result in our or our subsidiaries' failure to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to maintain our exemption from registration as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company (which, among other things, would require us to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions to our stockholders, which could, in turn, materially and adversely affect us and the market price of our stock. Maintenance of our exemption under the 1940 Act generally limits the amount of our investments in non-real estate assets, including consumer loans, to no more than 20% of our total assets. To the extent that we acquire significant non-real estate assets in the future, in order to maintain our exemption under the 1940 Act, we may need to offset those acquisitions with additional qualifying real estate and real estate related assets which may not generate risk-adjusted returns as attractive as those generated by non-real estate related assets.

Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.

Our board of directors is divided into three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to Our Common Stock

Our stock price has fluctuated meaningfully, particularly on a percentage basis, and may fluctuate meaningfully in the future. Accordingly, you may not be able to resell your shares at or above the price at which you purchased them.

The trading price of our common stock has fluctuated significantly over the last three years. Moreover, future share price fluctuations could likely be subject to similarly wide price fluctuations in the future in response to various factors, including:

- market conditions in the broader stock market in general, or in the REIT or real estate industry in particular;
- our ability to make investments with attractive risk-adjusted returns;
- market perception of our current and projected financial condition, potential growth, future earnings and future cash dividends;
- announcements we make regarding dividends;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- market perception or media coverage of our manager or its affiliates;
- actions by rating agencies;
- short sales of our common stock;
- issuance of new or changed securities analysts' reports or recommendations;
- media coverage of us, other REITs or the outlook of the real estate industry;
- major reductions in trading volumes on the exchanges on which we operate;
- credit deterioration within our portfolio;
- legislative or regulatory developments, including changes in the status of our regulatory approvals or licenses;
- litigation and governmental investigations; and
- any decision to pursue a spin out of a portion of our assets.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may negatively affect the price or liquidity of our common stock. Moreover, the recent market conditions negatively impacted our stock price and may do so in the future. When the market price of a stock has been volatile or has decreased significantly in the past, holders of that stock have, at times, instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending, settling or paying any resulting judgments related to the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business and hurt our share price.

We may be unable – or elect not – to pay dividends on our common or preferred stock in the future, which would negatively impact our business in a number of ways and decrease the price of our common and preferred stock.

While we are required to make distributions in order to maintain our REIT status (as described above under "–We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders"), we may elect not to maintain our REIT status, in which case we would no longer be required to make such distributions. Moreover, even if we do elect to maintain our REIT status, we may elect to comply with the applicable requirements by, after completing various procedural steps, distributing, under certain circumstances, a portion of the required amount in the form of shares of our common stock in lieu of cash. If we elect not to maintain our REIT status or to satisfy any required distributions in common stock in lieu of cash, such action could negatively affect our business and financial condition as well as the price of both our common and preferred stock. No assurance can be given that we will pay any dividends on our common stock in the future.

We do not currently have unpaid accrued dividends on our preferred stock. However, to the extent we do, we cannot pay any dividends on our common stock, pay any consideration to repurchase or otherwise acquire shares of our common stock or redeem any shares of any series of our preferred stock without redeeming all of our outstanding preferred stock in accordance with the governing documentation. Consequently, the failure to pay dividends on our preferred stock restricts the actions that we may take with respect to our common stock and preferred stock. Moreover, if we do not pay dividends on any series of preferred stock for six or more periods, then holders of each affected series obtain the right to call a special meeting and elect two members to our board of directors. We cannot predict whether the holders of our preferred stock would take such action or, if taken, how long the process would take or what impact the two new directors on our board of directors would have on our company (other than increasing our director compensation costs). However, the election of additional directors would affect the composition of our board of directors and, thus, could affect the management of our business.

We may in the future choose to pay dividends in our own stock, in which case you could be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. We may also determine to distribute a taxable dividend in the stock of a subsidiary in connection with a spin-out or other transaction. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

Shares eligible for future sale may adversely affect our common stock price.

Sales of our common stock or other securities in the public or private market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our certificate of incorporation, we are authorized to issue up to 500,000,000 shares of common stock, of which 172,525,645 shares of common stock were outstanding as of December 31, 2012. We cannot predict the size of future issuances of our common stock or other securities or the effect, if any, that future sales and issuances would have on the market price of our common stock.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For instance, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any substantially similar federal, state or local law and, if so, whether an exemption from such prohibited transaction rules is available.

Maryland takeover statutes may prevent a change of our control, which could depress our stock price.

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include certain mergers, consolidations, share exchanges, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities or a liquidation or dissolution. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's outstanding shares; or
- an affiliate or associate of a corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation voting together as a single group; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder voting together as a single voting group.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our authorized, but unissued common and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of our common stock or preferred stock. In addition, our board of directors may classify or reclassify any unissued shares of our common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board may establish a series of preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to the Spin-Off of New Residential

We may not be able to complete the spin-off on the terms anticipated or at all.

Our board of directors has determined upon careful review and consideration in accordance with the applicable standard of review under Maryland law that a spin-off of certain of our assets, including, but not limited to, certain residential real estate assets, is in our best interests. The spin-off will be effected as a distribution to the holders of our common stock of shares of New Residential, which is currently a wholly-owned subsidiary of us. New Residential intends to elect and qualify to be taxed as a REIT and to be listed on the NYSE. New Residential will be externally managed by our manager pursuant to a new management agreement. Following the spin-off, we currently expect Newcastle business strategy will be primarily focused on commercial real estate related investments, senior housing and other strategic opportunities, including, but not limited to, opportunities to liquidate, or “collapse”, its CDOs.

We currently expect that New Residential will primarily target investments in residential real estate related investments, including, but not limited to, Excess MSRs, RMBS, and non-performing loans. New Residential’s investment guidelines will be purposefully broad to enable it to make investments in a wide array of assets, including mortgage servicing advances and non-real estate related assets such as consumer loans. New Residential’s initial portfolio will include all of our investments in Excess MSRs to date and any investments in Excess MSRs that we make prior to the spin-off. New Residential’s initial portfolio will also include the non-Agency RMBS we have acquired since the second quarter of 2012, certain Agency RMBS and potentially other assets.

We expect the spin-off of New Residential to be completed in the first half of 2013. However, there can be no assurance that the spin-off will be completed as anticipated or at all. Our ability to complete the spin-off is subject to, among other things, the SEC declaring the registration statement filed with regard to the spin-off effective, the filing and approval of an application to list New Residential’s common stock on the NYSE and the formal declaration of the distribution by our board of directors. There can be no assurance that the spin-off will be completed, and a failure to complete the spin-off could negatively affect the price of the shares of our common stock. Stockholder approval will not be required or sought in connection with the spin-off.

The spin-off may not have the benefits we anticipate.

The spin-off may not have the full or any strategic and financial benefits that we expect, or such benefits may be delayed or may not materialize at all.

The anticipated benefits of the spin-off are based on a number of assumptions, which may prove incorrect. For example, we believe that analysts and investors will regard New Residential’s investment strategy and asset portfolio more favorably as a separate company than as part of our existing portfolio and strategy and thus place a greater value on New Residential as a stand-alone REIT than as a business that is a part of us. In the event that the spin-off does not have these and other expected benefits, because of the diversification of New Residential’s portfolio or for any other reason, the costs associated with the transaction, including an expected increase in management compensation and general and administrative expenses, could have a negative effect on our financial condition and our and New Residential’s ability to make distributions to the stockholders of each company. Stockholder approval will not be required or sought in connection with the spin-off.

New Residential may not be able to successfully implement its business strategy.

Assuming the spin-off is completed, there can be no assurance that New Residential will be able to generate sufficient returns to pay its operating expenses and make satisfactory distributions to its stockholders, or any distributions at all, once it commences operations as an independent company. New Residential's financial condition, results of operations and cash flows will be affected by the expenses it will incur as a stand-alone public company, including fees paid to its manager, legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE. In addition, its results of operations and its ability to make or sustain distributions to its stockholders depend on the availability of opportunities to acquire attractive assets, the level and volatility of interest rates, the availability of adequate short- and long-term financing, conditions in the real estate market, the financial markets and economic conditions, among other factors described in the registration statement for the transaction. After the separation, we will not be required, and do not intend, to provide New Residential with funds to finance its working capital or other cash requirements, so New Residential would need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements.

Our agreements with New Residential may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

The terms of the agreements related to New Residential's separation from us, including a separation and distribution agreement and a management agreement between our manager and New Residential, were not negotiated among unaffiliated third parties. Such terms were proposed by our officers and other employees of our manager and approved by our board of directors. As a result, these terms may be less favorable to us than the terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

For example, the terms of New Residential's management agreement with our manager will be substantially similar to the terms of our existing management agreement. As a result, our manager will be entitled to earn a management fee from New Residential and will be eligible to receive incentive compensation based in part upon New Residential's achievement of targeted levels of funds from operations tested from the date of the spin-off and without regard to our prior performance.

The distribution of New Residential common stock will not qualify for tax-free treatment and may be taxable to you as a dividend.

The distribution of New Residential common stock will not qualify for tax-free treatment. An amount equal to the fair market value of the shares received by you (assuming you are a stockholder of us as of the applicable record date), including any fractional shares deemed to be received, on the distribution date will be treated as a taxable dividend to the extent of your ratable share of any of our current or accumulated earnings and our profits, with the excess treated first as a non-taxable return of capital to the extent of your tax basis in our common stock and then as capital gain. In addition, we or other applicable withholding agents may be required or permitted to withhold at the applicable rate on all or a portion of the distribution payable to non-U.S. stockholders, and any such withholding would be satisfied by us or such agent withholding and selling a portion of the New Residential stock otherwise distributable to non-U.S. stockholders. Such non-U.S. stockholders may bear brokerage fees or other costs from this withholding procedure. Your tax basis in our shares held at the time of the distribution will be reduced (but not below zero) to the extent the fair market value of the New Residential shares distributed by us to you in the distribution exceeds your ratable share of our current and accumulated earnings and profits. Your holding period for such our shares will not be affected by the distribution. We will not be able to advise you of the amount of its earnings and profits until after the end of the 2013 calendar year.

Although we will be ascribing a value to New Residential's shares in the distribution for tax purposes, this valuation is not binding on the IRS or any other tax authority. These taxing authorities could ascribe a higher valuation to your shares, particularly if New Residential's stock trades at prices significantly above the value ascribed to the shares by us in the period following the distribution. Such a higher valuation may cause a larger reduction in the tax basis of your shares of us or may cause you to recognize additional dividend or capital gain income. You should consult your own tax advisor as to the particular tax consequences of the distribution to you.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments received more than 180 days prior to December 31, 2012.

Item 2. Properties.

Our direct investments in properties are described under "Business – Our Investment Strategy."

Our manager leases principal executive and administrative offices located at 1345 Avenue of the Americas, New York, New York 10105. Its telephone number is (212) 798-6100.

Item 3. Legal Proceedings.

We are not a party to any material legal proceedings. No material proceedings were terminated during the fourth quarter of the fiscal year covered by this report.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

We have one class of common stock, which has been listed and is traded on the New York Stock Exchange (NYSE) under the symbol "NCT" since our initial public offering in October 2002. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our common stock and the distributions we declared with respect to the periods indicated.

2012	High	Low	Last Sale	Distributions Declared	
First Quarter	$6.75	$4.65	$6.28	$	0.20
Second Quarter	$7.31	$5.96	$6.70	$	0.20
Third Quarter	$8.13	$6.67	$7.53	$	0.22
Fourth Quarter	$8.91	$6.95	$8.68	$	0.22

2011	High	Low	Last Sale	Distributions Declared	
First Quarter	$8.85	$5.82	$6.04	$	-
Second Quarter	$6.48	$4.18	$5.78	$	0.10
Third Quarter	$6.65	$4.05	$4.07	$	0.15
Fourth Quarter	$5.12	$3.56	$4.65	$	0.15

We may declare quarterly distributions on our common stock. No assurance, however, can be given that any future distributions will be made or, if made, as to the amounts or timing of any future distributions as such distributions are subject to our earnings, financial condition, liquidity, capital requirements, REIT requirements and such other factors as our board of directors deems relevant.

On February 25, 2013, the closing sale price for our common stock, as reported on the NYSE, was $10.65. As of February 25, 2013, there were approximately 64 record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

Equity Compensation Plan Information

In May 2012, with the approval of the shareholders, Newcastle's board of directors adopted the 2012 Newcastle Nonqualified Stock Option and Incentive Plan, or the 2012 Plan. The 2012 Plan is the successor to the Newcastle Option Plan for officers, directors, consultants and advisors, including the Manager and its employees, and is intended to facilitate the continued use of long-term equity-based awards and incentives for the benefit of the service providers to Newcastle and its Manager. All outstanding options granted under the Newcastle Option Plan will continue to be subject to the terms and conditions set forth in the agreements evidencing such options and the terms of the Newcastle Option Plan. The maximum number of shares available for issuance in the aggregate over the ten-year term of the 2012 Plan is 20,000,000 shares. Newcastle's Board may also determine to issue options to the Manager that are not subject to the Newcastle Option Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules.

The following table summarizes the total number of outstanding securities in the incentive plan and the number of securities remaining for future issuance, as well as the weighted average exercise price of all outstanding securities as of December 31, 2012.

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 the 2012 Equity Compensation Plans	
Equity Compensation Plans Approved by Security Holders:					
Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan	8,579,275		$11.60	-	
2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan	4,830,000		$6.70	15,154,132	
Total	13,409,275	(1)	$9.84	15,154,132	(2)
Equity Compensation Plans Not Approved by Security Holders:					
None	N/A		N/A	N/A	

(1) Includes options for (i) 9,685,338 shares held by an affiliate of our manager; (ii) 3,711,937 shares granted to our manager and assigned to certain of Fortress's employees; and (iii) an aggregate of 12,000 shares granted to our directors, other than Mr. Edens.

(2) The maximum available for issuance is 20,000,000 shares in the aggregate over the term of the plan and no award shall be granted on or after May 7, 2022 (but awards granted may extend beyond this date). The number of securities remaining available for future issuance is net of an aggregate of 15,868 shares of our common stock awards to our directors, other than Mr. Edens and Mr. Riis, representing the aggregate annual automatic stock awards to each such director for the period subsequent to the adoption of the 2012 Plan.

Item 6. Selected Financial Data.

The selected historical consolidated financial information set forth below as of and for each of the five years ended December 31, 2012 has been derived from our audited historical consolidated financial statements.

The information below should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included in Part II, Item 8, "Financial Statements and Supplementary Data."

Selected Consolidated Financial Information
(in thousands, except per share data)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Operating Data					
Interest income	$ 310,459	$ 292,296	$ 300,272	$ 361,866	$ 468,867
Interest expense	109,924	138,035	172,219	218,410	307,303
Net interest income	200,535	154,261	128,053	143,456	161,564
Impairment (Reversal)	(5,664)	1,110	(240,858)	548,540	2,991,830
Net interest income (loss) after impairment/reveral	206,199	153,151	368,911	(405,084)	(2,830,266)
Other Revenues	20,075	1,899	1,708	1,547	1,673
Other Income (Loss)	279,717	180,862	282,287	227,399	(112,809)
Expenses	71,813	31,382	30,901	33,099	33,596
Income (loss) from continuing operations	434,178	304,530	622,005	(209,237)	(2,974,998)
Income (loss) from discontinued operations	(68)	(11)	(343)	(667)	(10,354)
Net income (loss)	434,110	304,519	621,662	(209,904)	(2,985,352)
Preferred dividends	(5,580)	(5,580)	(7,453)	(13,501)	(13,501)
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	-	-	43,043	-	-
Income (loss) applicable to common stockholders	$ 428,530	$ 298,939	$ 657,252	$ (223,405)	$ (2,998,853)
Income (loss) per share of common stock, diluted	$ 2.94	$ 3.65	$ 10.96	$ (4.23)	$ (56.81)
Income (loss) from continuing operations per share of common stock, after preferred dividends and excess of carrying amount of exchanged preferred stock over fair value of consideration paid, diluted	$ 2.94	$ 3.65	$ 10.97	$ (4.21)	$ (56.61)
Weighted average number of shares of common stock outstanding, diluted	145,766	81,990	59,949	52,864	52,785
Dividends declared per share of common stock	$ 0.84	$ 0.40	$ -	$ -	$ 0.75

	As Of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data					
Real estate securities, available-for-sale	$ 1,691,575	$ 1,731,744	$ 1,860,584	$ 1,830,795	$ 1,668,748
Real estate related loans, held-for-sale, net	843,132	813,580	782,605	573,862	843,212
Residential mortgage loans, held-for-investment, net	292,461	331,236	124,974	-	-
Residential mortgage loans, held-for-sale, net	2,471	2,687	253,213	383,647	409,632
Investments in excess mortgage servicing rights at fair value	245,036	43,971	-	-	-
Investments in real estate, held-for-investment, net	169,473	-	-	-	
Intangibles, net	19,086	-	-	-	-
Other investments	24,907	24,907	24,907	-	-
Cash and cash equivalents	231,898	157,356	33,524	68,300	49,746
Restricted cash	2,064	105,040	157,005	200,251	44,282
Total assets	3,945,312	3,651,799	3,687,111	3,514,628	3,473,623
Total debt	2,781,761	3,299,693	3,745,811	4,940,204	5,515,199
Total liabilities	2,872,252	3,459,710	3,934,696	5,155,280	5,867,155
Common stockholders' equity (deficit)	1,012,477	130,506	(309,168)	(1,793,152)	(2,546,032)
Preferred stock	61,583	61,583	61,583	152,500	152,500
Supplemental Balance Sheet Data					
Common shares outstanding	172,526	105,181	62,027	52,913	52,789
Book value (deficit) per share of common stock	$ 5.86	$ 1.24	$ (4.98)	$ (33.89)	$ (48.23)
Other Data					
Core earnings (1)	$ 150,192	$ 119,210	$ 91,486	$ 98,403	$ 116,225

1) Newcastle has five primary variables that impact its operating performance: (i) the current yield earned on its investments that are not included in non-recourse financing structures (i.e., unlevered investments and investments subject to recourse debt), (ii) the net yield it earns from its non-recourse financing structures, (iii) the interest expense and dividends incurred under its recourse debt and preferred stock, (iv) its operating expenses and (v) its realized and unrealized gains or losses, including any impairment, on its investments, derivatives and debt obligations. "Core earnings" is a non-GAAP measure of the operating performance of Newcastle excluding the fifth variable listed above, and excluding depreciation and amortization charges. It is used by management to gauge the current performance of Newcastle without taking into account gains and losses, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. It also excludes the effect of depreciation and amortization charges, which, in the judgment of management, are not indicative of operating performance. Management believes that the exclusion from "Core earnings" of the items specified above allows investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and enables investors to evaluate Newcastle's current performance using the same measure that management uses to operate the business.

Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. For a further description of the differences between cash flow provided by operations and net income, see " – Liquidity and Capital Resource" below. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited. Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure.

Calculation of core earnings:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Income (loss) applicable to common stockholders	$ 428,530	$ 298,939	$ 657,252	$ (223,405)	$ (2,998,853)
Add (deduct):					
Impairment (reversal)	(5,664)	1,110	(240,858)	548,540	2,991,830
Other (income) loss	(279,717)	(180,862)	(282,287)	(227,399)	112,809
(Income) loss from discontinued operations	68	11	343	667	10,354
Depreciation and amortization	6,975	12	79	-	85
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	-	-	(43,043)	-	-
Core earnings	$ 150,192	$ 119,210	$ 91,486	$ 98,403	$ 116,225

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with our consolidated financial statements and notes thereto included in Part II, Item 8, "Financial Statements and Supplementary Data," and Part I, Item 1A, "Risk Factors."

General

Newcastle Investment Corp. is a real estate investment and finance company. We invest in, and actively manage, a portfolio of real estate securities, loans, excess mortgage servicing rights ("Excess MSRs"), real estate related assets, such as senior living facilities, and other assets. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments. We often seek to hedge our interest rate risk. We emphasize portfolio management, asset quality, liquidity, diversification, match funded financing and credit risk management.

As described below, our operating results and book value improved meaningfully during 2012 and 2011.

We currently own a diversified portfolio of credit sensitive real estate debt investments, including securities and loans, other real estate debt investments, such as Excess MSRs, and other assets. Our portfolio of real estate securities includes commercial mortgage backed securities (CMBS), senior unsecured debt issued by REITs, real estate related asset backed securities (ABS) and FNMA/FHLMC securities. Mortgage backed securities are interests in or obligations secured by pools of mortgage loans. We generally target investments rated A through BB, except for our FNMA/FHLMC securities which have an implied AAA rating. We also own, directly and indirectly, interests in loans and pools of loans, including real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans and subprime mortgage loans.

We employ leverage as part of our investment strategy though we do not currently use leverage to purchase Excess MSRs. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2012, we had complied with the general investment guidelines adopted by our board of directors that limit total leverage. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

We strive to maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We seek to utilize multiple forms of financing, including sales of common or preferred equity, collateralized debt obligations (CDOs), other securitizations, term loans, and trust preferred securities, as well as short term financing in the form of loans and repurchase agreements. As we discuss in more detail under "– Market Considerations" below, while market conditions have improved meaningfully since 2008, the current conditions continue to reduce the array of capital resources available to us and have made the terms of capital resources we are able to obtain generally less favorable to us relative to the terms we were able to obtain prior to the onset of challenging conditions. That said, we have recently been able to access more types of capital – and on better terms – than we had been able to access during 2008 and 2009.

We seek to match fund our investments with respect to interest rates and maturities in order to reduce the impact of interest rate fluctuations on earnings and reduce the risk of refinancing our liabilities prior to the maturity of the investments. We seek to finance a substantial portion of our real estate securities and loans through the issuance of term debt, which generally represents obligations issued in multiple classes secured by an underlying portfolio of assets. Specifically, our CDO financings offer us the structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

We conduct our business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered Excess MSRs, (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, Newcastle is generally entitled to receive net cash flows from these structures on a periodic basis. Revenues attributable to each segment, as restated for previously reported periods, are disclosed below (in thousands).

For the Year Ended	Non-Recourse CDOs	Unlevered CDOs	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other	Recourse	Unlevered Other	Corporate	Inter-segment Elimination	Total
December 31, 2012	$ 196,517	$ 490	$ 27,508	$ 18,026	$ 74,392	$ 8,984	$ 10,491	$ 170	$ (6,044)	$ 330,534
December 31, 2011	$ 218,131	$ 344	$ 1,260	$ -	$ 75,263	$ 2,234	$ 2,636	$ 167	$ (5,840)	$ 294,195
December 31, 2010	$ 226,717	$ -	$ -	$ -	$ 74,481	$ 976	$ 1,653	$ 68	$ (1,915)	$ 301,980

Taxation

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the "Code"), and we intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet various tax law requirements, including, among others, requirements relating to the sources of our income, the nature of our assets, the composition of our stockholders, and the timing and amount of distributions that we make. A portion of the REIT distribution requirements may be able to be satisfied through stock dividends rather than cash, subject to limitations based on the value of the stock.

As a REIT, we will generally not be subject to U.S. federal corporate income tax on that portion of our income that is distributed to stockholders if we distribute at least 90% of our REIT taxable income to our stockholders by prescribed dates and comply with various other requirements. We may, however, nevertheless be subject to certain state, local and foreign income and other taxes, and to U.S. federal income and excise taxes and penalties in certain situations, including taxes on our undistributed income. In addition, our stockholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which they transact business or reside. The state, local and foreign tax treatment of us and our stockholders may not conform to the U.S. federal income tax treatment.

If, in any taxable year, we fail to satisfy one or more of the various tax law requirements, we could fail to qualify as a REIT. If we fail to qualify as a REIT for a particular tax year, our income in that year would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), and we may need to borrow funds or liquidate certain investments in order to pay the applicable tax, or we may not be able to pay it. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Moreover, if we fail to qualify as a REIT, we would be delisted from the NYSE.

Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that economic, market, legal, tax or other developments may cause us to fail to qualify as a REIT, or may cause our board of directors to revoke the REIT election, including certain potential developments discussed in Part I, Item 1A, “Risk Factors.”

Market Considerations

Markets in which We Operate

<u>Overall Credit Markets</u>

Our ability to generate income is dependent on our ability to invest our capital on a timely basis at attractive returns.

Two primary market factors that affect our ability to do this in the real estate debt business are (1) credit spreads and (2) the availability of financing on favorable terms.

Generally speaking, widening credit spreads reduce any unrealized gains on our current debt investments (or cause or increase unrealized losses) and increase our costs for new financings, but increase the yields available on potential new debt investments, while tightening credit spreads increase the unrealized gains (or reduce unrealized losses) on our current debt investments and reduce our costs for new financings, but reduce the yields available on potential new debt investments. By reducing unrealized gains (or causing unrealized losses), widening credit spreads also impact our ability to realize gains on existing debt investments if we were to sell such assets.

From mid-2007 through early 2009, credit spreads widened substantially. One of the key drivers of the widening of credit spreads over these years was the continued disruption and liquidity concerns throughout the credit markets. The severity and scope of the disruption intensified meaningfully during the fourth quarter of 2008 and the first quarter of 2009. In the latter part of 2009, credit spreads tightened substantially and continued to tighten in 2010 and the first half of 2011. However, credit spreads widened in the third quarter of 2011, reflecting the challenging economic environment. These changes in credit spreads caused the net unrealized gains on our securities to increase during the first half of 2011, but these increases were reversed and resulted in net unrealized losses in the second half of 2011. Market conditions have improved moderately in 2012 but remain challenging and could change rapidly. We cannot predict how recent or future changes in market conditions will affect our business.

We utilize multiple forms of financing, depending on their appropriateness and availability, to finance our investments, including sales of common and preferred equity, collateralized debt obligations (CDOs) or other securitizations, term loans, trust preferred securities, and short-term financing in the form of loans and repurchase agreements. One component of our investment strategy is to use match funded financing structures, such as CDOs, at rates that provide a positive net spread relative to our investment returns.

Recent conditions in the credit markets have impaired our ability to match fund investments. During the past several years, financing in the form of securitizations or other long-term non-recourse structures not subject to margin requirements was generally not available or economical, and it remains difficult to obtain under current market conditions. Lenders have generally tightened their underwriting standards and increased their margin requirements, resulting in a decline in the overall amount of leverage available to us and an increase in our borrowing costs. These conditions make it highly likely that we will have to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments. Moreover, financial market conditions remain volatile and have been adversely affected by the unrest in the Middle East, the earthquake in Japan, the European financial crisis, continuing weakness in the U.S. job market and concern about the United States' level of indebtedness. Volatility in equity markets could impair our ability to raise debt or equity capital or otherwise finance our business.

Excess MSRs

We believe that the current environment has created an attractive opportunity to invest in MSRs. Specifically:

- changes in the regulatory treatment of MSRs for financial institutions subject to Basel III, a revision to the global regulatory capital and liquidity framework for banks, which will impose increased regulatory capital costs on banks for owning MSRs;
- elevated borrower delinquencies and defaults experienced over the last few years, and increased regulatory oversight, has led to substantially higher costs for mortgage servicers and negatively impacted their profitability; and
- mortgage servicing has become less attractive to many financial institutions due to increasingly negative publicity and heightened government and regulatory scrutiny.

These dynamics resulted in a pipeline of MSRs for sale by banks and non-bank servicers, as these institutions are under pressure to exit or reduce their exposure to the mortgage servicing business. As a result, we believe that this relative oversupply of MSRs, combined with a historically low interest rate environment and a challenging credit market, have contributed to an availability of MSRs that are attractively priced. We closed on our first investment in Excess MSRs in December 2011, continued investing in this sector in 2012 and early 2013, and are exploring opportunities to acquire additional MSRs that provide attractive risk-adjusted returns.

Non-Agency RMBS

We are also pursuing investments in residential mortgage backed securities ("RMBS") that have been securitized by either public or private trusts ("non-Agency RMBS"). Since the onset of the financial crisis in 2007, there has been significant volatility in the prices for non-Agency RMBS. This has resulted from a widespread contraction in capital available for this asset class, deteriorating housing fundamentals, and an increase in forced selling by institutional investors (often in response to rating agency downgrades). While the prices of these assets have started to recover from their lows, we believe a meaningful gap still exists between current prices and the recovery value of many non-Agency RMBS. Accordingly, we believe there are opportunities to acquire non-Agency RMBS at attractive risk-adjusted yields, with the potential for meaningful upside if the U.S. economy and housing market continue to strengthen. We believe the value of existing non-Agency RMBS may also rise if the number of buyers returns to pre-2007 levels. As of December 31, 2012, we had acquired non-Agency RMBS with a face amount of approximately $456.0 million for a total purchase price of $288.4 million, or 63.2% of face amount.

Senior Living

In addition, we believe that the senior living sector currently presents an attractive investment opportunity. Specifically,

- projected changes in demographics will drive increased demand for senior housing, yet new supply is limited, creating favorable supply-demand fundamentals;
- targeting smaller portfolios enables us to avoid pricing competition with other active REIT buyers of large portfolios, thereby focusing our acquisitions on quality senior housing assets that provide more competitive pricing fundamentals; and
- capitalizing on the experience of our manager in the senior living industry, we expect to generate growth in property-level net operating income when operational and structural efficiencies are achieved.

We made three acquisitions of senior living assets comprised of 12 properties in 2012. We are exploring opportunities to invest in additional senior living facilities.

Our investment strategy is purposefully broad in order to enable us to make investments in a wide array of assets, including, but not limited to, any type of assets that can be held by a REIT. We do not have specific policies as to the allocation

among types of real estate related, or other, assets or investment categories, since our investment decisions depend on changing market conditions.

Liquidity

Credit and liquidity conditions have improved relative to the conditions experienced during the 2008-2009 financial crisis. That said, the challenging credit and liquidity conditions that we experienced during the financial crisis continue to adversely affect us and the markets in which we operate in a number of ways. For example, these conditions have reduced the market trading activity for many real estate securities and loans, resulting in less liquid markets for those securities and loans. As the securities held by us and many other companies in our industry are marked to market at the end of each quarter, the decreased liquidity and concern over market conditions have resulted in significant reductions in mark to market valuations of many real estate securities and loans and the collateral underlying them, as well as volatility and uncertainty with respect to such valuations. These lower valuations, and decreased expectations of future cash flows, have affected us by, among other things, reducing the amount, which we refer to as "cushion," by which we satisfy the over collateralization and interest coverage tests of our CDOs (sometimes referred to as CDO "triggers") or contributing to several of our CDOs failing their over collateralization tests (see "– Liquidity and Capital Resources" and "– Debt Obligations" below).

Failed CDO triggers, impairments resulting from incurred losses, and asset sales made at prices significantly below face amount while the related debt is being repaid at its full face amount, as well as the retention of cash, could contribute to reductions in future earnings, cash flow and liquidity.

With respect to dividends, we have paid all dividends on our preferred stock through January 31, 2013. In order to maintain liquidity, we elected not to declare any dividends on our common stock from late 2008 through early 2011. However, based on the above described improvements in the markets over the last two years, and the corresponding improvement in our financial condition and liquidity, we declared quarterly dividends totaling $0.40 per common share in 2011, and quarterly dividends totaling $0.84 per common share in 2012. Dividends on our common shares are paid at the beginning of the quarter succeeding the quarter to which they relate. We may elect to adjust or not to pay any future dividend payments to reflect our current and expected cash from operations or to satisfy future liquidity needs.

Extent of Market Disruption

Market conditions have meaningfully improved over the last few years, but it is not clear whether a sustained recovery will occur or, if so, for how long it will last. We do not currently know the full extent to which the continuing challenging market conditions will affect us or the markets in which we operate. If such conditions persist, particularly with respect to commercial real estate, we may experience additional impairment charges, potential reductions in cash flows from our investments and additional challenges in raising capital and obtaining investment or other financing on attractive terms. Moreover, we will likely need to continue to place a high priority on managing our liquidity. Certain aspects of these effects are more fully described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate, Credit and Spread Risk" and "– Liquidity and Capital Resources" as well as in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Potential Separation Transaction

Our board of directors has determined upon careful review and consideration in accordance with the applicable standard of review under Maryland law that a spin-off of certain of our assets, is in our best interests. The spin-off will be affected as a distribution to the holders of our common stock of shares of New Residential Investment Corp. ("New Residential"), which is currently a wholly-owned subsidiary of Newcastle. New Residential intends to elect and qualify to be taxed as a REIT and to be listed on the New York Stock Exchange ("NYSE").

New Residential will be externally managed by our manager pursuant to a new management agreement. Following the spin-off, we currently expect Newcastle business strategy will be primarily focused on commercial real estate related investments, senior housing and other strategic opportunities, including, but not limited to, opportunities to liquidate, or "collapse", its CDOs. New Residential will primarily target investments in residential real estate related investments, including, but not limited to, Excess MSRs, RMBS, and non-performing loans. New Residential's investment guidelines will be purposefully broad to enable it to make investments in a wide array of assets, including mortgage servicing advances and non-real estate related assets such as consumer loans. New Residential's initial portfolio will include all of our investments in Excess MSRs to date and any investments in Excess MSRs that we make with the proceeds of our recent offering or otherwise prior to the spin-off. New Residential's initial portfolio will also include the non-Agency RMBS we have acquired since the second quarter of 2012 and certain Agency RMBS.

We expect the spin-off of New Residential to be completed in the first half of 2013. However, there can be no assurance that the spin-off will be completed as anticipated or at all. Our ability to complete the spin-off is subject to, among other things, the SEC declaring the registration statement filed with regard to the spin-off effective, the filing and approval of an application to list New Residential's common stock on the NYSE and the formal declaration of the distribution by our board of directors. Failure to complete the spin-off could negatively affect the price of the shares of our common stock. Stockholder approval will not be required or sought in connection with the spin-off.

In addition, the spin-off may not have the full or any strategic and financial benefits that we expect, or such benefits may be delayed or may not materialize at all. The anticipated benefits of the spin-off are based on a number of assumptions, which may prove incorrect. For example, we believe that analysts and investors will regard New Residential's investment strategy and asset portfolio more favorably as a separate company than as part of Newcastle's existing portfolio and strategy and thus place a greater value on New Residential as a stand-alone REIT than as a business that is a part of Newcastle. In the event that the spin-off does not have these and other expected benefits, because of the diversification of New Residential's portfolio or for any other reason; the costs associated with the transaction, including an expected increase in management compensation and general and administrative expenses, could have a negative effect on our financial condition and our and New Residential's ability to make distributions to the stockholders of each company. For more information about the risks associated with the spin-off, see "Risk Factors—Risks Related to the Spin-Off of New Residential."

Formation and Organization

We were formed and completed our initial public offering in 2002.

The following table presents information on shares of our common stock issued since our formation:

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation - 2006	45,713,817		
2007	7,065,362	$27.75-$31.30	$201.3
2008	9,871	N/A	$0.1
2009	123,463	N/A	$0.1
2010	9,114,671	$3.13	$28.5
2011	43,153,825	$4.55 - $6.00	$210.9
2012	67,344,636	$6.22 - $6.71	$434.9
December 31, 2012	172,525,645		
January 2013	57,500,000	$9.35	$526.2
February 2013	23,000,000	$10.48	$237.4

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors. Includes prices of shares issued in exchange for preferred stock.

As of December 31, 2012, approximately 4.9 million of our shares of common stock were held by Fortress, through its affiliates, and principals of Fortress. In addition, Fortress, through its affiliates, held options to purchase approximately 9.7 million shares of our common stock at December 31, 2012.

Application of Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. Management believes that the estimates and assumptions utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results historically have been in line with management's estimates and judgments used in applying each of the accounting policies described below, as modified periodically to reflect current market conditions. A summary of our significant accounting policies is presented in Note 2 to our consolidated financial statements, which appear in Part II, Item 8, "Financial Statements and Supplementary Data." The following is a summary of our accounting policies that are most effected by judgments, estimates and assumptions.

Variable Interest Entities

Variable interest entities ("VIEs") are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only

by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The VIEs in which we have a significant interest include (i) our CDOs, and (ii) our manufactured housing loan financing structures. We do not have the power to direct the relevant activities of CDO V, as a result of an event of default which allows us to be removed as collateral manager of this CDO and prevents us from purchasing or selling certain collateral within this CDO, and therefore we deconsolidated this CDO as of June 17, 2011. Similar events of default in the future, if they occur, could cause us to deconsolidate additional financing structures. We completed two securitization transactions to refinance our Manufactured Housing Loans Portfolios I and II. We analyzed the securitizations under the applicable accounting guidance and concluded that the securitization transactions should be accounted for as secured borrowings. As a result, we continue to recognize the portfolios of manufactured housing loans as pledged assets, which have been classified as loans held-for-investment at securitization, and recorded the notes issued to third parties as secured borrowings.

Our subprime securitizations are also considered VIEs, but we do not control their activities and no longer receive a significant portion of their returns. These subprime securitizations were not consolidated under the current or prior guidance.

In addition, our investments in RMBS, CMBS, CDO securities and loans may be deemed to be variable interests in VIEs, depending on their structure. We monitor these investments and analyze the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements. These analyses require considerable judgment in determining whether an entity is a VIE and determining the primary beneficiary of a VIE since they involve subjective determinations of significance, with respect to both power and economics. The result could be the consolidation of an entity that otherwise would not have been consolidated or the de-consolidation of an entity that otherwise would have been consolidated.

Valuation of Securities

We have classified all our real estate securities as available for sale. As such, they are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income, to the extent impairment losses are considered temporary as described below. Fair value may be based upon broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. A significant portion of our securities are currently not traded in active markets and therefore have little or no price transparency. For a further discussion of this trend, see "– Market Considerations" above. As a result, we have estimated the fair value of these illiquid securities based on internal pricing models rather than the sources described above. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant and immediate increase or decrease in our book equity. For securities valued with pricing models, these inputs include the discount rate, assumptions relating to prepayments, default rates and loss severities, as well as other variables.

See Note 9 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data" for information regarding the fair value of our investments, and its estimation methodology, as of December 31, 2012.

Our securities must be categorized by the "level" of inputs used in estimating their fair values. Level 1 would be assets valued based on quoted prices for identical instruments in active markets. We have no level 1 assets. Level 2 would be assets valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other "observable" market inputs. Level 3 would be assets valued based significantly on "unobservable" market inputs. We have further broken level 3 into level 3A, third party indications, and level 3B, internal models. Fair value under GAAP represents an exit price in the normal course of business, not a forced liquidation price. If we were forced to sell assets in a short period to meet liquidity needs, the prices we receive could be substantially less than the recorded fair values.

We generally classify the broker and pricing service quotations we receive as level 3A inputs, except for certain liquid securities. They are quoted prices in generally inactive and illiquid markets for identical or similar securities. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price. These quotations are generally based on models prepared by the brokers, and we have little visibility into the inputs they use. Based on quarterly procedures we have performed with respect to quotations received from these brokers, including comparison to the outputs generated from our internal pricing models and transactions we have completed with respect to these securities, as well as on our knowledge and experience of these markets, we have generally determined that these quotes represent a reasonable estimate of fair value. For the $1.6 billion carrying value of securities valued using quotations

as of December 31, 2012, a 100 basis point change in credit spreads would impact estimated fair value by approximately $34.0 million.

Our estimation of the fair value of level 3B assets (as described below) involves significant judgment. We validated the inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. We believe the assumptions we used are within the range that a market participant would use and factor in the liquidity conditions currently in the markets. In 2012, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally remained consistent with the assumptions used at December 31, 2011, other than certain modifications we have made to the assumptions to reflect conditions relevant to specific assets. In 2011 and 2010, in comparison to the respective prior year end, we generally used lower discount rates as inputs to our models for ABS and CMBS-large loan/single borrower securities in order to reflect current market conditions. The other inputs to our models, including prepayment speeds, default rates and severity assumptions, generally remained consistent with the assumptions used at the prior year end, other than certain modifications we made to reflect conditions relevant to specific assets.

For CMBS and ABS valued with internal models, which have an aggregate fair value of $73.0 million as of December 31, 2012, a 10% unfavorable change in our assumptions would result in the following decreases in such aggregate fair value (in thousands):

	CMBS	ABS
Outstanding face amount	$ 121,020	$ 89,925
Fair value	$ 46,365	$ 26,631
Effect on fair value with 10% unfavorable change in:		
Discount rate	$ (987)	$ (2,149)
Prepayment rate	N/A	$ (396)
Default rate	$ (2,148)	$ (3,161)
Loss severity	$ (1,119)	$ (4,223)

The sensitivity analysis is hypothetical and should be used with caution. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. Also, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Impairment of Securities

We must also assess whether unrealized losses on securities, if any, reflect a decline in value which is other-than-temporary and, if so, write the impaired security down to its fair value through earnings. A decline in value is deemed to be other-than-temporary if (i) it is probable that we will be unable to collect all amounts due according to the contractual terms of a security which was not impaired at acquisition (there is an expected credit loss), or (ii) if we have the intent to sell a security in an unrealized loss position or it is more likely than not we will be required to sell a security in an unrealized loss position prior to its anticipated recovery (if any). For the purposes of performing this analysis, we assume the anticipated recovery period is until the respective security's expected maturity. Also, for certain securities which represent "beneficial interests in securitized financial assets," whenever there is a probable adverse change in the timing or amounts of estimated cash flows of a security from the cash flows previously projected, an other-than-temporary impairment is considered to have occurred. These securities are also analyzed for other-than-temporary impairment under the guidelines applicable to all securities as described herein. We note that primarily all of our securities, except our FNMA/FHLMC securities, fall within the definition of beneficial interests in securitized financial assets.

