



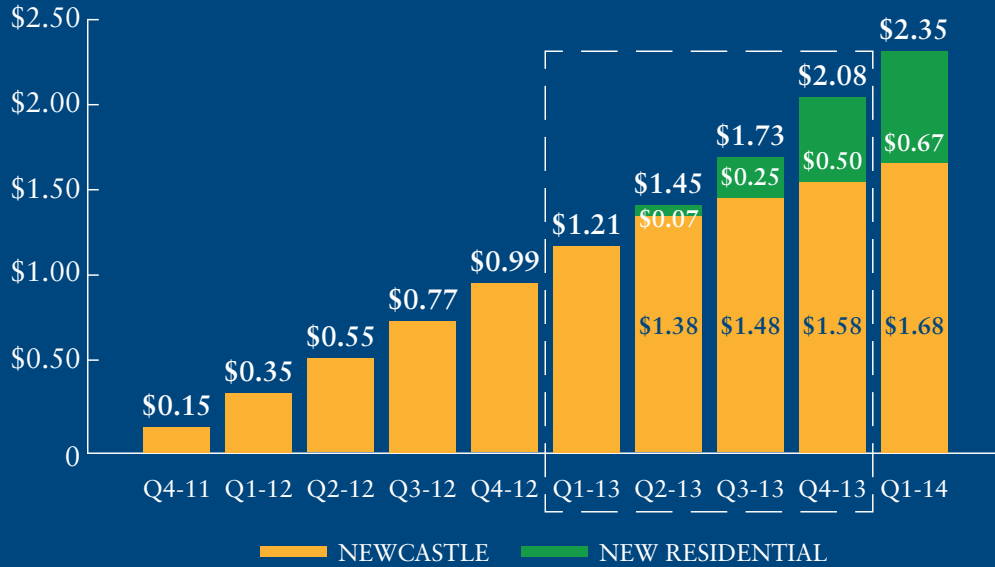
NEWCASTLE

INVESTMENT CORP.

Our success is built on a
proven track record of executing
on compelling ideas