Temporary declines in value generally result from changes in market factors, such as market interest rates and credit spreads, or from certain macroeconomic events, including market disruptions and supply changes, which do not directly impact our ability to collect amounts contractually due. We continually evaluate the credit status of each of our securities and the collateral supporting our securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. These factors are also analyzed in relation to the amount of the unrealized loss and the period elapsed since it was incurred. The result of this evaluation is considered when determining management's estimate of cash flows, particularly with respect to developing the necessary inputs and assumptions. Each security is impacted by different factors and in different ways; generally the more negative factors which are identified with respect to a given security, the more likely we are to determine that we do not expect to receive all contractual payments when due with respect to that security. Significant judgment is required in this analysis.

As of December 31, 2012, we had 30 securities with a carrying amount of $116.3 million that had been downgraded during 2012 and recorded a net other-than-temporary impairment charge of $4.4 million on these securities in 2012. However, we do not depend on credit ratings in underwriting our securities, either at acquisition or on an ongoing basis. As mentioned above, a credit rating downgrade is one factor that we monitor and consider in our analysis regarding other-than-temporary impairment, but it is not determinative. Our securities generally benefit from the support of one or more subordinate classes of securities or equity or other forms of credit support. Therefore, credit rating downgrades, even to the extent they relate to an expectation that a securitization we have invested in, on an overall basis, has credit issues, may not ultimately impact cash flow estimates for the class of securities in which we are invested.

Furthermore, the analysis of whether it is more likely than not that we will be required to sell securities in an unrealized loss position prior to an expected recovery in value (if any), the amount of such expected required sales, and the projected identification of which securities would be sold is also subject to significant judgment, particularly in times of market illiquidity such as we are currently experiencing.

Revenue Recognition on Securities

Income on these securities is recognized using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data, and market changes. These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions. For securities acquired at a discount for credit losses, we recognize the excess of all cash flows expected over our investment in the securities as Interest Income on a "loss-adjusted" yield basis. The loss-adjusted yield is determined based on an evaluation of the credit status of securities, as described in connection with the analysis of impairment above.

Valuation of Derivatives

Similarly, our derivative instruments are carried at fair value. Fair value is based on counterparty quotations. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when Newcastle believes a legal right of offset exists under an enforceable netting agreement. To the extent they qualify as cash flow hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, the net unrealized gains and losses are reported currently in income. To the extent they qualify as fair value hedges, net unrealized gains or losses on both the derivative and the related portion of the hedged item are reported currently in income. Fair values of such derivatives are subject to significant variability based on many of the same factors as the securities discussed above, including counterparty credit risk. The results of such variability, the effectiveness of our hedging strategies and the extent to which a forecasted hedged transaction remains probable of occurring, could result in a significant increase or decrease in our GAAP equity and/or earnings.

Loans

We invest in loans, including, but not limited to, real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans and subprime mortgage loans. Loans for which we have the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-investment. Loans for which we do not have the intent or the ability to hold for the foreseeable future, or until maturity or payoff, are classified as held-for-sale. Loans are presented in the consolidated balance sheet net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses. We determine at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan.

Impairment of Loans

To the extent that they are classified as held for investment, we must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. We continually evaluate our loans receivable for impairment. Our residential mortgage loans, including manufactured housing loans, are aggregated into pools for evaluation based on like characteristics, such as loan type and acquisition date. Individual loans are evaluated based on an analysis of the borrower's performance, the credit rating of the borrower, debt service coverage and loan to value ratios, the estimated value of the underlying collateral, the key terms of the loan, and the effect of local, industry and broader economic trends and factors. Pools of loans are also evaluated based on similar criteria, including historical and anticipated trends in defaults

and loss severities for the type and seasoning of loans being evaluated. This information is used to estimate specific impairment charges on individual loans as well as provisions for estimated unidentified incurred losses on pools of loans. Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. Furthermore, we must assess our intent and ability to hold our loan investments on a periodic basis. If we do not have the intent to hold a loan for the foreseeable future or until its expected payoff, the loan must be classified as "held for sale" and recorded at the lower of cost or estimated value.

Revenue Recognition on Loans Held for Investment

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis. For loans acquired at a discount for credit losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Valuation Allowance. The provision is determined based on an evaluation of the loans as described under "– Impairment of Loans" above. A rollforward of the allowance is included in Note 5 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data."

Revenue Recognition on Loans Held for Sale

Real estate related, commercial mortgage and residential mortgage loans that are considered held for sale are carried at the lower of amortized cost or market value determined on either an individual method basis, or in the aggregate for pools of similar loans. Interest income is recognized based on the loan's coupon rate to the extent management believes it is collectable. Purchase discounts are not amortized as interest income during the period the loan is held for sale. A change in the market value of the loan, to the extent that the value is not above the average cost basis, is recorded in Valuation Allowance. A rollforward of the allowance is included in Note 5 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data."

Investments in Excess Mortgage Servicing Rights (Excess MSRs)

Upon acquisition, we have elected to record each of such investments at fair value. We elected to record our investments in Excess MSRs at fair value in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs. Under this election, we record a valuation adjustment on our Excess MSRs investments on a quarterly basis to recognize the changes in fair value in net income as described in Revenue Recognition on Investments in Excess Mortgage Servicing Rights below. As of December 31, 2012, all Excess MSRs investments are classified as held-for-investment as we have the intent and ability to hold the investments for the foreseeable future.

Revenue Recognition on Investments in Excess Mortgage Servicing Rights

Investments in Excess MSRs are aggregated into pools as applicable; each pool of Excess MSRs is accounted for in the aggregate. Interest income for Excess MSRs is accreted into interest income on an effective yield or "interest" method, based upon the expected excess servicing amount through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period is measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize interest income only on Excess MSRs in existing eligible underlying mortgages. The difference between the fair value of Excess MSRs and their amortized cost basis is recorded as "Change in Fair Value of Investments in Excess Mortgage Servicing Rights." Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSRs, and therefore may differ from their effective yields.

The following tables summarize the estimated change in fair value of the Excess MSRs as of December 31, 2012 given several parallel shifts in the discount rate, prepayment rate, delinquency rate and recapture rate (dollars in thousands):

Fair value at December 31, 2012	$	245,036						

Discount rate shift in %		-20%		-10%		+10%		+20%
Estimated fair value	$	270,219	$	256,841	$	234,363	$	224,733
Change in estimated fair value:								
Amount	$	25,183	$	11,805	$	(10,673)	$	(20,303)
%		10.3%		4.8%		-4.4%		-8.3%

Prepayment rate shift in %		-20%		-10%		+10%		+20%
Estimated fair value	$	267,927	$	255,999	$	234,910	$	225,538
Change in estimated fair value:								
Amount	$	22,891	$	10,963	$	(10,126)	$	(19,498)
%		9.3%		4.5%		-4.1%		-8.0%

Delinquency rate shift in %		-20%		-10%		+10%		+20%
Estimated fair value	$	249,957	$	247,557	$	242,757	$	240,357
Change in estimated fair value:								
Amount	$	4,921	$	2,521	$	(2,279)	$	(4,679)
%		2.0%		1.0%		-0.9%		-1.9%

Recapture rate shift in %		-20%		-10%		+10%		+20%
Estimated fair value	$	240,270	$	242,637	$	247,364	$	249,612
Change in estimated fair value:								
Amount	$	(4,766)	$	(2,399)	$	2,328	$	4,576
%		-1.9%		-1.0%		1.0%		1.9%

The sensitivity analysis is hypothetical and should be used with caution. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. Also, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Purchase Accounting

The acquisition of the senior living assets and the liabilities assumed were recorded at fair value. In determining the allocation of the purchase price between net tangible and identified intangible assets acquired and liabilities assumed, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of preacquisition due diligence, marketing, leasing activities, and independent appraisals. Management allocated the purchase price to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values as of the acquisition date. The determination of fair value involved the use of significant judgment and estimation.

Impairment of Investments in Real Estate and Residential Lease Intangibles

We own senior living assets held for investment. Intangibles and long-lived assets are tested for potential impairment annually or when changes in circumstances indicate the carrying value may not be recoverable. Indicators of impairment include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. An impairment is determined to have occurred if the future net undiscounted cash flows expected to be generated is less than the carrying value of an asset. The impairment is measured as the difference between the carrying value and the fair value. Significant judgment is required both in determining impairment and in estimating the fair value. We may use assumptions and estimates derived from a review of our operating results, business projections, expected growth rates, discount rates, and tax rates. We also

make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in these assumptions and estimates are outside the control of management, and can change in future periods.

Rental Income, Care and Ancillary Income

We record rental revenue, care and ancillary income as they become due as provided for in the leases.

Recent Accounting Pronouncements

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which became effective for us on January 1, 2012. The adoption of this guidance did not have a material effect on our financial position, liquidity, or results of operations.

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated OCI if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statement. Newcastle has early adopted this accounting standard and opted to present this information in a note to the financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on Newcastle's reporting. Newcastle has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

Results of Operations

The following tables summarize the changes in our results of operations from year-to-year (dollars in thousands):

Comparison of Results of Operations for the years ended December 31, 2012 and 2011

	Year Ended December 31,		Increase (Decrease)	
	2012	2011	Amount	%
Interest income	$ 310,459	$ 292,296	$ 18,163	6.2%
Interest expense	109,924	138,035	(28,111)	(20.4%)
Net interest income	200,535	154,261	46,274	30.0%
Impairment (Reversal)				
Valuation allowance (reversal) on loans	(24,587)	(15,163)	(9,424)	(62.2%)
Impairment of long-lived assets	-	433	(433)	(100.0%)
Other-than-temporary impairment on securities, net	18,923	15,840	3,083	19.5%
	(5,664)	1,110	(6,774)	(610.3%)
Net interest income (loss) after impairment/reversal	206,199	153,151	53,048	34.6%
Other Revenues	20,075	1,899	18,176	N.M.
Other Income (Loss)				
Gain (loss) on settlement of investments, net	232,897	78,181	154,716	197.9%
Gain on extinguishment of debt	24,085	66,110	(42,025)	(63.6%)
Change in fair value of investments in excess mortgage servicing rights	9,023	367	8,656	N.M.
Other income (loss), net	13,712	36,204	(22,492)	(62.1%)
	279,717	180,862	98,855	54.7%
Expenses				
Loan and security servicing expense	4,260	4,649	(389)	(8.4%)
Property operating expenses	12,943	1,110	11,833	N.M.
General and administrative expense	22,942	7,322	15,620	213.3%
Management fee to affiliate	24,693	18,289	6,404	35.0%
Depreciation and amortization	6,975	12	6,963	N.M.
	71,813	31,382	40,431	128.8%
Income (loss) from continuing operations	$ 434,178	$ 304,530	$ 129,648	42.6%

N.M. – Not meaningful

Interest Income

Interest income increased by $18.2 million during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to a (i) a $23.3 million net increase in interest income as a result of new investments in securities and loans, offset by paydowns and changes in interest rates and (ii) a $26.2 million increase in interest income as a result of investments in Excess MSRs. The increases described in (i) and (ii) above were partially offset by a $31.3 million decrease in interest income as a result of the deconsolidation of CDO V in June 2011 and CDO X in September 2012.

Interest Expense

Interest expense decreased by $28.1 million primarily due to (i) a $5.2 million decrease in interest expense on debt as a result of the paydowns and repurchases of our CDO debt obligations and the deconsolidation of CDO V and CDO X and (ii) a $26.8 million decrease in interest expense on derivatives as a result of the termination of interest rate swaps, decreases in swap notional amounts, changes in interest rates and the deconsolidation of CDO V and CDO X. The decreases described in (i) to (ii) above were partially offset by a $1.7 million increase in mortgage interest expense as a result of the acquisitions of senior living assets in July and November of 2012 and a $2.2 million increase in interest expense on other bonds payable and repurchase agreements primarily due to a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities and non-agency RMBS.

Valuation Allowance (Reversal) on Loans

The valuation allowance (reversal) on loans changed by $9.4 million primarily due to (i) a $6.6 million larger net increase in fair values of our real estate related loans during the year ended December 31, 2012 compared to the year ended December 31, 2011, as a result of market conditions improving more in the 2012 period than in the 2011 period and (ii) a $2.8 million lower net valuation allowance on our manufactured housing loans and residential mortgage loans in the 2012 period than in the 2011 period as a result of market conditions improving more in the 2012 period than in the 2011 period.

The reversal of previously established valuation allowances will likely decline over time as the reversal is subject to (i) a continued improvement in loan valuations and (ii) the remaining amount of previously established allowances that have not yet been reversed.

Impairment of Long-lived Assets

The impairment of long-lived assets decreased $0.4 million in the year ended 2012 compared to the year ended 2011 primarily due to a decline in fair value of the Ohio portfolio during the year ended December 31, 2011.

Other-than-temporary Impairment on Securities, Net

The other-than-temporary impairment on securities increased by $3.1 million primarily due to an additional decline in the value of certain commercial mortgage backed securities. We recorded an impairment charge of $18.9 million on 13 securities during the year ended December 31, 2012, compared to an impairment charge of $15.8 million on 30 securities during the year ended December 31, 2011.

Other Revenues

The other revenues increased $18.2 million due to rental revenues resulting from the acquisitions of the senior living assets in July and November of 2012.

Gain (Loss) on Settlement of Investments, Net

The net gain on settlement of investments increased by $154.7 million primarily due to a $224.3 million gain on the sale of CDO X interests recorded in September 2012, partially offset by a $69.6 million decrease in the net gain on sales and repayments of investments in the 2012 period compared to the 2011 period. We recorded a net gain of $10.2 million on 26 securities and loans that were sold or paid off during the year ended December 31, 2012, compared to a net gain of $78.2 million on 95 securities and loans that were sold or paid off during the year ended December 31, 2011.

Gain (Loss) on Extinguishment of Debt

The gain on extinguishment of debt decreased by $42.0 million due to a lower face amount, somewhat offset by a lower average price of debt, repurchased in the year ended December 31, 2012 compared to the year ended December 31, 2011. We repurchased $39.3 million face amount of our own CDO debt and other bonds payable at an average price of 38.4% of par during the year ended December 31, 2012 compared to $171.8 million face amount of CDO bonds and other bonds payable repurchased at an average price of 61.2% of par during the year ended December 31, 2011.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

The change in fair value of investments in excess mortgage servicing rights increased $8.7 million due to the acquisition of these investments since December 2011 and the subsequent increases in value.

Other Income (Loss), Net

Other income decreased by $22.5 million primarily due to (i) a $5.8 million greater increase in the fair value of certain nonhedge interest rate swap agreements as a result of changes in interest rates in the year ended December 31, 2012 compared to the year ended December 31, 2011, (ii) a $6.9 million decrease in unrealized losses recognized on certain interest rate swap agreements in the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily caused by the fact that the interest rate swap agreements that were de-designated as accounting hedges (since the hedged items were considered not probable of occurring) had higher notional amounts during the year ended December 31, 2011 (iii) a $1.5 million increase in other income related to hedge ineffectiveness and collateral management fee income and (iv) an $8.4 million breakup fee received in the year ended December 31, 2012 related to the transaction to acquire Excess MSRs from Residential Capital, LLC. The increases in (i) to (iv) above were offset by a $45.1 million decrease in gain on deconsolidation of CDO V recorded in the year ended December 31, 2011.

Loan and Security Servicing Expense

Loan and security servicing expense remained relatively stable during the year ended December 31, 2012 compared to the year ended December 31, 2011.

Property Operating Expense

The property operating expenses increased $11.8 million due to the acquisitions of the senior living assets in July and November of 2012.

General and Administrative Expense

General and administrative expense increased by $15.6 million primarily due to an increase in professional fees related to the potential separation transaction, the acquisitions of Excess MSRs and senior living assets and other investments.

Management Fee to Affiliate

Management fees increased by $6.4 million primarily due to (i) an increase in gross equity as a result of our public offerings of common stock in March 2011, September 2011, April 2012, May 2012 and July 2012, and (ii) an increase in property management fees in connection with the acquisitions of senior living assets in July and November of 2012.

Depreciation and Amortization

The depreciation and amortization expense increased $7.0 million due to the acquisitions of the senior living assets in July and November 2012, and the additional depreciation expense recorded as a result of the classification of the Ohio portfolio as held for use in December 2012.

Comparison of Results of Operations for the years ended December 31, 2011 and 2010

	Year Ended December 31,		Increase (Decrease)	
	2011	2010	Amount	%
Interest income	$ 292,296	$ 300,272	$ (7,976)	(2.7%)
Interest expense	138,035	172,219	(34,184)	(19.8%)
Net interest income	154,261	128,053	26,208	20.5%
Impairment				
Valuation allowance (reversal) on loans	(15,163)	(339,887)	324,724	95.5%
Impairment of long-lived assets	433	-	433	N.M
Other-than-temporary impairment on securities, net	15,840	99,029	(83,189)	(84.0%)
	1,110	(240,858)	241,968	100.5%
Net interest income (loss) after impairment	153,151	368,911	(215,760)	(58.5%)
Other Revenues	1,899	1,708	191	11.2%
Other Income (Loss)				
Gain (loss) on settlement of investments, net	78,181	52,307	25,874	49.5%
Gain on extinguishment of debt	66,110	265,656	(199,546)	(75.1%)
Change in fair value of investment in excess mortgage servicing rights	367	-	367	N.M.
Other income (loss), net	36,204	(35,676)	71,880	201.5%
	180,862	282,287	(101,425)	(35.9%)
Expenses				
Loan and security servicing expense	4,649	4,580	69	1.5%
Property operating expenses	1,110	1,283	(173)	(13.5%)
General and administrative expense	7,322	7,707	(385)	(5.0%)
Management fee to affiliate	18,289	17,252	1,037	6.0%
Depreciation and amortization	12	79	(67)	(84.8%)
	31,382	30,901	481	1.6%
Income (loss) from continuing operations	$ 304,530	$ 622,005	$ (317,475)	(51.0%)

N.M. - Not meaningful

Interest Income

Interest income decreased by $8.0 million during the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to (i) a $12.6 million decrease in interest income as a result of the deconsolidation of CDO V in June 2011, (ii) a $6.6 million decrease in prepayment penalties we received as a result of the lower volume of the prepayment of securities and loans in the year ended December 31, 2011, offset by (iii) an $11.2 million increase in interest income as a result of new investments made, partially offset by paydowns and changes in interest rates.

Interest Expense

Interest expense decreased by $34.2 million primarily due to (i) a $7.6 million decrease in interest expense attributable to the deconsolidation of CDO V, (ii) a $5.8 million decrease in interest expense on debt as a result of the paydowns and repurchases of our CDO debt obligations, (iii) a $16.6 million decrease in interest expense on derivatives as a result of the termination of interest rate swaps, decreases in swap notional amounts and changes in interest rates and (iv) a $6.5 million decrease in the amortization of deferred hedge losses. The decreases described in (i) to (iv) above were partially offset by a $2.3 million increase in interest expense on other bonds payable and repurchase agreements due to the refinancing of our manufactured housing loan portfolios and a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities.

Valuation Allowance on Loans

The valuation allowance (reversal) on loans changed by $324.7 million primarily due to (i) a significantly larger net increase in fair values, by $278.0 million, on our real estate related loans during the year ended December 31, 2010 compared to the year ended December 31, 2011 as a result of market conditions improving more in the 2010 period than in the 2011 period and (ii) a larger net reversal of valuation allowance on our manufactured housing loans and residential mortgage loans, by $46.7 million, in the 2010 period compared to 2011 period due to the reclassification of our manufactured housing loan portfolio I, manufactured housing loan portfolio II and residential mortgage loans from held-for-sale to held-for-investment in April 2010, May 2011 and September 2011, respectively. This change in fair values and the reclassification impacted the amount of valuation allowance we were able to reverse during those periods.

In addition, the reversal of previously established valuation allowances will likely decline over time as the reversal is subject to (i) a continued improvement in loan valuations and (ii) the amount of previously established allowances that have not yet been reversed.

Impairment of Long-lived Assets

The impairment of long-lived assets increased $0.4 million in the year ended December 31, 2011 compared to the year ended December 31, 2010 due to a decline in fair value of the Ohio portfolio during the year ended December 31, 2011.

Other-than-temporary Impairment on Securities, Net

The other-than-temporary impairment on securities decreased by $83.2 million primarily due to improved market conditions. We recorded an impairment charge of $15.8 million on 30 securities during the year ended December 31, 2011, compared to an impairment charge of $99.0 million on 115 securities during the year ended December 31, 2010.

Other Revenues

The other revenues remained relatively stable during the year ended December 31, 2011 compared to the year ended December 31, 2010.

Gain (Loss) on Settlement of Investments, Net

The net gain on settlement of investments increased by $25.9 million as a result of the increased volume of sales and repayments of investments. We recorded a net gain of $78.2 million on 95 securities, loans and derivatives that were sold, paid off or terminated during the year ended December 31, 2011, compared to a net gain of $52.3 million on 65 securities, loans and derivatives that were sold, paid off or terminated during the year ended December 31, 2010.

Gain (Loss) on Extinguishment of Debt

The gain on extinguishment of debt decreased by $199.5 million due to a lower face amount and a higher average price of debt repurchased in the year ended December 31, 2011 compared to the year ended December 31, 2010.

We repurchased $171.8 million face amount of our own CDO debt and other bond payable at an average price of 61.2% of par during the year ended December 31, 2011 compared to $483.7 million face amount of CDO bonds repurchased at an average price of 44.6% of par during the year ended December 31, 2010.

Change in Fair Value of Investments in Excess Mortgage Servicing Rights

The change in fair value of investments in excess mortgage servicing rights increased $0.4 million in the year ended December 31, 201 compared to the year ended December 31, 2010 due to the acquisition of these investments since December 2011 and the subsequent increase in value.

Other Income (Loss), Net

Other income increased by $71.9 million primarily due to (i) a $22.0 million decrease in unrealized losses recognized on certain interest rate swap agreements, which were de-designated as accounting hedges as the hedged items were no longer probable of occurring, (ii) a $4.5 million increase in fair value of certain non-hedge derivative instruments (iii) a $2.0 million increase in management fees, included in Other Income, in 2011 related to our acquisition of the collateral management rights with respect to certain C-BASS CBOs in February 2011 and (iv) a $45.1 million gain on deconsolidation of CDO V recorded in the year ended December 31, 2011. The decreases in other loss were partially offset by a $1.4 million increase in hedge ineffectiveness recognized on certain interest rate swap agreements and a $0.3 million decrease in other income.

Loan and Security Servicing Expense

Loan and security servicing expense remained relatively stable during the year ended December 31, 2011 compared to the year ended December 31, 2010.

Property Operating Expense

The property operating expenses remained relatively stable during the year ended December 31, 2011 compared to the year ended December 31, 2010.

General and Administrative Expense

General and administrative expense decreased by $0.4 million primarily due to a $0.9 million decrease in directors and officers liability insurance expense, offset by a net $0.5 million increase in legal and professional fees due to the acquisition of Excess MSRs investments and public offerings in the year ended December 31, 2011.

Management Fee to Affiliate

Management fees increased by $1.0 million during the year ended December 31, 2011 compared to the year ended December 31, 2010 due to a net increase in gross equity as a result of our public offerings of common stock in March 2011 and September 2011, partially offset by the return of capital distributions made on our preferred stock in 2010.

Depreciation and Amortization

The depreciation and amortization expense remained relatively stable during the year ended December 31, 2011 compared to the year ended December 31, 2010.

Liquidity and Capital Resources

Overview

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain our status as a REIT under the Code, we must distribute annually at least 90% of our REIT taxable income. As of December 31, 2011, we had a loss carryforward, inclusive of net operating loss and capital loss, of approximately $896.8 million. The net operating loss carryforward and capital loss carryforward can generally be used to offset future ordinary taxable income and capital gain, for up to twenty years and five years, respectively. As a result, we do not expect that there will be any REIT distribution requirements for the year ended December 31, 2012. In January 2013, we experienced an “ownership change” for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards to reduce our future taxable income and potentially increases our related REIT distribution requirement. We do not believe that the limitation as a result of the January 2013 ownership change will prevent us from satisfying our REIT distribution requirement for the current year and future years. No assurance, however, can be given that we will be able to satisfy our distribution requirement following a current or future ownership change or otherwise. We note that a portion of this requirement may be able to be met in future years through stock dividends, rather than cash, subject to limitations based on the value of our stock.

Our primary sources of funds for liquidity consist of net cash provided by operating activities, sales or repayments of investments, potential refinancing of existing debt, and the issuance of equity securities, when feasible. We have an effective shelf registration statement with the SEC, which allows us to issue common stock, preferred stock, depository shares, debt securities and warrants. Our debt obligations are generally secured directly by our investment assets, except for the junior subordinated notes payable.

Sources of Liquidity and Uses of Capital

As of the date of this filing, we have sufficient liquid assets, which include unrestricted cash and FNMA/FHLMC securities, to satisfy all of our short-term recourse liabilities. Our junior subordinated notes payable are long-term obligations. With respect to the next twelve months, we expect that our cash on hand combined with our cash flow provided by operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, hedging activity, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements, specifically the repayment of our recourse debt obligations, through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and similar financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

These short-term and long-term expectations are forward-looking and subject to a number of uncertainties and assumptions, which are described below under "–Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations" as well as Part I, Item 1A, "Risk Factors." If our assumptions about our liquidity prove to be incorrect, we could be subject to a shortfall in liquidity in the future, and this short-fall may occur rapidly and with little or no notice, which would limit our ability to address the shortfall on a timely basis.

Cash flow provided by operations constitutes a critical component of our liquidity. Essentially, our cash flow provided by operations is equal to (i) the net cash flow from our CDOs that have not failed their over collateralization or interest coverage tests, plus (ii) the net cash flow from our non-CDO investments that are not subject to mandatory debt repayment, including excess mortgage servicing income, principal and sales proceeds, (iii) revenues received from our senior living portfolios, less (iv) operating expenses (primarily management fees, property operating expenses, professional fees and insurance), less (v) interest on the junior subordinated notes payable and less (vi) preferred dividends.

Our cash flow provided by operations differs from our net income (loss) due to these primary factors: (i) accretion of discount or premium on our real estate securities and loans (including the accrual of interest and fees payable at maturity), discount on our debt obligations, deferred financing costs, and deferred hedge gains and losses, (ii) gains and losses from sales of assets financed with CDOs, (iii) the valuation allowance recorded in connection with our loan assets, as well as other-than-temporary impairment on our securities, (iv) unrealized gains or losses on our non-hedge derivatives, (v) the non-cash gains or losses associated with our early extinguishment of debt, (vi) depreciation and amortization, and (vii) net income (loss) generated within CDOs that have failed their over collateralization or interest coverage tests. Proceeds from the sale of assets which serve as collateral for our CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are, therefore, not available to fund current cash needs outside of these structures.

Update on Liquidity, Capital Resources and Capital Obligations

Certain details regarding our liquidity, current financings and capital obligations as of February 27, 2013 are set forth below:

- *Cash* – We had a total of $283.4 million of unrestricted cash available to invest after commitments;
- *Margin Exposure and Recourse Financings* – We have margin exposure on a $156.6 million repurchase agreement related to the financing of non-Agency RMBS and a $923.7 million repurchase agreement related to the financing of FNMA/FHLMC securities.

  The following table compares our recourse financings excluding the junior subordinated notes (in thousands):

Recourse Financings	February 27, 2013	December 31, 2012	December 31, 2011
CDO Securities	$ -	$ 1,415	$ 2,182
Non-Agency RMBS	156,633	150,922	-
Non-FNMA/FHLMC recourse financings	156,633	152,337	2,182
FNMA/FHLMC securities	923,720	772,855	231,012
Total recourse financings	$ 1,080,353	$ 925,192	$ 233,194

The non-agency RMBS recourse financing will mature in April 2013. The FNMA/FHLMC recourse financing will mature between February 2013 and March 2013.

- Mortgage Notes Payable – We have $120.5 million mortgage notes payable related to the financing of the senior living assets. These financings are secured by first lien security interests in the senior living properties, have no recourse to the general credit of Newcastle and will mature between October 2017 and August 2019.

We have not incurred any financing on our investments in Excess MSRs. Our liquidity will be impacted by our decision and ability to borrow and access capital to finance any existing and future Excess MSR investments.

It is important for readers to understand that our liquidity, available capital resources and capital obligations could change rapidly due to a variety of factors, many of which are beyond our control. Set forth below is a discussion of some of the factors that could impact our liquidity, available capital resources and capital obligations.

Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations

We refer readers to our discussions in other sections of this report for the following information:

- For a further discussion of recent trends and events affecting our liquidity, see "– Market Considerations" above;
- As described above, under "– Update on Liquidity, Capital Resources and Capital Obligations," we are subject to margin calls in connection with our repurchase agreements;
- Our match funded investments are financed long term, and their credit status is continuously monitored, which is described under "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Exposure" below. Our remaining investments, generally financed with short term debt or short term repurchase agreements, are also subject to refinancing risk upon the maturity of the related debt. See "– Debt Obligations" below; and
- For a further discussion of a number of risks that could affect our liquidity, access to capital resources and our capital obligations, see Part I, Item 1A, "Risk Factors" above.

In addition to the information referenced above, the following factors could affect our liquidity, access to capital resources and our capital obligations. As such, if their outcomes do not fall within our expectations, changes in these factors could negatively affect our liquidity.

- *Access to Financing from Counterparties* – Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit and derivative arrangements, industry and market trends, the availability of capital and our investors', counterparties' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities. Recent conditions and events have limited the array of capital resources available to us and made the terms of capital resources we are able to obtain generally less favorable to us relative to the terms we were able to obtain prior to the onset of challenging conditions. Our business strategy is dependent upon our ability to finance our real estate securities, loans and other real estate related assets at rates that provide a positive net spread. Currently, spreads for such liabilities have widened relative to historical levels and demand for such liabilities remains lower than the demand prior to the onset of challenging market conditions.
- *Impact of Rating Downgrades on CDO Cash Flows* – Ratings downgrades of assets in our CDOs can negatively impact compliance with the CDOs' over collateralization tests. Generally, the over collateralization test measures the principal balance of the specified pool of assets in a CDO against the corresponding liabilities issued by the CDO. However, based on ratings downgrades, the principal balance of an asset or of a specified percentage of assets in a CDO may be deemed to be reduced below their current balance to levels set forth in the related CDO documents for purposes of calculating the over collateralization test. As a result, ratings downgrades can reduce the assumed principal balance of the assets used in the over collateralization test relative to the corresponding liabilities in the test, thereby reducing the over collateralization percentage. In addition, actual defaults of assets would also negatively impact compliance with the over collateralization tests. Failure to satisfy an over collateralization test could result in the redirection of cashflows, or, in certain cases, in the potential removal of Newcastle as collateral manager of the affected CDO. See "– Debt Obligations" below for a summary of assets on negative watch for possible downgrade in our CDOs.
- *Impact of Expected Repayment or Forecasted Sale on Cash Flows* – The timing of and proceeds from the repayment or sale of certain investments may be different than expected or may not occur as expected. Proceeds from sales of assets in the current illiquid market environment are unpredictable and may vary materially from their estimated fair value and their carrying value.

Investment Portfolio

Our investment portfolio as of December 31, 2012 is detailed in Part I, Item 1, "Business – Our Investment Strategy."

Debt Obligations

Our debt obligations, as summarized in Note 10 to Part II, Item 8, "Financial Statements and Supplementary Data," existing at December 31, 2012 (gross of $4.3 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
2013	$ 4,786	$ 925,192	$ 929,978
2014	1,713	-	1,713
2015	2,274	-	2,274
2016	2,305	-	2,305
2017	32,763	-	32,763
Thereafter	1,817,026	-	1,817,026
Total	$ 1,860,867	$ 925,192	$ 2,786,059

Certain of the debt obligations included above are obligations of our consolidated subsidiaries which own the related collateral. In some cases, including the CDO and Other Bonds Payable, such collateral is not available to other creditors of ours.

Our non-CDO obligations and mortgage notes payable contain various customary loan covenants. We were in compliance with all of the covenants in our non-CDO financings and mortgage notes payable as of December 31, 2012.

Repurchase Agreements

The following table provides additional information regarding short-term borrowings. In 2012, these short-term borrowings were used to finance our investments in FNMA/FHLMC securities and certain notes issued by Newcastle CDO VI, and the purchase of certain non-Agency RMBS. In prior years, these short-term borrowings were used to finance certain of our investments in real estate securities and loans, including FNMA/FHLMC securities and our investments in manufactured housing loans. The FNMA/FHLMC and non-Agency RMBS repurchase agreements have full recourse to Newcastle and the CDO VI repurchase agreement has recourse to Newcastle for up to twenty-five percent of the outstanding balance of the repurchase facility, which was approximately $1.4 million as of December 31, 2012. The weighted average difference between the fair value of assets and the face amount of available financing for the FNMA/FHLMC repurchase agreements non-Agency RMBS repurchase agreements and the CDO VI repurchase agreement were 5%, 34% and 50%, respectively, during the year ended December 31, 2012. Margin calls are based on the fair value of the collaterals (dollars in thousands).

		Three Months Ended December 31, 2012			Year Ended December 31, 2012		
	Outstanding Balance at December 31, 2012	Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate	Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate
Repurchase agreements	$ 929,435 *	$ 715,870	$ 935,517	0.65%	$ 435,686	$ 935,517	0.58%

*Of which $925.2 million has recourse to us.

During 2012, we purchased $626.3 million principal balance of FNMA/FHLMC securities (primarily one-year ARMs) for approximately $663.3 million, using $34.4 million of unrestricted cash and financed with $628.9 million of repurchase agreements. These repurchase agreements have an aggregate outstanding balance of $574.6 million at December 31, 2012, bear interest at 0.53%, mature in January 2013, and are subject to customary margin call provisions. During 2011, we purchased $251.5 million principal balance of FNMA/FHLMC securities (primarily one-year ARMs) for approximately $263.8 million, using $13.5 million of unrestricted cash and financed with $250.3 million of repurchase agreements.

During 2012, we purchased $456.0 million principal balance of non-agency residential mortgage backed securities serviced by Nationstar for approximately $288.4 million using $139.0 million of unrestricted cash and financed with approximately $149.4 million of repurchase agreements. These repurchase agreements have an aggregate outstanding balance of $150.9 million at December 31, 2012, bear interest at LIBOR plus 200 basis points, mature in January 2013, have a weighted average advance rate of 66% and are subject to customary margin call provisions.

Subprime Securitization

In March 2006, we acquired a portfolio of subprime mortgage loans ("Subprime Portfolio I") for $1.50 billion. In April 2006, Newcastle Mortgage Securities Trust 2006-1 ("Securitization Trust 2006") closed on a securitization of Subprime Portfolio I. We do not consolidate Securitization Trust 2006. We sold Subprime Portfolio I to Securitization Trust 2006, which issued $1.45 billion of notes with a stated maturity of March 2036. We, as holder of the equity of Securitization Trust 2006, have the option to redeem the notes once the aggregate principal balance of Subprime Portfolio I is equal to or

less than 20% of such balance at the date of the transfer. The transaction between us and Securitization Trust 2006 qualified as a sale for accounting purposes. However, 20% of the loans which are subject to a call option by us were not treated as being sold. Following the securitization, we held the following interests in Subprime Portfolio I: (i) the equity of Securitization Trust 2006, (ii) the retained notes, and (iii) subprime mortgage loans subject to call option and related financing in the amount of 100% of such loans (we note that this interest is non-economic if we do not exercise the option, meaning that it has no impact on us). As of December 31, 2012, the equity was valued at zero and the retained notes had a carrying value of $1.3 million.

In March 2007, we entered into an agreement to acquire a portfolio of subprime mortgage loans ("Subprime Portfolio II") with up to $1.7 billion of unpaid principal balance. In July 2007, Newcastle Mortgage Securities Trust 2007-1 ("Securitization Trust 2007") closed on a securitization of Subprime Portfolio II. As a result of the repurchase of delinquent loans by the seller, as well as borrower repayments, the unpaid principal balance of the portfolio upon securitization was $1.1 billion. We do not consolidate Securitization Trust 2007. We sold Subprime Portfolio II to Securitization Trust 2007, which issued $1.0 billion of notes with a stated maturity of April 2037. We, as holder of the equity of Securitization Trust 2007, have the option to redeem the notes once the aggregate principal balance of Subprime Portfolio II is equal to or less than 10% of such balance at the date of the transfer. The transaction between us and Securitization Trust 2007 qualified as a sale for accounting purposes. However, 10% of the loans which are subject to a call option by us were not treated as being sold. Following the securitization, we held the following interests in Subprime Portfolio II: (i) the equity of Securitization Trust 2007, (ii) the retained notes, and (iii) subprime mortgage loans subject to call option and related financing in the amount of 100% of such loans (we note that this interest is non-economic, meaning that if we do not exercise the option it has no impact on us). As of December 31, 2012, the equity and retained notes had a zero carrying value.

We have no obligation to repurchase any loans from either of our subprime securitizations. Therefore, it is expected that our exposure to loss is limited to the carrying amount of our retained interests in the securitization entities, as described above. A subsidiary of Newcastle gave limited representations and warranties with respect to Subprime Portfolio II; however, it has no assets and does not have recourse to the assets of Newcastle.

Subordinated Notes Payable

On January 29, 2010, Newcastle entered into an Exchange Agreement, dated as of January 29, 2010 (the "Exchange Agreement"), with Taberna Capital Management, LLC and certain of its affiliates (collectively, "Taberna"), pursuant to which Newcastle and Taberna agreed to exchange (the "Exchange") approximately $52.1 million aggregate principal amount of junior subordinated notes due 2035 for approximately $37.6 million face amount of previously issued CDO securities and approximately $9.7 million of cash held by Newcastle. In other words, $52.1 million face amount of Newcastle's debt, in the form of junior subordinated notes payable, was repurchased and extinguished for GAAP purposes in exchange for (i) the payment of $9.7 million of cash, and (ii) the reissuance of $37.6 million face amount of CDO bonds payable (which had previously been repurchased by Newcastle). In connection with the Exchange, Newcastle paid or reimbursed $0.6 million of expenses incurred by Taberna, various indenture trustees and their respective advisors in accordance with the terms of the Exchange Agreement. Newcastle accounted for this exchange as a troubled debt restructuring involving partial repayment of debt. As a result, Newcastle recorded no gain or loss. The following table presents certain information regarding the Exchange as of the date of the Exchange (dollars in thousands).

	Repurchased junior subordinated notes	Consideration		
		Cash	Reissued CDO bonds	Total
Outstanding face amount	$ 52,094	$ 9,715	$ 37,625	$ 47,340
Weighted average coupon	7.574% (A)	N/A	LIBOR + 0.66% (B)	
Maturity	April 2035		June 2052	
Collateral	General credit of Newcastle		Assets within the respective CDOs	

(A) LIBOR + 2.25% after April 2016
(B) Weighted average effective interest rate of approximately LIBOR+0.35% after the Exchange.

The fair value of the consideration paid approximated the fair value of the repurchased junior subordinated notes of $16.7 million.

Non-recourse Manufactured Housing Loan Financing

On April 15, 2010, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio I (the "Portfolio"). Newcastle sold approximately $164.1 million outstanding principal balance of manufactured housing loans to Newcastle MH I LLC (the "2010 Issuer"). The 2010 Issuer issued approximately $134.5 million aggregate principal amount of asset-backed notes, of which $97.6 million was sold to third parties and $36.9 million was sold to

certain CDOs managed and consolidated by Newcastle. At the closing of the securitization transaction, Newcastle used the gross proceeds received from the issuance of the notes to repay the previously existing financing on this portfolio in full, terminate the related interest rate swap contracts, pay the related transaction costs and increase its unrestricted cash by approximately $14 million. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. As a result, no gain or loss is recorded for the transaction. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as loans held for investment at securitization, and records the notes issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements.

On May 4, 2011, we completed a securitization transaction to refinance Manufactured Housing Loans Portfolio II. We sold approximately $197.0 million outstanding principal balance of manufactured housing loans to Newcastle Investment Trust 2011-MH 1 (the "2011 Issuer"), an indirect wholly-owned subsidiary of Newcastle. The 2011 Issuer issued approximately $159.8 million aggregate principal amount of investment grade notes, of which $142.8 million was sold to third parties and $17.0 million was sold to one of the CDOs managed and consolidated by us. In addition, we retained the below investment grade notes and residual interest. As a result, we invested approximately $20.0 million of unrestricted cash in the new securitization structure. The notes issued to third parties had an average expected maturity of 3.8 years and bore interest at an average rate of 3.23% per annum at issuance. At the closing of the securitization transaction, we used the gross proceeds received from the issuance of the notes to repay the previously existing debt in full, terminate the related interest rate swap contracts and pay the related transaction costs. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. As a result, no gain or loss is recorded for the transaction. We continue to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as loans held-for-investment at securitization, and record the notes issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements.

Non-recourse Senior Living Financing

In July 2012, we acquired our first portfolio of senior living assets for an aggregate purchase price of approximately $143.3 million plus related expenses. These assets comprise more than 800 beds in senior living facilities located in California, Oregon, Utah, Arizona and Idaho. We funded the purchase price with an equity investment of approximately $54.9 million and non-recourse financing of approximately $88.4 million. The financing currently has a weighted average interest rate of 3.45% and is secured by, among other things, a first lien security interest in each of the properties.

In November 2012, we acquired our second portfolio of senior living assets for an aggregate purchase price of approximately $22.6 million plus related expenses. These assets comprise more than 350 beds in senior living facilities located in Utah. We funded the purchase price with an equity investment of approximately $6.6 million and non-recourse financing of approximately $16.0 million. The financing currently has an interest rate of 4.75% and is secured by, among other things, a first lien security interest in each of the properties.

In December 2012, we acquired our third portfolio of senior living assets for an aggregate purchase price of approximately $21.5 million plus related expenses. These assets comprise more than 200 beds in a senior living facility located in Texas. We funded the purchase price with an equity investment of approximately $5.4 million and non-recourse financing of approximately $16.1 million. The financing currently has an interest rate of 4.75% and is secured by, among other things, a first lien security interest in the property.

Non-recourse CDO Financing

Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. At issuance, each of our CDOs passed all of these tests. Failure to satisfy these tests would generally cause (or has caused) the cash flow that would otherwise be distributed to the more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be (and has been) material. The table set forth below presents data, including the most recent quarterly cash flows received by Newcastle, for each of our CDOs, and sets forth which of the CDOs have satisfied these tests in the most recent quarter. The amounts set forth are as of December 31, 2012 unless otherwise noted (dollars in thousands). For those CDOs that have failed their applicable over collateralization tests, the impact of failing is already reflected in the cash flow set forth in the table. For those CDOs that have satisfied their applicable over collateralization tests, we could potentially lose substantially all of the cash flows from those CDOs in future quarters if we fail to satisfy the tests in the future. The amounts in the table reflect data at the CDO level and thus are different from the GAAP balance sheet due to intercompany amounts eliminated in Newcastle's consolidated balance sheet (in thousands).

	CDO IV			CDO VI			CDO VIII			CDO IX		
Balance Sheet:												
Assets Face Amount		$ 168,111			$ 180,039			$ 856,589			$ 729,494	
Assets Fair Value		151,250			119,184			651,232			568,394	
Issued Debt Face Amount (1)		85,148			91,578	*		590,001			450,938	
Derivative Net Liabilities Fair Value (1)		3,316			15,841			12,050			-	
Cash Receipts:												
Quarterly net cash receipts (2)		$ 348			$ 140			$ 5,883			$ 7,622	
Collateral Composition (3):	Face	Fair Value		Face	Fair Value		Face	Fair Value		Face	Fair Value	
CMBS	$ 115,242	$ 100,007	BB-	$ 105,816	$ 74,228	BB	$ 148,413	$ 118,092	BB-	$ 80,701	$ 82,594	BB
REIT Debt	33,500	34,936	BBB	29,200	31,238	BB	-	-	--	-	-	--
ABS	9,637	6,745	B-	45,023	13,718	CC	71,105	60,109	B	3,155	3,155	BBB+
Bank Loans	-	-		-	-		223,257	142,727	CCC+	182,124	117,486	CC
Mezzanine Loans / B-Notes / Whole Loans	9,732	9,562	BB+	-	-	--	347,064	311,512	CCC+	372,385	323,164	CCC
CDO	-	-	--	-	-	--	66,750	18,792	CCC-	68,467	28,536	CCC+
Residential Loans	-	-	--	-	-	--	-	-	--	3,779	3,478	NR
Other Investments	-	-	--	-	-	--	-	-	--	18,883	9,981	--
Cash for Reinvestment	-	-	--	-	-	--	-	-	--	-	-	--
Total	$ 168,111	$ 151,250	BB-	$ 180,039	$ 119,184	B+	$ 856,589	$ 651,232	B	$ 729,494	$ 568,394	CCC
Collateral on Negative Watch (4)	$ -			$ 1,457			$ -			$ -		
CDO Cash Flow Triggers (5):												
Over Collateralization (6):												
As of Dec-2012 remittance Cushion (Deficit) ($)		$ (5,586)			$ (171,434)			$ 74,593			$ 134,675	
As of Feb-2013 remittance Cushion (Deficit) ($)		N/A			(171,187)			78,506			139,312	
Interest Coverage (6):												
As of Dec-2012 remittance Cushion (Deficit) (%)		35.2%			(179.1%)			377.5%			530.8%	
As of Feb-2013 remittance Cushion (Deficit) (%)		N/A			(206.9%)			369.2%			689.9%	
CDO Overview:												
Effective		Sep-04			Aug-05			Mar-07			Jul-07	
Reinvestment Period End (7)		Passed			Passed			Passed			Passed	
Optional Call (8)		Passed			Passed			Passed			Passed	
Auction Call (9)		Mar-14			Apr-15			Nov-16			May-17	
WA Debt Spread (bps) (10)		85			50			50			64	

* The $91.6 million issued debt face amount in CDO VI excludes $73.1 million of CDO VI Class I-MM bonds that served as collateral for a $43.2 million bank loan jointly owned by two of Newcastle's CDOs and $21.0 million served as collateral for a $5.7 million repurchase agreement financing.

See footnotes on next page

(1) Includes only CDO bonds issued to third parties and held by Newcastle's consolidated CDOs.

(2) Represents net cash received from each CDO based on all of our interests in such CDO (including senior management fees but excluding principal received from senior CDO bonds owned by Newcastle) for the three months ended December 31, 2012. Cash receipts for this period included $0.8 million of senior collateral management fees, and may not be indicative of cash receipts for subsequent periods. Excluded from the quarterly net cash receipts was $21.5 million of unrestricted cash received from principal repayments on senior CDO bonds owned by Newcastle. This cash represents a return of principal and the realization of the difference between par and the discounted purchase price of these bonds. See "Cautionary Note Regarding Forward Looking Statements" for risks and uncertainties that could cause our receipts for subsequent periods to differ materially from these amounts.

(3) Collateral composition is calculated as a percentage of the face amount of collateral and includes CDO bonds of $126.7 million and other bonds and notes payable of $20.5 million issued by Newcastle, and bank loans of $93.8 million, collateralized by Newcastle CDO VI bonds, real estate properties and a third party CDO security, which are eliminated in consolidation. The fair value of these CDO bonds, other bonds and notes payable, and bank loans was $40.1 million, $18.3 million, and $81.2 million at December 31, 2012, respectively. Also reflected are weighted average credit ratings, which were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.

(4) Represents the face amount of collateral on negative watch for possible downgrade by at least one rating agency (Moody's, S&P, or Fitch) as of the determination date in December 2012 for CDO IV, as this CDO only reports actual over collateralization excess percentages on a quarterly basis, and as of the latest determination date in February 2013 for all other CDOs. The amount does not include any bonds issued by Newcastle, which are eliminated in consolidation and not reflected in our investment portfolio disclosure.

(5) Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be material. Each CDO contains tests at various over collateralization and interest coverage percentage levels. The trigger percentages used above represent the first threshold at which cashflows would be redirected as described in this footnote. The data presented is as of the most recent remittance date on or before December 31, 2012 or February 28, 2013, as applicable, and may change or have changed subsequent to that date. CDO IV only reports on a quarterly basis and, therefore, no updated 2013 information is available. In addition, our CDOs may also contain specific over collateralization tests that, if failed, can result in the occurrence of an event of default or our being removed as collateral manager of the CDO. Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of being distributed to us. As of the December 2012 remittance date for CDO IV and as of the February 2013 remittance date for CDO VI, these CDOs were not in compliance with their applicable over collateralization tests and, consequently, we were not receiving cash flows from these CDOs (other than senior management fees and cash flows on senior classes of bonds we own). Based upon our current calculations, we expect these portfolios to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months. Our ability to rebalance will depend upon the availability of suitable securities, market prices, whether the reinvestment period of the applicable CDO has ended, and other factors that are beyond our control. Such rebalancing efforts may be extremely difficult given current market conditions and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance. For a more detailed discussion of the impact of CDO financings on our cash flows, see Part I, Item 1A, "Risk Factors – Risks Relating to our Business – The coverage tests applicable to our CDO financings may have a negative impact on our operating results and cash flows".

(6) Represents excess or deficiency under the applicable over collateralization or interest coverage tests to the first threshold at which cash flow would be redirected. We generally do not receive material cash flow from the junior classes of a CDO until a deficiency is corrected. Ratings downgrades of assets in our CDOs can negatively impact compliance with the over collateralization tests. Generally, the over collateralization test measures the principal balance of the specified pool of assets in a CDO against the corresponding liabilities issued by the CDO. However, based on ratings downgrades, the principal balance of an asset or of a specified percentage of assets in a CDO may be deemed reduced below their current balance to levels set forth in the related CDO documents for purposes of calculating the over collateralization test. As a result, ratings downgrades can reduce the principal balance of the assets used in the over collateralization test relative to the corresponding liabilities in the test, thereby reducing the over collateralization percentage. In addition, actual defaults of an asset would also negatively impact compliance with the over collateralization tests. Failure to satisfy an over collateralization test could result in the redirection of cashflows as described in footnote 5 above or, in certain circumstances, in our removal as manager of the applicable portfolio.

(7) Our CDO financings typically have a 5 year reinvestment period. Generally, after such period ends, principal payments on the collateral are used to paydown the most senior debt outstanding. Prior to the end of the reinvestment period, principal payments received on the collateral are reinvested.

(8) At the option call date, Newcastle, as the equity holder, has the right to payoff the CDO bonds at their related redemption price.

(9) At the auction call date, there is a mandatory auction of the assets pursuant to which the collateral manager will solicit bids for the CDO assets. If the aggregate amount of bids is sufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will be sold and the CDO bonds will be redeemed. However, if the aggregate amount of the bids is insufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will not be sold and the redemption of CDO bonds will not occur.

(10) Debt spread represents the spread above the benchmark interest rate (LIBOR or U.S. Treasuries) that Newcastle pays on its debt.

The following table sets forth further information with respect to the bonds of our consolidated CDO financings as of December 31, 2012 (dollars in thousands):

		Current Face Amount (1)				
		Held By				
Class	Original Face Amount	Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate
CDO IV						
Class I	$ 353,250	$ 52,925	$ -	$ 40,554	$ 93,479	LIBOR + 0.40%
Class II-FL	13,000	3,000	-	10,000	13,000	LIBOR + 0.65%
Class II-FX	7,250	-	5,250	2,000	7,250	4.73%
Class III-FL	7,500	5,000	-	2,500	7,500	LIBOR + 1.00%
Class III-FX	15,000	1,325	-	10,760	12,085	5.11%
Class IV-FL	9,000	8,173	-	-	8,173	LIBOR + 2.25%
Class IV-FX	9,000	9,475	-	-	9,475	6.34%
Class V	13,500	-	-	18,229	18,229	8.67%
Preferred	22,500	-	-	22,500	22,500	N/A
	$ 450,000	$ 79,898	$ 5,250	$ 106,543	$ 191,691	
CDO VI						
Class I-MM	$ 323,000	$ -	$ -	$ 115,404 *	$ 115,404	LIBOR + 0.25%
Class I-B	59,000	59,000	-	-	59,000	LIBOR + 0.40%
Class II	33,000	23,636	-	10,277	33,913	LIBOR + 0.50%
Class III-FL	15,000	5,211	-	10,423	15,634	LIBOR + 0.80%
Class III-FX	5,000	-	-	6,211	6,211	5.67%
Class IV-FL	9,600	648	-	9,714	10,362	LIBOR + 1.70%
Class IV-FX	2,400	3,083	-	-	3,083	6.55%
Class V	21,000	-	-	28,303	28,303	7.81%
Preferred	32,000	-	-	32,000	32,000	N/A
	$ 500,000	$ 91,578	$ -	$ 212,332	$ 303,910	

* Of the $115.4 million CDO VI Class I-MM bonds, $73.1 million served as collateral for a $43.2 million bank loan owned jointly by two of Newcastle's CDOs and $21.0 million served as collateral for a $5.7 million repurchase agreement financing.

Class	Original Face Amount	Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate
CDO VIII						
Class I-A	$ 462,500	$ 393,704	$ -	$ 14,718	$ 408,422	LIBOR + 0.28%
Class I-AR	60,000	52,984	-	-	52,984	LIBOR + 0.34%
Class I-B	38,000	-	-	38,000	38,000	LIBOR + 0.36%
Class II	42,750	-	29,000	13,750	42,750	LIBOR + 0.42%
Class III	42,750	-	22,750	20,000	42,750	LIBOR + 0.50%
Class IV	28,500	-	-	-	-	LIBOR + 0.60%
Class V	28,500	28,500	-	-	28,500	LIBOR + 0.75%
Class VI	27,312	-	-	-	-	LIBOR + 0.80%
Class VII	21,375	-	-	-	-	LIBOR + 0.90%
Class VIII	22,563	11,063	8,250	3,250	22,563	LIBOR + 1.45%
Class IX-FL	6,000	6,000	-	-	6,000	LIBOR + 1.80%
Class IX-FX	7,600	7,600	-	-	7,600	6.80%
Class X	19,650	18,650	-	-	18,650	LIBOR + 2.25%
Class XI	26,125	-	-	24,125	24,125	LIBOR + 2.50%
Class XII	28,500	-	11,500	17,000	28,500	7.50%
Preferred	87,875	-	-	87,875	87,875	N/A
	$ 950,000	$ 518,501	$ 71,500	$ 218,718	$ 808,719	

Class	Original Face Amount	Current Face Amount (1) Held By Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate	
CDO IX							
Class A-1	$ 379,500	$ 300,313	$ -	$ -	$ 300,313	LIBOR +	0.26%
Class A-2	115,500	65,500	-	50,000	115,500	LIBOR +	0.47%
Class B	37,125	35,125	-	2,000	37,125	LIBOR +	0.65%
Class C	33,000	-	-	-	-	LIBOR +	0.93%
Class D	20,625	-	-	-	-	LIBOR +	1.00%
Class E	24,750	-	-	24,750	24,750	LIBOR +	1.10%
Class F	18,562	-	-	18,562	18,562	LIBOR +	1.30%
Class G	18,562	-	-	11,262	11,262	LIBOR +	1.50%
Class H	21,656	-	8,751	9,305	18,056	LIBOR +	2.50%
Class J	21,656	-	21,656	-	21,656	LIBOR +	3.00%
Class K	19,593	-	19,593	-	19,593	LIBOR +	3.50%
Class L	23,718	-	-	23,718	23,718		7.50%
Class M	39,187	-	-	39,187	39,187		8.00%
Preferred	51,566	-	-	51,566	51,566		N/A
	$ 825,000	$ 400,938	$ 50,000	$ 230,350	$ 681,288		

(1) The amounts presented in these columns exclude the face amount of any cancelled bonds within an applicable class.

(2) Amounts in this column represent the amount of bonds of the applicable class held by Newcastle's consolidated CDOs. These bonds are eliminated in Newcastle's consolidated balance sheet.

(3) Amounts in this column represent the amount of bonds of the applicable class held as investments by Newcastle outside of its non-recourse financing structures. These bonds are eliminated in Newcastle's consolidated balance sheet.

In December 2010, Newcastle, together with one or more of its wholly owned subsidiaries, completed a series of transactions whereby we repurchased approximately $257 million current principal balance of Newcastle CDO VI Class I-MM notes at a price of 67.5% of par. The purchased notes represent all of the outstanding Class I-MM notes of Newcastle CDO VI (the "notes"). We purchased the notes using a combination of restricted cash, unrestricted cash and proceeds from a new repurchase facility, entered into in connection with the purchase of a portion of the notes. In accordance with GAAP, we recorded an $82 million gain on the extinguishment of this debt and $24.0 million of mark-to-market loss on the related interest rate swap agreement in 2010. As of December 31, 2012, the repurchase agreement had an outstanding balance of $5.7 million, which was secured by $21.0 million current principal balance of the notes. Although the repurchase facility contains mark to market provisions that require margin to be posted in the event that the value of the notes decreases, the recourse to Newcastle is limited to twenty-five percent of the then-outstanding balance of the repurchase facility, which was approximately $1.4 million as of December 31, 2012. The repurchase facility matures in March 2013 and bears interest at a rate of LIBOR + 2.25%.

During 2012, we repurchased $39.3 million face amount of CDO bonds and notes payable for $15.1 million and recorded a gain of $24.1 million. During 2011, we repurchased $171.8 million face amount of CDO bonds and notes payable for $105.2 million and recorded a gain of $66.1 million. During 2010, we repurchased $483.7 million face amount of CDO bonds for $215.8 million and recorded a gain of $265.7 million.

Stockholders' Equity

Common Stock

The following table presents information on shares of our common stock issued since our formation.

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation - 2006	45,713,817		
2007	7,065,362	$27.75-$31.30	$201.3
2008	9,871	N/A	$0.1
2009	123,463	N/A	$0.1
2010	9,114,671	$3.13	$28.5
2011	43,153,825	$4.55 - $6.00	$210.9
2012	67,344,636	$6.22 - $6.71	$434.9
December 31, 2012	172,525,645		
January 2013	57,500,000	$9.35	$526.2
February 2013	23,000,000	$10.48	$237.4

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors. Includes prices of shares issued in exchange for preferred stock.

Through December 31, 2012, Fortress had assigned, for no value, options to purchase approximately 4.2 million shares of our common stock to certain of Fortress's employees, of which approximately 0.5 million had been exercised. In addition, Fortress had exercised 0.7 million of its options.

As of December 31, 2012, our outstanding options issued prior to 2011 had a weighted average strike price of $26.84 and our outstanding options issued in 2011 and 2012 had a weighted average strike price of $6.01. Our options outstanding were summarized as follows:

	December 31, 2012			December 31, 2011		
	Issued Prior to 2011	Issued in 2011 and 2012	Total	Issued Prior to 2011	Issued in 2011	Total
Held by the Manager	1,751,172	7,934,166	9,685,338	1,686,447	4,312,500	5,998,947
Issued to the Manager and subsequently transferred to certain of Manager's employees	701,937	3,010,000	3,711,937	798,162	-	798,162
Issued to the independent directors	10,000	2,000	12,000	14,000	2,000	16,000
Total	2,463,109	10,946,166	13,409,275	2,498,609	4,314,500	6,813,109

In March 2011, we issued 17,250,000 shares of our common stock in a public offering at a price to the public of $6.00 per share for net proceeds of approximately $98.4 million. For the purpose of compensating the manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the manager to purchase 1,725,000 shares of our common stock at the public offering price, which were valued at approximately $7.0 million.

In September 2011, we issued 25,875,000 shares of our common stock in a public offering at a price to the public of $4.55 per share for net proceeds of approximately $112.3 million. Certain principals of Fortress and certain of our officers participated in this offering and purchased an aggregate of 1,314,780 shares at the offering price. For the purpose of compensating the manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the manager to purchase 2,587,500 shares of our common stock at the public offering price, which were valued at approximately $5.6 million as of the grant date.

In April 2012, we issued 18,975,000 shares of our common stock in a public offering at a price to the public of $6.22 per share for net proceeds of approximately $115.2 million. For the purpose of compensating the manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the manager to purchase 1,897,500 shares of our common stock at the public offering price, which were valued at approximately $5.6 million as of the grant date.

In May 2012, we issued 23,000,000 shares of its common stock in a public offering at a price to the public of $6.71 per share for net proceeds of approximately $152.0 million. For the purpose of compensating the manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the manager to purchase 2,300,000

shares of our common stock at the public offering price, which had a fair value of approximately $7.6 million as of the grant date.

In July 2012, we issued 25,300,000 shares of our common stock in a public offering at a price to the underwriters of $6.63 per share for net proceeds of approximately $167.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 450,000 shares at a price of $6.70 per share. For the purpose of compensating the manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the manager to purchase 2,530,000 shares of our common stock at a price of $6.70, which were valued at approximately $8.3 million.

In January 2013, Newcastle issued 57,500,000 shares of its common stock in a public offering at a price to the public of $9.35 per share for net proceeds of approximately $526.3 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of $9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 5,750,000 shares of Newcastle's common stock at a price of $9.35, which had a fair value of approximately $18.0 million as of the grant date.

In February 2013, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the underwriters of $10.34 per share for net proceeds of approximately $237.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 191,000 shares at a price of $10.48 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at a price of $10.48, which had a fair value of approximately $8.4 million as of the grant date.

As of December 31, 2012, approximately 4.9 million shares of our common stock were held by Fortress, through its affiliates, and its principals.

Preferred Stock

In 2003, we issued 2.5 million shares ($62.5 million face amount), of 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). In 2005, we issued 1.6 million shares ($40.0 million face amount) of 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred"). In 2007, we issued 2.0 million shares ($50.0 million face amount) of 8.375% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred). The Series B Preferred, Series C Preferred and Series D Preferred have a $25 liquidation preference, no maturity date and no mandatory redemption. We have the option to redeem the Series B Preferred, the Series C Preferred and the Series D Preferred, at their liquidation preference. If the Series C Preferred and Series D Preferred cease to be listed on the NYSE or the AMEX, or quoted on the NASDAQ, and we are not subject to the reporting requirements of the Exchange Act, we have the option to redeem the Series C Preferred or Series D Preferred, as applicable, at their liquidation preference and, during such time any shares of Series C Preferred or Series D Preferred are outstanding, the dividend will increase to 9.05% or 9.375% per annum, respectively.

To the extent we have unpaid accrued dividends on our preferred stock, we cannot pay any dividends on our common shares, pay any consideration to repurchase or otherwise acquire stock of our common stock or redeem any stock of any series of our preferred stock without redeeming all of our outstanding preferred stock in accordance with the governing documentation. Moreover, if we do not pay dividends on any series of preferred stock for six or more periods, then holders of each affected series obtain the right to call a special meeting and elect two members to our board of directors. Consequently, if we do not make a dividend payment on our preferred stock for six or more quarterly periods, it could restrict the actions that we may take with respect to our common stock and preferred stock and could affect the composition of our board and, thus, the management of our business. No assurance can be given that we will pay any dividends on any series of our preferred stock in the future.

In March 2010, Newcastle settled its offer to exchange (the "Exchange Offer") shares of its common stock and cash for shares of its preferred stock. In the aggregate, Newcastle issued 9,091,668 shares of its common stock (approximately 17.2% of Newcastle's outstanding shares of common stock prior to the issuance of shares in the Exchange Offer). A total of 2,881,694 shares of common stock were issued in exchange for 1,152,679 shares of Series B Preferred, a total of 2,759,989 shares of common stock were issued in exchange for 1,104,000 shares of Series C Preferred, and a total of 3,449,985 shares of common stock were issued in exchange for 1,380,000 shares of Series D Preferred. The shares of preferred stock acquired by Newcastle in the Exchange Offer were retired upon receipt. After settlement of the Exchange Offer, 1,347,321 shares of Series B Preferred, 496,000 shares of Series C Preferred and 620,000 shares of Series D Preferred remain outstanding for trading on the New York Stock Exchange.

The shares of common stock were issued in the Exchange Offer in reliance on the exemption set forth in Section 3(a)(9) of the Securities Act of 1933, as amended, for securities exchanged by an issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

The $43.0 million excess of the $87.5 million carrying value of the exchanged preferred stock over the $44.5 million fair value of consideration paid (which included $28.5 million of common stock and $16.0 million of cash) was recorded as an increase to Net Income (Loss) Applicable to Common Stockholders.

All accrued dividends on our preferred stock have been paid through January 31, 2013.

Accumulated Other Comprehensive Income (Loss)

During the year ended December 31, 2012, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Gains/ Losses on Cash Flow Hedges	Gains / Losses on Securities	Total Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss), December, 31, 2011	$ (70,501)	$ (2,585)	$ (73,086)
Deconsolidation of unrealized gain on securities in CDO X	-	(59,881)	(59,881)
Deconsolidation of unrealized loss on derivatives designated as cash flow hedges in CDO X	34,367	-	34,367
Net unrealized gain (loss) on securities	-	136,527	136,527
Reclassification of net realized (gain) loss on securities into earnings	-	8,727	8,727
Net unrealized gain (loss) on derivatives designated as cash flow hedges	18,807	-	18,807
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	5,303	-	5,303
Accumulated other comprehensive income (loss), December 31, 2012	$ (12,024)	$ 82,788	$ 70,764

Our GAAP equity changes as our real estate securities portfolio and derivatives are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the year ended December 31, 2012, a net tightening of credit spreads has caused the net unrealized losses recorded in accumulated other comprehensive income on our real estate securities to turn into unrealized gains. Net unrealized losses on derivatives designated as cash flow hedges decreased for the year, primarily as a result of swap interest payments and increases in long-term interest rates.

See "– Market Considerations" above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Common Dividends Paid

Declared for the Period Ended	Paid	Amount Per Share
December 31, 2009 (Year)	N/A	$0.00
December 31, 2010 (Year)	N/A	$0.00
June 30, 2011	July 2011	$0.10
September 30, 2011	October 2011	$0.15
December 31, 2011	January 2012	$0.15
March 31, 2012	April 2012	$0.20
June 30, 2012	July 2012	$0.20
September 30, 2012	October 2012	$0.22
December 31, 2012	January 2013	$0.22

Cash Flow

Operating Activities

Net cash flow provided by operating activities increased from $57.0 million for the year December 31, 2011 to $97.3 million for the year ended December 31, 2012. It increased from $48.9 million for the year ended December 31, 2010 to $57.0 million for the year ended December 31, 2011. This change resulted primarily from the factors described below:

2012 compared to 2011

- Net cash receipts from our CDOs increased approximately $18.5 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to (i) increased interest receipts as a result of increased reinvestments in securities and loans using restricted cash held in CDOs VIII, IX and X, (ii) decreased interest payments on our CDO debt as a result of repurchases of CDO debt, (iii) decreased interest payments on our interest rate swap agreements which had declining notional balances and (iv) decreased redirection of interest receipts for reinvestment or CDO paydown (which in turn increased our net cash receipts from our CDOs) due to the reduction of defaulted assets through sales. The net increases in (i) to (iv) above were partially offset by decreases in interest receipts in CDOs IV and VI as a result of the deleveraging of these CDOs.
- Net cash receipts from our manufactured housing loan portfolios decreased approximately $1.9 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to paydowns.
- Receipts of excess mortgage servicing income increased approximately $32.7 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 due to the acquisition of Excess MSR investments since December 2011.
- Received net operating cash from our senior living portfolio of approximately $3.7 million for the year ended December 31, 2012 since we began investing in senior living properties as of July 2012.
- Net cash receipts from our investments in real estate securities increased approximately $5.5 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to (i) higher investments in FNMA/FHLMC securities and non-Agency RMBS and (ii) delinquent interest received on certain securities.
- Management fees paid increased approximately $5.3 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 due to (i) an increase in gross equity as a result of our public offerings of common stock in April 2012, May 2012 and July 2012 and (ii) the payment of property management fees for the senior living portfolios acquired since July 2012.
- General and administrative expenses paid increased approximately $12.9 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to higher professional fees paid in connection with the potential separation transaction, the acquisitions of Excess MSRs and senior living assets, and other corporate activities.

2011 compared to 2010

- Net cash receipts from our CDOs increased approximately $5.9 million for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily due to (i) increased interest receipts as a result of increased reinvestments in securities and loans using restricted cash held in CDOs VIII, IX and X, (ii) decreased interest payments on our CDO debt as a result of repurchases of CDO debt, (iii) decreased interest payments on our interest rate swap agreements which had declining notional balances, (iv) decreased redirection of interest receipts for reinvestment or CDO paydown (which in turn increased our net cash receipts from our CDOs) due to the reduction of defaulted assets through sales and (v) improvement in over-collateralization tests in CDO IV contributing to increased interest receipts . The increases in (i) to (v) above were partially offset by a decrease in interest receipts in CDO V in 2011 as a result of deteriorating over-collateralization tests.
- Received cash of $0.6 million for the year ended December 31, 2011 as a result of our first investment in Excess MSRs in December 2011.
- Received $2.3 million in fees as collateral manager for certain C-BASS CDOs. This investment was made February 2011.
- Management fees paid increased approximately $0.7 million for the year ended December 31, 2011 compared to the year ended December 31, 2010 due to an increase in gross equity as a result of our public offerings of common stock in March 2011 and September 2011, partially offset by the return of capital distributions made on our preferred stock in 2010.

Investing Activities

Investing activities provided (used) ($1,077.1) million, ($226.1) million and $76.4 million during the years ended December 31, 2012, 2011 and 2010, respectively. Investing activities consisted primarily of the investments made in real estate securities, Excess MSRs investments, senior living assets and loans outside of our CDO financing structures, net of proceeds from the sale, repayment or settlement of investments.

Financing Activities

Financing activities provided (used) $1,054.4 million, $292.9 million and ($160.1) million during the years ended December 31, 2012, 2011 and 2010, respectively. The public offerings of common stock, return of restricted cash from refinancing activities, refinancing of our manufactured housing loan portfolio and borrowings under repurchase agreements and mortgage notes payable served as the primary sources of cash flow from financing activities. Offsetting uses included the repurchase and repayment of debt as described above, the payment of related deferred financing costs, the payment of common and preferred dividends, the payment of costs related to the common stock offerings and the payment related to the exchange of the junior subordinated notes, as well as the payment related to the preferred stock exchange described under "– Preferred Stock" above.

See the consolidated statements of cash flows in our consolidated financial statements included in "Financial Statements and Supplementary Data" for a reconciliation of our cash position for the periods described herein.

Interest Rate, Credit and Spread Risk

We are subject to interest rate, credit and spread risk with respect to our investments. These risks are further described in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Off-Balance Sheet Arrangements

As of December 31, 2012, we had the following material off-balance sheet arrangements. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered, and represented the most common market-accepted method for financing such assets.

- In April 2006, we securitized Subprime Portfolio I. The loans were sold to a securitization trust, of which 80% were treated as a sale, which is an off-balance sheet financing.
- In July 2007, we securitized Subprime Portfolio II. The loans were sold to a securitization trust, of which 90% were treated as a sale, which is an off-balance sheet financing.
- On June 17, 2011, we deconsolidated CDO V, which is now effectively an off-balance sheet financing.

We have no obligation to repurchase any loans from either of our subprime securitizations. Therefore, it is expected that our exposure to loss is limited to the carrying amount of our retained interests in the securitization entities, as described above. A subsidiary of ours gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of Newcastle.

We also had the following arrangements which do not meet the definition of off-balance sheet arrangements, but do have some of the characteristics of off-balance sheet arrangements.

- We have made investments in three equity method investees, two of which are dormant at December 31, 2012 and the other of which is immaterial to our financial condition, liquidity, and operations.

In each case, our exposure to loss is limited to the carrying (fair) value of our investment.

Contractual Obligations

As of December 31, 2012, we had the following material contractual obligations (payments in thousands):

Contract	Terms
CDO bonds payable	Described under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk"
Other bonds and notes payable	Described under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk"
Repurchase agreements	Described under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk"
Mortgage notes payable	Described under Part II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk"
Junior subordinated notes payable	Described under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk"
Derivative liabilities	Described under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk"
Management agreement	Our manager is paid an annual management fee of 1.5% of our gross equity, as defined, an expense reimbursement, and incentive compensation equal to 25% of our adjusted net income available for common stockholders above a certain threshold. For more information on this agreement, as well as historical amounts earned, see Note 12 to Part II, Item 8, "Financial Statements and Supplementary Data." As a result of not meeting the incentive compensation threshold, the incentive compensation to the Manager has been discontinued for an indeterminate period of time.
Property Management Agreements	In 2012, we entered into property management agreements with affiliates of Fortress to manage our senior living properties. Our property manager is paid management fees equal to 6% of the properties' gross income (as defined) for the first two years and 7% thereafter. For more information on these agreements, as well as historical amounts earned, see Note 12 to Part II, Item 8, "Financial Statements and Supplementary Data."
Subprime loan securitization and CDO V	We entered into the securitization of Subprime Portfolios I and II, and also entered into CDO V, which was subsequently deconsolidated, as described under "– Liquidity and Capital Resources."
Loan servicing agreements	We are a party to servicing agreements with respect to our residential mortgage loans, including manufactured housing loans and subprime mortgage loans. We pay annual servicing fees generally equal to 0.375% of the outstanding face amount of the residential mortgage loans, and 1.00% of the outstanding face amount of each of the two portfolios of manufactured housing loans. We also pay an incentive fee for one of the portfolios of manufactured housing loans if the performance of the loans meets certain thresholds.
Trustee agreements	We have entered into trustee agreements in connection with our securitized investments, primarily our CDOs. We pay annual fees of between 0.015% and 0.020% of the outstanding face amount of the CDO bonds under these agreements.

Contract	Fixed and Determinable Payments Due by Period 2013	2014-2015	2016-2017	Thereafter	Total
CDO bonds payable (1)	$ 8,060	$ 16,119	$ 16,119	$ 1,342,889	$ 1,383,187
Other bonds and notes payable (1)	9,566	19,133	19,133	347,161	394,993
Repurchase agreements (2)	929,435	-	-	-	929,435
Mortgage notes payable (1)	5,154	13,050	43,688	85,550	147,442
Financing of subprime mortgage loans subject to future repurchase (3)	N/A	N/A	N/A	N/A	N/A
Junior subordinated notes payable (1)	3,863	7,726	4,171	87,335	103,095
Interest rate swaps, treated as hedges (4)	-	-	12,175	-	12,175
Non-hedge derivative obligations (5)	19,401	-	-	-	19,401
Management agreement (6)	25,927	51,854	51,854	648,171	777,806
Property management agreements	*	*	*	*	*
Subprime loan securitizations	*	*	*	*	*
CDO V	*	*	*	*	*
Loan servicing agreements	*	*	*	*	*
Trustee agreements	*	*	*	*	*
Total	$ 1,001,406	$ 107,882	$ 147,140	$ 2,511,106	$ 3,767,534

* These contracts do not have fixed and determinable payments.

(1) Includes interest based on rates existing at December 31, 2012 and assuming no prepayments. Obligations that are repayable prior to maturity at the option of Newcastle are reflected at their contractual maturity dates.

(2) Repurchase agreements, which have not been term financed, and mature within one year of our financial statement date, are included in this table assuming no interest.

(3) These obligations represent the related financing on the loans which are subject to future repurchase by Newcastle and are offset by the amount of such loans. See Note 5 to Part II, Item 8, "Financial Statements and Supplementary Data".

(4) These agreements are held within our non-recourse financing structures. The amounts reflected assume that these agreements are terminated at their December 31, 2012 fair value and paid at the contractual maturity of the related interest rate swap agreements.

(5) The amounts reflected assume that these agreements are terminated at their December 31, 2012 fair value on January 1, 2013.

(6) Amounts reflect base management fees for the next 30 years assuming no change in gross equity, as defined, from December 31, 2012.

Inflation

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See Part II, Item 7A, "Quantitative and Qualitative Disclosure About Market Risk — Interest Rate Exposure" below.

Core Earnings

Newcastle has five primary variables that impact its operating performance: (i) the current yield earned on its investments that are not included in non-recourse financing structures (i.e., unlevered investments and investments subject to recourse debt), (ii) the net yield it earns from its non-recourse financing structures, (iii) the interest expense and dividends incurred under its recourse debt and preferred stock, (iv) its operating expenses and (v) its realized and unrealized gains or losses, including any impairment, on its investments, derivatives and debt obligations. "Core earnings" is a non-GAAP measure of the operating performance of Newcastle excluding the fifth variable listed above, and excluding depreciation and amortization charges. It is used by management to gauge the current performance of Newcastle without taking into account gains and losses, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. It also excludes the effect of depreciation and amortization charges, which, in the judgment of management, are not indicative of operating performance. Management believes that the exclusion from "Core earnings" of the items specified above allows investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and enables investors to evaluate Newcastle's current performance using the same measure that management uses to operate the business.

Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. For a further description of the differences between cash flow provided by operations and net income, see "–Liquidity and Capital Resources" above. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited.

Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure (in thousands).

	Year Ended December 31,		
	2012	2011	2010
Income (loss) applicable to common stockholders	$ 428,530	$ 298,939	$ 657,252
Add (Deduct):			
Impairment (reversal)	(5,664)	1,110	(240,858)
Other (income) loss	(279,717)	(180,862)	(282,287)
(Income) loss from discontinued operations	68	11	343
Depreciation and amortization	6,975	12	79
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	-	-	(43,043)
Core earnings	$ 150,192	$ 119,210	$ 91,486

Cash Available For Distributions ("CAD")

Newcastle determines its common dividends based significantly on cash available for distribution, which is net cash flow from operations plus principal repayments less return of capital and preferred dividends. We believe that CAD is useful for investors because it is a meaningful measure of our operating liquidity. Management uses CAD as an important input in determining Newcastle's dividends. It represents GAAP net cash provided by operating activities adjusted for essentially two factors:

(i) Principal payments received in excess of the portion which represents a return of Newcastle's invested capital in certain of Newcastle's investments, which were acquired at a significant discount to par. These investments include repurchased CDO debt, CDO securities and non-Agency RMBS. Although these net principal repayments are reported as investing activities for GAAP purposes, they actually represent a portion of Newcastle's return on these investments (or yield), rather than a return of Newcastle's invested capital.

(ii) Preferred dividends. Although these dividends are reported as financing activities for GAAP purposes, they represent a recurring use of Newcastle's operating cash flow similar to interest payments on debt.

CAD is limited in its usefulness because it excludes principal repayments on assets purchased at par or assets where the principal received is required to pay down Newcastle's debt (assets held in our CDOs, MH loans and Agency securities). Furthermore, net cash provided by operating activities, a primary element of CAD, includes timing differences based on changes in accruals. CAD does not represent cash generated from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of our liquidity and is not necessarily indicative of cash available to fund cash needs. Our calculation of CAD may be different from the calculation used by other companies and therefore comparability may be limited.

Set forth below is a reconciliation of CAD to the most directly comparable GAAP liquidity measure (in thousands).

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by (used in) operating activities	$ 97,334	$ 57,031	$ 48,890
Add (Deduct):			
Principal repayments from repurchased CDO debt	42,835	65,912	1,211
Principal repayments from CDO securities	2,014	10,728	-
Principal repayments from non-Agency RMBS	20,729	118	148
Return of capital included above [1]	(45,522)	(51,266)	(698)
Preferred dividends [2]	(5,580)	(5,580)	(7,453)
Cash available for distribution	$ 111,810	$ 76,943	$ 42,098

Other data from the consolidated statements of cash flows:

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by (used in) investing activities	$ (1,077,154)	$ (226,135)	$ 76,443
Net cash provided by (used in) financing activities	$ 1,054,362	$ 292,936	$ (160,109)
Net increase (decrease) in cash and cash equivalents	$ 74,542	$ 123,832	$ (34,776)

(1) Represents the portion of principal repayments from repurchased CDO debt, CDO securities and non-Agency RMBS computed based on the ratio of Newcastle's purchase price of such debt or securities to the aggregate principal payments expected to be received from such debt or securities.
(2) Represents preferred dividends to be paid on an accrual basis.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate risk and credit spread risk. These risks are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets, liabilities and derivative positions are for non-trading purposes only. For a further understanding of how market risk may effect our financial position or operating results, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies."

Interest Rate Exposure

Changes in interest rates, including changes in expected interest rates or "yield curves," affect our investments in two distinct ways, each of which is discussed below.

First, changes in interest rates affect our net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with our debt obligations and hedges.

One component of our financing strategy includes the use of match funded structures, when appropriate and available. This means that we seek to match the maturities of our debt obligations with the maturities of our assets to reduce the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we seek to match fund interest rates on our assets with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps or other financial instruments (see below), or through a combination of these strategies, which we believe allows us to reduce the impact of changing interest rates on our earnings.

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates.

As of December 31, 2012, a 100 basis point increase in short term interest rates would increase our earnings by approximately $6.3 million per annum, based on the current net floating rate exposure from our investments, financings and interest rate derivatives.

Second, changes in the level of interest rates also affect the yields required by the marketplace on debt. Increasing interest rates would decrease the value of the fixed rate assets we hold at the time because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market.

Changes in unrealized gains or losses resulting from changes in market interest rates do not directly affect our cash flows, or our ability to pay a dividend, as the related assets are expected to be held and their fair value is not directly relevant to their underlying cash flows. Our assets are largely financed to maturity through long term CDO financings that are not redeemable as a result of book value changes. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in the cases of impaired assets and non-hedge derivatives, our net income.

Changes in the value of our assets could affect our ability to borrow and access capital. Also, if the value of our assets subject to short term financing were to decline, it could cause us to fund margin and affect our ability to refinance such assets upon the maturity of the related financings, adversely impacting our rate of return on such securities.

As of December 31, 2012, a 100 basis point change in short term interest rates would impact our net book value by approximately $10.7 million, based on the current net fixed rate exposure from our investments and interest rate derivatives.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged with a third party (counterparty) over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, our swaps are "pay fixed" swaps involving the exchange of floating rate interest payments from the counterparty for fixed interest payments from us. This can effectively convert a floating rate debt obligation into a fixed rate debt obligation. Interest rate swaps may be subject to margin calls.

Similarly, an interest rate cap or floor agreement is a contract in which we purchase a cap or floor contract on a notional face amount. We will make an upfront payment to the counterparty for which the counterparty agrees to make future payments to us should the reference rate (typically LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate.

While a REIT may utilize these types of derivative instruments to hedge interest rate risk on its liabilities or for other purposes, such derivative instruments could generate income that is not qualified income for purposes of maintaining REIT status. As a consequence, we may only engage in such instruments to hedge such risks within the constraints of maintaining our standing as a REIT. We do not enter into derivative contracts for speculative purposes or as a hedge against changes in credit risk.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

Credit Spread Exposure

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our fixed rate loans and securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Our floating rate loans and securities are valued based on a market credit spread over LIBOR. Excessive supply of such loans and securities combined with reduced demand will generally cause the market to require a higher yield on such loans and securities, resulting in the use of a higher (or "wider") spread over the benchmark rate to value them.

Widening credit spreads would result in higher yields being required by the marketplace on loans and securities. This widening would reduce the value of the loans and securities we hold at the time because higher required yields result in lower prices on existing securities in order to adjust their yield upward to meet the market. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed above under "- Interest Rate Exposure."

As of December 31, 2012, a 25 basis point movement in credit spreads would impact our net book value by approximately $12.6 million, assuming a static portfolio of current investments and financings, but would not directly affect our earnings or cash flow.

Our financing strategy is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. Currently, spreads for such liabilities have widened and demand for such liabilities has become extremely limited, therefore restricting our ability to execute future financings.

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten on the liabilities we issue, our net spread will be reduced.

Credit Risk

In addition to the above described market risks, Newcastle is subject to credit risk.

Credit risk refers to the ability of each individual borrower under our loans and securities to make required interest and principal payments on the scheduled due dates. The commercial mortgage and asset backed securities we invest in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support (which absorbs losses before the securities in which we invest) within a securitization transaction. The senior unsecured REIT debt securities we invest in reflect comparable credit risk. The value of the subordinated securities has generally been reduced or, in some cases, eliminated, which could leave our securities economically in a first loss position. We also invest in loans and securities which represent "first loss" pieces; in other words, they do not benefit from credit support although we believe at acquisition they predominantly benefit from underlying collateral value in excess of their carrying amounts.

We seek to reduce credit risk by actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate and achievable, repositioning our investments to upgrade their credit quality. In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. As described in "Management's Discussion and Analysis of Financial Condition and Result of Operations – Market Considerations" and elsewhere in this annual report, adverse market and credit conditions have resulted in our recording of other-than-temporary impairment in certain securities and loans.

Prepayment Speed Exposure

Prepayment speeds significantly affect the value of Excess MSRs. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The price we pay in acquiring MSRs investments will be based on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value. If the fair value of Excess MSRs decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

We seek to reduce our exposure to prepayment through the structuring of our investments in Excess MSRs. For example, we will seek to enter into "recapture agreements" whereby we will receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We will seek to enter into such recapture agreements in order to protect our returns in the event of a rise in voluntary prepayment rates.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies" for a sensitivity analysis of 10% and 20% changes in key assumptions on the estimated fair value of Excess MSRs.

Margin

We are subject to margin calls on our repurchase agreements. Furthermore, we may, from time to time, be a party to derivative agreements or financing arrangements that are subject to margin calls based on the value of such instruments. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

Interest Rate and Credit Spread Risk Sensitive Instruments and Fair Value

Our holdings of such financial instruments, and their fair values and the estimation methodology thereof, are detailed in Note 9 to Part II, Item 8, "Financial Statements and Supplementary Data." For information regarding the impact of prepayment, reinvestment, and expected loss factors on the timing of realization of our investments, please refer to the consolidated financial statements included therein. For information regarding the impact of changes in these factors on the value of securities valued with internal models, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies."

We note that the values of our investments in real estate securities, loans and derivative instruments are sensitive to changes in market interest rates, credit spreads and other market factors. The value of these investments can vary, and has varied, materially from period to period.

Trends

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations" for a further discussion of recent trends and events affecting our liquidity, unrealized gains and losses.

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements:

Report of Independent Registered Public Accounting Firm

Report on Internal Control Over Financial Reporting of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011

Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

All schedules have been omitted because either the required information is included in our consolidated financial statements and notes thereto or it is not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Newcastle Investment Corp.

We have audited the accompanying consolidated balance sheets of Newcastle Investment Corp. and Subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Newcastle Investment Corp. and Subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the 2011 consolidated financial statements have been restated to correct for an error in accounting for the deconsolidation of CDO V.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Newcastle Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
February 28, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Newcastle Investment Corp. and Subsidiaries

We have audited Newcastle Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Newcastle Investment Corp. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the twelve senior housing assets acquired during 2012, which are included in the 2012 consolidated financial statements of Newcastle Investment Corp. and Subsidiaries and constituted approximately $196.7 million and $71.1 million of total and net assets, respectively, as of December 31, 2012 and $18 million and $7.9 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Newcastle Investment Corp. and Subsidiaries also did not include an evaluation of the internal control over financial reporting of the twelve senior housing assets acquired in 2012.

In our opinion, Newcastle Investment Corp. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Newcastle Investment Corp. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012 of Newcastle Investment Corp. and Subsidiaries and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
February 28, 2013

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 31, 2012	December 31, 2011
Assets		
Real estate securities, available-for-sale - Note 4	$ 1,691,575	$ 1,731,744
Real estate related loans, held-for-sale, net - Note 5	843,132	813,580
Residential mortgage loans, held-for-investment, net - Note 5	292,461	331,236
Residential mortgage loans, held-for-sale, net - Note 5	2,471	2,687
Investments in excess mortgage serciving rights at fair value - Note 6	245,036	43,971
Subprime mortgage loans subject to call option - Note 5	405,814	404,723
Investments in real estate, net of accumulated depreciation - Note 7	169,473	-
Intangibles, net of accumulated amortization - Note 8	19,086	-
Operating real estate, held-for-sale - Note 7	-	7,741
Other investments	24,907	24,907
Cash and cash equivalents	231,898	157,356
Restricted cash	2,064	105,040
Derivative assets - Note 9	165	1,954
Receivables and other assets	17,230	26,860
Total Assets	$ 3,945,312	$ 3,651,799
Liabilities and Stockholders' Equity		
Liabilities		
CDO bonds payable - Note 10	$ 1,091,354	$ 2,403,605
Other bonds and notes payable - Note 10	183,390	200,377
Repurchase agreements - Note 10	929,435	239,740
Mortgage notes payable - Note 10	120,525	-
Financing of subprime mortgage loans subject to call option - Note 5	405,814	404,723
Junior subordinated notes payable - Note 10	51,243	51,248
Derivative liabilities - Note 9	31,576	119,320
Dividends Payable	38,884	16,707
Due to affiliates	3,620	1,659
Purchase price payable on investments in excess mortgage servicing rights	59	3,250
Accrued expenses and other liabilities	16,352	19,081
Total Liabilities	$ 2,872,252	$ 3,459,710
Commitments and contingencies - Notes 11, 12 and 13		
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of December 31, 2012 and 2011	$ 61,583	$ 61,583
Common stock, $0.01 par value, 500,000,000 shares authorized, 172,525,645 and 105,181,009 shares issued and outstanding at December 31, 2012 and 2011, respectively	1,725	1,052
Additional paid-in capital	1,710,083	1,275,792
Accumulated deficit - Note 2	(771,095)	(1,073,252)
Accumulated other comprehensive income (loss) - Note 2	70,764	(73,086)
Total Equity	$ 1,073,060	$ 192,089
Total Liabilities and Stockholders' Equity	$ 3,945,312	$ 3,651,799

Statement continues on the next page.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

The following table presents certain assets of consolidated variable interest entities (VIEs), which are included in the Consolidated Balance Sheets above. The assets in the table below include only those assets that can be used to settle obligations of consolidated VIEs, and are in excess of those obligations. Additionally, the assets in the table below include third-party assets of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation.

	December 31, 2012	December 31, 2011
Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs		
Real estate securities, available-for-sale	$ 567,685	$ 1,479,214
Real estate related loans, held-for-sale, net	813,301	807,214
Residential mortgage loans, held-for-investment, net	292,461	331,236
Subprime mortgage loans subject to call option	405,814	404,723
Investments in real estate, net of accumulated depreciation	6,672	-
Operating real estate, held-for-sale	-	7,741
Other investments	18,883	18,883
Restricted cash	2,064	105,040
Derivative assets	-	1,954
Receivables and other assets	7,535	23,319
Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs	$ 2,114,415	$ 3,179,324

The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheets above. The liabilities in the table below include third-party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of Newcastle.

	December 31, 2012	December 31, 2011
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle		
CDO bonds payable	$ 1,091,354	$ 2,403,605
Other bonds and notes payable	183,390	200,377
Repurchase agreements	4,244	6,546
Financing of subprime mortgage loans subject to call option	405,814	404,723
Derivative liabilities	31,576	119,320
Accrued expenses and other liabilities	8,365	16,112
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle	$ 1,724,743	$ 3,150,683

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(dollars in thousands, except share data)

	Year Ended December 31,		
	2012	2011	2010
		(Restated)	
Interest income	$ 310,459	$ 292,296	$ 300,272
Interest expense	109,924	138,035	172,219
Net interest income	200,535	154,261	128,053
Impairment (Reversal)			
Valuation allowance (reversal) on loans - Note 5	(24,587)	(15,163)	(339,887)
Other-than-temporary impairment on securities- Note 4	19,359	12,955	101,398
Impairment of long-lived assets	-	433	-
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	(436)	2,885	(2,369)
	(5,664)	1,110	(240,858)
Net interest income (loss) after impairment/reversal	206,199	153,151	368,911
Other Revenues			
Rental income	17,081	1,899	1,708
Care and ancillary income	2,994	-	-
Total other revenues	20,075	1,899	1,708
Other Income (Loss)			
Gain (loss) on settlement of investments, net - Note 2	232,897	78,181	52,307
Gain on extinguishment of debt - Note 10	24,085	66,110	265,656
Change in fair value of investments in excess mortgage servicing rights	9,023	367	-
Other income (loss), net - Note 2	13,712	36,204	(35,676)
	279,717	180,862	282,287
Expenses			
Loan and security servicing expense	4,260	4,649	4,580
Property operating expenses	12,943	1,110	1,283
General and administrative expense	22,942	7,322	7,707
Management fee to affiliate - Note 12	24,693	18,289	17,252
Depreciation and amortization	6,975	12	79
	71,813	31,382	30,901
Income (loss) from continuing operations	434,178	304,530	622,005
Income (loss) from discontinued operations - Note 8	(68)	(11)	(343)
Net Income (Loss)	434,110	304,519	621,662
Preferred dividends	(5,580)	(5,580)	(7,453)
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	-	-	43,043
Income (Loss) Applicable To Common Stockholders	$ 428,530	$ 298,939	$ 657,252
Income (Loss) Per Share of Common Stock			
Basic	$ 2.97	$ 3.65	$ 10.96
Diluted	$ 2.94	$ 3.65	$ 10.96
Income (loss) from continuing operations per share of common stock, after preferred dividends and excess of carrying amount of exchanged preferred stock over fair value of consideration paid			
Basic	$ 2.97	$ 3.65	$ 10.97
Diluted	$ 2.94	$ 3.65	$ 10.97
Income (loss) from discontinued operations per share of common stock			
Basic	$ -	$ -	$ (0.01)
Diluted	$ -	$ -	$ (0.01)
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	144,146,370	81,983,973	59,948,827
Diluted	145,766,413	81,990,297	59,948,827
Dividends Declared per Share of Common Stock	$ 0.84	$ 0.40	$ -

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
		(Restated)	
Net income	$ 434,110	$ 304,519	$ 621,662
Other comprehensive income (loss):			
Net unrealized gain (loss) on securities	136,527	(4,786)	439,496
Reclassification of net realized (gain) loss on securities into earnings	8,727	(60,503)	43,442
Net unrealized gain (loss) on derivatives designated as cash flow hedges	18,807	15,514	(7,313)
Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings	5,303	12,540	42,786
Other comprehensive income (loss)	169,364	(37,235)	518,411
Total comprehensive income	$ 603,474	$ 267,284	$ 1,140,073

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(dollars in thousands, except share data)

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comp. Income (Loss)	Total Stock-holders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Stockholders' equity (deficit) - December 31, 2009	6,100,000	$ 152,500	52,912,513	$ 529	$ 1,033,520	$ (2,193,383)	$ (633,818)	$ (1,640,652)
Preferred dividends declared	-	-	-	-	-	(19,484)	-	(19,484)
Exchange of preferred stock for common stock and cash	(3,636,679)	(90,917)	9,091,668	91	31,782	43,043	-	(16,001)
Issuance of common stock to directors	-	-	23,003	-	75	-	-	75
Deconsolidation of CDO VII								
Cumulative net loss	-	-	-	-	-	219,175	-	219,175
Unrealized gain on securities	-	-	-	-	-	-	40,715	40,715
Unrealized loss on derivatives designated as cash flow hedges	-	-	-	-	-	-	28,514	28,514
Net income	-	-	-	-	-	621,662	-	621,662
Other comprehensive income	-	-	-	-	-	-	518,411	518,411
Stockholders' equity (deficit) - December 31, 2010	2,463,321	$ 61,583	62,027,184	$ 620	$ 1,065,377	$ (1,328,987)	$ (46,178)	$ (247,585)
Dividends declared	-	-	-	-	-	(48,784)	-	(48,784)
Issuance of common stock	-	-	43,153,825	432	210,415	-	-	210,847
Deconsolidation of CDO V								
Unrealized gain on securities	-	-	-	-	-	-	(8,026)	(8,026)
Unrealized loss on derivatives designated as cash flow hedges	-	-	-	-	-	-	18,353	18,353
Net income (Restated)	-	-	-	-	-	304,519	-	304,519
Other comprehensive income (loss)	-	-	-	-	-	-	(37,235)	(37,235)
Stockholders' equity (deficit) - December 31, 2011	2,463,321	$ 61,583	105,181,009	$ 1,052	$ 1,275,792	$ (1,073,252)	$ (73,086)	$ 192,089
Dividends declared	-	-	-	-	-	(131,953)	-	(131,953)
Issuance of common stock	-	-	67,344,636	673	434,291	-	-	434,964
Deconsolidation of CDO X								
Unrealized gain on securities	-	-	-	-	-	-	(59,881)	(59,881)
Unrealized loss on derivatives	-	-	-	-	-	-	34,367	34,367
designated as cash flow hedges	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	434,110	-	434,110
Other comprehensive income (loss)	-	-	-	-	-	-	169,364	169,364
Stockholders' equity (deficit) - December 31, 2012	2,463,321	$ 61,583	172,525,645	$ 1,725	$ 1,710,083	$ (771,095)	$ 70,764	$ 1,073,060

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
		(Restated)	
Cash Flows From Operating Activities			
Net income (loss)	$ 434,110	$ 304,519	$ 621,662
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):			
Depreciation and amortization	7,451	312	262
Accretion of discount and other amortization	(45,582)	(44,786)	(18,982)
Interest income in CDOs redirected for reinvestment or CDO bond paydown	(5,484)	(10,279)	(25,975)
Interest income on investments accrued to principal balance	(22,835)	(19,507)	(12,535)
Interest expense on debt accrued to principal balance	437	728	2,964
Non-cash directors' compensation	280	149	75
Reversal of valuation allowance on loans	(24,587)	(15,163)	(339,887)
Other-than-temporary impairment on securities	18,923	15,840	99,029
Impairment of long-lived assets	-	433	260
Change in fair value of investments in excess mortgage servicing rights	(9,023)	(367)	-
Gain on settlement of investments (net) and real estate held-for-sale	(232,897)	(77,310)	(52,307)
Gain on deconsolidation	-	(45,072)	-
Unrealized loss on non-hedge derivatives and hedge ineffectiveness	(2,547)	11,572	36,564
Gain on extinguishment of debt	(24,085)	(66,110)	(265,656)
Change in:			
Restricted cash	2,223	1,161	151
Receivables and other assets	(1,702)	(1,342)	4,577
Due to affiliates	1,961	240	(78)
Accrued expenses and other liabilities	1,259	986	(1,278)
Payment of deferred interest	(568)	-	-
Deferred interest received	-	1,027	44
Net cash provided by (used in) operating activities	97,334	57,031	48,890
Cash Flows From Investing Activities			
Principal repayments from repurchased CDO debt	42,835	65,912	1,211
Principal repayments from CDO securities	2,014	10,728	-
Principal repayments from non-Agency RMBS	20,729	118	148
Return of investments in excess mortgage servicing rights	29,167	760	-
Principal repayments from loans and non-CDO securities (excluding non-Agency RMBS)	126,125	82,789	64,533
Purchase of real estate securities	(989,709)	(333,895)	(4,059)
Purchase of real estate loans	(27,226)	-	(6,024)
Proceeds from sale of investments	127,000	3,885	26,022
Acquisition of investments in excess mortgage servicing rights	(221,832)	(40,492)	-
Acquisition of investments in real estate	(185,686)	-	-
Additions to investments in real estate	(296)	-	-
Proceeds from sale of real estate held for sale	-	650	840
Acquisition of servicing rights	-	(2,268)	(100)
Deposits paid on investments	(25,857)	-	-
Return of deposit paid on investments	25,582	-	-
Margin received on derivative instruments	-	-	5,073
Payments on settlement of derivative instruments	-	(14,322)	(11,394)
Distributions of capital from equity method investees	-	-	193
Net cash provided by (used in) investing activities	(1,077,154)	(226,135)	76,443

Continued on next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(dollars in thousands)

	Year Ended December 31,		
	2012	2011	2010
		(Restated)	
Cash Flows From Financing Activities			
Repurchases of CDO bonds payable	$ (35,748)	$ (101,954)	$ (72,718)
Issuance of other bonds payable	-	142,736	97,650
Repayments of other bonds payable	(42,443)	(204,151)	(143,678)
Borrowings under repurchase agreements	782,749	321,020	18,914
Repayments of repurchase agreements	(93,054)	(100,012)	(71,491)
Margin deposits under repurchase agreements	(87,895)	(15,754)	(17,370)
Return of margin deposits under repurchase agreements	87,895	15,754	17,370
Borrowings under mortgage notes payable	120,525	-	-
Issuance of common stock	435,821	211,567	-
Costs related to issuance of common stock	(1,083)	(905)	-
Cash consideration paid in exchange for junior subordinated notes	-	-	(9,715)
Cash consideration paid to redeem preferred stock	-	-	(16,001)
Common stock dividends paid	(104,196)	(23,706)	-
Preferred stock dividends paid	(5,580)	(8,371)	(19,484)
Payment of deferred financing costs	(2,385)	(1,581)	(1,677)
Purchase of derivative instruments	(244)	-	-
Restricted cash returned from refinancing activities	-	58,293	58,091
Net cash provided by (used in) financing activities	1,054,362	292,936	(160,109)
Net Increase (Decrease) in Cash and Cash Equivalents	74,542	123,832	(34,776)
Cash and Cash Equivalents, Beginning of Period	157,356	33,524	68,300
Cash and Cash Equivalents, End of Period	$ 231,898	$ 157,356	$ 33,524
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for interest expense	$ 71,395	$ 99,096	$ 125,582
Supplemental Schedule of Non-Cash Investing and Financing Activities			
Preferred stock dividends declared but not paid	$ 930	$ 930	$ -
Common stock dividends declared but not paid	$ 37,954	$ 15,777	$ -
Re-issuance of other bonds and notes payable to third parties upon deconsolidation of CDO	$ 29,959	$ 5,751	$ -
Common stock issued to redeem preferred stock	$ -	$ -	$ 28,457
Face amount of CDO bonds issued in exchange for previously issued junior subordinated notes of $52,094	$ -	$ -	$ 37,625
Loans reclassified as other investments	$ -	$ -	$ 24,907
Purchase price payable on investments in excess mortgage servicing rights	$ 59	$ 3,250	$ -

1. ORGANIZATION

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in 2002. Newcastle conducts its business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered investments in excess mortgage servicing rights ("unlevered Excess MSRs"), (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and nonrecourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

The following table presents information on shares of Newcastle's common stock issued subsequent to its formation:

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation - 2006	45,713,817		
2007	7,065,362	$27.75-$31.30	$201.3
2008	9,871	N/A	$0.1
2009	123,463	N/A	$0.1
2010	9,114,671	$3.13	$28.5
2011	43,153,825	$4.55 - $6.00	$210.9
2012	67,344,636	$6.22 - $6.71	$434.9
December 31, 2012	172,525,645		
January 2013	57,500,000	$9.35	$526.2
February 2013	23,000,000	$10.48	$237.4

(1) Exclude prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors. Includes prices of shares issued in exchange for preferred stock.

Newcastle is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for U.S. federal income tax purposes. As such, Newcastle will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

Newcastle is party to a management agreement (the "Management Agreement") with FIG LLC (the "Manager"), a subsidiary of Fortress Investment Group LLC ("Fortress"), under which the Manager advises Newcastle on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle's board of directors. For its services, the Manager receives an annual management fee and incentive compensation, both as defined in, and in accordance with the terms of, the Management Agreement. For a further discussion of the Management Agreement, see Note 12.

Newcastle is party to management agreements (the "Senior Living Management Agreements") with subsidiaries (the "Senior Living Managers") of Fortress, under which the Senior Living Managers manage the day-to-day operations of the senior living assets, subject to the supervision of Newcastle's officers and board of directors**.** For their services, the Senior Living Managers are entitled to an annual management fee as defined in, and in accordance with the terms of, the Senior Living Management Agreements.

Approximately 4.9 million shares of Newcastle's common stock were held by Fortress, through its affiliates, and its principals at December 31, 2012. In addition, Fortress, through its affiliates, held options to purchase approximately 9.7 million shares of Newcastle's common stock at December 31, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Basis of Accounting – The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Newcastle and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. Newcastle consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity as well as those entities deemed to be variable interest entities ("VIEs") in which Newcastle is determined to be the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, has a potentially significant interest in the entity and controls such entity's significant decisions. Newcastle's CDO subsidiaries and its manufactured housing loan financing structures (Note 10) are special purpose entities which are considered VIEs of which Newcastle is the primary beneficiary (except as noted in Note 10). Therefore, the debt issued by such entities is considered a non-recourse secured borrowing of Newcastle. The subprime securitization trusts (Note 5) are VIEs of which Newcastle is not the primary beneficiary. Therefore, the debt issued by such entities is essentially off balance sheet financing.

For entities over which Newcastle exercises significant influence, but which do not meet the requirements for consolidation, Newcastle uses the equity method of accounting whereby it records its share of the underlying income of such entities. Newcastle's investments in equity method investees were not significant at December 31, 2012, 2011 or 2010. Regarding investments in entities over which Newcastle does not meet the requirements for consolidation and does not exercise significant influence, Newcastle records these investments at cost, subject to impairment.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Correction of Error - Newcastle has restated its financial results for the year ended December 31, 2011 to correct an error in the accounting for the deconsolidation of CDO V.

The following changes to Newcastle's previously issued audited consolidated statement of income for the year ended December 31, 2011 have been made: (i) an increase in Other Income (Loss) of $45.1 million (from a loss of $8.9 million to income of $36.2 million); (ii) an increase in Total Other Income of $45.1 million; (iii) an increase in Net Income of $45.1 million (from $259.4 million to $304.5 million); (iv) an increase in Income Applicable to Common Stockholders of $45.1 million (from $253.9 million to $298.9 million) and (v) an increase in basic and diluted earnings per share of $0.56 (from $3.09 to $3.65). The increase to Net Income also has the effect of (i) increasing Total Comprehensive Income by $45.1 million (from $222.2 million to $267.3 million) in the consolidated statement of comprehensive income; (ii) removing the previously reported line item Deconsolidation of CDO V – Cumulative Net Loss in the consolidated statement of stockholders' equity and (iii) adding a line item for Gain on Deconsolidation in the consolidated statement of cash flows.

The correction had no impact on the consolidated balance sheet as of December 31, 2011. This gain is non-cash in nature, and the correction had no impact on reported net cash from operating, investing or financing activities on the consolidated statement of cash flows. In addition, the correction had no impact on the consolidated financial statements for any prior or subsequent periods.

The error resulted from an incorrect application of Accounting Codification Standard Topic 810 "*Consolidation*" ("ASC 810") in recording the deconsolidation of CDO V. ASC 810 requires, when a variable interest entity is deconsolidated, the difference between the carrying amount of the noncontrolling interest in the former subsidiary and the carrying amount of the former subsidiary's assets and liabilities to be recognized in net income. However, in recording the deconsolidation of CDO V, Newcastle recorded the $45.1 million difference between the carrying amount of its noncontrolling interest in CDO V and the carrying amount of CDO V's assets and liabilities as a direct increase to stockholders' equity.

All financial information included in the notes to the consolidated financial statements impacted by the adjustments has been revised as applicable.

Change in Presentation – Newcastle has changed the format of its consolidated balance sheets for all periods presented to combine the non-recourse VIE financing structures and recourse financing structures, mortgaged real estate and unlevered assets. This change in format did not have any effect on any of the reported line items within the balance sheets, other than presenting the combined assets and combined liabilities for each of the respective line items previously presented under the non-recourse VIE financing structures and recourse financing structures, mortgaged real estate and unlevered assets.

Additionally, Newcastle reclassified the operating results relating to certain properties in Beavercreek, Ohio as part of income from continuing operations for the year ended December 31, 2012 and the accompanying comparative income statements for the years ended December 31, 2011 and December 31, 2010. As of December 31, 2012, the above properties were classified as held for use based on the decision not to proceed with the planned disposition. See Note 7.

Risks and Uncertainties — In the normal course of business, Newcastle encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Newcastle's investments in securities, loans, Excess MSRs, derivatives and leases that results from a borrower's, derivative counterparty's or lessee's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in securities, loans and derivatives or in real estate due to changes in interest rates, spreads or other market factors, including the value of the collateral underlying loans and securities and the valuation of real estate held by Newcastle. Management believes that the carrying values of its investments are reasonable taking into consideration these risks along with estimated prepayments, financings, collateral values, payment histories, and other borrower information.

Additionally, Newcastle is subject to significant tax risks. If Newcastle were to fail to qualify as a REIT in any taxable year, Newcastle would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), which could be material. Unless entitled to relief under certain statutory provisions, Newcastle would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income — Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Newcastle's purposes, comprehensive income represents net income, as presented in the statements of operations, adjusted for unrealized gains or losses on securities available for sale and derivatives designated as cash flow hedges.

The following table summarizes Newcastle's accumulated other comprehensive income:

	December 31, 2012	December 31, 2011
Net unrealized gains (losses) on securities	$ 82,788	$ (2,585)
Net unrealized gains (losses) on derivatives designated as cash flow hedges	(12,024)	(70,501)
Accumulated other comprehensive income (loss)	$ 70,764	$ (73,086)

REVENUE RECOGNITION

Real Estate Securities and Loans Receivable — Newcastle invests in securities, including commercial mortgage backed securities, senior unsecured debt issued by property REITs, real estate related asset backed securities and FNMA/FHLMC securities. Newcastle also invests in loans, including real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans and subprime mortgage loans. Newcastle determines at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan. Loans receivable are presented in the consolidated balance sheet net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses. Discounts or premiums are accreted into interest income on an effective yield or "interest" method, based upon a comparison of actual and expected cash flows, through the expected maturity date of the security or loan. Depending on the nature of the investment, changes to expected cash flows may result in a prospective change to yield or a retrospective change which would include a catch up adjustment. For loans acquired at a discount for credit quality, the difference between contractual cash flows and expected cash flows at acquisition is not accreted (non-accretable difference). Newcastle discontinues the accretion of discounts and amortization of premium on loans if they are reclassified from held for investment to held for sale. Interest income with respect to non-discounted securities or loans is recognized on an accrual basis. Deferred fees and costs, if any, are recognized as a reduction to the interest income over the terms of the securities or loans using the interest method. Upon settlement of securities and loans, the excess (or deficiency) of net proceeds over the net carrying value of such security or loan is recognized as a gain (or loss) in the period of settlement. Interest income includes prepayment penalties received of $2.7 million and $7.2 million in 2012 and 2010, respectively. No prepayments penalties were received in 2011.

***Investments in Excess Mortgage Servicing Rights* (“Excess MSRs”) –** Excess MSRs are aggregated into pools as applicable; each pool of Excess MSRs is accounted for in the aggregate. Interest income for Excess MSRs is accreted into interest income on an effective yield or “interest” method, based upon the expected excess mortgage servicing amount through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the interest income recognized for a reporting period would be measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, NIC MSR’s policy is to recognize interest income only on its Excess MSRs in existing eligible underlying mortgages. The difference between the fair value of Excess MSRs and their amortized cost basis is recorded as “Change in fair value of investments in excess mortgage servicing rights.” Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the Excess MSRs, and therefore may differ from their effective yields.

Impairment of Securities and Loans — Newcastle continually evaluates securities and loans for impairment. Securities and loans are considered to be other-than-temporarily impaired, for financial reporting purposes, generally when it is probable that Newcastle will be unable to collect all principal or interest when due according to the contractual terms of the original agreements, or, for securities or loans purchased at a discount for credit quality or that represent retained beneficial interests in securitizations, when Newcastle determines that it is probable that it will be unable to collect as anticipated. The evaluation of a security’s estimated cash flows includes the following, as applicable: (i) review of the credit of the issuer or the borrower, (ii) review of the credit rating of the security, (iii) review of the key terms of the security or loan, (iv) review of the performance of the loan or underlying loans, including debt service coverage and loan to value ratios, (v) analysis of the value of the collateral for the loan or underlying loans, (vi) analysis of the effect of local, industry and broader economic factors, and (vii) analysis of historical and anticipated trends in defaults and loss severities for similar securities or loans. Furthermore, Newcastle must have the intent and ability to hold loans whose fair value is below carrying value until such fair value recovers, or until maturity, or else a write down to fair value must be recorded. Similarly for securities, Newcastle must record a write down if we have the intent to sell a given security in an unrealized loss position, or if it is more likely than not that we will be required to sell such a security. Upon determination of impairment, Newcastle establishes specific valuation allowances for loans or records a direct write down for securities based on the estimated fair value of the security or underlying collateral using a discounted cash flow analysis or based on an observable market value. Newcastle also establishes allowances for estimated unidentified incurred losses on pools of loans. The allowance for each loan is maintained at a level believed adequate by management to absorb probable losses, based on periodic reviews of actual and expected losses. It is Newcastle’s policy to establish an allowance for uncollectible interest on performing securities or loans that are past due more than 90 days or sooner when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. Upon such a determination, those loans are deemed to be non-performing and put on nonaccrual status. Actual losses may differ from Newcastle’s estimates. Newcastle may resume accrual of income on a security or loan if, in management’s opinion, full collection is probable. Subsequent to a determination of impairment, and a related write down, income is accrued on an effective yield method from the new carrying value to the related expected cash flows, with cash received treated as a reduction of basis. Newcastle charges off the corresponding loan allowance when it determines the loans to be uncollectable.

Rental Income, Care and Ancillary Income - Newcastle records rental revenue, care and ancillary income as they become due as provided for in the leases.

Gain (Loss) on Settlement of Investments, Net and Other Income (Loss), Net – These items are comprised of the following:

	Year-Ended December 31,		
	2012	2011	2010
Gain (loss) on settlement of investments, net			
Gain on settlement of real estate securities	$ 14,629	$ 81,434	$ 64,778
Loss on settlement of real estate securities	(4,433)	(5,091)	(9,192)
Gain on sale of CDO X interests	224,317		
Gain on repayment/disposition of loans held for sale	-	1,838	-
Loss on repayment/disposition of loans held for sale	(1,614)	-	-
Realized gain (loss) of termination of derivative instruments	-	-	(3,279)
Loss on disposal of long-lived assets	(2)		
	$ 232,897	$ 78,181	$ 52,307
Other income (loss), net			
Gain (loss) on non-hedge derivative instruments	$ 9,101	$ 3,284	$ (1,240)
Unrealized gain (loss) recognized upon de-designation of hedges	(7,036)	(13,939)	(35,905)
Hedge ineffectiveness	483	(917)	580
Gains on deconsolidation	-	45,072	
Equity in earnings of equity method investees	-	272	94
Collateral management fee income, net	1,786	2,432	475
Breakup fee	8,400	-	-
Other income (loss)	978	-	320
	$ 13,712	$ 36,204	$ (35,676)

Reclassification From Accumulated Other Comprehensive Income Into Net Income - The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

Accumulated Other Comprehensive Income Components	Income Statement Location	Year Ended December 31, 2012
Net realized gain (loss) on securities		
Impairment	Other-than-temporary impairment on securities, net of portion of other-than-temporary impairment on securities recognized in other compprehensive income	$ (18,923)
Gain on settlement of real estate securities	Gain (loss) on settlement of investments, net	14,629
Loss on settlement of real estate securities	Gain (loss) on settlement of investments, net	(4,433)
		$ (8,727)
Net realized gain (loss) on derivatives designated as cash flow hedges		
Gain (loss) recognized upon de-designation	Other income (loss)	$ (7,036)
Hedge ineffectiveness	Other income (loss)	483
Amortization of deferred gain (loss)	Interest expense	1,250
Gain (loss) of termination of derivative instruments	Gain (loss) on settlement of investments, net	-
		$ (5,303)
Total reclassifications		$ (14,030)

EXPENSE RECOGNITION

Interest Expense **—** Newcastle finances its investments using both fixed and floating rate debt, including securitizations, loans, repurchase agreements, and other financing vehicles. Certain of this debt have been issued at discounts. Discounts are accreted into interest expense on the effective yield or "interest" method, based upon a comparison of actual and expected cash flows, through the expected maturity date of the financing.

Deferred Costs and Interest Rate Cap Premiums **—** Deferred costs consist primarily of costs incurred in obtaining financing which are amortized into interest expense over the term of such financing using the interest method. Interest rate cap premiums, if any, are included in Derivative Assets, and are amortized as described below.

Derivatives and Hedging Activities **—** All derivatives are recognized as either assets or liabilities on the balance sheet and measured at fair value. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when Newcastle believes a legal right of offset exists under an enforceable netting agreement. Fair value adjustments affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. For those derivative instruments that are designated and qualify as hedging instruments, Newcastle designates the hedging instrument, based upon the exposure being hedged, as either a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

Derivative transactions are entered into by Newcastle solely for risk management purposes, except for total rate of return swaps. Such total rate of return swaps are essentially financings of certain reference assets which are treated as derivatives for accounting purposes. The decision of whether or not a given transaction/position (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code among others. In determining whether to hedge a risk, Newcastle may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by Newcastle. Generally, all derivatives entered into are intended to qualify as hedges under GAAP, unless specifically stated otherwise. To this end, terms of hedges are matched closely to the terms of hedged items.

Description of the risks being hedged

1) Interest rate risk, existing debt obligations – Newcastle has hedged (and may continue to hedge, when feasible and appropriate) the risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). In order to reduce such risks, Newcastle may enter into swap agreements whereby Newcastle would receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to fixed rate. Newcastle may also enter into cap agreements whereby, in exchange for a premium, Newcastle would be reimbursed for interest paid in excess of a certain cap rate.
2) Interest rate risk, anticipated transactions – Newcastle may hedge the aggregate risk of interest rate fluctuations with respect to anticipated transactions, primarily anticipated borrowings. The primary risk involved in an anticipated borrowing is that interest rates may increase between the date the transaction becomes probable and the date of consummation. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). This is generally accomplished through the use of interest rate swaps.

Cash flow hedges

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including (1) the items to be hedged expose Newcastle to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Newcastle's exposure to interest rate risk, and (3) with respect to an anticipated transaction, such transaction is probable. Correlation and effectiveness are periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged or using regression analysis on an ongoing basis to assess retrospective and prospective hedge effectiveness.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss, and net payments received or made, on the derivative instrument are reported as a component of other comprehensive income and reclassified

into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. The premiums paid for interest rate caps, treated as cash flow hedges, are amortized into interest expense based on the estimated value of such cap for each period covered by such cap.

With respect to interest rate swaps which have been designated as hedges of anticipated financings, periodic net payments are recognized currently as adjustments to interest expense; any gain or loss from fluctuations in the fair value of the interest rate swaps is recorded as a deferred hedge gain or loss in accumulated other comprehensive income and treated as a component of the anticipated transaction. In the event the anticipated refinancing failed to occur as expected, the deferred hedge credit or charge would be recognized immediately in earnings. Newcastle's hedges of such financings were terminated upon the consummation of such financings.

Newcastle has designated certain of its hedge derivatives, and in some cases re-designated all or a portion thereof as hedges. As a result of these designations, in the cases where the originally hedged items were still owned by Newcastle, the unrealized gain or loss was recorded in OCI as a deferred hedge gain or loss and is being amortized over the life of the hedged item.

Non-Hedge Derivatives

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps have been recognized currently in Other Income (Loss). These derivatives may, to some extent, be economically effective as hedges.

Newcastle's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. Newcastle reduces such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties. Newcastle does not require collateral for the derivative financial instruments within its CDO financing structures. Newcastle's major derivative counterparties include Bank of America, Credit Suisse and Wells Fargo.

Management Fees to Affiliate — These represent amounts due to the Manager and Senior Living Managers pursuant to the Management Agreement and Senior Living Management Agreements. For further information on the Management Agreement, see Note 12.

BALANCE SHEET MEASUREMENT

Investment in Real Estate Securities — Newcastle has classified its investments in securities as available for sale. Securities available for sale are carried at market value with the net unrealized gains or losses reported as a separate component of accumulated other comprehensive income, to the extent impairment losses are considered temporary. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investments and is included in earnings. Unrealized losses on securities are charged to earnings if they reflect a decline in value that is other-than-temporary, as described above.

Investment in Loans — Loans receivable are presented net of any unamortized discount (or gross of any unamortized premium), including any fees received, and an allowance for loan losses. Loans which Newcastle does not have the intent or the ability to hold into the foreseeable future are considered held-for-sale and are carried at the lower of average amortized cost or market value.

Investments in Excess Mortgage Servicing Rights (Excess MSRs) – Upon acquisition, Newcastle has elected to record each of such investments at fair value. Newcastle elected to record its investments in Excess MSRs at fair value in order to provide users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSRs. Under this election, Newcastle records a valuation adjustment on its Excess MSRs investments on a quarterly basis to recognize the changes in fair value in net income as described in Revenue Recognition – Investments in Excess Mortgage Servicing Rights above. As of December 31, 2012, all Excess MSRs investments are classified as held-for-investment as Newcastle has the intent and ability to hold the investments for the foreseeable future.

Purchase Accounting - In determining the allocation of the purchase price between net tangible and identified intangible assets acquired and liabilities assumed, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities, and independent appraisals. The fair value of the tangible assets acquired is determined by valuing the property as if it were

vacant. Management allocated the purchase price to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values. The determination of fair value involved the use of significant judgment and estimation.

Investment in Operating Real Estate — Operating real estate is recorded at cost less accumulated depreciation. Depreciation is computed on a straight-line basis. Buildings are depreciated over 40 years. Major improvements are capitalized and depreciated over their estimated useful lives. Fees and costs incurred in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Expenditures for repairs and maintenance are expensed as incurred. Newcastle reviews its real estate assets for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Long-lived assets to be disposed of by sale, which meet certain criteria, are reclassified to Real Estate Held for Sale and measured at the lower of their carrying amount or fair value less costs of sale. The results of operations for such an asset, assuming such asset qualifies as a "component of an entity" as defined, are retroactively reclassified to Income (Loss) from Discontinued Operations for all periods presented.

Intangibles - Resident lease intangibles reflect the fair value of in-place resident leases at acquisition. Newcastle estimates the fair value of in-place leases as (i) the present value of the estimated rents that would have been forgone, offset by variable costs that would have otherwise been incurred during a reasonable lease-up period, as if the acquired units were vacant, and (ii) the estimated absorption costs, such as additional marketing costs that would have been incurred during the lease-up period. The acquisition fair value of the in-place resident lease intangibles is amortized over the average length of stay of the residents at the senior living facilities on a straight-line basis, which management estimates to be 24 months for an assisted living/memory care facility and 33 months for an independent living facility.

Non-compete intangibles reflect the fair value of non-compete agreements at acquisition. Newcastle estimates the fair value of non-compete intangibles as the sum of (i) the present value of the consulting services during the non-compete period and (ii) the difference between (a) the present value of the net operating income with the non-compete agreements in place and (b) the present value of the net operating income, as if the non-compete agreements were not in place. The acquisition fair value of the non-compete intangibles is amortized over the non-compete period on a straight-line basis, which is 5 years in connection with the November 2012 acquisition.

Newcastle will periodically assess the carrying value of the intangibles to determine if facts and circumstances exist that would suggest that the intangible assets might be impaired or that the useful lives should be modified. In the event an impairment in value occurs and we believe that the carrying amount will not be recovered, a provision will be recorded to reduce the carrying basis of the intangibles to their estimated fair value.

Cash and Cash Equivalents and Restricted Cash — Newcastle considers all highly liquid short term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash consisted of:

	December 31,	
	2012	2011
Held in CDOs pending reinvestment	$ -	$ 94,781
CDO bond sinking funds	1,254	1,897
CDO trustee accounts	810	1,812
Derivative margin accounts	-	6,550
	$ 2,064	$ 105,040

Supplemental non-cash investing and financing activities relating to CDOs are disclosed below:

	Year Ended December 31,		
	2012	2011	2010
Restricted cash generated from sale of securities	$ 56,629	$ 336,911	$ 249,549
Restricted cash generated from sale of real estate related loans	$ -	$ 125,141	$ 53,020
Restricted cash generated from paydowns on securities and loans	$ 274,832	$ 546,752	$ 511,276
Restricted cash used for purchases of real estate securities	$ 143,184	$ 427,826	$ 368,893
Restricted cash used for purchases of real estate related loans	$ 91,481	$ 384,850	$ 107,708
Restricted cash used for repayments of CDO bonds payable	$ 166,845	$ 101,687	$ 202,037
Restricted cash used for repurchases of CDO bonds payable and other bonds payable	$ -	$ 3,213	$ 143,046
Restricted cash used for purchases of derivative instruments	$ 408	$ -	$ 5,187
Restricted cash generated from margin collateral received	$ -	$ 6,550	$ -
Restricted cash used to return margin collateral	$ 6,550	$ -	$ -
CDO deconsolidation:			
Real estate securities	$ 1,033,016	$ 262,617	$ -
Restricted cash	$ 51,522	$ 37,988	$ -
Derivative liabilities	$ 57,343	$ 20,257	$ -
CDO bonds payable	$ 1,110,694	$ 336,046	$ -

Stock Options — The fair value of the options issued as compensation to the Manager for its successful efforts in raising capital for Newcastle was recorded as an increase in stockholders' equity with an offsetting reduction of capital proceeds received. Options granted to Newcastle's directors were accounted for using the fair value method.

Preferred Stock — Newcastle's accounting policy for its preferred stock is described in Note 11.

Accretion of Discount and Other Amortization — As reflected on the Consolidated Statements of Cash Flows, this item is comprised of the following:

	2012	2011	2010
Accretion of net discount on securities and loans	$ (48,608)	$ (45,387)	$ (26,934)
Amortization of net discount on debt obligations	1,525	(823)	338
Amortization of deferred financing costs and interest rate cap premiums	2,751	3,740	3,432
Amortization of net deferred hedge (gains) and losses - debt	(1,250)	(2,316)	4,182
	$ (45,582)	$ (44,786)	$ (18,982)

Securitization of Subprime Mortgage Loans — Newcastle's accounting policy for its securitization of subprime mortgage loans is disclosed in Note 5.

Recent Accounting Pronouncements — In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which became effective for Newcastle on January 1, 2012. The adoption of this guidance did not have a material impact on Newcastle's financial position, liquidity or results of operations.

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated OCI if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statement. Newcastle has early adopted this accounting standard and opted to present this information in a note to the financial statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging,

and contingencies. Some of the proposed changes are significant and could have a material impact on Newcastle's reporting. Newcastle has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

3. SEGMENT REPORTING AND VARIABLE INTEREST ENTITIES

Newcastle conducts its business through the following segments: (i) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (ii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iii) unlevered investments in excess mortgage servicing rights ("unlevered Excess MSRs"), (iv) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (v) investments financed with other non-recourse debt ("non-recourse other"), (vi) investments and debt repurchases financed with recourse debt ("recourse"), (vii) other unlevered investments ("unlevered other") and (viii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

In the fourth quarter of 2011, Newcastle changed the composition of its reportable segments such that the unlevered segment is further broken down into (i) unlevered CDOs, (ii) unlevered Excess MSRs and (iii) unlevered other. Management believes the additional segments better reflect its investments in deconsolidated CDOs and its new investment in Excess MSRs. Segment information for previously reported periods in the accompanying financial statements has been restated to reflect this change to the composition of its segments.

The corporate segment consists primarily of interest income on short term investments, general and administrative expenses, interest expense on the junior subordinated notes payable (Note 10) and management fees pursuant to the Management Agreement (Note 12).

Summary financial data on Newcastle's segments is given below, together with reconciliation to the same data for Newcastle as a whole:

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A)(C)	Recourse (D)	Unlevered Other (E)	Corporate	Inter-segment Elimination (F)	Total
Year Ended December 31, 2012										
Interest income	$ 196,517	$ 490	$ 27,508	$ -	$ 72,343	$ 8,984	$ 10,491	$ 170	$ (6,044)	$ 310,459
Interest expense	56,607	-	-	1,688	51,278	2,582	-	3,813	(6,044)	109,924
Net interest income (expense)	139,910	490	27,508	(1,688)	21,065	6,402	10,491	(3,643)	-	200,535
Impairment (reversal)	(7,381)	-	-	-	4,119	-	(2,402)	-	-	(5,664)
Other revenues	-	-	-	18,026	2,049	-	-	-	-	20,075
Other income (loss)	259,688	337	17,423	(82)	930	-	1,421	-	-	279,717
Property operating expenses	-	-	-	11,539	1,404	-	-	-	-	12,943
Depreciation and amortization	-	-	-	5,784	1,191	-	-	-	-	6,975
Other operating expenses	915	1	5,695	6,846	3,314	-	45	35,079	-	51,895
Income (loss) from continuing operations	406,064	826	39,236	(7,913)	14,016	6,402	14,269	(38,722)	-	434,178
Income (loss) from discontinued operations	-	-	-	-	-	-	(68)	-	-	(68)
Net income (loss)	406,064	826	39,236	(7,913)	14,016	6,402	14,201	(38,722)	-	434,110
Preferred dividends	-	-	-	-	-	-	-	(5,580)	-	(5,580)
Income (loss) applicable to common stockholders	$ 406,064	$ 826	$ 39,236	$ (7,913)	$ 14,016	$ 6,402	$ 14,201	$ (44,302)	$ -	$ 428,530
December 31, 2012										
Investments	$ 1,411,731	$ 5,998	$ 245,036	$ 181,887	$ 755,421	$ 1,049,029	$ 107,189	$ -	$ (62,336)	$ 3,693,955
Cash and restricted cash	2,064	-	-	9,720	-	-	-	222,178	-	233,962
Derivative assets	-	-	-	165	-	-	-	-	-	165
Other assets	7,422	7	33	4,946	113	2,740	1,924	202	(157)	17,230
Total assets	1,421,217	6,005	245,069	196,718	755,534	1,051,769	109,113	222,380	(62,493)	3,945,312
Debt	(1,095,598)	-	-	(120,525)	(651,540)	(925,191)	-	(51,243)	62,336	(2,781,761)
Derivative liabilities	(31,576)	-	-	-	-	-	-	-	-	(31,576)
Other liabilities	(5,681)	-	(406)	(5,084)	(2,684)	(171)	(77)	(44,969)	157	(58,915)
Total liabilities	(1,132,855)	-	(406)	(125,609)	(654,224)	(925,362)	(77)	(96,212)	62,493	(2,872,252)
Preferred stock	-	-	-	-	-	-	-	(61,583)	-	(61,583)
GAAP book value	$ 288,362	$ 6,005	$ 244,663	$ 71,109	$ 101,310	$ 126,407	$ 109,036	$ 64,585	$ -	$ 1,011,477

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A)(C)	Recourse (D)	Unlevered Other (E)	Corporate	Inter-segment Elimination (F)	Total
Year Ended December 31, 2011										
Interest income	$ 218,131	$ 344	$ 1,260	$ -	$ 73,364	$ 2,234	$ 2,636	$ 167	$ (5,840)	$ 292,296
Interest expense	86,110	-	-	-	53,252	693	5	3,815	(5,840)	138,035
Net interest income (expense)	132,021	344	1,260	-	20,112	1,541	2,631	(3,648)	-	154,261
Impairment (reversal)	(3,876)	-	-	-	8,469	-	(3,483)	-	-	1,110
Other revenues	-	-	-	-	1,899	-	-	-	-	1,899
Other income (loss)	171,963	3,739	367	-	2,561	-	2,232	-	-	180,862
Property operating expenses	-	-	-	-	1,110	-	-	-	-	1,110
Depreciation and amortization	-	-	-	-	12	-	-	-	-	12
Other operating expenses	1,058	-	1,055	-	3,603	-	19	24,525	-	30,260
Income (loss) from continuing operations	306,802	4,083	572	-	11,378	1,541	8,327	(28,173)	-	304,530
Income (loss) from discontinued operations	-	-	-	-	46	-	(57)	-	-	(11)
Net income (loss)	306,802	4,083	572	-	11,424	1,541	8,270	(28,173)	-	304,519
Preferred dividends	-	-	-	-	-	-	-	(5,580)	-	(5,580)
Income (loss) applicable to common stockholders	$ 306,802	$ 4,083	$ 572	$ -	$ 11,424	$ 1,541	$ 8,270	$ (33,753)	$ -	$ 298,939
December 31, 2011										
Investments	$ 2,408,252	$ 3,940	$ 43,971	$ -	$ 783,777	$ 244,916	$ 18,751	$ -	$ (143,018)	$ 3,360,589
Cash and restricted cash	105,040	-	-	-	-	-	9	157,347	-	262,396
Derivative assets	1,954	-	-	-	-	-	-	-	-	1,954
Other assets	23,203	8	-	-	116	593	2,085	1,208	(353)	26,860
Total assets	2,538,449	3,948	43,971	-	783,893	245,509	20,845	158,555	(143,371)	3,651,799
Debt	(2,410,151)	-	-	-	(748,118)	(233,194)	-	(51,248)	143,018	(3,299,693)
Derivative liabilities	(119,320)	-	-	-	-	-	-	-	-	(119,320)
Other liabilities	(12,705)	-	(4,186)	-	(3,407)	(23)	(49)	(20,680)	353	(40,697)
Total liabilities	(2,542,176)	-	(4,186)	-	(751,525)	(233,217)	(49)	(71,928)	143,371	(3,459,710)
Preferred stock	-	-	-	-	-	-	-	(61,583)	-	(61,583)
GAAP book value	$ (3,727)	$ 3,948	$ 39,785	$ -	$ 32,368	$ 12,292	$ 20,796	$ 25,044	$ -	$ 130,506

	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Unlevered Excess MSRs	Non-Recourse Senior Living	Non-Recourse Other (A)(C)	Recourse	Unlevered Other (E)	Corporate	Inter-segment Elimination (F)	Total
Year Ended December 31, 2010										
Interest income	$ 226,717	$ -	$ -	$ -	$ 72,773	$ 976	$ 1,653	$ 68	$ (1,915)	$ 300,272
Interest expense	108,437	-	-	-	60,705	656	356	3,980	(1,915)	172,219
Net interest income (expense)	118,280	-	-	-	12,068	320	1,297	(3,912)	-	128,053
Impairment, net of the reversal of prior valuation allowances on loans	(173,223)	16	-	-	(38,561)	(60)	(29,030)	-	-	(240,858)
Other revenues	-	-	-	-	1,708	-	-	-	-	1,708
Other income (loss)	289,158	475	-	-	(5,491)	(663)	(1,269)	77	-	282,287
Property operating expenses	-	-	-	-	1,283	-	-	-	-	1,283
Depreciation and amortization	-	-	-	-	79	-	-	-	-	79
Other operating expenses	1,483	-	-	-	3,160	4	(197)	25,089	-	29,539
Income (loss) from continuing operations	579,178	459	-	-	42,324	(287)	29,255	(28,924)	-	622,005
Income (loss) from discontinued operations	-	-	-	-	(536)	-	193	-	-	(343)
Net income (loss)	579,178	459	-	-	41,788	(287)	29,448	(28,924)	-	621,662
Preferred dividends	-	-	-	-	-	-	-	(7,453)	-	(7,453)
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	-	-	-	-	-	-	-	43,043	-	43,043
Income (loss) applicable to common stockholders	$ 579,178	$ 459	$ -	$ -	$ 41,788	$ (287)	$ 29,448	$ 6,666	$ -	$ 657,252

(A) Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. Therefore, impairment recorded in excess of Newcastle's investment, which results in negative GAAP book value for a given non-recourse financing structure, cannot economically be incurred and will eventually be reversed through amortization, sales at gains, or as gains at the deconsolidation or termination of such non-recourse financing structure.

(B) Represents unlevered investments in CDO securities issued by Newcastle. These CDOs have been deconsolidated as Newcastle does not have the power to direct the relevant activities of the CDOs.

(C) The following table summarizes the investments and debt in the other non-recourse segment:

	December 31, 2012				December 31, 2011			
	Investments		Debt		Investments		Debt	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount*	Carrying Value*	Outstanding Face Amount	Carrying Value	Outstanding Face Amount*	Carrying Value*
Manufactured housing loan portfolio I	$ 118,746	$ 100,124	$ 90,551	$ 81,963	$ 135,209	$ 112,316	$ 107,032	$ 97,631
Manufactured housing loan portfolio II	153,193	150,123	117,907	117,191	178,603	175,120	143,869	142,589
Residential mortgage loans	52,352	38,709	-	-	56,377	40,380	54,842	53,771
Subprime mortgage loans subject to call options	406,217	405,814	406,217	405,814	406,217	404,723	406,217	404,723
Real estate securities	63,505	53,979	44,585	40,572	67,965	43,497	47,697	43,404
Operating real estate	N/A	6,672	6,000	6,000	N/A	7,741	6,000	6,000
	$ 794,013	$ 755,421	$ 665,260	$ 651,540	$ 844,371	$ 783,777	$ 765,657	$ 748,118

* As of December 31, 2012 and December 31, 2011, aggregate face amounts of $71.1 million and $157.0 million (carrying values of $62.3 million and $143.0 million), respectively, of debt represents financing provided by the CDO segment (and included as investments in the CDO segment), which is eliminated upon consolidation.

(D) The $925.2 million of recourse debt is comprised of (i) a $772.9 million repurchase agreement secured by $820.5 million carrying value of FNMA/FHLMC securities, (ii) a $1.4 million repurchase agreement secured by $21.0 million face amount of senior notes issued by Newcastle CDO VI, which was repurchased by Newcastle and is eliminated in consolidation and (iii) a $150.9 million repurchase agreement secured by $228.5 million carrying value of non-agency residential mortgage backed securities ("RMBS").

(E) The following table summarizes the investments in the unlevered other segment:

	December 31, 2012			December 31, 2011		
	Outstanding Face Amount	Carrying Value	Number of Investments	Outstanding Face Amount	Carrying Value	Number of Investments
Real estate securities*	$ 229,299	$ 68,863	38	$ 141,903	$ 3,674	21
Real estate related loans	80,298	29,831	2	24,543	6,366	1
Residential mortgage loans	3,645	2,471	130	5,227	2,687	170
Other investments	N/A	6,024	1	N/A	6,024	1
	$ 313,242	$ 107,189	171	$ 171,673	$ 18,751	193

* During the year ended December 31, 2012, Newcastle purchased 17 non-agency RMBS with an aggregate face amount of $90.9 million for an aggregate purchase price of approximately $61.7 million, or an average price of 67.9% of par. As of December 31, 2012, these securities had an aggregate face amount of $89.3 million and a carrying value of $61.3 million.

(F) Represents the elimination of investments and financings and their related income and expenses between the CDO segment and other non-recourse segment as the corresponding inter-segment investments and financings are presented on a gross basis within each of these segments.

Variable Interest Entities ("VIEs")

The VIEs in which Newcastle has a significant interest include (i) Newcastle's CDOs, in which Newcastle has been determined to be the primary beneficiary and therefore consolidates them (with the exception of CDO V as described below), since it has the power to direct the activities that most significantly impact the CDOs' economic performance and would absorb a significant portion of their expected losses and receive a significant portion of their expected residual returns, and (ii) the manufactured housing loan financing structures, which are similar to the CDOs in analysis. Newcastle's CDOs and manufactured housing loan financings are held in special purpose entities whose debt is treated as non-recourse secured borrowings of Newcastle. Newcastle's subprime securitizations are also considered VIEs, but Newcastle does not control their activities and no longer receives a significant portion of their returns. These subprime securitizations were not consolidated under the current or prior guidance.

In addition, Newcastle's investments in CMBS, CDO securities and loans may be deemed to be variable interests in VIEs, depending on their structure. Newcastle monitors these investments and analyzes the potential need to consolidate the related securitization entities pursuant to the VIE consolidation requirements. These analyses require considerable judgment in determining whether an entity is a VIE and determining the primary beneficiary of a VIE since they involve subjective determinations of significance, with respect to both power and economics. The result could be the consolidation of an entity that otherwise would not have been consolidated or the de-consolidation of an entity that otherwise would have been consolidated.

As of December 31, 2012, Newcastle has not consolidated these potential VIEs. This determination is based, in part, on the assessment that Newcastle does not have the power to direct the activities that most significantly impact the economic performance of these entities, such as if Newcastle owned a majority of the currently controlling class. In addition, Newcastle is not obligated to provide, and has not provided, any financial support to these entities.

On January 1, 2010, as a result of the adoption of the new guidance, Newcastle deconsolidated a non-recourse financing structure, CDO VII. Newcastle determined that it does not have the current power to direct the relevant activities of CDO VII as an event of default had occurred and we may be removed as the collateral manager by a single party. The deconsolidation reduced Newcastle's gross assets by $149.4 million, reduced liabilities by $437.8 million and increased equity by $288.4 million. The deconsolidation also reduced revenues and expenses, but its impact was not material to the net income applicable to common stockholders.

In April 2011, Newcastle sold its retained interests in Newcastle CDO VII, a non-consolidated VIE of Newcastle. As a result of the sale of Newcastle's retained interests in CDO VII and the subsequent liquidation of the VIE, CDO VII has been removed from Newcastle's non-consolidated VIE disclosure.

On June 17, 2011, Newcastle deconsolidated a non-recourse financing structure, CDO V. Newcastle determined that it does not currently have the power to direct the relevant activities of CDO V as an event of default had occurred and Newcastle may be removed as the collateral manager by a single party. The deconsolidation has reduced Newcastle's gross assets by $301.6 million, reduced liabilities by $357.0 million, resulted in a gain on deconsolidation of $45.1 million and decreased accumulated other comprehensive loss by $10.3 million. The deconsolidation also reduced revenues and expenses from June 17, 2011 onwards, but its impact was not material to net income applicable to common stockholders.

On September 12, 2012, Newcastle deconsolidated CDO X subsequent to the completion of the sale of 100% of its interests in CDO X to the sole owner of the senior notes and another third party. The sale and resulting deconsolidation has reduced Newcastle's gross assets by $1.1 billion, reduced liabilities by $1.2 billion, decreased other comprehensive income by $25.5 million and resulted in a gain on sale of $224.3 million. As of December 31, 2012, Newcastle had no continuing involvement with CDO X as it had been liquidated.

Newcastle has interests in the following unconsolidated VIE at December 31, 2012, in addition to the subprime securitizations which are described in Note 5:

Entity	Gross Assets (A)	Debt (B)	Carrying Value of Newcastle's Investment (C)
CDO V	$ 264,246	$ 280,503	$ 5,998

(A) Face amount.
(B) Includes $42.7 million face amount of debt owned by Newcastle with a carrying value of $6.0 million at December 31, 2012.
(C) This amount represents Newcastle's maximum exposure to loss from this entity, which was its fair value at December 31, 2012, related to $18.8 million face amount of CDO V Class I, III and IV-FL notes.

4. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at December 31, 2012 and 2011, all of which are classified as available for sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

		Amortized Cost Basis			Gross Unrealized				Weighted Average				
Asset Type	Outstanding Face Amount	Before Impairment	Other-Than-Temporary-Impairment (A)	After Impairment	Gains	Losses	Carrying Value (B)	Number of Securities	Rating (C)	Coupon	Yield	Maturity (Years) (D)	Principal Subordination (E)
December 31, 2012													
CMBS-Conduit	$ 340,978	$ 315,554	$ (98,481)	$ 217,073	$ 47,776	$ (10,081)	$ 254,768	53	BB-	5.55%	10.81%	3.3	9.8%
CMBS- Single Borrower	125,123	123,638	(12,364)	111,274	4,482	(3,002)	112,754	22	BB	4.89%	5.92%	2.9	9.2%
CMBS-Large Loan	8,891	8,619	-	8,619	250	-	8,869	1	BBB-	6.08%	12.41%	0.6	4.8%
REIT Debt	62,700	62,069	-	62,069	4,105	-	66,174	10	BBB-	5.72%	5.89%	1.8	N/A
ABS-Subprime (F)	558,215	390,509	(68,708)	321,801	34,565	(391)	355,975	69	CC	0.76%	7.50%	6.4	13.3%
ABS-Franchise	10,098	9,386	(7,839)	1,547	237	(309)	1,475	3	CCC-	5.93%	3.40%	4.7	3.0%
FNMA/FHLMC	768,619	818,866	-	818,866	3,860	(2,191)	820,535	58	AAA	3.05%	1.40%	3.5	N/A
CDO (G)	203,477	82,399	(14,861)	67,538	3,487	-	71,025	13	BB	2.83%	7.07%	1.6	20.9%
Total/Average (H)	$ 2,078,101	$ 1,811,040	$ (202,253)	$ 1,608,787	$ 98,762	$ (15,974)	$ 1,691,575	229	BBB-	3.04%	4.69%	4.0	
December 31, 2011													
CMBS-Conduit	$ 1,344,819	$ 1,143,910	$ (202,164)	$ 941,746	$ 91,583	$ (76,424)	$ 956,905	169	BB+	5.61%	11.03%	4.2	10.8%
CMBS- Single Borrower	186,088	180,874	(12,364)	168,510	3,121	(14,366)	157,265	33	BB	5.05%	6.25%	3.6	6.7%
CMBS-Large Loan	14,970	14,190	-	14,190	519	(61)	14,648	2	BBB+	5.15%	8.89%	1.2	7.5%
REIT Debt	137,393	136,704	(773)	135,931	5,060	(5,695)	135,296	20	BB+	5.83%	5.72%	2.4	N/A
ABS-Subprime	246,014	209,838	(86,815)	123,023	14,481	(8,882)	128,622	63	B	1.22%	10.16%	6.9	32.5%
ABS-Manufactured Housing	30,232	29,454	-	29,454	1,247	(154)	30,547	7	BBB+	6.61%	7.54%	4.2	41.6%
ABS-Franchise	23,115	21,598	(11,133)	10,465	215	(3,120)	7,560	7	BB+	3.58%	4.56%	11.0	21.9%
FNMA/FHLMC	232,355	243,385	-	243,385	1,715	(185)	244,915	31	AAA	2.37%	1.63%	4.6	N/A
CDO	206,150	82,486	(14,861)	67,625	149	(11,788)	55,986	13	CCC+	3.03%	8.05%	1.5	21.4%
Total/Average (H)	$ 2,421,136	2,062,439	(328,110)	1,734,329	118,090	(120,675)	1,731,744	345	BB+	4.60%	8.54%	4.2	

(A) Represents the cumulative impairment against amortized cost basis recorded through earnings, net of the effect of the cumulative adjustment as a result of the adoption of new accounting guidance on impairment in 2009.

(B) See Note 9 regarding the estimation of fair value, which is equal to carrying value for all securities.

(C) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Newcastle used an implied AAA rating for the FNMA/FHLMC securities. Ratings provided were determined by third party rating agencies as of a particular date, may not be current and are subject to change at any time.

(D) The weighted average maturity is based on the timing of expected principal reduction on the assets.

(E) Percentage of the outstanding face amount of securities and residual interests that is subordinate to Newcastle's investments.

(F) Includes (i) the retained bonds with a face amount of $4.0 million and a carrying value of $1.3 million from Securitization Trust 2006 (Note 5) and (ii) $456.0 million non-agency RMBS purchased during the year ended December 31, 2012 with an aggregate face amount of $433.5 million and a carrying value of $289.8 million as of December 31, 2012.

(G) Includes two CDO bonds issued by a third party with a carrying value of $61.2 million, four CDO bonds issued by CDO V (which has been deconsolidated and held as an investment by Newcastle) with a carrying value of $6.0 million and seven CDO bonds issued by C-BASS with a carrying value of $3.9 million .

(H) As of December 31, 2012 and 2011, the total outstanding face amount of fixed rate securities was $0.5 billion and $1.7 billion, respectively, and of floating rate securities was $1.5 billion and $0.7 billion, respectively.

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the years ended December 31, 2012, 2011 and 2010, Newcastle recorded other-than-temporary impairment charges ("OTTI") of $19.3 million, $12.9 million and $101.4 million, respectively, with respect to real estate securities (gross of $0.4 million, ($2.9) million and $2.4 million of other-than-temporary impartment recognized (reversed) in Other Comprehensive Income in 2012, 2011 and 2010, respectively). Based on management's analysis of these securities, the performance of the underlying loans and changes in market factors, Newcastle noted adverse changes in the expected cash flows on certain of these securities and concluded that they were other-than-temporarily impaired. Any remaining unrealized losses as of each balance sheet date on Newcastle's securities were primarily the result of changes in market factors, rather than issuer-specific credit impairment. Newcastle performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. Such market factors include changes in market interest rates and credit spreads, or certain macroeconomic events, including market disruptions and supply changes, which did not directly impact our ability to collect amounts contractually due. Management continually evaluates the credit status of each of Newcastle's securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. The result of this evaluation is considered when determining management's estimate of cash flows and in relation to the amount of the unrealized loss and the period elapsed since it was incurred. Significant judgment is required in this analysis. The following table summarizes Newcastle's securities in an unrealized loss position as of December 31, 2012.

Securities in an Unrealized Loss Position	Outstanding Face Amount	Amortized Cost Basis: Before Impairment	Amortized Cost Basis: Other-than-Temporary Impairment	Amortized Cost Basis: After Impairment	Gross Unrealized: Gains	Gross Unrealized: Losses	Carrying Value	Number of Securities	Weighted Average: Rating	Weighted Average: Coupon	Weighted Average: Yield	Weighted Average: Maturity (Years)
Less Than Twelve Months	$ 424,370	$ 443,457	$ (4,698)	$ 438,759	$ -	$ (2,761)	$ 435,998	28	AA+	3.21%	1.58%	3.2
Twelve or More Months	149,668	143,985	(236)	143,749	-	(13,213)	130,536	26	B+	4.84%	6.28%	2.0
Total	$ 574,038	$ 587,442	$ (4,934)	$ 582,508	$ -	$ (15,974)	$ 566,534	54	A+	3.63%	2.74%	2.9

Newcastle performed an assessment of all of its debt securities that are in an unrealized loss position (unrealized loss position exists when a security's amortized cost basis, excluding the effect of OTTI, exceeds its fair value) and determined the following:

	December 31, 2012: Fair Value	Amortized Cost Basis: After Impairment	Unrealized Losses: Credit (B)	Unrealized Losses: Non-Credit (C)
Securities Newcastle intends to sell	$ -	$ -	$ -	N/A
Securities Newcastle is more likely than not to be required to sell (A)	-	-	-	N/A
Securities Newcastle has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	1,607	1,849	(4,770)	(242)
Non credit impaired securities	564,927	580,659	-	(15,732)
Total debt securities in an unrealized loss position	$ 566,534	$ 582,508	$ (4,770)	$ (15,974)

(A) Newcastle may, at times, be more likely than not to be required to sell certain securities for liquidity purposes. While the amount of the securities to be sold may be an estimate, and the securities to be sold have not yet been identified, Newcastle must make its best estimate, which is subject to significant judgment regarding future events, and may differ materially from actual future sales.

(B) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, Newcastle's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

(C) This amount represents unrealized losses on securities that are due to non-credit factors and is required to be recorded through other comprehensive income.

The following table summarizes the activity related to credit losses on debt securities:

	2012	2011
Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	$ (20,207)	$ (60,688)
Increases to credit losses on securities for which an OTTI was previously recognized and a portion of an OTTI was recognized in other comprehensive income	(4,581)	(574)
Additions for credit losses on securities for which an OTTI was previously recognized without any portion of OTTI recognized in other comprehensive income	-	(16,269)
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date	14,771	12,998
Reduction for securities sold during the period	1,498	37,833
Reduction for securities deconsolidated during the period	3,736	6,254
Reduction for increases in cash flows expected to be collected that are recognized over the remaining life of the security	13	239
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	$ (4,770)	$ (20,207)

The securities are encumbered by various debt obligations, as described in Note 10, at December 31, 2012.

The table below summarizes the geographic distribution of the collateral securing our CMBS and ABS at December 31, 2012:

	CMBS		ABS	
Geographic Location	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	$ 114,027	24.0%	$ 191,778	33.7%
Northeastern U.S.	99,579	21.0%	124,322	21.9%
Southeastern U.S.	88,675	18.6%	127,642	22.5%
Midwestern U.S.	63,553	13.4%	61,569	10.8%
Southwestern U.S.	74,830	15.8%	56,728	10.0%
Other	14,678	3.1%	6,274	1.1%
Foreign	19,650	4.1%	-	0.0%
	$ 474,992	100.0%	$ 568,313	100.0%

Geographic concentrations of investments expose Newcastle to the risk of economic downturns within the relevant regions, particularly given the current unfavorable market conditions. These market conditions may make regions more vulnerable to downturns in certain market factors. Any such downturn in a region where Newcastle holds significant investments could have a material, negative impact on Newcastle.

5. REAL ESTATE RELATED LOANS, RESIDENTIAL MORTGAGE LOANS, SUBPRIME MORTGAGE LOANS

The following is a summary of real estate related loans, residential mortgage loans and subprime mortgage loans. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

	December 31, 2012								December 31, 2011	
Loan Type	Outstanding Face Amount	Carrying Value (A)	Loan Count	Wtd. Avg. Yield	Weighted Average Coupon	Weighted Average Maturity (Years) (B)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (C)	Carrying Value	Wtd. Avg. Yield
Mezzanine Loans	$ 527,793	$ 442,529	17	10.10%	8.57%	2.2	67.0%	$ 12,000	$ 469,326	10.35%
Corporate Bank Loans	391,904	208,863	7	18.85%	8.66%	3.6	47.8%	-	161,153	21.79%
B-Notes	171,258	161,610	6	10.40%	5.37%	2.1	86.4%	-	152,535	12.25%
Whole Loans	30,130	30,130	3	5.21%	3.82%	1.1	96.6%	-	30,566	5.31%
Total Real Estate Related Loans Held-for-Sale, Net (D)	$ 1,121,085	$ 843,132	33	12.15%	7.98%	2.6	64.0%	$ 12,000	$ 813,580	12.78%
Non-Securitized Manufactured Housing Loan Portfolio I	$ 573	$ 163	15	38.84%	7.75%	0.7	0.0%	$ 103	$ 199	39.80%
Non-Securitized Manufactured Housing Loan Portfolio II	3,072	2,308	115	15.46%	10.03%	5.5	9.1%	346	2,488	15.54%
Total Residential Mortgage Loans Held-for-Sale, Net (F)	$ 3,645	$ 2,471	130	17.00%	9.67%	4.7	7.7%	$ 449	$ 2,687	17.34%
Securitized Manufactured Housing Loan Portfolio I	$ 118,746	$ 100,124	3,172	9.48%	8.66%	6.8	0.8%	$ 1,558	$ 112,316	9.51%
Securitized Manufactured Housing Loan Portfolio II	153,193	150,123	5,381	7.54%	9.63%	5.6	16.8%	2,775	175,120	7.55%
Residential Loans	56,131	42,214	198	7.41%	2.56%	6.2	100.0%	9,852	43,800	7.92%
Total Residential Mortgage Loans Held-for-Investment, Net (E) (F)	$ 328,070	$ 292,461	8,751	8.19%	8.07%	6.1	25.2%	$ 14,185	$ 331,236	8.26%
Subprime Mortgage Loans Subject to Call Option	$ 406,217	$ 405,814							$ 404,723	

(A) The aggregate United States federal income tax basis for such assets at December 31, 2012 was approximately $1.3 billion (unaudited), excluding the securitized subprime mortgage loans, which are fully consolidated for tax purposes. Carrying value includes interest receivable of $0.1 million for the residential housing loans and principal and interest receivable of $4.8 million for the manufactured housing loans.

(B) The weighted average maturity is based on the timing of expected principal reduction on the assets.

(C) Includes loans that are 60 days or more past due (including loans that are in foreclosure and borrowers' in bankruptcy) or considered real estate owned ("REO"). As of December 31, 2012 and December 31, 2011, $137.7 million and $117.2 million face amount of real estate related loans, respectively, was on non-accrual status.

(D) Loans which are more than 3% of the total current carrying value (or $25.3 million) at December 31, 2012 are as follows:

		December 31, 2012						
Loan Type		Outstanding Face Amount	Carrying Value	Prior Liens (1)	Loan Count	Yield (2)	Coupon (2)	Weighted Average Maturity (Years)
Individual Bank Loan	(3)	$ 158,991	$ 128,991	607,130	1	24.85%	15.55%	6.50
Individual Mezzanine Loan	(5)	68,741	68,741	721,776	1	8.65%	8.65%	3.50
Individual Mezzanine Loan	(4)	53,510	53,510	815,728	1	10.00%	10.46%	1.50
Individual B-Note Loan	(4)	50,000	50,000	225,000	1	8.54%	5.93%	3.25
Individual Bank Loan	(6)	128,230	47,637	-	1	6.28%	2.22%	1.66
Individual B-Note Loan	(4)	53,574	46,672	2,065,615	1	12.00%	3.09%	1.75
Individual Mezzanine Loan	(4)	45,000	45,000	317,000	1	9.95%	9.25%	2.00
Individual Mezzanine Loan	(4)	40,000	40,000	324,940	1	8.42%	8.00%	1.17
Individual Mezzanine Loan	(4)	38,510	38,510	815,728	1	12.00%	12.19%	1.50
Individual Mezzanine Loan	(4)	36,485	36,485	214,243	1	8.67%	8.00%	1.58
Individual Mezzanine Loan	(4)	36,667	35,017	745,600	1	8.00%	7.00%	3.25
Individual Whole Loan	(7)	29,117	29,117	-	1	5.15%	3.69%	1.12
Others	(8)	382,260	223,452		21	11.78%	7.11%	1.86
		$ 1,121,085	$ 843,132		33	12.15%	7.98%	2.62

(1) Represents face amount of third party liens that are senior to Newcastle's position.
(2) For others, represents weighted average yield and weighted average coupon.
(3) Interest accrued to principal balance over life to maturity with a discounted payoff option prior to April 2015.
(4) Interest only payments over life to maturity and balloon principal payment upon maturity.
(5) Principal repayment based on a 30-year amortization schedule after July 2013.
(6) Annual amortization payment equal to 50% of excess cash flow.
(7) Interest only payment over life to maturity with a discontinued pay off option prior to April 2014.
(8) Various terms of payment. This represents $104.7 million, $208.9 million, $67.7 million and $1.0 million face amounts of bank loans, mezzanine loans, B-notes and whole loans, respectively. Each of the twenty one loans had a carrying value of less than $25.3 million at December 31, 2012.

(E) The following is an aging analysis of past due residential loans held-for-investment as of December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	REO	Total Past Due	Current	Total Outstanding Face Amount
Securitized Manufactured Housing Loan Portoflio I	$ 690	$ 275	$ 791	$ 492	$ 2,248	$ 116,498	$ 118,746
Securitized Manufactured Housing Loan Portoflio II	$ 1,158	$ 501	$ 1,512	$ 762	$ 3,933	$ 149,260	$ 153,193
Residential Loans	$ -	$ 488	$ 9,250	$ 114	$ 9,852	$ 46,279	$ 56,131

Newcastle's management monitors the credit quality of the Manufactured Housing Loan Portfolios I and II primarily by using the aging analysis, current trends in delinquencies and the actual loss incurrence rate.

(F) Loans acquired at a discount for credit quality.

Newcastle's investments in real estate related loans and non-securitized manufactured housing loans were classified as held-for-sale as of December 31, 2012 and December 31, 2011. Loans held-for-sale are marked to the lower of carrying value or fair value.

Newcastle's investment in the securitized manufactured housing loan portfolios I and II were classified as held-for-investment as of December 31, 2012 and December 31, 2011. In connection with the securitizations of the manufactured housing loan portfolios, Newcastle gave representations and warranties with respect to the manufactured housing loans sold to the securitization trusts. To the extent a breach of any such representations and warranties materially and adversely affects the value or enforceability of the related loans, Newcastle will be required to repurchase such loans from the respective securitization trusts.

Newcastle's investment in the residential loans was classified as held-for-investment as of December 31, 2012 and December 31, 2011.

The following is a summary of real estate related loans by maturity at December 31, 2012:

Year of Maturity [1]	Outstanding Face Amount	Carrying Value	Number of Loans
Delinquent [2]	$ 12,000	$ -	1
2013	96,942	44,850	4
2014	445,380	273,288	12
2015	59,907	56,185	5
2016	236,892	235,242	5
2017	95,359	90,161	4
Thereafter	174,605	143,406	2
Total	$ 1,121,085	$ 843,132	33

(1) Based on the final extended maturity date of each loan investment as of December 31, 2012.
(2) Includes loans that are non-performing, in foreclosure, or under bankruptcy.

Activities relating to the carrying value of our real estate loans and residential mortgage loans are as follows:

	Held for Sale		Held for Investment
	Real Estate Related Loans	Residential Mortgage Loans	Residential Mortgage Loans
December 31, 2009	$ 573,862	$ 383,647	$ -
Purchases / additional fundings	113,733	-	-
Interest accrued to principal balance	12,535	-	-
Principal paydowns	(136,078)	(34,781)	(10,916)
Sales	(51,225)	-	-
Transfer to held for investment	-	(135,942)	135,942
Transfer to other investments	(24,907)	-	-
Valuation (allowance) reversal on loans	299,620	41,227	(960)
Accretion of loan discount and other amortization	-	-	1,035
Deconsolidation of CDO VII	(5,453)	-	-
Other	518	(938)	(127)
December 31, 2010	$ 782,605	$ 253,213	$ 124,974
Purchases / additional fundings	384,850	-	-
Interest accrued to principal balance	19,507	-	-
Principal paydowns	(270,767)	(8,818)	(30,514)
Sales	(125,141)	-	-
Transfer to held for investment	-	(238,721)	238,721
Valuation (allowance) reversal on loans	21,629	(2,864)	(3,602)
Accretion of loan discount and other amortization	(7)	-	2,371
Other	904	(123)	(714)
December 31, 2011	$ 813,580	$ 2,687	$ 331,236
Purchases / additional fundings	109,491	-	-
Interest accrued to principal balance	22,835	-	-
Principal paydowns	(129,950)	(686)	(38,182)
Valuation (allowance) reversal on loans	28,213	493	(4,119)
Loss on repayment of loans held for sale	(1,614)	-	-
Accretion of loan discount and other amortization	-	-	4,002
Other	577	(23)	(476)
December 31, 2012	$ 843,132	$ 2,471	$ 292,461

The following is a rollforward of the related loss allowance:

	Held for Sale		Held for Investment
	Real Estate Related Loans	Residential Mortgage Loans	Residential Mortgage Loans (C)
Balance at December 31, 2010	$ (321,591)	$ (25,193)	$ (21,350)
Charge-offs (A)	71,945	4,232	5,802
Reclassified as accretable discount (B)	-	-	14,439
Transfer to held-for-investment	-	21,364	(21,364)
Valuation (allowance) reversal on loans	21,629	(2,864)	(3,602)
Balance at December 31, 2011	$ (228,017)	$ (2,461)	$ (26,075)
Charge-offs (A)	17,742	896	7,716
Valuation (allowance) reversal on loans	28,213	493	(4,119)
Balance at December 31, 2012	$ (182,062)	$ (1,072)	$ (22,478)

(A) The charge-offs for real estate related loans represent two and six loans which were written off, sold, restructured, or paid off at a discounted price during 2012 and 2011, respectively.
(B) Represents the accretable discount of the residential loans upon the reclassification from held-for-sale to held-for-investment, which will be recognized prospectively as an adjustment of the loans' yield over the expected life of the loans.
(C) The allowance for credit losses was determined based on the guidance for loans acquired with deteriorated credit quality.

The average carrying amount of Newcastle's real estate related loans was approximately $843.4 million, $795.3 million and $670.7 million during 2012, 2011 and 2010, respectively, on which Newcastle earned approximately $81.5 million, $65.7 million and $53.3 million of gross interest revenues, respectively.

The average carrying amount of Newcastle's residential mortgage loans was approximately $312.5 million, $354.9 million and $388.1 million during 2012, 2011 and 2010, respectively, on which Newcastle earned approximately $31.6 million, $34.1 million and $37.8 million of gross interest revenues, respectively.

The loans are encumbered by various debt obligations as described in Note 10.

Securitization of Subprime Mortgage Loans

Newcastle acquired and securitized two portfolios of subprime residential mortgage loans ("Subprime Portfolio I" and "Subprime Portfolio II"), through subsidiaries, as summarized in the table below. Both portfolios are being serviced by an affiliate of the Manager for a servicing fee equal to 0.50% per annum on their respective unpaid principal balances.

Both portfolios were securitized through special purpose entities ("Securitization Trust 2006") and ("Securitization Trust 2007") which are not consolidated by Newcastle. Newcastle retained a portion of the notes issued by, and all of the equity of, both entities. Newcastle, as holder of the equity (or residual interest), has the option (a call option) to redeem the notes once the aggregate principal balance of Subprime Portfolio I or Subprime Portfolio II is equal to or less than 20% or 10%, respectively, of such balance at the date of the transfer. The transactions between Newcastle and each securitization trust qualified as sales for accounting purposes. However, the loans which are subject to a call option by Newcastle were not treated as being sold and are classified as "held for investment" subsequent to the completion of the securitizations. The loans subject to call option and the corresponding financing recognize interest income and expense based on the expected weighted average coupons of the loans subject to call option at the call date of 9.24% and 8.68% for Subprime Portfolios I and II, respectively. The call options are "out of the money," meaning that the price Newcastle would have to pay to acquire such loans exceeds their fair value at this time, and there is no requirement to exercise such options.

In both transactions, the residual interests and the retained bonds are reported as real estate securities, available for sale. The retained loans subject to call option and corresponding financing are reported as separate line items on Newcastle's balance sheet.

Newcastle has no obligation to repurchase any loans from either of its subprime securitizations. Therefore, it is expected that its exposure to loss is limited to the carrying amount of its retained interests in the securitization entities, as described above. A subsidiary of Newcastle gave limited representations and warranties with respect to Subprime Portfolio II and is required to pay the difference, if any, between the repurchase price of any loan in such portfolio and the price required to be paid by a third party originator for such loan. Such subsidiary, however, has no assets and does not have recourse to the general credit of Newcastle.

	Subprime Portfolio	
	I	II
Date of acquisition	March 2006	March 2007
Original number of loans (approximate)	11,300	7,300
Predominant origination date of loans	2005	2006
Original face amount of purchase	$1.5 billion	$1.3 billion
Pre-securitization loan write-down	($4.1 million)	($5.8 million)
Gain on pre-securitization hedge	$5.5 million	$5.8 million
Gain on sale	Less than $0.1 million	$0.1 million
Securitization date	April 2006	July 2007
Face amount of loans at securitization	$1.5 billion	$1.1 billion
Face amount of notes sold by trust	$1.4 billion	$1.0 billion
Stated maturity of notes	March 2036	April 2037
Face amount of notes retained by Newcastle	$37.6 million	$38.8 million
Fair value of equity retained by Newcastle	$62.4 million (A)	$46.7 million (A)
Key assumptions in measuring such fair value (A):		
Weighted average life (years)	3.1	3.8
Expected credit losses	5.3%	8.0%
Weighted average constant prepayment rate	28.0%	30.1%
Discount rate	18.8%	22.5%

(A) As of the date of transfer.

The following table presents information on the retained interests in the securitizations of Subprime Portfolios I and II at December 31, 2012:

	Subprime Portfolio		
	I	II	Total
Total securitized loans (unpaid principal balance) (A)	$ 423,872	$ 564,569	$ 988,441
Loans subject to call option (carrying value)	$ 299,176	$ 106,638	$ 405,814
Retained interests (fair value) (B)	$ 1,344	$ -	$ 1,344

(A) Average loan seasoning of 89 months and 71 months for Subprime Portfolios I and II, respectively, at December 31, 2012.

(B) The retained interests include retained bonds of the securitizations. Their fair value is estimated based on pricing models. Newcastle's residual interests were written off in 2010. The yield of the retained note was 8.36% as of December 31, 2012.

The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of December 31, 2012 (unaudited, except stated otherwise):

	Subprime Portfolio	
	I	II
Loan unpaid principal balance (UPB) (A)	$ 423,872	$ 564,569
Weighted average coupon rate of loans	5.59%	4.71%
Delinquencies of 60 or more days (UPB) (B)	$ 109,213	$ 200,253
Net credit losses for year ended		
December 31, 2012	$ 27,548	$ 34,866
December 31, 2011	$ 29,460	$ 54,217
Cumulative net credit losses	$ 220,417	$ 256,719
Cumulative net credit losses as a % of original UPB	14.7%	23.6%
Percentage of ARM loans (C)	51.0%	64.4%
Percentage of loans with loan-to-value ratio >90%	10.4%	17.2%
Percentage of interest-only loans	20.8%	4.1%
Face amount of debt (A) (D)	$ 418,906	$ 564,569
Weighted average funding cost of debt (E)	0.57%	1.11%

(A) Audited.

(B) Delinquencies include loans 60 or more days past due, in foreclosure, under bankruptcy filing or real estate owned.

(C) ARM loans are adjustable-rate mortgage loans. An option ARM is an adjustable-rate mortgage that provides the borrower with an option to choose from several payment amounts each month for a specified period of the loan term. None of the loans in the subprime portfolios are option ARMs.

(D) Excludes face amount of $4.0 million of retained notes for Subprime Portfolio I at December 31, 2012.

(E) Includes the effect of applicable hedges.

Cash flows related to the two securitizations were as follows:

	Suprime Portfolio	
	I	II
Net cash inflows from retained interests		
Year Ended December 31, 2012	$ -	$ -
Year Ended December 31, 2011	$ 29	$ 77
Year Ended December 31, 2010	$ 315	$ 629

6. INVESTMENTS IN EXCESS MORTGAGE SERVICING RIGHTS AND CDO SERVICING RIGHTS

The following is a summary of Newcastle's Excess MSRs:

	December 31, 2012					Year Ended December 31, 2012
	Unpaid Principal Balance	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Average Maturity (Years) (C)	Changes in Fair Value Recorded in Other Income (Loss) (D)
MSR Pool 1	$ 8,403,211	$ 30,237	$ 35,974	18.0%	4.8	$ 5,569
MSR Pool 1 - Recapture Agreement	-	4,430	4,936	18.0%	10.8	307
MSR Pool 2	9,397,120	32,890	33,935	17.3%	5.0	1,045
MSR Pool 2 - Recapture Agreement	-	5,206	5,387	17.3%	11.8	181
MSR Pool 3	9,069,726	27,618	30,474	17.6%	4.7	2,856
MSR Pool 3 - Recapture Agreement	-	5,036	4,960	17.6%	11.3	(76)
MSR Pool 4	5,788,133	11,130	12,149	17.9%	4.6	1,019
MSR Pool 4 - Recapture Agreement	-	2,902	2,887	17.9%	11.1	(15)
MSR Pool 5	43,902,561	107,704	109,682	17.5%	4.8	1,978
MSR Pool 5 - Recapture Agreement	-	8,493	4,652	17.5%	11.7	(3,841)
	$ 76,560,751	$ 235,646	$ 245,036	17.6%	5.4	$ 9,023

	December 31, 2011					Year Ended December 31, 2011
	Unpaid Principal Balance	Amortized Cost Basis (A)	Carrying Value (B)	Weighted Average Yield	Average Maturity (Years) (C)	Changes in Fair Value Recorded in Other Income (Loss) (D)
MSR Pool 1	$ 9,705,512	$ 37,469	$ 37,637	20.0%	4.5	$ 168
MSR Pool 1 - Recapture Agreement	-	6,135	6,334	20.0%	10.3	199
	$ 9,705,512	$ 43,604	$ 43,971	20.0%	6.0	$ 367

(A) The amortized cost basis of the Recapture Agreements is determined based on the relative fair values of the Recapture Agreements and related Excess MSRs at the time they were acquired.
(B) Carrying value represents the fair value of the pools or Recapture Agreements, as applicable.
(C) The weighted average maturity represents the weighted average expected timing of the receipt of cash flows of each investment.
(D) The portion of the change in fair value of the Recapture Agreement relating to loans recaptured to date is reflected in the respective pool.

In December 2011, Newcastle entered into an agreement ("MSR Agreement I") with Nationstar Mortgage LLC ("Nationstar"), a leading residential mortgage servicer majority-owned by funds managed by Newcastle's manager, to invest in Excess MSRs with Nationstar. Nationstar acquired the mortgage servicing rights on a pool of government sponsored enterprise ("GSE") residential mortgage loans with an outstanding principal balance of approximately $9.9 billion ("MSR Pool 1") on September 30, 2011. Nationstar is entitled to receive an initial weighted average total mortgage servicing amount of 35 basis points (bps) on the performing unpaid principal balance, as well as any ancillary income from MSR Pool 1. Pursuant to MSR Agreement I, Nationstar performs all servicing functions and advancing functions related to MSR Pool 1 for a basic fee (the contractual amount the service is entitled to for performing the servicing duties) of 6 bps. Therefore, the remainder, or "excess mortgage servicing amount" is initially equal to a weighted average of 29 bps.

Newcastle acquired the right to receive 65% of the excess mortgage servicing amount on MSR Pool 1 and, subject to certain limitations and pursuant to a loan replacement agreement (the "Recapture Agreement"), 65% of the Excess MSRs on certain future mortgage loans originated by Nationstar, that represent refinancings of loans in MSR Pool 1 (which loans then become part of MSR Pool 1) for $43.7 million. Nationstar has co-invested, pari passu with Newcastle, in 35% of the Excess MSRs. Nationstar, as servicer, also retains the ancillary income, the servicing obligations and liabilities as the servicer. If Nationstar is terminated as the servicer, Newcastle's right to receive its portion of the excess mortgage servicing amount is also terminated. To the extent that Nationstar is terminated as the servicer and receives a termination payment, Newcastle is entitled to a pro rata share, or 65%, of such termination payment.

On June 5, 2012, Newcastle announced the completion of a co-investment with Nationstar related to their acquisition of mortgage servicing rights from Bank of America, National Association. Newcastle has invested approximately $44 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans with an outstanding principal balance of approximately $10.4 billion ("MSR Pool 2"), comprised of conforming loans in GSE pools. Nationstar has co-invested pari passu with Newcastle in 35% of the Excess MSRs and will be the servicer of the loans performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared pro rata by Newcastle and Nationstar, subject to certain limitations. As of December 31, 2012, Newcastle had a remaining purchase price payable of less than $0.1 million, which is to be funded in 2013 pursuant to the payment terms of the agreement.

On June 29, 2012, Newcastle announced the completion of a co-investment in Excess MSRs in connection with Nationstar's acquisition of mortgage servicing rights from Aurora Bank FSB, a subsidiary of Lehman Brothers Bancorp Inc. Newcastle invested approximately $176.5 million to acquire a 65% interest in the Excess MSRs on a portfolio of residential mortgage loans with an outstanding principal balance of approximately $63.7 billion, comprised of approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools. The portfolio is comprised of three pools: a pool of non-conforming loans in private label securitizations with an outstanding principal balance of approximately $47.6 billion ("MSR Pool 5"), and two GSE loan pools with outstanding principal balances of approximately $6.3 billion ("MSR Pool 4") and $9.8 billion ("MSR Pool 3"), respectively. Nationstar has co-invested pari passu with Newcastle in 35% of the Excess MSRs and will be the servicer of the loans performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared pro rata by Newcastle and Nationstar, subject to certain limitations.

The table below summarizes the geographic distribution of the underlying residential mortgage loans of the Excess MSRs:

Percentage of Total Outstanding Unpaid Principal Amount (A)			
December 31, 2012		**December 31, 2011**	
State Concentration	**Percentage**	**State Concentration**	**Percentage**
California	32.0%	California	19.4%
Florida	10.1%	Florida	11.1%
Washington	4.3%	Texas	6.7%
New York	4.3%	Arizona	4.8%
Arizona	3.9%	Virginia	3.5%
Texas	3.6%	Washington	3.2%
Colorado	3.5%	New Jersey	3.1%
Maryland	3.4%	Maryland	3.1%
New Jersey	3.1%	Illinois	3.0%
Virginia	3.0%	Nevada	2.7%
Other U.S.	28.8%	Other U.S.	39.4%
	100.0%		**100.0%**

Geographic concentrations of investments expose Newcastle to the risk of economic downturns within the relevant states. Any such downturn in a state where Newcastle holds significant investments could affect the underlying borrower's ability to make the mortgage payment and therefore could have a meaningful, negative impact on Newcastle's Excess MSRs.

CDO Servicing Rights

In February 2011, Newcastle, through one of its subsidiaries, purchased the management rights with respect to certain C-BASS Investment Management LLC ("C-BASS") CDOs pursuant to a bankruptcy proceeding for $2.2 million. As a result, Newcastle became the collateral manager of certain CDOs previously managed by C-BASS and will earn, on average, a 20 basis point annual senior management fee on a portion of the total collateral, which was $1.3 billion at acquisition. Newcastle initially recorded the cost of acquiring the collateral management rights as a servicing asset and subsequently amortizes this asset in proportion to, and over the period of, estimated net servicing income. Servicing assets are assessed for impairment on a quarterly basis, with impairment recognized as a valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing assets include the prepayment speeds of the underlying loans, default rates, loss severities and discount rates. During the year ended December 31, 2012, Newcastle recorded $0.3 million of servicing rights amortization and no servicing rights impairment. As of December 31, 2012, Newcastle's servicing asset had a carrying value of $1.7 million recorded in Receivables and Other Assets.

7. INVESTMENTS IN REAL ESTATE

In the year ended December 31, 2012, Newcastle completed three acquisitions of senior living assets as follows:

On July 18, 2012, Newcastle completed the acquisition of eight senior housing facilities (the "BPM" Portfolio) from entities owned and managed by Walter C. Bowen for an aggregate purchase price of approximately $143.3 million plus acquisition-related costs. These assets comprise more than 800 beds in senior living facilities located in California, Oregon, Utah, Arizona and Idaho.

On November 1, 2012, Newcastle completed the acquisition of three senior housing facilities (the "Utah" Portfolio) from Retirement Place, Inc. for an aggregate purchase price of approximately $22.6 million plus acquisition-related costs. These assets comprise more than 350 beds in senior living facilities located in Utah.

On December 27, 2012, Newcastle completed the acquisition of a senior housing facility (the "Courtyards" Portfolio) from Courtyards of River Park, Ltd. for an aggregate purchase price of approximately $21.5 million plus acquisition-related costs. This asset comprises more than 200 beds in a senior living facility located in Texas.

In connection with the acquisitions of the senior living assets described above, the assets acquired and the liabilities assumed were recorded at fair value. A summary of the initial recording of each of the above acquisitions is as follows:

	At Acquisition			
	BPM	Utah	Courtyards	Total
Investment in real estate	$ 126,201	$ 18,466	$ 19,400	$ 164,067
Resident lease intangibles	17,099	3,512	2,100	22,711
Other intangibles	-	600	-	600
Prepaid expenses and other assets	110	122	56	288
Accounts payable, accrued expenses and other payables	(1,834)	(11)	(136)	(1,981)
	141,576	22,689	21,420	185,685
Mortgage notes payable	(88,400)	(16,000)	(16,125)	(120,525)
Net cash paid for acquisition	$ 53,176	$ 6,689	$ 5,295	$ 65,160
Acquisition related costs (A)	$ 3,625	$ 869	$ 395	$ 4,889

(A) Acquisition related costs are included within General and Administrative Expense on the income statement.

The following table sets forth certain information regarding the investments in real estate at December 31, 2012:

		Initial Cost					Gross Carrying Amount (B) (F)					
Property Type (A)	City, State	Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Costs Capitalized Subsequent to Acquisition	Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Total	Accumulated Depreciation (B)(C)
Senior Living Facilities:												
AL/MC	Scottsdale, AZ	$ 2,307	$ 16,845	$ 146	$ 101	$ 30	$ 2,307	$ 16,845	$ 176	$ 101	$ 19,429	$ (217)
AL/MC	Citrus Heights, CA	831	3,097	87	59	4	831	3,097	105	45	4,078	(51)
AL/MC	Santa Cruz, CA	2,255	20,971	225	58	38	2,255	20,971	278	41	23,545	(273)
AL/MC	Clovis, CA	1,133	16,835	159	45	7	1,133	16,835	165	45	18,178	(209)
IL/AL/MC	Boise, ID	1,465	13,229	405	58	44	1,465	13,229	468	40	15,202	(186)
MC	Corvallis, OR	1,060	4,915	135	8	15	1,060	4,915	148	10	6,133	(64)
AL/MC	Eugene, OR	935	20,431	364	91	54	935	20,431	450	58	21,874	(267)
AL/MC	Cottonwood Heights, UT	1,496	16,201	197	58	26	1,496	16,201	207	74	17,978	(206)
AL/MC	Bountiful, UT	570	9,505	53	50	39	570	9,505	57	85	10,217	(46)
AL	Taylorsville, UT	1,111	3,042	84	39	18	1,111	3,042	86	55	4,294	(18)
IL/AL/MC	Salt Lake City, UT	700	3,262	35	15	21	700	3,262	39	31	4,032	(15)
IL/AL	Fort Worth, TX	2,130	16,343	254	672	-	2,130	16,343	254	672	19,399	(6)
Subtotal Senior Living Facilities		$ 15,993	$ 144,676	$ 2,144	$ 1,254	$ 296	$ 15,993	$ 144,676	$ 2,433	$ 1,257	$ 164,359	$ (1,558)
Other Operating Real Estate (E) (G)												
Office Building	Beavercreek, OH	$ 386	$ 2,287	$ -	$ -	$ 394	$ 364	$ 2,170	$ 370	$ -	$ 2,904	$ (701)
Office Building	Beavercreek, OH	401	2,326	-	-	175	381	2,268	97	-	2,746	(476)
Office Building	Beavercreek, OH	382	2,242	-	-	458	361	2,150	359	-	2,870	(671)
Subtotal Other Operating Real Estate		$ 1,169	$ 6,855	$ -	$ -	$ 1,027	$ 1,106	$ 6,588	$ 826	$ -	$ 8,520	$ (1,848)
Total		$ 17,162	$ 151,531	$ 2,144	$ 1,254	$ 1,323	$ 17,099	$ 151,264	$ 3,259	$ 1,257	$ 172,879	$ (3,406)

Property Type (A)	City, State	Year Acquired (D)	Year Constructed/ Renovated (D)	No. of Beds/ Net Rentable Sq. Ft. (D)	Ending Occupancy (D)	Encumbrances
Senior Living Facilities:						
AL/MC	Scottsdale, AZ	2012	1999/2005	107	75.7%	$ 12,600
AL/MC	Citrus Heights, CA	2012	1997/2011	78	93.6%	2,940
AL/MC	Santa Cruz, CA	2012	1990/NA	125	95.2%	17,220
AL/MC	Clovis, CA	2012	1998/2007	122	92.6%	11,700
IL/AL/MC	Boise, ID	2012	1997/2011	121	95.0%	12,960
MC	Corvallis, OR	2012	1999/NA	48	89.6%	3,020
AL/MC	Eugene, OR	2012	1998/NA	115	91.3%	15,480
AL/MC	Cottonwood Heights, UT	2012	2001/NA	115	89.6%	12,480
AL/MC	Bountiful, UT	2012	1978/2000	147	83.0%	10,024
AL	Taylorsville, UT	2012	1976/1994	105	88.6%	3,341
IL/AL/MC	Salt Lake City, UT	2012	1984/2007	106	72.6%	2,635
IL/AL	Fort Worth, TX	2012	1986/NA	221	90.0%	16,125
Subtotal Senior Living Facilities						$ 120,525
Other Operating Real Estate (E) (G)						
Office Building	Beavercreek, OH	2006	1984/2006	55,024 Sq. Ft.	82.8%	$ -
Office Building	Beavercreek, OH	2006	1985/2006	29,916 Sq. Ft.	100.0%	-
Office Building	Beavercreek, OH	2006	1987/2006	45,500 Sq. Ft.	100.0%	-
Subtotal Other Operating Real Estate						$ -
Total						$ 120,525

See notes on next page.

(A) AL represents assisted living; MC represents memory care; IL represents independent living.

(B) The following is a rollforward of the gross carrying amount and accumulated depreciation of real estate for the years ended December 31, 2012, 2011 and 2010.

	Year ended December 31,		
	2012	2011	2010
Gross Carrying Amount			
Balance at beginning of year	$ -	$ -	$ -
Additions:			
Acquisitions of real estate	164,067	-	-
Improvements	296	-	-
Transferred from operating real estate held for sale	8,520	-	-
Disposals:			
Disposal of long-lived assets	(4)	-	-
Balance at end of year	$ 172,879	$ -	$ -
Accumulated Depreciation			
Balance at beginning of year	$ -	$ -	$ -
Additions:			
Depreciation expense	(2,750)	-	-
Transferred from assets held for sale	(657)	-	-
Disposals:			
Disposal of long-lived assets	1	-	-
Balance at end of year	$ (3,406)	$ -	$ -

(C) Depreciation is calculated on a straight line basis using the following estimated useful lives:

	Estimated Useful Lives
Land	N/A
Buildings	40 years
Building Improvements	3-10 years
Furniture, Fixtures and Equipment	3-5 years

(D) Unaudited.

(E) During the year ended December 31, 2012, Newcastle reclassified the above properties as held for use based on the decision not to proceed with the planned disposition. The decision to withdraw the Beavercreek, Ohio properties from held for sale was made as management believes that the best value can now be obtained through a hold strategy. As a result, the operating results relating to the properties in Beavercreek, Ohio has been reclassified as part of income from continuing operations for the year ended December 31, 2012 and the accompanying comparative income statements for the years ended December 31, 2011 and December 31, 2010.

The following table summarizes the financial information for the Beavercreek properties reclassified as held for use:

	Year Ended December 31,		
	2012	2011	2010
Rental income	$ 2,049	$ 1,899	$ 1,708
Propertiy operating expense	$ 1,404	$ 1,110	$ 1,283
Depreciation and amortization	1,191	12	79
Other operating expense	11	27	11
Total expense	$ 2,606	$ 1,149	$ 1,373
Impairment	-	433	-
Net income (loss)	$ (557)	$ 317	$ 335

(F) The aggregate United States federal income tax basis for Newcastle's operating real estate at December 31, 2012 was approximately $190.1 million.

(G) The other operating real estate was pledged as collateral in one of Newcastle's non-recourse financing structures at December 31, 2012.

The following is a reconciliation of operating real estate held for sale:

	Year Ended December 31,		
	2012	2011	2010
Operating real estate held for sale			
Balance at beginning of year	$ 7,741	$ 8,776	$ 9,966
Impairment	-	(433)	(260)
Leasing commission capitalized	122	-	-
Amortization of leasing commissions	-	(13)	(90)
Proceeds from sale of real estate held for sale	-	(650)	(840)
Gain on sale	-	61	-
Transferred to investments in real estate (held for use)	(7,863)	-	-
Balance at end of year	$ -	$ 7,741	$ 8,776

The following is a schedule of the future minimum rental payments to be received under non-cancelable operating leases for the office buildings in Beavercreek, Ohio:

2013	$ 1,414
2014	1,328
2015	882
2016	819
2017	819
Thereafter	-
Total	$ 5,262

The operating leases relating to Newcastle's senior living real estate are generally cancelable with a 30-day notice.

The following table summarizes the financial information for the discontinued operations relating to properties sold:

	Year Ended December 31,		
	2012	2011	2010
Rental income	$ -	$ 136	$ 427
Expenses	66	208	537
Impairment	-	-	260
Net gain on sale	-	61	-
Other income	(2)	-	27
Net income (loss)	$ (68)	$ (11)	$ (343)

No income tax related to discontinued operations was recorded for the years ended December 31, 2012, 2011 or 2010.

8. INTANGIBLES

The following table summarizes Newcastle's intangibles related to its senior living real estate:

	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
In-place resident lease intangibles	$ 22,711	$ (4,205)	$ 18,506	$ -	$ -	$ -
Non-compete intangibles	600	(20)	580	-	-	-
Total intangibles	$ 23,311	$ (4,225)	$ 19,086	$ -	$ -	$ -

The unamortized balance of in-place lease and other intangible assets at December 31, 2012 will be charged to depreciation and amortization expense through 2017 as follows:

2013	$ 11,475
2014	7,271
2015	120
2016	120
2017	100
Thereafter	-
	$ 19,086

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value may be based upon broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. A significant portion of Newcastle's loans, securities and debt obligations are currently not traded in active markets and therefore have little or no price transparency. As a result, Newcastle has estimated the fair value of these illiquid instruments based on internal pricing models rather than quotations. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant change to estimated fair values. It should be noted that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate and credit spread environments as of December 31, 2012 and do not take into consideration the effects of subsequent changes in market or other factors.

Newcastle has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison to the outputs generated from its internal pricing models and transactions Newcastle has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on Newcastle's internal pricing models, Newcastle's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

For Excess MSRs acquired prior to the current quarter, Newcastle obtains a fairness opinion related to the valuation of our Excess MSRs on the existing mortgage pools from an independent valuation firm at the current quarter end date. For Excess MSRs acquired during the current quarter, Newcastle obtain a fairness opinion related to the valuation of our Excess MSRs on the existing mortgage pools at the time of acquisition. To date, Newcastle has not made any significant valuation adjustments as a result of these third party opinions.

Fair Value Summary Table

The carrying values and estimated fair values of Newcastle's assets and liabilities at December 31, 2012 and 2011 were as follows:

	December 31, 2012						December 31, 2011	
	Principal Balance or Notional Amount	Carrying Value	Estimated Fair Value	Fair Value Method (A)	Weighted Average Yield/Funding Cost	Weighted Average Maturity (Years)	Carrying Value	Estimated Fair Value
Assets								
Financial instruments:								
Real estate securities, available-for-sale*	$ 2,078,101	$ 1,691,575	$ 1,691,575	Broker quotations, counterparty quotations, pricing services, pricing models	4.69%	4.0	$ 1,731,744	$ 1,731,744
Real estate related loans, held-for-sale, net	1,121,085	843,132	853,102	Broker quotations, counterparty quotations, pricing services, pricing models	12.15%	2.6	813,580	819,249
Residential mortgage loans, held-for-investment, net	328,070	292,461	297,030	Pricing models	8.19%	6.1	331,236	330,277
Residential mortgage loans, held-for-sale, net	3,645	2,471	2,471	Pricing models	17.00%	4.7	2,687	2,687
Investments in excess mortgage servicing rights at fair value* (H)	76,560,751	245,036	245,036	Pricing models	17.59%	5.4	43,971	43,971
Subprime mortgage loans subject to call option (B)	406,217	405,814	405,814	(B)	9.09%	(B)	404,723	404,723
Restricted cash*	2,064	2,064	2,064				105,040	105,040
Cash and cash equivalents*	231,898	231,898	231,898				157,356	157,356
Derivative assets, treated as hedges (C)(E)*	-	-	-	Counterparty quotations	N/A	(C)	1,092	1,092
Non-hedge derivative assets (D)(E)*	23,400	165	165	Counterparty quotations	N/A	(D)	862	862
Investments in real estate and intangibles, net		188,559	194,878	Broker quotations, recent purchase price			-	-
Operating real estate, held-for-sale		-	-				7,741	7,741
Other investments		24,907	13,165	Pricing models			24,907	24,907
Receivables and other assets		17,230	17,230				26,860	26,860
		$ 3,945,312	$ 3,954,428				$ 3,651,799	$ 3,656,509
Liabilities								
Financial instruments:								
CDO bonds payable	$ 1,090,915	$ 1,091,354	$ 781,856	Pricing models	2.08%	2.5	$ 2,403,605	$ 1,500,307
Other bonds and notes payable	187,963	183,390	190,302	Broker quotations, pricing models	5.07%	4.0	200,377	203,136
Repurchase agreements	929,435	929,435	929,435	Market comparables	0.81%	0.1	239,740	239,740
Mortgage notes payable	120,525	120,525	120,525	Pricing models	3.79%	5.8	-	-
Financing of subprime mortgage loans subject to call option (B)	406,217	405,814	405,814	(B)	9.09%	(B)	404,723	404,723
Junior subordinated notes payable	51,004	51,243	31,545	Pricing models	7.40%	22.3	51,248	30,145
Interest rate swaps, treated as hedges (C)(E)*	154,450	12,175	12,175	Counterparty quotations	N/A	(C)	90,025	90,025
Non-hedge derivatives (D)(E)*	294,203	19,401	19,401	Counterparty quotations	N/A	(D)	29,295	29,295
Due to affiliates		3,620	3,620				1,659	1,659
Dividends payable, accrued expenses and other liabilities		55,295	55,295				39,038	39,038
		$ 2,872,252	$ 2,549,968				$ 3,459,710	$ 2,538,068

*Measured at fair value on a recurring basis.

(A) Methods are listed in order of priority. In the case of real estate securities and real estate related loans, broker quotations are obtained if available and practicable, otherwise counterparty quotations or pricing service valuations are obtained or, finally, internal pricing models are used. Internal pricing models are only used for (i) securities and loans that are not traded in an active market, and, therefore, have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) loans or debt obligations which are private and untraded.

(B) These two items results from an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 5), are noneconomic until such option is exercised, and are equal and offsetting.

(C) Represents derivative agreements as follows:

Year of Maturity	Weighted Average Month of Maturity	Aggregate Notional Amount	Weighted Average Fixed Pay Rate / Cap Rate	Aggregate Fair Value Asset / (Liability)
Interest rate swap agreements which receive 1-Month LIBOR:				
2016	Apr	$ 154,450	5.04%	$ (12,175)

(D) This represents two interest rate swap agreements with a total notional balance of $294.2 million, maturing in March 2014 and March 2015, respectively, and an interest rate cap agreement with a notional balance of $23.4 million, maturing in August 2019. Newcastle entered into these agreements to reduce its exposure to interest rate changes on the floating rate financings of CDO IV, CDO VI and the senior living assets. These derivative agreements were not designated as hedges for accounting purposes as of December 31, 2012.

(E) Newcastle's derivatives fall into two categories. As of December 31, 2012, all derivatives were held within Newcastle's nonrecourse CDO structures. An aggregate notional balance of $448.7 million, which were liabilities at period end, is only subject to the credit risks of the respective CDO structures. As they are senior to all the debt obligations of the respective CDOs and the fair value of each of the CDOs' total investments exceeded the fair value of each of the CDOs' derivative liabilities, no credit valuation adjustments were recorded. A notional balance of $23.4 million was an asset at period end and therefore are subject to the counterparty's credit risk. No adjustments have been made to the fair value quotations received related to credit risk as a result of the counterparty's "AA" credit rating. Newcastle's significant derivative counterparties include Bank of America, Credit Suisse, and Wells Fargo.

(F) Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. As a result, the fair value of Newcastle's net investments in these non-recourse financing structures is equal to the present value of their expected future net cash flows.

(G) Newcastle notes that the unrealized gain on the liabilities within such structures cannot be fully realized.

(H) The notional amount represents the total unpaid principal balance of the mortgage loans on which Newcastle is entitled to receive 65% of the Excess MSRs on performing loans.

Valuation Hierarchy

The methodologies used for valuing such instruments have been categorized into three broad levels, which form a hierarchy.

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

Level 2 - Valuations based principally on other observable market parameters, including

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs.

- Level 3A - Valuations based on third party indications (broker quotes, counterparty quotes or pricing services) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Level 3B - Valuations based on internal models with significant unobservable inputs.

Newcastle follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. For Newcastle's investments in real estate securities, real estate related loans and residential mortgage loans categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is generally accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed. For Newcastle's investments in Excess MSRs, significant unobservable inputs include the discount rate, assumptions relating to prepayments, delinquency rates, recapture rates and excess mortgage servicing amount. Significant increases (decreases) in the discount rates, prepayments or delinquency rates in isolation would result in a significantly lower (higher) fair value measurement, whereas significant increases (decreases) in the recapture rates or excess mortgage servicing amount in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the delinquency rate assumption is accompanied by directionally similar changes in the assumptions used for the prepayment speed.

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis at December 31, 2012:

	Principal Balance or Notional Amount	Carrying Value	Fair Value Level 2	Fair Value Level 3A	Fair Value Level 3B	Fair Value Total
Assets:						
Real estate securities, available for sale:						
CMBS	$ 474,992	$ 376,391	$ -	$ 330,026	$ 46,365	$ 376,391
REIT debt	62,700	66,174	66,174	-	-	66,174
ABS - subprime	558,215	355,975	-	330,021	25,954	355,975
ABS - other real estate	10,098	1,475	-	798	677	1,475
FNMA / FHLMC	768,619	820,535	820,535	-	-	820,535
CDO	203,477	71,025	-	65,027	5,998	71,025
Real estate securities total	$ 2,078,101	1,691,575	886,709	725,872	78,994	1,691,575
Investments in Excess MSRs (1)	$ 76,560,751	$ 245,036	$ -	$ -	$ 245,036	$ 245,036
Derivative assets:						
Interest rate caps, not treated as hedges	$ 23,400	$ 165	$ 165	$ -	$ -	$ 165
Derivative assets total	$ 23,400	$ 165	$ 165	$ -	$ -	$ 165
Liabilities:						
Derivative Liabilities:						
Interest rate swaps, treated as hedges	$ 154,450	$ 12,175	$ 12,175	$ -	$ -	$ 12,175
Interest rate swaps, not treated as hedges	294,203	19,401	19,401	-	-	19,401
Derivative liabilities total	$ 448,653	$ 31,576	$ 31,576	$ -	$ -	$ 31,576

(1) The notional amount represents the total unpaid principal balance of the mortgage loans. Generally, Newcastle does not receive an excess mortgage servicing amount on nonperforming loans.

Newcastle's investments in instruments (excluding the Excess MSRs, see below) measured at fair value on a recurring basis using Level 3 inputs changed as follows:

	Level 3A Assets					
	CMBS		ABS		Equity/Other	
	Conduit	Other	Subprime	Other	Securities	Total
Balance at December 31, 2010	$ 840,227	$ 331,904	$ 83,582	$ 36,193	$ -	$ 1,291,906
Transfers (A)						
Transfers from Level 3B	41,158	25,000	19,950	718	2,641	89,467
Transfers into Level 3B	(88,464)	(24,826)	(15,031)	(7,548)	(2,475)	(138,344)
CDO V Deconsolidation	(59,970)	(55,838)	(5,107)	-	-	(120,915)
Total gains (losses) (B)						
Included in net income (loss) (C)	42,597	579	(23)	(113)	-	43,040
Included in other comprehensive income (loss)	(106,500)	38,583	(9,158)	(716)	(11,461)	(89,252)
Amortization included in interest income	23,878	5,883	5,210	338	3,376	38,685
Purchases, sales and settlements						
Purchases	313,857	27,262	29,359	7,548	69,308	447,334
Proceeds from sales	(139,387)	(54,885)	(6,573)	-	-	(200,845)
Proceeds from repayments	(51,113)	(161,227)	(36,068)	(5,232)	(9,342)	(262,982)
Balance at December 31, 2011	$ 816,283	$ 132,435	$ 66,141	$ 31,188	$ 52,047	$ 1,098,094

	Level 3B Assets					
	CMBS		ABS		Equity/Other	
	Conduit	Other	Subprime	Other	Securities	Total
Balance at December 31, 2010	$ 107,457	$ 21,146	$ 94,424	$ 8,985	$ 4,282	$ 236,294
Transfers (A)						
Transfers from Level 3A	88,464	24,826	15,031	7,548	2,475	138,344
Transfers into Level 3A	(41,158)	(25,000)	(19,950)	(718)	(2,641)	(89,467)
CDO V Deconsolidation	(32,289)	(1,908)	(14,568)	(3,833)	-	(52,598)
Total gains (losses) (B)						
Included in net income (loss) (C)	7,972	722	(1,332)	(287)	2,273	9,348
Included in other comprehensive income (loss)	32,374	1,743	3,766	(3,200)	(3,346)	31,337
Amortization included in interest income	17,055	163	8,796	911	617	27,542
Purchases, sales and settlements						
Purchases	13,634	25,000	25	-	10,192	48,851
Proceeds from sales	(27,400)	(721)	(8,624)	(348)	(3,884)	(40,977)
Proceeds from repayments	(25,487)	(6,493)	(15,087)	(2,139)	(6,029)	(55,235)
Balance at December 31, 2011	$ 140,622	$ 39,478	$ 62,481	$ 6,919	$ 3,939	$ 253,439

	Level 3A Assets					
	CMBS		ABS		Equity/Other	
	Conduit	Other	Subprime	Other	Securities	Total
Balance at December 31, 2011	$ 816,283	$ 132,435	$ 66,141	$ 31,188	$ 52,047	$ 1,098,094
Transfers (A)						
Transfers from Level 3B	6,056	21,823	28,048	-	-	55,927
Transfers into Level 3B	(28,467)	(14,105)	(11,057)	(5)	-	(53,634)
CDO X Deconsolidation	(634,036)	(40,172)	(70,607)	(25,883)	-	(770,698)
Total gains (losses) (B)						
Included in net income (loss) (C)	1,190	-	(8)	-	-	1,182
Included in other comprehensive income (loss)	32,373	11,490	26,159	(629)	12,823	82,216
Amortization included in interest income	24,845	1,410	10,805	(11)	5,211	42,260
Purchases, sales and settlements						
Purchases	71,968	-	315,475	-	-	387,443
Proceeds from sales	(24,551)	-	-	-	-	(24,551)
Proceeds from repayments	(40,086)	(8,430)	(34,935)	(3,862)	(5,054)	(92,367)
Balance at December 31, 2012	$ 225,575	$ 104,451	$ 330,021	$ 798	$ 65,027	$ 725,872

	Level 3B Assets					
	CMBS		ABS		Equity/Other	
	Conduit	Other	Subprime	Other	Securities	Total
Balance at December 31, 2011	$ 140,622	$ 39,478	$ 62,481	$ 6,919	$ 3,939	$ 253,439
Transfers (A)						
Transfers from Level 3A	28,467	14,105	11,057	5	-	53,634
Transfers into Level 3A	(6,056)	(21,823)	(28,048)	-	-	(55,927)
CDO X Deconsolidation	(133,624)	-	(16,097)	(291)	-	(150,012)
Total gains (losses) (B)						
Included in net income (loss) (C)	(6,137)	(396)	836	(4,092)	-	(9,789)
Included in other comprehensive income (loss)	(9,836)	1,025	2,414	2,368	2,302	(1,727)
Amortization included in interest income	8,693	367	6,886	299	446	16,691
Purchases, sales and settlements						
Purchases	44,119	-	-	-	-	44,119
Proceeds from sales	(18,708)	-	(3,295)	(3,743)	-	(25,746)
Proceeds from repayments	(18,346)	(15,585)	(10,280)	(788)	(689)	(45,688)
Balance at December 31, 2012	$ 29,194	$ 17,171	$ 25,954	$ 677	$ 5,998	$ 78,994

(A) Transfers are assumed to occur at the beginning of the quarter. CDO V was deconsolidated on June 17, 2011 and CDO X was deconsolidated on September 12, 2012.

(B) None of the gains (losses) recorded in earnings during the periods is attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates.

(C) These gains (losses) are recorded in the following line items in the consolidated statements of income:

	Year Ended December 31,			
	2012		2011	
	Level 3A	Level 3B	Level 3A	Level 3B
Gain (loss) on settlement of investments, net	$ 1,196	$ 9,000	$ 44,560	$ 22,895
Other income (loss), net	-	-	-	-
OTTI	(14)	(18,789)	(1,520)	(13,547)
Total	$ 1,182	$ (9,789)	$ 43,040	$ 9,348
Gain (loss) on sale of investments, net, from investments transferred into Level 3 during the period	$ -	$ -	$ -	$ -

Securities Valuation

As of December 31, 2012, Newcastle's securities valuation methodology and results are further detailed as follows:

			Fair Value			
Asset Type	Outstanding Face Amount (A)	Amortized Cost Basis (B)	Multiple Quotes (C)	Single Quote (D)	Internal Pricing Models (E)	Total
CMBS	$ 474,992	$ 336,966	$ 255,784	$ 74,242	$ 46,365	$ 376,391
REIT debt	62,700	62,069	34,809	31,365	-	66,174
ABS - subprime	558,215	321,801	290,731	39,290	25,954	355,975
ABS - other real estate	10,098	1,547	-	798	677	1,475
FNMA / FHLMC	768,619	818,866	395,131	425,404	-	820,535
CDO	203,477	67,538	-	65,027	5,998	71,025
Total	$ 2,078,101	$ 1,608,787	$ 976,455	$ 636,126	$ 78,994	$ 1,691,575

(A) Net of incurred losses.
(B) Net of discounts (or gross premiums) and after OTTI, including impairment taken during the period ended December 31, 2012.
(C) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold us the security). Management selected one of the quotes received as being most representative of fair value and did not use an average of the quotes. Even if Newcastle receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes Newcastle receives. Management believes using an average of the quotes in these cases would generally not represent the fair value of the asset. Based on Newcastle's own fair value analysis using internal models, management selects one of the quotes which is believed to more accurately reflect fair value. Newcastle never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.
(D) Management was unable to obtain quotations from more than one source on these securities. The one source was generally the seller (the party that sold us the security) or a pricing service.
(E) Securities whose fair value was estimated based on internal pricing models are further detailed as follows:

					Weighted Average Significant Input			
Asset Type	Amortized Cost Basis (B)	Fair Value	Impairment Recorded in Current Year	Unrealized Gains (Losses) in Accumulated OCI	Discount Rate	Prepayment Speed (F)	Cumulative Default Rate	Loss Severity
CMBS - conduit	$ 23,648	$ 29,193	$ 4,418	$ 5,545	10%	N/A	21%	39%
CMBS - Large loan / single borrower	18,326	17,172	-	(1,154)	6%	N/A	18%	40%
ABS - subprime	13,741	25,954	719	12,213	8%	2%	60%	75%
ABS - other real estate	455	677	64	222	8%	0%	44%	100%
CDO	3,979	5,998	-	2,019	18%	4%	69%	93%
Total	$ 60,149	$ 78,994	$ 5,201	$ 18,845				

All of the significant inputs listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class (e.g., CMBS projections are developed differently than Home Equity ABS projections) but conform to industry conventions. Newcastle uses assumptions that generate its best estimate of future cash flows of each respective security.

The prepayment vector specifies the percentage of the collateral balance that is expected to voluntarily pay off at each point in the future. The prepayment vector is based on projections from a widely published investment bank model, which considers factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis. This vector is scaled up or down to match recent collateral-specific prepayment experience, as obtained from remittance reports and market data services.

Loss severities are based on recent collateral-specific experience with additional consideration given to collateral characteristics. Collateral age is taken into consideration because severities tend to initially increase with collateral age before eventually stabilizing. Newcastle typically uses projected severities that are higher than the historic experience for collateral that is relatively new to account for this effect. Collateral characteristics such as loan size, lien position, and location (state) also effect loss severity. Newcastle considers whether a collateral pool has experienced a significant change in its composition with respect to these factors when assigning severity projections.

Default vectors are determined from the current "pipeline" of loans that are more than 90 days delinquent, in foreclosure, or are real estate owned (REO). These significantly delinquent loans determine the first 24 months of the default vector. Beyond month 24, the default vector transitions to a steady-state value that is generally equal to or greater than that given by the widely published investment bank model.

The discount rates Newcastle uses are derived from a range of observable pricing on securities backed by similar collateral and offered in a live market. As the markets in which Newcastle transacts have become less liquid, Newcastle has had to rely on fewer data points in this analysis.

(F) Projected annualized average prepayment rate.

Loan Valuation

Loans which Newcastle does not have the ability or intent to hold into the foreseeable future are classified as held-for-sale. As a result, these held-for-sale loans are carried at the lower of amortized cost or fair value and are therefore recorded at fair value on a non-recurring basis. These loans were written down to fair value at the time of the impairment, based on broker quotations, pricing service quotations or internal pricing models. All the loans were within Level 3 of the fair value hierarchy. For real estate related loans, the most significant inputs used in the valuations are the amount and timing of expected future cash flows, market yields and the estimated collateral value of such loan investments. For residential mortgage loans, significant inputs include management's expectations of prepayment speeds, default rates, loss severities and discount rates that market participants would use in determining the fair values of similar pools of residential mortgage loans.

The following tables summarize certain information for real estate related loans and residential mortgage loans held-for-sale as of December 31, 2012:

					Significant Input			
					Range		Weighted Average	
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Loss Severity	Discount Rate	Loss Severity
Mezzanine	$ 527,793	$ 442,529	$ 451,812	$ 4,049	6.5% - 25.0%	0.0% - 100.0%	10.1%	10.6%
Bank Loan	391,904	208,863	208,863	(19,123)	6.3% - 36.3%	0.0% - 100.0%	18.9%	37.6%
B-Note	171,258	161,610	162,285	(13,139)	8.0% - 15.0%	0.0%	10.4%	0.0%
Whole Loan	30,130	30,130	30,142	-	5.1% - 7.1%	0.0% - 15.0%	5.2%	14.5%
Total Real Estate Related Loans Held for Sale, Net	$ 1,121,085	$ 843,132	$ 853,102	$ (28,213)				

					Significant Input (Weighted Average)			
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Prepayment Speed	Cumulative Default Rate	Loss Severity
Non-securitized Manufactured Housing Loans I	$ 573	$ 163	$ 163	$ 3	38.8%	0.0%	52.9%	75.0%
Non-securitized Manufactured Housing Loans II	3,072	2,308	2,308	(496)	15.5%	5.0%	3.5%	80.0%
Total Residential Mortgage Loans Held for Sale, Net	$ 3,645	$ 2,471	$ 2,471	$ (493)				

Loans which Newcastle has the intent and ability to hold into the foreseeable future are classified as held-for-investment. Loans held-for-investment are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-downs for impaired loans.

The following table summarizes certain information for residential mortgage loans held-for-investment as of December 31, 2012:

					Significant Input (Weighted Average)			
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Securitized Manufactured Housing Loans I	$ 118,746	$ 100,124	$ 99,964	$ (49)	9.5%	4.0%	4.0%	75.0%
Securitized Manufactured Housing Loans II	153,193	150,123	148,441	3,926	7.5%	5.0%	3.5%	80.0%
Residential Loans	56,131	42,214	48,625	242	7.4%	4.7%	2.8%	46.6%
Total Residential Mortgage Loans, Held-for-Investment, Net	$ 328,070	$ 292,461	$ 297,030	$ 4,119				

Excess MSRs Valuation

Fair value estimates of Newcastle's Excess MSRs investments were based on internal pricing models. The valuation technique is based on discounted cash flows. Significant inputs used in the valuations included expectations of prepayment speeds, delinquency rates, recapture rates, the excess mortgage servicing amount of the underlying mortgage loans, and discount rates that market participants would use in determining the fair values of servicing assets on similar pools of residential mortgage loans. In addition, in valuing the Excess MSRs investments, management considered the likelihood of Nationstar being removed as servicer, which likelihood is considered to be remote.

The following table summarizes certain information regarding the inputs used in valuing the Excess MSRs investments as of December 31, 2012:

	Significant Input Ranges				
	Prepayment Speed (A)	Delinquency (B)	Recapture Rate (C)	Excess Mortgage Servicing Amount (D)	Discount Rate
MSR Pool 1	17.1%	10.0%	35.0%	29 bps	18.0%
MSR Pool 1 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	18.0%
MSR Pool 2	16.7%	11.0%	35.0%	23 bps	17.3%
MSR Pool 2 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.3%
MSR Pool 3	16.9%	12.1%	35.0%	23 bps	17.6%
MSR Pool 3 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.6%
MSR Pool 4	18.6%	15.9%	35.0%	17 bps	17.9%
MSR Pool 4 - Recapture Agreement	8.0%	10.0%	35.0%	21 bps	17.9%
MSR Pool 5	15.0%	N/A (E)	20.0%	13 bps	17.5%
MSR Pool 5 - Recapture Agreement	8.0%	N/A (E)	20.0%	21 bps	17.5%

(A) Projected annualized weighted average voluntary and involuntary prepayment rate using a prepayment vector.
(B) Projected percentage of mortgage loans in the pool that are expected to miss their mortgage payments.
(C) Percentage of voluntarily prepaid loans that are expected to be refinanced by Nationstar.
(D) Weighted average total mortgage servicing amount in excess of the basic fee.
(E) The Excess MSR will be paid on the total UPB of the mortgage portfolio (including both performing and delinquent loans until REO)

All of the assumptions listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources.

Prepayment speed projections are in the form of a "vector" that varies over the expected life of the pool. The prepayment vector specifies the percentage of the collateral balance that is expected to prepay voluntarily (i.e., pay off) and involuntarily (i.e., default) at each point in the future. The prepayment vector is based on assumptions that reflect factors such as the borrower's FICO score, loan-to-value ratio, debt-to-income ratio, vintage on a loan level basis, as well as the projected effect on loans eligible for the Home Affordable Refinance Program 2.0 ("HARP 2.0"). Management considers collateral-specific prepayment experience when determining this vector. For the Recapture Agreements and recaptured loans, Newcastle also considers industry research on the prepayment experience of similar loan pools (i.e., loan pools composed of refinanced loans). This data is obtained from remittance reports, market data services and other market sources.

Delinquency rates are based on the recent pool-specific experience of loans that missed their most recent mortgage payments. For the Recapture Agreements and recaptured loans, delinquency rates are based on the experience of similar loan pools recently originated by Nationstar and recent delinquency experience. Additional consideration is given to loans that are expected to become 30 or more days delinquent.

Recapture rates are based on actual average recapture rates experienced by Nationstar on similar mortgage loan pools. Generally, Newcastle looks to one year worth of actual recapture rates, which management believes provides a reasonable sample for projecting future recapture rates while taking into account current market conditions.

For existing mortgage pools, excess mortgage servicing amount projections are based on the actual total mortgage servicing amount in excess of a basic fee. For loans expected to be refinanced by Nationstar and subject to a Recapture Agreement, Newcastle considers the excess mortgage servicing amount on loans recently originated by Nationstar and other general market considerations.

The discount rates Newcastle uses are derived from market data on pricing of mortgage servicing rights backed by similar collateral.

Newcastle uses different prepayment and delinquency assumptions in valuing the Excess MSRs relating to the original loan pools, the Recapture Agreements and the Excess MSRs relating to recaptured loans. The prepayment speed and delinquency rate assumptions differ because of differences in the collateral characteristics, eligibility for the Home Affordable Refinance Program 2.0 ("HARP 2.0") and expected borrower behavior for original loans and loans which have been refinanced. Newcastle uses the same assumptions for recapture and discount rates when valuing Excess MSRs and Recapture Agreement. These assumptions are based on historical recapture experience and market pricing.

Newcastle's MSRs investments measured at fair value on a recurring basis using Level 3B inputs changed as follows:

	Level 3B (A)					
	MSR Pool 1	MSR Pool 2	MSR Pool 3	MSR Pool 4	MSR Pool 5	Total
Balance at December 30, 2010						
Transfers (B)						
Transfers from Level 3A	-	-	-	-	-	-
Transfers into Level 3A	-	-	-	-	-	-
Gains (losses) included in net income (C)	-	-	-	-	-	-
Interest income	367	-	-	-	-	367
Purchases, sales and repayments						
Purchases	43,742	-	-	-	-	43,742
Purchase adjustments	1,260	-	-	-	-	1,260
Proceeds from sales	-	-	-	-	-	-
Proceeds from repayments	(1,398)	-	-	-	-	(1,398)
Balance at December 30, 2011	$ 43,971	$ -	$ -	$ -	$ -	$ 43,971
Transfers (B)						
Transfers from Level 3A	-	-	-	-	-	-
Transfers into Level 3A	-	-	-	-	-	-
Gains (losses) included in net income (C)	5,877	1,226	2,780	1,004	(1,864)	9,023
Interest income	7,955	3,450	3,409	1,381	11,293	27,488
Purchases, sales and repayments						
Purchases	-	43,872	36,218	15,439	124,813	220,342
Purchase adjustments	(178)	(1,522)	-	-	-	(1,700)
Proceeds from sales	-	-	-	-	-	-
Proceeds from repayments	(16,715)	(7,704)	(6,973)	(2,788)	(19,908)	(54,088)
Balance at December 31, 2012	$ 40,910	$ 39,322	$ 35,434	$ 15,036	$ 114,334	$ 245,036

(A) Includes the recapture agreement for each respective pool.
(B) Transfers are assumed to occur at the beginning of the quarter.
(C) The gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates. These gains (losses) are recorded in "Change in fair value of investments in excess mortgage servicing rights" in the consolidated statement of income.

Derivatives

Newcastle's derivative instruments are valued using counterparty quotations. These quotations are generally based on valuation models with model inputs that can generally be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of our Level 2 derivative contracts are contractual cash flows and market based interest rate curves.

Newcastle's derivatives are recorded on its balance sheet as follows:

		Fair Value	
		December 31,	
	Balance sheet location	2012	2011
Derivative Assets			
Interest rate caps, designated as hedges	Derivative Assets	$ -	$ 1,092
Interest rate caps, not designated as hedges	Derivative Assets	165	862
		$ 165	$ 1,954
Derivative Liabilities			
Interest rate swaps, designated as hedges	Derivative Liabilities	$ 12,175	$ 90,025
Interest rate swaps, not designated as hedges	Derivative Liabilities	19,401	29,295
		$ 31,576	$ 119,320

The following table summarizes information related to derivatives:

	December 31,	
	2012	2011
Cash flow hedges		
Notional amount of interest rate swap agreements	$ 154,450	$ 848,434
Notional amount of interest rate cap agreements	-	104,205
Amount of (loss) recognized in OCI on effective portion	(12,050)	(69,908)
Deferred hedge gain (loss) related to anticipated financings, which have subsequently occurred, net of amortization	237	299
Deferred hedge gain (loss) related to dedesignation, net of amortization	(210)	(893)
Expected reclassification of deferred hedges from AOCI into earnings over the next 12 months	4	1,688
Expected reclassification of current hedges from AOCI into earnings over the next 12 months	(6,259)	(35,348)
Non-hedge Derivatives		
Notional amount of interest rate swap agreements	294,203	316,600
Notional amount of interest rate cap agreements	23,400	36,428

The following table summarizes gains (losses) recorded in relation to derivatives:

	Income Statement Location	Year Ended December 31,		
		2012	2011	2010
Cash flow hedges				
Gain (loss) on the ineffective portion	Other Income (Loss)	$ 483	$ (917)	$ 580
Gain (loss) immediately recognized at dedesignation	Gain (Loss) on Sale of Investments, Other Income (Loss)	(7,036)	(13,939)	(39,184)
Amount of gain (loss) reclassified from AOCI into income, related to effective portion	Interest Expense	(30,631)	(63,350)	(83,869)
Deferred hedge gain reclassified from AOCI into income, related to anticipated financings	Interest Expense	61	58	475
Deferred hedge gain (loss) reclassified from AOCI into income, related to effective portion of dedesignated hedges	Interest Expense	1,189	2,259	(5,471)
Non-hedge derivatives gain (loss)	Other Income (Loss)	9,101	3,284	(1,240)

Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

Type of Liabilities Not Measured At Fair Value for Which Fair Value Is Disclosed	Fair Value Hierarchy	Valuation Techniques and Significant Inputs
CDO bonds payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Underlying security and loan prepayment, default and cumulative loss expectations • Amount and timing of expected future cash flows • Market yields and credit spreads implied by comparisons to transactions of similar tranches of CDO debt by the varying levels of subordination
Other bonds and notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Broker quotations • Market yields and credit spreads implied by comparisons to transactions of similar tranches of securitized debt by the varying levels of subordination
Repurchase agreements	Level 2	Valuation technique is based on market comparables. Significant variables include: • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Mortgage notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Market yields and the credit spread of Newcastle

10. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges:

	December 31, 2012								Collateral						December 31, 2011	
Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Unhedged Weighted Average Funding Cost (A)	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (C)	Amortized Cost Basis (C)	Carrying Value (C)	Weighted Average Maturity (Years)	Floating Rate Face Amount (C)	Aggregate Notional Amount of Current Hedges (D)	Outstanding Face Amount	Carrying Value
CDO Bonds Payable																
CDO IV (E)	Mar 2004	$ 79,898	$ 79,811	Mar 2039	1.83%	5.02%	1.3	$ 69,098	$ 168,111	$ 155,646	$ 151,250	1.9	$ 43,202	$ 69,098	$ 106,645	$ 106,454
CDO VI (E)	Apr 2005	91,578	91,578	Apr 2040	0.87%	5.35%	4.8	88,495	180,039	92,932	119,184	3.1	49,393	88,495	91,141	91,141
CDO VIII	Nov 2006	518,501	517,541	Nov 2052	0.78%	2.22%	2.4	510,901	707,189	523,202	551,058	2.9	385,978	154,450	577,133	575,736
CDO IX	May 2007	400,938	402,424	May 2052	0.59%	0.59%	2.3	400,938	637,873	517,982	527,903	3.2	326,849	-	480,125	482,329
CDO X (F)	Jul 2007	-	-	Jul 2052	N/A	-	-	-	-	-	-	-	-	-	1,150,000	1,147,945
		1,090,915	1,091,354			2.08%	2.5	1,069,432	1,693,212	1,289,762	1,349,395	2.9	805,422	312,043	2,405,044	2,403,605
Other Bonds and Notes Payable																
MH Loans Portfolio I (G)	Apr 2010	70,056	66,199	Jul 2035	6.25%	6.25%	4.2	-	118,746	100,124	100,124	6.8	909	-	70,109	69,256
MH Loans Portfolio II (G)	May 2011	117,907	117,191	Dec 2033	4.40%	4.40%	3.9	-	153,193	150,123	150,123	5.6	25,727	-	126,856	125,630
Residential Mortgage Loans	Aug 2006	-	-	N/A	N/A	-	-	-	-	-	-	-	-	-	5,491	5,491
		187,963	183,390			5.07%	4.0	-	271,939	250,247	250,247	6.1	26,636	-	202,456	200,377
Repurchase Agreements																
CDO Securities (I)	Dec 2012	5,658	5,658	Mar 2013	LIBOR+2.25%	2.46%	0.2	5,658	-	-	-	-	-	-	8,728	8,728
Non-agency RMBS (J)	Various	150,922	150,922	Jan 2013	LIBOR+2.00%	2.21%	0.1	150,922	344,177	215,212	228,493	6.9	344,177	-	-	-
FNMA/FHLMC securities (K)	Various	772,855	772,855	Various	0.53%	0.53%	0.1	772,855	768,619	818,866	820,536	3.5	768,619	N/A	231,012	231,012
		929,435	929,435			0.81%	0.1	929,435	1,112,796	1,034,078	1,049,029	4.6	1,112,796	-	239,740	239,740
Mortgage Notes Payable																
BPM Senior Living Facilities	Jul 2012	88,400	88,400	Aug 2019	3.44%	3.44%	6.2	23,400	N/A	138,131	138,131	N/A	-	23,400	-	-
Utah Senior Living Facilities	Nov 2012	16,000	16,000	Oct 2017	LIBOR+3.75% (H)	4.75%	4.8	16,000	N/A	22,262	22,262	N/A	-	-	-	-
Courtyards Senior living facilities	Dec 2012	16,125	16,125	Oct 2017	LIBOR+3.75% (H)	4.75%	4.8	16,125	N/A	21,494	21,494	N/A	-	-	-	-
		120,525	120,525			3.79%	5.8	55,525	N/A	181,887	181,887	N/A	-	23,400	-	-
Corporate																
Junior subordinated notes payable	Mar 2006	51,004	51,243	Apr 2035	7.574% (M)	7.40%	22.3	-	-	-	-	-	-	-	51,004	51,248
		51,004	51,243			7.40%	22.3	-	-	-	-	-	-	-	51,004	51,248
Subtotal debt obligations		2,379,842	2,375,947			2.02%	2.3	$ 2,054,392	$ 3,077,947	$ 2,755,974	$ 2,830,558	3.8	$ 1,944,854	$ 335,443	$ 2,898,244	$ 2,894,970
Financing on subprime mortgage loans subject to call option	(L)	406,217	405,814												406,217	404,723
Total debt obligations		$ 2,786,059	$ 2,781,761												$ 3,304,461	$ 3,299,693

(A) Weighted average, including floating and fixed rate classes and including the amortization of deferred financing costs.

(B) Including the effect of applicable hedges.

(C) Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash in senior living entities.

(D) Including a $23.4 million notional amount of interest rate cap agreement in for the mortgage notes payable, and $69.1 million and $88.5 million of interest rate swap agreements in CDOs IV and VI, respectively, which were economic hedges not designated as hedges for accounting purposes.

(E) These CDOs were not in compliance with their applicable over collateralization tests as of December 31, 2012. Newcastle is not receiving cash flows from these CDOs (other than senior management fees and cash flows on senior classes of bonds that were repurchased), since net interest is being used to pay debt, and expects these CDOs to remain out of compliance for the foreseeable future.

(F) Deconsolidated on September 12, 2012.

(G) Excluding $20.5 million face amount of other bonds payable relating to MH loans Portfolio I sold to certain Newcastle CDOs, which were eliminated in consolidation.

(H) These financings have a LIBOR floor of 1%.

(I) The counterparty of this repurchase agreement is Bank of America. It is secured by $21.0 million face amount of notes issued by Newcastle CDO VI, which is eliminated in consolidation. The maximum recourse to Newcastle is $1.4 million. This repurchase agreement was subsequently paid off in January 2013.

(J) The counterparty on these repurchase agreements is Credit Suisse.

(K) The counterparties on these repurchase agreements are Bank of America, Barclays, Citi and Goldman Sachs. Interest rates on these repurchase agreements are fixed, but will be reset on a short-term basis.

(L) Issued in April 2006 and July 2007. See Note 5 regarding the securitizations of Subprime Portfolios I and II.

(M) LIBOR + 2.25% after April 2016.

Certain of the debt obligations included above are obligations of consolidated subsidiaries of Newcastle which own the related collateral. In some cases, including the CDO and Other Bonds Payable, such collateral is not available to other creditors of Newcastle.

CDO Bonds Payable

Each CDO financing is subject to tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure. As of December 31, 2012, CDOs IV and VI were not in compliance with their applicable over collateralization tests.

During 2010, Newcastle repurchased $483.7 million of CDO bonds for $215.8 million and recorded a gain of $265.7 million. During 2011, Newcastle repurchased $167.5 million face amount of CDO bonds for $102.0 million and recorded a gain of $65.0 million. During 2012, Newcastle repurchased $34.1 million face amount of CDO bonds for $10.9 million and recorded a gain of $23.2 million.

In December 2010, Newcastle, together with one or more of its wholly owned subsidiaries, completed a series of transactions whereby it repurchased approximately $257 million current principal balance of Newcastle CDO VI Class I-MM notes at a price of 67.5% of par. The purchased notes represent all of the outstanding Class I-MM notes of Newcastle CDO VI (the "notes"). Newcastle purchased the notes using a combination of restricted cash, unrestricted cash and proceeds from a new repurchase facility, entered into in connection with the purchase of a portion of the notes. In accordance with GAAP, Newcastle recorded an $82 million gain on the extinguishment of debt and $24 million of mark-to-market loss on the related interest rate swap agreement. As of December 31, 2012, the repurchase agreement had an outstanding balance of $5.7 million, which was secured by $21.0 million current principal balance of the notes. Although the repurchase facility contains mark to market provisions that require margin to be posted in the event that the value of the notes decreases, the recourse to Newcastle is limited to twenty-five percent of the then-outstanding balance of the repurchase facility, which was approximately $1.4 million as of December 31, 2012. The repurchase facility matures in March 2013 and bears interest at a rate of LIBOR + 2.25%. In January 2013, Newcastle paid off the outstanding repurchase agreement.

In April 2011, Newcastle entered into an agreement to sell its retained interests in Newcastle CDO VII. Pursuant to the agreement, the buyer of the retained interests liquidated CDO VII in June 2011 and paid Newcastle total consideration of approximately $3.9 million. As a result, Newcastle recorded a gain of approximately $3.4 million in the second quarter of 2011, representing the excess of the sales proceeds over the carrying value of Newcastle's retained interests.

In June 2011, Newcastle deconsolidated a non-recourse financing structure, CDO V. Newcastle determined that it does not currently have the power to direct the relevant activities of CDO V as an event of default had occurred and Newcastle may be removed as the collateral manager by a single party. So long as the event of default continues, Newcastle will not be permitted to purchase or sell any collateral in CDO V. If Newcastle is removed as the collateral manager of CDO V, it would no longer receive the senior management fees from such CDO. As of February 27, 2013, Newcastle has not been removed as collateral manager. Newcastle does not expect the failure of these additional tests to have a material negative impact on its cash flows, business, results of operations or financial condition.

On September 12, 2012, Newcastle deconsolidated a non-recourse financing structure, CDO X. Newcastle completed the sale of 100% of its interests in CDO X to the sole owner of the senior notes and another third party, in connection with the liquidation and termination of CDO X. Newcastle received $130 million for $89.75 million face amount of subordinated notes and all of its equity in CDO X. As a result, Newcastle recorded a gain on sale and deconsolidated CDO X. The sale and resulting deconsolidation has reduced Newcastle's gross assets by $1.1 billion, reduced liabilities by $1.2 billion, decreased other comprehensive income by $25.5 million and resulted in a gain of $224.3 million in the quarter ended September 30, 2012. A condition to the sale of its interests was the right to purchase certain collateral held by CDO X. Newcastle purchased eight securities with a face amount of $101 million for 49.4% of par, or approximately $50 million. As of December 31, 2012, Newcastle had no continuing involvement with CDO X as it had been liquidated.

As of December 31, 2012, CDOs IV and VI were not in compliance with their applicable over collateralization tests and, consequently, Newcastle was not receiving cash flows from these CDOs currently (other than senior management fees and interest distributions from senior classes of bonds Newcastle owns). Based upon Newcastle's current calculations, Newcastle expects these two portfolios to remain out of compliance for the foreseeable future. Moreover, given current

market conditions, it is possible that all of Newcastle's CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

Other Bonds Payable

On April 15, 2010, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio I (the "Portfolio"). Newcastle sold approximately $164.1 million outstanding principal balance of manufactured housing loans to Newcastle MH I LLC (the "2010 Issuer"). The 2010 Issuer issued approximately $134.5 million aggregate principal amount of asset-backed notes, of which $97.6 million was sold to third parties and $36.9 million was sold to certain CDOs managed and consolidated by Newcastle. At the closing of the securitization transaction, Newcastle used the gross proceeds received from the issuance of the Notes to repay the previously existing financing on this portfolio in full, terminate the related interest rate swap contracts, pay the related transaction costs and increase its unrestricted cash by approximately $14 million. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. As a result, no gain or loss is recorded for the transaction. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as loans held for investment at securitization, and records the notes issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements.

On May 4, 2011, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio II. Newcastle sold approximately $197.0 million outstanding principal balance of manufactured housing loans to Newcastle Investment Trust 2011-MH 1 (the "2011 Issuer"), an indirect wholly-owned subsidiary of Newcastle. The 2011 Issuer issued approximately $159.8 million aggregate principal amount of investment grade notes, of which $142.8 million was sold to third parties and $17.0 million was sold to one of the CDOs managed and consolidated by Newcastle. In addition, Newcastle retained the below investment grade notes and residual interest. As a result, Newcastle invested approximately $20.0 million of its unrestricted cash in the new securitization structure. The notes issued to third parties have an average expected maturity of 3.8 years and bear interest at an average rate of 3.23% per annum. At the closing of the securitization transaction, Newcastle used the gross proceeds received from the issuance of the notes to repay the previously existing debt in full, terminate the related interest rate swap contracts and pay the related transaction costs. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. As a result, no gain or loss is recorded for the transaction. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as residential mortgage loans held-for-investment at securitization, and records the notes issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements.

Mortgage Notes Payable

In the year ended December 31, 2012, Newcastle completed three acquisitions of senior living assets and funded each of the acquisitions with an equity investment and a third-party financing as follows:

On July 18, 2012, Newcastle completed the acquisition of eight senior housing facilities for an aggregate purchase price of approximately $143.3 million plus acquisition-related expenses. The purchase price was funded with an equity investment of approximately $54.9 million and a third-party financing of approximately $88.4 million. The financing is secured by the properties, non-recourse to the general credit of Newcastle, matures in August 2019 and currently has a weighted average interest rate of 3.44%. The financing is an interest- only loan through August 2013, requires principal repayments according to a 30-year amortization schedule thereafter and allows for additional future borrowings, subject to the terms and conditions of the agreement.

On November 1, 2012, Newcastle completed the acquisition of three senior housing facilities for an aggregate purchase price of approximately $22.6 million plus acquisition-related costs. The purchase price was funded with an equity investment of approximately $6.6 million and a third-party financing of approximately $16.0 million. The financing is secured by the properties, non-recourse to the general credit of Newcastle, matures in October 2017 and currently has an interest rate of 4.75%. The financing is an interest-only loan through October 2014 and requires principal repayments according to a 30-year amortization schedule thereafter.

On December 27, 2012, Newcastle completed the acquisition of a senior housing facility for an aggregate purchase price of approximately $21.5 million plus acquisition-related costs. The purchase price was funded with an equity investment of approximately $5.4 million and a third-party financing of approximately $16.1 million. The financing is secured by the property, non-recourse to the general credit of Newcastle, matures in October 2017 and currently has an interest rate of

4.75%. The financing is an interest-only loan through October 2014 and requires principal repayments according to a 30-year amortization schedule thereafter.

Junior Subordinated Notes Payable

In March 2006, Newcastle completed the placement of $100 million of trust preferred securities through its wholly owned subsidiary, Newcastle Trust I (the "Preferred Trust"). Newcastle owned all of the common stock of the Preferred Trust. The Preferred Trust used the proceeds to purchase $100.1 million of Newcastle's junior subordinated notes. These notes represented all of the Preferred Trust's assets. The terms of the junior subordinated notes were substantially the same as the terms of the trust preferred securities.

On April 30, 2009, Newcastle entered into an exchange agreement with several collateralized debt obligations managed by a third party pursuant to which Newcastle agreed to exchange newly issued junior subordinated notes due in 2035 with an initial aggregate principal amount of $101.7 million (the "Notes") for $100 million in aggregate liquidation amount of trust preferred securities that were previously issued by a subsidiary of Newcastle (the "TRUPs") and were owned by the third party. The Notes accrued interest at a rate of 1.0% per year, beginning on February 1, 2009, and the rate reverted to 7.574% on February 1, 2010 in connection with the preferred stock exchange (Note 11). In conjunction with the exchange, the TRUPs were cancelled. Under the provisions of ASC 470-60, "Troubled Debt Restructurings by Debtors", this exchange was considered a troubled debt restructuring which required Newcastle to account for the effect of the interest modification prospectively and to record the expenses related to the modification immediately through earnings.

On January 29, 2010, Newcastle entered into an Exchange Agreement (the "Exchange Agreement") with Taberna Capital Management, LLC and certain of its affiliates (collectively, "Taberna"), pursuant to which Newcastle and Taberna agreed to exchange (the "Exchange") approximately $52.1 million aggregate principal amount of junior subordinated notes due 2035 for approximately $37.6 million face amount of previously issued CDO securities and approximately $9.7 million of cash held by Newcastle. In other words, $52.1 million face amount of Newcastle's debt, in the form of junior subordinated notes payable, was repurchased and extinguished for GAAP purposes in exchange for (i) the payment of $9.7 million of cash and (ii) the reissuance of $37.6 million face amount of CDO bonds payable (which had previously been repurchased by Newcastle). In connection with the Exchange, Newcastle paid or reimbursed $0.6 million of expenses incurred by Taberna, various indenture trustees and their respective advisors in accordance with the terms of the Exchange Agreement. Newcastle accounted for this exchange as a troubled debt restructuring involving the partial repayment of debt. As a result, Newcastle recorded no gain or loss. The following table presents certain information regarding the exchange, as of the date of the exchange:

		Consideration		
	Repurchased junior subordinated notes	Cash	Reissued CDO bonds	Total
Outstanding face amount	$ 52,094	$ 9,715	$ 37,625	$ 47,340
Weighted average coupon	7.574% (A)	N/A	LIBOR + 0.66% (B)	
Maturity	April 2035		June 2052	
Collateral	General credit of Newcastle		Assets within the respective CDOs	

(A) LIBOR + 2.25% after April 2016.
(B) Weighted average effective interest rate of approximately LIBOR+0.35% after the Exchange.

The fair value of the consideration paid approximated the fair value of the repurchased junior subordinated notes of $16.7 million.

Maturity Table

Newcastle's debt obligations (gross of $4.3 million of discounts at December 31, 2012) have contractual maturities as follows:

	Nonrecourse	Recourse	Total
2013	$ 4,786	$ 925,192	$ 929,978
2014	1,713	-	1,713
2015	2,274	-	2,274
2016	2,305	-	2,305
2017	32,763	-	32,763
Thereafter	1,817,026	-	1,817,026
Total	$ 1,860,867	$ 925,192	$ 2,786,059

Debt Covenants

Newcastle's non-CDO financings and mortgage notes payable contain various customary loan covenants. Newcastle was in compliance with all of the covenants in its non-CDO financings and mortgage notes payable as of February 28, 2013.

11. EQUITY AND EARNINGS PER SHARE

Earnings per Share

Newcastle is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. Newcastle's common stock equivalents are its stock options. During 2012 and 2011, based on the treasury stock method, Newcastle had 1,620,043 and 6,324 dilutive common stock equivalents, respectively, resulting from its outstanding options. During 2010, Newcastle had no dilutive common stock equivalents (common stock equivalents are not dilutive in periods of net loss or when all of the exercise prices exceed the current market price). Net income (loss) applicable to common stockholders is equal to net income (loss) less preferred dividends, plus the excess of the carrying amount of exchanged preferred stock over the fair value of consideration paid (see "Preferred Stock" below).

In June 2012, Newcastle filed a shelf registration statement with the SEC covering common stock, preferred stock, depositary shares, debt securities and warrants.

Common Stock Offerings

In March 2011, Newcastle issued 17,250,000 shares of its common stock in a public offering at a price to the public of $6.00 per share for net proceeds of approximately $98.4 million. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 1,725,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately $7.0 million as of the grant date.

In September 2011, Newcastle issued 25,875,000 shares of its common stock in a public offering at a price to the public of $4.55 per share for net proceeds of approximately $112.3 million. Certain principals of Fortress and officers of Newcastle participated in this offering and purchased an aggregate of 1,314,780 shares at the offering price. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,587,500 shares of Newcastle's common stock at the public offering price, which were valued at approximately $5.6 million as of the grant date.

In April 2012, Newcastle issued 18,975,000 shares of its common stock in a public offering at a price to the public of $6.22 per share for net proceeds of approximately $115.2 million. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 1,897,500 shares of Newcastle's common stock at the public offering price, which had a fair value of approximately $5.6 million as of the grant date.

In May 2012, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the public of $6.71 per share for net proceeds of approximately $152.0 million. For the purpose of compensating the Manager for its successful

efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at the public offering price, which had a fair value of approximately $7.6 million as of the grant date.

In July 2012, Newcastle issued 25,300,000 shares of its common stock in a public offering at a price to the underwriters of $6.63 per share for net proceeds of approximately $167.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 450,000 shares at a price of $6.70 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,530,000 shares of Newcastle's common stock at a price of $6.70, which had a fair value of approximately $8.3 million as of the grant date.

In January 2013, Newcastle issued 57,500,000 shares of its common stock in a public offering at a price to the public of $9.35 per share for net proceeds of approximately $526.2 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of $9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 5,750,000 shares of Newcastle's common stock at a price of $9.35, which had a fair value of approximately $18.0 million as of the grant date.

In February 2013, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the underwriters of $10.34 per share for net proceeds of approximately $237.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 191,000 shares at a price of $10.48 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at a price of $10.48, which had a fair value of approximately $8.4 million as of the grant date.

Option Plan

In May 2012, Newcastle (adopted by the board of directors with the approval of the shareholders) adopted the 2012 Newcastle Nonqualified Stock option and Incentive Plan, or the "2012 Plan." The 2012 Plan is the successor to the Newcastle Option Plan for officers, directors, consultants and advisors, including the Manager and its employees, and is intended to facilitate the continued use of long-term equity-based awards and incentives for the benefit of the service providers to Newcastle and its Manager. All outstanding options granted under the Stock Incentive Plan will continue to be subject to the terms and conditions as set forth in the agreements evidencing such options and the terms of the Newcastle Option Plan. The maximum number of shares available for issuance in the aggregate over the ten-year term of the 2012 Plan is equal to 20,000,000 shares. Newcastle's Board may also determine to issue options to the Manager that are not subject to the Newcastle Option Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules.

In June 2002, Newcastle (with the approval of the board of directors) adopted a nonqualified stock option and incentive award plan (the "Newcastle Option Plan") for officers, directors, consultants and advisors, including the Manager and its employees.

Upon joining the board, the non-employee directors were, in accordance with the Newcastle Option Plan, automatically granted options to acquire an aggregate of 20,000 shares of common stock. The fair value of such options was not material at the date of grant.

Through December 31, 2012, for the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, the Manager has been granted options representing the right to acquire 14,563,727 shares of common stock, with strike prices subject to adjustment as necessary to preserve the value of such options in connection with the occurrence of certain events (including capital dividends and capital distributions made by Newcastle). These options represented an amount equal to 10% of the shares of common stock of Newcastle sold in its public offerings and the value of such options was recorded as an increase in stockholders' equity with an offsetting reduction of capital proceeds received. The options granted to the Manager, which may be assigned by Fortress to its employees, were fully vested on the date of grant and one thirtieth of the options become exercisable on the first day of each of the following thirty calendar months, or earlier upon the occurrence of certain events, such as a change in control of Newcastle or the termination of the Management Agreement. The options expire ten years from the date of issuance.

Newcastle's outstanding options were summarized as follows:

	December 31, 2012			December 31, 2011		
	Issued Prior to 2011	Issued in 2011 and 2012	Total	Issued Prior to 2011	Issued in 2011	Total
Held by the Manager	1,751,172	7,934,166	9,685,338	1,686,447	4,312,500	5,998,947
Issued to the Manager and subsequently transferred to certain of Manager's employees	701,937	3,010,000	3,711,937	798,162	-	798,162
Issued to the independent directors	10,000	2,000	12,000	14,000	2,000	16,000
Total	2,463,109	10,946,166	13,409,275	2,498,609	4,314,500	6,813,109

The following table summarizes Newcastle's outstanding options at December 31, 2012. Note that the last sales price on the New York Stock Exchange for Newcastle's common stock in the year ended December 31, 2012 was $8.68 per share.

Recipient	Date of Grant/Exercise	Number of Options	Options Exercisable at December 31, 2012	Weighted Average Exercise Price (A)	Fair Value At Grant Date (Millions) (B)		Intrinsic Value at December 31, 2012 (millions)
Directors	Various	20,000	12,000	$17.07	Not Material		-
Manager (C)	2002 - 2007	3,523,727	2,453,109	$26.87	$6.4		-
Manager (C)	Mar-11	1,725,000	1,207,500	$6.00	$7.0	(F)	$4.5
Manager (C)	Sep-11	2,587,500	1,293,750	$4.55	$5.6	(G)	$10.5
Manager (C)	Apr-12	1,897,500	506,000	$6.22	$5.6	(H)	$4.7
Manager (C)	May-12	2,300,000	536,667	$6.71	$7.6	(I)	$4.5
Manager (C)	Jul-12	2,530,000	421,667	$6.70	$8.3	(J)	$5.0
Exercised (D)	Prior to 2008	(1,043,118)	N/A	$15.70	N/A		N/A
Exercised (E)	Oct-12	(95,834)	N/A	$5.28	N/A		N/A
Expired unexercised	2002	(35,500)	N/A	N/A	N/A		N/A
Outstanding		13,409,275	6,430,693				

(A) The strike prices are subject to adjustment in connection with return of capital dividends. A portion of Newcastle's 2008 dividends was deemed return of capital dividends. The effect on the strike prices was not significant. As of December 31, 2012, the weighted average strike price of the outstanding options issued prior to 2011 was $26.84.

(B) The fair value of the options was estimated using an option valuation model. Since the Newcastle Option Plan has characteristics significantly different from those of traded options, and since the assumptions used in such model, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from management's estimate. The volatility assumption for these options was estimated based primarily on the historical volatility of Newcastle's common stock and management's expectations regarding future volatility. The expected life assumption for options issued prior to 2011 was estimated based on the simplified term method. This simplified method was used because Newcastle did not have sufficient historical data to conclude on the appropriate expected life of its options and because historical data to date was consistent with the simplified term method. The expected life assumption for options issued in 2011 and 2012 was estimated based primarily on the historical expected life of applicable previously issued options.

(C) The Manager assigned certain of its options to Fortress's employees as follows:

Date of Grant	Range of Strike Prices	Total Unexercised Inception to Date
2003	$20.35-$22.85	164,197
2004	$25.75-$31.40	226,125
2005	$29.60	89,925
2006	$29.42	48,875
2007	$27.75-$31.30	172,815
2011	$4.55-$6.00	1,460,000
2012	$6.22-$6.71	1,550,000
	Total	3,711,937

(D) 670,620 of the total options exercised were by the Manager. 368,498 of the total options exercised were by employees of Fortress subsequent to their assignment. 4,000 of the total options exercised were by directors.

(E) Exercised by employees of Fortress subsequent to their assignment. The options exercised had an intrinsic value of $0.2 million.

(F) The assumptions used in valuing the options were: a 1.7% risk-free rate, 107.8% volatility and a 3.3 year expected term.

(G) The assumptions used in valuing the options were: a 1.13% risk-free rate, 13.2% dividend yield, 151.1% volatility and a 4.6 year expected term.

(H) The assumptions used in valuing the options were: a 1.3% risk-free rate, 12.9% dividend yield, 149.4% volatility and a 4.7 year expected term.

(I) The assumptions used in valuing the options were: a 1.05% risk-free rate, 11.9% dividend yield, 148.4% volatility and a 4.8 year expected term.

(J) The assumptions used in valuing the options were: a 0.75% risk-free rate, 11.9% dividend yield, 147.5% volatility and a 4.8 year expected term.

Preferred Stock

In March 2003, Newcastle issued 2.5 million shares ($62.5 million face amount) of its 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). In October 2005, Newcastle issued 1.6 million shares ($40.0 million face amount) of its 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred"). In March 2007, Newcastle issued 2.0 million shares ($50.0 million face amount) of its 8.375% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred"). The Series B Preferred, Series C Preferred and Series D Preferred are non-voting, have a $25 per share liquidation preference, no maturity date and no mandatory redemption. Newcastle has the option to redeem the Series B Preferred, the Series C Preferred and the Series D Preferred, at their liquidation preference. If the Series C Preferred or Series D Preferred cease to be listed on the NYSE or the AMEX, or quoted on the NASDAQ, and Newcastle is not subject to the reporting requirements of the Exchange Act, Newcastle has the option to redeem the Series C Preferred or Series D Preferred, as applicable, at their liquidation preference and, during such time any shares of Series C Preferred or Series D Preferred are outstanding, the dividend will increase to 9.05% or 9.375% per annum, respectively.

In connection with the issuance of the Series B Preferred, Series C Preferred and Series D Preferred, Newcastle incurred approximately $2.4 million, $1.5 million, and $1.8 million of costs, respectively, which were netted against the proceeds of such offerings. If any series of preferred stock were redeemed, the related costs would be recorded as an adjustment to income available for common stockholders at that time.

In March 2010, Newcastle settled its offer to exchange (the "Exchange Offer") shares of its common stock and cash for shares of its preferred stock. In the aggregate, Newcastle issued 9,091,668 shares of its common stock (approximately 17.2% of Newcastle's outstanding shares of common stock prior to the issuance of shares in the Exchange Offer). A total of 2,881,694 shares of common stock were issued in exchange for 1,152,679 shares of Series B Preferred Stock, a total of 2,759,989 shares of common stock were issued in exchange for 1,104,000 shares of Series C Preferred Stock, and a total of 3,449,985 shares of common stock were issued in exchange for 1,380,000 shares of Series D Preferred Stock. The shares of Preferred Stock acquired by Newcastle in the Exchange Offer were retired upon receipt. After settlement of the Exchange Offer, 1,347,321 shares of Series B Preferred Stock, 496,000 shares of Series C Preferred Stock and 620,000 shares of Series D Preferred Stock remain outstanding for trading on the New York Stock Exchange.

The $43.0 million excess of the $87.5 million carrying value of the exchanged preferred stock over the $44.5 million fair value of consideration paid (which included $28.5 million of common stock and $16.0 million of cash) was recorded as an increase to Net Income (Loss) Applicable to Common Stockholders.

As of January 31, 2013, Newcastle had paid all current and accrued dividends on its preferred stock.

12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Manager

Newcastle is party to a Management Agreement with its Manager which provides for automatically renewing one-year terms subject to certain termination rights. The Manager's performance is reviewed annually and the Management Agreement may be terminated by Newcastle by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the affirmative vote of at least two-thirds of the independent directors, or by a majority vote of the holders of common stock. Pursuant to the Management Agreement, the Manager, under the supervision of Newcastle's board of directors, formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of Newcastle's assets and provides certain advisory, administrative and managerial services in connection with the operations of Newcastle. For performing these services, Newcastle pays the Manager an annual management fee equal to 1.5% of the gross equity of Newcastle, as defined, including adjustments for return of capital dividends.

The Management Agreement provides that Newcastle will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on Newcastle's behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for Newcastle by providers retained by the Manager or, if provided by the Manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

To provide an incentive for the Manager to enhance the value of the common stock, the Manager is entitled to receive an incentive return (the "Incentive Compensation") on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) the Funds from Operations (defined as the net income available for common stockholders before Incentive Compensation, excluding extraordinary items, plus depreciation of operating

real estate and after adjustments for unconsolidated subsidiaries, if any) of Newcastle per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in the IPO and the value attributed to the net assets transferred to Newcastle by its predecessor, and in any subsequent offerings by Newcastle (adjusted for prior return of capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding.

In addition, Newcastle is party to Property Management Agreements with affiliates of Fortress to manage its senior living properties. Pursuant to the management agreement for each property, Newcastle pays management fees equal to 6% of the property's gross income (as defined in the agreements) for the first two years and 7% thereafter. Newcastle will reimburse the manager for certain expenses, primarily the compensation expense associated with the on-site employees. The Property Management Agreements have an initial term of ten years and provide for automatic one-year extension after the initial term, subject to termination rights.

	Amounts Incurred (in millions)		
	2012	2011	2010
Management Fees...……………………………….	$24.2	$17.8	$16.8
Expense Reimbursement………………………….	0.5	0.5	0.5
Incentive Compensation………………………….	-	-	-

In 2009, principals of Fortress sold an aggregate of 1.1 million common shares of Newcastle to third parties at market prices.

In September 2011, certain principals of Fortress and officers of Newcastle participated in Newcastle's public offering (Note 11) and purchased an aggregate of 1,314,780 common shares at the offering price.

In July 2012, certain principals of Fortress participated in Newcastle's public offering (Note 11) and purchased an aggregate of 450,000 common shares at the offering price.

In January 2013, certain principals of Fortress participated in Newcastle's public offering (Note 11) and purchased an aggregate of 213,900 common shares at the offering price.

In February 2013, certain principals of Fortress participated in Newcastle's public offering (Note 11) and purchased an aggregate of 191,000 common shares at the offering price.

At December 31, 2012, Fortress, through its affiliates, and principals of Fortress, owned 4.9 million shares of Newcastle's common stock and Fortress, through its affiliates, had options to purchase an additional 9.7 million shares of Newcastle's common stock (Note 11).

At December 31, 2012 and 2011, Due To Affiliates was comprised of $3.6 million and $1.7 million, respectively, of management fees and expense reimbursements payable to the Manager.

Other Affiliated Entities

In April 2006, Newcastle securitized Subprime Portfolio I and, through Securitization Trust 2006, entered into a servicing agreement with a subprime home equity mortgage lender (the "Subprime Servicer") to service this portfolio. In July 2006, private equity funds managed by an affiliate of Newcastle's manager completed the acquisition of the Subprime Servicer. As compensation under the servicing agreement, the Subprime Servicer will receive, on a monthly basis, a net servicing fee equal to 0.5% per annum on the unpaid principal balance of the portfolio. In March 2007, through Securitization Trust 2007, Newcastle entered into a servicing agreement with the Subprime Servicer to service Subprime Portfolio II under substantially the same terms. The outstanding unpaid principal balances of Subprime Portfolios I and II were approximately $423.9 million and $564.5 million at December 31, 2012, respectively.

In April 2010, Newcastle, through two of its CDOs, made a cash investment of $75.0 million in a new real estate related loan to a portfolio company of a private equity fund managed by an affiliate of Newcastle's manager. Newcastle's chairman is an officer of the borrower. This investment improves the applicable CDOs' results under some of their respective tests, and is expected to yield approximately 22%. The loan is secured by subordinated interests in the properties of the borrower and its maturity has been extended to June 2019. Interest on the loan will be accrued and deferred until maturity.

In January 2011, Newcastle, through two of its CDOs, made a cash investment of approximately $47 million in a portion of a new secured loan to a portfolio company of a private equity fund managed by Newcastle's manager. Newcastle's chairman and secretary are officers or directors of the borrower. The terms of the loan were negotiated by a third party bank who acted as agent for the creditors on the loan. At closing, Newcastle received an origination fee on the loan equal to 2% of the amount of cash it loaned to the portfolio company, which was the same fee received by other creditors on the loan. In February 2011, the portfolio company repaid the loan in full.

See Note 6 for a discussion of the co-investments in Excess MSRs with Nationstar.

In the fourth quarter of 2012, Newcastle increased its investment in two different tranches of real estate related loans to a portfolio company of a private equity fund managed by an affiliate of Newcastle's manager. Newcastle's chairman is also chairman of the board of directors of the portfolio company. Newcastle purchased from third parties an aggregate face amount of $51.6 million for an aggregate purchase price of approximately $18.0 million in the fourth quarter of 2012. As of December 31, 2012, Newcastle held on its balance sheet an aggregate face amount of $161.6 million in these real estate related loans with a carrying value of approximately $60.0 million. In January and February of 2013, Newcastle purchased from third parties an additional face amount of $186.4 million in these real estate related loans for an aggregate purchase price of approximately $66.2 million.

As of December 31, 2012, Newcastle held on its balance sheet a total face amount of $433.5 million of non-Agency RMBS serviced by Nationstar. The total UPB of these Nationstar serviced non-Agency RMBS was approximately $5.7 billion as of December 31, 2012.

As of December 31, 2012, Newcastle held on its balance sheet total investments of $395.2 million face amount of real estate securities and related loans issued by affiliates of the Manager. Newcastle earned approximately $25.8 million, $22.5 million and $22.2 million of interest on investments issued by affiliates of the Manager for the years ended December 31, 2012, 2011 and 2010, respectively.

In each instance described above, affiliates of Newcastle's manager have an investment in the applicable affiliated fund and receive from the fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds.

13. COMMITMENTS AND CONTINGENCIES

Litigation — Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at December 31, 2012, if any, will not materially affect Newcastle's consolidated results of operations or financial position.

Environmental Costs — As a commercial real estate owner, Newcastle is subject to potential environmental costs. At December 31, 2012, management of Newcastle is not aware of any environmental concerns that would have a material adverse effect on Newcastle's consolidated financial position or results of operations.

Debt Covenants —Newcastle's debt obligations contain various customary loan covenants. See Note 10.

Subprime Securitizations — Newcastle has no obligation to repurchase any loans from either of its subprime securitizations. Therefore, it is expected that Newcastle's exposure to loss is limited to the carrying amount of its retained interests in the securitization entities (Note 5). A subsidiary of Newcastle's gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of Newcastle.

Capital Commitment in a Joint Venture – As of December 31, 2012, Newcastle had a capital commitment of $27.3 million related to a 50% investment in a joint venture in connection with the acquisition of Excess MSRs on a portfolio of Ginnie Mae residential mortgage loans, see Note 15.

14. INCOME TAXES

Newcastle Investment Corp. is organized and conducts its operations to qualify as a REIT under the Code. A REIT will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. A portion of this distribution requirement may be met through stock dividends rather than cash, subject to limitations based on the value of Newcastle's stock.

Since Newcastle distributed 100% of its 2012, 2011 and 2010 REIT taxable income (if any), no provision has been made for U.S. federal corporate income taxes in the accompanying consolidated financial statements.

Common stock distributions relating to 2012, 2011, and 2010 were taxable as follows:

	Dividends Per Share		Ordinary	Long-term	
	Book Basis	Tax Basis	Income	Capital Gain	Return of Capital
2012	$0.84	$0.84	100.00%	0.00%	0.00%
2011	$0.40	$0.40	100.00%	0.00%	0.00%
2010	$0.00	$0.00	0.00%	0.00%	0.00%

During 2010 and 2009, Newcastle repurchased an aggregate of $787.8 million face amount of its outstanding CDO debt and junior subordinated notes at a discount and recorded $521.1 million of aggregate gain. The gain recorded upon such cancellation of indebtedness is characterized as ordinary income for tax purposes. In compliance with current tax laws, Newcastle has the ability to defer such ordinary income to future years and has deferred all or a portion of such gain for 2010 and 2009. However, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During 2011, Newcastle repurchased $188.9 million face amount of its outstanding CDO debt and notes payable at a discount and recorded $81.1 million of gain for tax purposes, of which only $66.1 million gain relating to $171.8 million face amount of debt repurchased was recognized for GAAP purposes. During 2012, Newcastle repurchased $39.3 million face amount of Newcastle CDO debt and notes payable at a discount and recorded a $24.1 million gain on extinguishment of debt for GAAP, of which only $23.2 million of gain relating to $34.1 million face amount of debt repurchased was recognized for tax purposes.

In addition, Newcastle may recognize material ordinary income from the cancellation of debt within its non-recourse financing structures, including its subprime securitizations, while losses on the related collateral may be recognized as capital losses. Through December 31, 2012, $61.7 million of debt in Newcastle's subprime securitizations has been cancelled as a result of losses incurred on the underlying assets in the securitization trusts.

As of December 31, 2011, Newcastle had a loss carryforward, inclusive of net operating loss and capital loss, of approximately $896.8 million. The net operating loss carryforward and capital loss carryforward can generally be used to offset future ordinary taxable income and taxable capital gains, for up to 20 years and 5 years, respectively. The amounts of net operating loss carryforward and net long-term capital loss carryforward as of December 31, 2012 are subject to the finalization of the 2012 tax returns.

In January 2013, an "ownership change" for purposes of Section 382 of the Code occurred. The provisions of Section 382 of the Code will impose an annual limit on the amount of net operating loss and net capital loss carryforwards that Newcastle can use to offset future taxable income. Such limitation may increase Newcastle's dividend distribution requirement in the future. Newcastle does not believe that the limitation as a result of the January 2013 ownership change will prevent it from satisfying the REIT distribution requirement for the current year and future years.

15. SUBSEQUENT EVENTS

These financial statements include a discussion of material events which have occurred subsequent to December 31, 2012 (referred to as "subsequent events") through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

On January 4, 2013, Newcastle, through a subsidiary's investment in a joint venture, co-invested in Excess MSRs on a portfolio of Ginnie Mae residential mortgage loans with a UPB of approximately $13 billion as of November 30, 2012. Nationstar acquired the related servicing rights from Bank of America in November 2012. Newcastle invested approximately $27.3 million for a 50% interest in a joint venture which will acquire an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture will be owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs will be owned by Nationstar. As the servicer, Nationstar will perform all servicing and advancing functions, and it will retain the ancillary income, servicing obligations and liabilities associated with this portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations.

On January 6, 2013, Newcastle, through a subsidiary's investment in a joint venture, agreed to co-invest in Excess MSRs on a portfolio of four pools of residential mortgage loans with a UPB of approximately $215 billion as of November 30,

2012. Approximately 53% of the loans in this portfolio are in private label securitizations, and the remainder are owned, insured or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association ("Ginnie Mae"). Nationstar has agreed to acquire the related servicing rights from Bank of America. Newcastle committed to invest approximately $340 million for a 50% interest in a joint venture which will acquire an approximately 67% interest in the Excess MSRs on this portfolio. The remaining interests in the joint venture will be owned by a Fortress-managed fund and the remaining interest of approximately 33% in the Excess MSRs will be owned by Nationstar. As the servicer, Nationstar will perform all servicing and advancing functions, and it will retain the ancillary income, servicing obligations and liabilities associated with this portfolio. Under the terms of this investment, to the extent that any loans in the portfolio are refinanced by Nationstar, the resulting Excess MSRs will be shared on a pro rata basis by the joint venture and Nationstar, subject to certain limitations. The majority of the investment is expected to close in the first quarter of 2013, subject to regulatory and third party approvals. There can be no assurance that Newcastle will complete this investment as anticipated or at all. On January 31, 2013, Newcastle completed the first closing of this co-investment. The first closing related to Excess MSRs on loans with an aggregate UPB of approximately $58 billion as of December 31, 2012, that are owned, insured, or guaranteed by Fannie Mae or Freddie Mac.

On February 27, 2013, Newcastle, through a subsidiary, entered into an agreement to co-invest in non-performing mortgage loans with a UPB of approximately $83 million as of December 31, 2012. Newcastle has invested approximately $35 million to acquire a 70% interest in the non-performing mortgage loans. Nationstar has co-invested pari passu with Newcastle in 30% of the non-performing mortgage loans and will be the servicer of the loans performing all servicing and advancing functions, and retaining the ancillary income, servicing obligations and liabilities as the servicer.

16. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is unaudited summary information on Newcastle's quarterly operations.

2012	Quarter Ended				Year Ended
	March 31 (A)	June 30 (A)	September 30 (A)	December 31	December 31
Interest income	$ 74,899	$ 82,438	$ 82,850	$ 70,272	$ 310,459
Interest expense	30,165	29,462	28,411	21,886	109,924
Net interest income (expense)	44,734	52,976	54,439	48,386	200,535
Impairment, net of the reversal of prior valuation allowances on loans	(7,080)	8,499	5,014	(12,097)	(5,664)
Other revenues	509	515	8,071	10,980	20,075
Other income (loss) (B)	29,752	(1,359)	235,782	15,542	279,717
Property operating expenses	225	232	5,043	7,443	12,943
Depreciation and amortization	2	2	2,385	4,586	6,975
Other operating expenses	8,360	12,946	12,612	17,977	51,895
Income (loss) from continuing operations	73,488	30,453	273,238	56,999	434,178
Income (loss) from discontinued operations	(17)	(14)	(17)	(20)	(68)
Preferred dividends	(1,395)	(1,395)	(1,395)	(1,395)	(5,580)
Income (loss) applicable to common stockholders	$ 72,076	$ 29,044	$ 271,826	$ 55,584	$ 428,530
Net income (loss) per share of common stock					
Basic	$ 0.68	$ 0.21	$ 1.65	$ 0.32	$ 2.97
Diluted	$ 0.68	$ 0.21	$ 1.63	$ 0.32	$ 2.94
Income (loss) from discontinued operations per share of common stock					
Basic	$ -	$ -	$ -	$ -	$ -
Diluted	$ -	$ -	$ -	$ -	$ -
Weighted average number of shares of common stock outstanding					
Basic	105,181	134,115	164,238	172,519	144,146
Diluted	105,670	135,173	166,429	175,413	145,766

2011	Quarter Ended				Year Ended
	March 31 (A)	June 30 (C)	September 30 (A)	December 31	December 31
		(Restated)			(Restated) (C)
Interest income	$ 72,203	$ 74,143	$ 72,393	$ 73,557	$ 292,296
Interest expense	38,165	35,750	32,587	31,533	138,035
Net interest income (expense)	34,038	38,393	39,806	42,024	154,261
Impairment, net of the reversal of prior valuation allowances on loans	(36,773)	(9,067)	21,650	25,300	1,110
Other revenues	477	465	469	488	1,899
Other income (loss) (B)	45,469	103,961	18,802	12,630	180,862
Property operating expenses	249	233	322	306	1,110
Depreciation and amortization	4	4	3	1	12
Other operating expenses	6,851	7,407	7,181	8,821	30,260
Income (loss) from continuing operations	109,653	144,242	29,921	20,714	304,530
Income (loss) from discontinued operations	20	(35)	22	(18)	(11)
Preferred dividends	(1,395)	(1,395)	(1,395)	(1,395)	(5,580)
Income (loss) applicable to common stockholders	$ 108,278	$ 142,812	$ 28,548	$ 19,301	$ 298,939
Net income (loss) per share of common stock					
Basic	$ 1.73	$ 1.80	$ 0.35	$ 0.18	$ 3.65
Diluted	$ 1.73	$ 1.80	$ 0.35	$ 0.18	$ 3.65
Income (loss) from discontinued operations per share of common stock					
Basic	$ -	$ -	$ -	$ -	$ -
Diluted	$ -	$ -	$ -	$ -	$ -
Weighted average number of shares of common stock outstanding					
Basic	62,602	79,282	80,425	105,175	81,984
Diluted	62,611	79,282	80,442	105,175	81,990

(A) The Income Available for Common Stockholders shown agrees with Newcastle's quarterly report(s) on Form 10-Q as filed with the Securities and Exchange Commission. However, individual line items may vary from such report(s) due to the operations of properties sold, or classified as held for sale, during subsequent periods being retroactively reclassified to Income for Discontinued Operations for all periods presented (Note 8).

(B) Including equity in earnings of unconsolidated subsidiaries.

(C) Restated to correct the recording of the deconsolidation of CDO V as discussed in Note 2.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d –15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective. In connection with the 2011 error described in Note 2 to our consolidated financial statements included herein, our Chief Executive Office and Chief Financial Officer re-evaluated the Company's disclosure controls and procedures and determined that there was a material weakness in our internal control over financial reporting with respect to the recording of the deconsolidation of CDO V in our consolidated financial statements for the year ended December 31, 2011. However, our Chief Executive Office and Chief Financial Officer have determined that such weakness was subsequently remediated with the Manager's addition of new personnel focused on the accounting for significant transactions. As a result, no material weakness existed as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting. Except for the change noted above and below, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is currently engaged in refining and harmonizing the internal controls and processes relating to the following senior housing assets with the Company's internal controls and processes: (i) eight senior housing assets acquired on July 18, 2012 from entities owned and managed by Walter C. Bowen; (ii) three senior housing assets acquired on November 1, 2012 from Retirement Place, Inc.; and (iii) a senior housing asset acquired on December 27, 2012 from Courtyards of River Park, Ltd. The results of the senior living assets since their respective acquisition dates are included in the December 31, 2012 consolidated financial statements of the Company and constituted approximately 5 percent and 7 percent of total assets and net assets, respectively, as of December 31, 2012, and approximately 5 percent of revenue for the year then ended. Internal control over financial reporting of the acquired senior housing assets has been excluded from the Company's annual assessment of the effectiveness of the Company's internal control over financial reporting in accordance with the general guidance issued by the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of consolidation.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. As noted above, the Company has excluded from its assessment internal control over financial reporting of recently acquired senior housing assets in accordance with the general guidance issued by the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of consolidation. See Note 7 to the Company's consolidated financial statements included in this Form 10-K.

Based on our assessment, management concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears at the beginning of "Financial Statements and Supplementary Data."

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to our definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2012.

Item 11. Executive Compensation.

Incorporated by reference to our definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to our definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2012.

Item 13. Certain Relationships and Related Transactions, Director Independence.

Incorporated by reference to our definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2012.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to our definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2012.

PART IV

Item 15. Exhibits; Financial Statement Schedules.

(a) and (c) Financial statements and schedules:
See "Financial Statements and Supplementary Data."

(b) Exhibits filed with this Form 10-K:

3.1 Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).

3.2 Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).

3.3 Articles Supplementary relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).

3.4 Articles Supplementary relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).

3.5 Amended and Restated By-laws (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 8, 2006).

4.1 Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).

4.2 Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).

4.3 Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).

10.1 Amended and Restated Management and Advisory Agreement by and among the Registrant and FIG LLC (formerly known as Fortress Investment Group LLC), dated June 23 2003 (incorporated by reference to the Registrant's Statement on Form S-11 (File No. 333-106135), Exhibit 10.1).

10.2 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan Amended and Restated Effective as of February 11, 2004 (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, exhibit 10.2).

10.3 2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012.

10.4 Exchange Agreement between Newcastle Investment Corp. and Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd., dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).

10.5 Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).

10.6 Excess Servicing Spread Sale and Assignment Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).

10.7 Excess Spread Refinanced Loan Replacement Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).

10.8 Future Spread Agreement for FNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR V LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).

10.9	Future Spread Agreement for FHLMC Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.10	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on May 15, 2012).
10.11	Future Spread Agreement for GNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VII LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on May 15, 2012).
10.12	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on June 7, 2012).
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10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 5, 2012).
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10.29 Amendment No 4 to the Amended and Restated Purchase Agreement, dated as of June 14, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on July 23, 2012).

10.30 Amendment No. 5 to the Amended and Restated Purchase Agreement, dated as of July 16, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.7, filed on July 23, 2012).

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*XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

NEWCASTLE INVESTMENT CORP.

By: /s/ Wesley R. Edens
Wesley R. Edens
Chairman of the Board

February 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Kenneth M. Riis
Kenneth M. Riis
Director and Chief Executive Officer

February 28, 2013

By: /s/ Brian C. Sigman
Brian C. Sigman
Chief Financial Officer and Principal Accounting Officer

February 28, 2013

By: /s/ Kevin J. Finnerty
Kevin J. Finnerty
Director

February 28, 2013

By: /s/ Stuart A. McFarland
Stuart A. McFarland
Director

February 28, 2013

By: /s/ David K. McKown
David K. McKown
Director

February 28, 2013

By: /s/ Alan L. Tyson
Alan L. Tyson
Director

February 28, 2013

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk tone of the parties if those statements provide to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See "Business – Corporate Governance and Internet Address; Where Readers Can Find Additional Information."

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

Exhibit Index

3.1	Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
3.2	Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
3.3	Articles Supplementary relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
3.4	Articles Supplementary relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Amended and Restated By-laws (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 8, 2006).
4.1	Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).
4.2	Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).
4.3	Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).
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10.2	Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan Amended and Restated Effective as of February 11, 2004 (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, Exhibit 10.2).
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10.6	Excess Servicing Spread Sale and Assignment Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
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10.21 Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 5, 2012).

10.22 Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 5, 2012).

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C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 23, 2012).

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EXHIBIT 12.1

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS AND RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to combined fixed charges and preferred dividends and our ratio of earnings to fixed charges for each of the periods indicated:

	Year Ended December 31,				
	2012	2011	2010	2009 (A)	2008 (B)
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	4.71	3.08	4.42	0.04	(8.32)
Ratio of Earnings to Fixed Charges	4.95	3.21	4.61	0.04	(8.68)

(A) The 2009 deficiencies in each ratio are $222.7 million and $209.2 million, respectively. The 2009 results included impairment charges. Excluding such charges, the ratios would have exceeded 1 to 1.

(B) The 2008 deficiencies in each ratio are $2.99 billion and $2.97 billion, respectively. The 2008 results included impairment charges. Excluding such charges, the ratios would have approximately equaled 1 to 1.

For purposes of calculating the above ratios, (i) earnings represent “Income (loss) from continuing operations,” excluding equity in earnings of unconsolidated subsidiaries, from our consolidated statements of income, as adjusted for fixed charges and distributions from unconsolidated subsidiaries, and (ii) fixed charges represent “Interest expense” from our consolidated statements of income. The ratios are based solely on historical financial information.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

	Subsidiary	Jurisdiction of Incorporation/Organization
1.	B Arizona Leasing LLC	Delaware
2.	B Arizona Owner LLC	Delaware
3.	B California Leasing LLC	Delaware
4.	B California Owner LLC	Delaware
5.	B Idaho Leasing LLC	Delaware
6.	B Idaho Owner LLC	Delaware
7.	B Leasing LLC	Delaware
8.	B Oregon Leasing LLC	Delaware
9.	B Oregon Owner LLC	Delaware
10.	B Owner LLC	Delaware
11.	B Utah Leasing LLC	Delaware
12.	B Utah Owner LLC	Delaware
13.	BF Leasing LLC	Delaware
14.	BF Owner LLC	Delaware
15.	Canyon Creek Leasing LLC	Delaware
16.	Canyon Creek Owner LLC	Delaware
17.	Chateau Brickyard Operations LLC	Delaware
18.	Chateau Brickyard Owner LLC	Delaware
19.	Dayton Asset Holding LLC	Delaware
20.	DBNC Peach Holdings LLC	Delaware
21.	DBNC Peach I Trust	Delaware
22.	DBNC Peach LLC	Delaware
23.	Desert Flower Leasing LLC	Delaware
24.	Desert Flower Owner LLC	Delaware
25.	Fortress Asset Trust	Delaware
26.	Golden Living Taylorsville Leasing LLC	Delaware
27.	Golden Living Taylorsville Owner LLC	Delaware
28.	Heritage Place Leasing LLC	Delaware
29.	Heritage Place Owner LLC	Delaware
30.	Impac CMB Trust 1998-C1	Delaware
31.	Impac Commercial Assets Corporation	California
32.	Impac Commercial Capital Corporation	California
33.	Impac Commercial Holdings, Inc.	Maryland
34.	Karl S.A.	Belgium
35.	LIV Holdings LLC	Delaware
36.	MSR Admin LLC	Delaware
37.	MSR Admin Parent LLC	Delaware
38.	MSR IX Holdings LLC	Delaware
39.	MSR IX LLC	Delaware
40.	MSR IX Trust	Delaware
41.	MSR VIII Holdings LLC	Delaware
42.	MSR VIII LLC	Delaware
43.	MSR VIII Trust	Delaware
44.	MSR VIII Trust	Delaware

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

	Subsidiary	Juristiction of Incorporation/Organization
45.	MSR X Holdings LLC	Delaware
46.	MSR X LLC	Delaware
47.	MSR X Trust	Delaware
48.	MSR XI Holdings LLC	Delaware
49.	MSR XI LLC	Delaware
50.	MSR XII Holdings LLC	Delaware
51.	MSR XII LLC	Delaware
52.	MSR XIII Holdings LLC	Delaware
53.	MSR XIII LLC	Delaware
54.	MSR XIII Parent LLC	Delaware
55.	MSR XIV Holdings LLC	Delaware
56.	MSR XIV LLC	Delaware
57.	NCT Holdings II LLC	Delaware
58.	NCT Holdings II LLC	Delaware
59.	NCT Holdings LLC	Delaware
60.	Newcastle 2005-1 Asset Backed Note LLC	Delaware
61.	Newcastle 2006-1 Asset Backed Note LLC	Delaware
62.	Newcastle 2006-1 Depositor LLC	Delaware
63.	Newcastle CDO IV Corp.	Delaware
64.	Newcastle CDO IV Holdings LLC	Delaware
65.	Newcastle CDO IV, Ltd.	Cayman Islands
66.	Newcastle CDO IX 1, Limited	Cayman Islands
67.	Newcastle CDO IX 2, Limited	Cayman Islands
68.	Newcastle CDO IX Holdings LLC	Delaware
69.	Newcastle CDO IX LLC	Delaware
70.	Newcastle CDO V Corp.	Delaware
71.	Newcastle CDO V Holdings LLC	Delaware
72.	Newcastle CDO V, Ltd.	Cayman Islands
73.	Newcastle CDO VI Corp.	Delaware
74.	Newcastle CDO VI Holdings LLC	Delaware
75.	Newcastle CDO VI, Ltd.	Cayman Islands
76.	Newcastle CDO VIII 1, Limited	Cayman Islands
77.	Newcastle CDO VIII 2, Limited	Cayman Islands
78.	Newcastle CDO VIII Holdings LLC	Delaware
79.	Newcastle CDO VIII LLC	Delaware
80.	Newcastle Foreign TRS Ltd. (process of dissolution)	Cayman Islands
81.	Newcastle Investment Trust 2010-MH1	Delaware
82.	Newcastle Investment Trust 2011-MH1	Delaware
83.	Newcastle MH I LLC	Delaware
84.	Newcastle MH I LLC	Delaware
85.	Newcastle Mortgage Securities LLC	Delaware
86.	Newcastle Mortgage Securities Trust 2004-1	Delaware
87.	Newcastle Mortgage Securities Trust 2007-1	Delaware
88.	Newcastle Mortgage Sercurites Trust 2006-1	Delaware

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

	Subsidiary	Juristiction of Incorporation/Organization
89.	Newcastle Senior Living Holdings LLC	Delaware
90.	Newcastle Trust I	Delaware
91.	NIC Acquisitions LLC	Delaware
92.	NIC Airport Corporate Center LLC	Delaware
93.	NIC Apple Valley I LLC	Delaware
94.	NIC Apple Valley II LLC	Delaware
95.	NIC Apple Valley III LLC	Delaware
96.	NIC Courtyard Owners LLC	Delaware
97.	NIC Courtyards Leasing LLC	Delaware
98.	NIC Courtyards LLC	Delaware
99.	NIC Courtyards Texas Leasing LLC	Delaware
100.	NIC CRA LLC	Delaware
101.	NIC Dayton Town Center LLC	Delaware
102.	NIC DB LLC	Delaware
103.	NIC DP LLC	Delaware
104.	NIC GH Equity LLC	Delaware
105.	NIC GH I LLC	Delaware
106.	NIC GH II LLC	Delaware
107.	NIC GH III LLC	Delaware
108.	NIC GH IV LLC	Delaware
109.	NIC GH IX LLC	Delaware
110.	NIC GH V LLC	Delaware
111.	NIC GH VI LLC	Delaware
112.	NIC GH VII LLC	Delaware
113.	NIC GH VII LLC	Delaware
114.	NIC GH X LLC	Delaware
115.	NIC GH XI LLC	Delaware
116.	NIC GH XII LLC	Delaware
117.	NIC IX Parent LLC	Delaware
118.	NIC Management LLC	Delaware
119.	NIC MSR I LLC	Delaware
120.	NIC MSR II LLC	Delaware
121.	NIC MSR III LLC	Delaware
122.	NIC MSR IV LLC	Delaware
123.	NIC MSR IX FH LLC	Delaware
124.	NIC MSR LLC	Delaware
125.	NIC MSR V LLC	Delaware
126.	NIC MSR VI LLC	Delaware
127.	NIC MSR VII LLC	Delaware
128.	NIC MSR VIII LLC	Delaware
129.	NIC MSR X FN LLC	Delaware
130.	NIC MSR XI GN LLC	Delaware
131.	NIC MSR XII PLS LLC	Delaware
132.	NIC MSR XIII PLS 2 LLC	Delaware

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

	Subsidiary	Juristiction of Incorporation/Organization
133.	NIC MSR XIV TBW FH LLC	Delaware
134.	NIC OTC LLC	Delaware
135.	NIC Reverse Loan LLC	Delaware
136.	NIC RMBS LLC	Delaware
137.	NIC SF LLC	Delaware
138.	NIC SN LLC	Delaware
139.	NIC TP LLC	Delaware
140.	NIC TRS Holdings, Inc	Delaware
141.	NIC TRS LLC	Delaware
142.	NIC VIII Parent LLC	Delaware
143.	NIC WL II LLC	Delaware
144.	NIC WL LLC	Delaware
145.	NIC X Parent LLC	Delaware
146.	NIC XI Parent LLC	Delaware
147.	NIC XII Parent LLC	Delaware
148.	NIC XIV Parent LLC	Delaware
149.	Orchard Park Leasing LLC	Delaware
150.	Orchard Park Owner LLC	Delaware
151.	Propco 2 LLC	Delaware
152.	Propco 3 LLC	Delaware
153.	Propco LLC	Delaware
154.	RC FH LLC	Delaware
155.	RC FN LLC	Delaware
156.	RC GN LLC	Delaware
157.	RC PLS LLC	Delaware
158.	Regent Court Leasing LLC	Delaware
159.	Regent Court Owner LLC	Delaware
160.	Reverse TRS LLC	Delaware
161.	RLG Leasing LLC	Delaware
162.	RLG Owner LLC	Delaware
163.	RLG Utah Leasing LLC	Delaware
164.	RLG Utah Owner LLC	Delaware
165.	Sheldon Park Leasing LLC	Delaware
166.	Sheldon Park Owner LLC	Delaware
167.	SP I Term Facility LLC	Delaware
168.	SSL Term Loan LLC	Delaware
169.	Steinhage B.V	Netherlands
170.	Sun Oak Leasing LLC	Delaware
171.	Sun Oak Owner LLC	Delaware
172.	Sunshine Villa Leasing LLC	Delaware
173.	Sunshine Villa Owner LLC	Delaware
174.	TRS LLC	Delaware
175.	Willow Park Leasing LLC	Delaware
176.	Willow Park Owner LLC	Delaware
177.	Xanadu Asset Holdings LLC	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-182103) of Newcastle Investment Corp. and Subsidiaries and in the related Prospectus of our reports dated February 28, 2013 with respect to the consolidated financial statements of Newcastle Investment Corp. and Subsidiaries, and the effectiveness of internal control over financial reporting of Newcastle Investment Corp. and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP
New York, New York
February 28, 2013

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Riis, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d – 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2013
(Date)

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian C. Sigman, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 28, 2013	/s/ Brian C. Sigman
(Date)	Brian C. Sigman
	Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth M. Riis, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer
February 28, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Brian C. Sigman, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian C. Sigman
Brian C. Sigman
Chief Financial Officer
February 28, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

End of Filing

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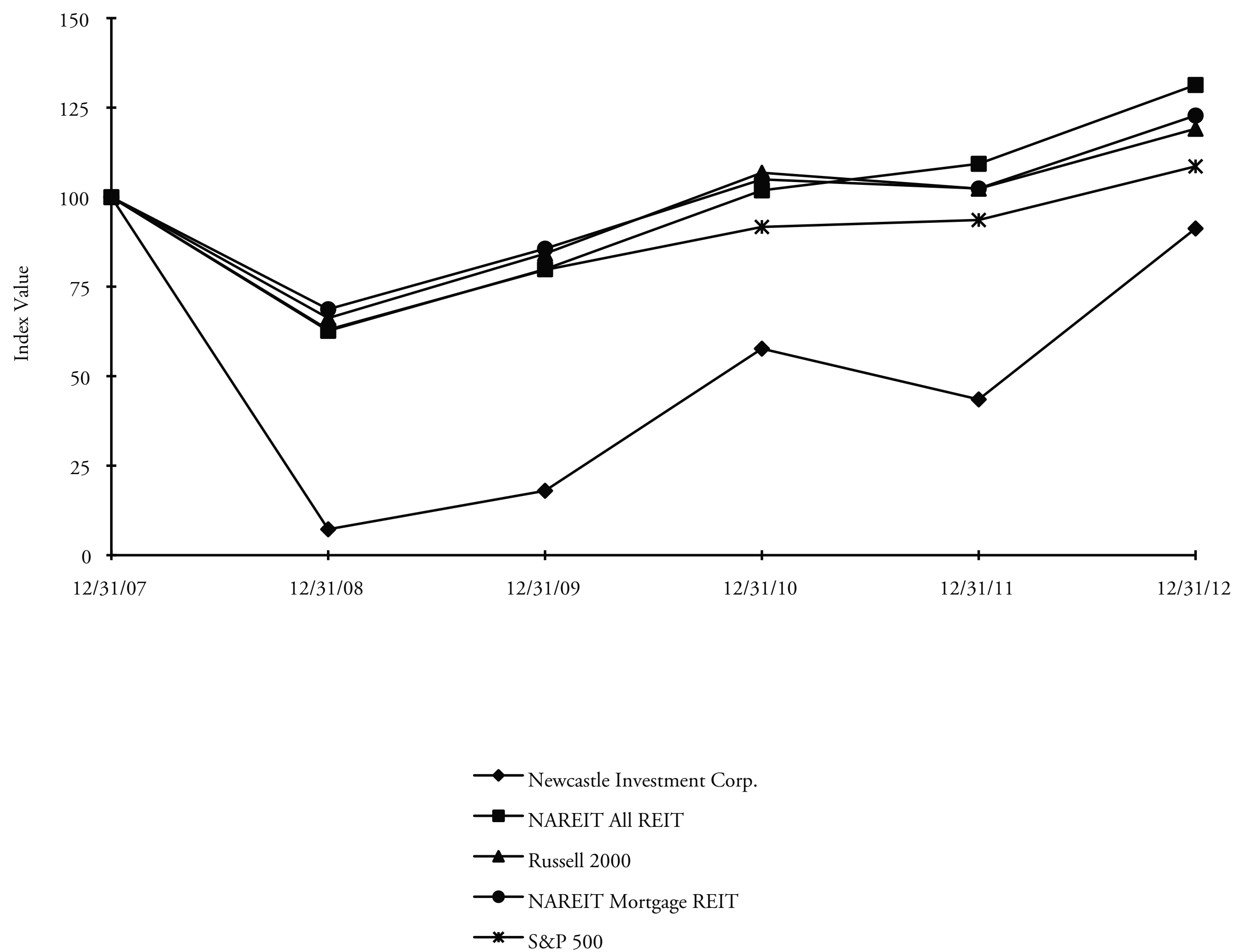
The following graph compares the cumulative total return for our common stock (stock price change plus reinvested dividends) with the comparable return of four indices: NAREIT All REIT, Russell 2000, NAREIT Mortgage REIT, and S&P 500. The graph assumes an investment of $100 in our common stock and in each of the indices on December 31, 2007 and that all dividends were reinvested. The past performance of our common stock is not an indication of future performance.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Wesley R. Edens
Chairman of the Board
Principal and Co-Chairman
Fortress Investment Group LLC

Kevin J. Finnerty [1]
Founding Partner
Galton Capital Group

Stuart A. McFarland [1]
Managing Partner
Federal City Capital Advisors, LLC

David K. McKown [1]
Senior Advisor
Eaton Vance Management

Alan L. Tyson [1]
Director

Kenneth M. Riis
Managing Director
FIG LLC

(1) Member of Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee

CORPORATE OFFICERS

Kenneth M. Riis
Chief Executive Officer and President

Brian C. Sigman
Chief Financial Officer

Jonathan Ashley
Chief Operating Officer

Randal A. Nardone
Secretary

CORPORATE HEADQUARTERS

Newcastle Investment Corp.
c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
(212) 798-6100
www.newcastleinv.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Five Times Square
New York, NY 10036-6530

SHAREHOLDER SERVICES, TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

STOCK EXCHANGE LISTING

Newcastle Investment Corp.'s
common stock is listed on the
New York Stock Exchange (symbol: NCT)

INVESTOR INFORMATION SERVICES

Newcastle Investment Corp.
c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Tel: (212) 479-3195
e-mail: ir@newcastleinv.com

Annual Report Design by Curran & Connors, Inc. / www.curran-connors.com

Newcastle Investment Corp. filed timely CEO and CFO certifications with the Securities and Exchange Commission pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 regarding Newcastle's annual report on Form 10-K for the year ended December 31, 2012. These certifications were filed as exhibits 31.1 and 31.2 to such Form 10-K.

NEWCASTLE INVESTMENT CORP.
1345 Avenue of the Americas
46th Floor
New York, NY 10105 USA
(212) 479-3195
www.newcastleinv.com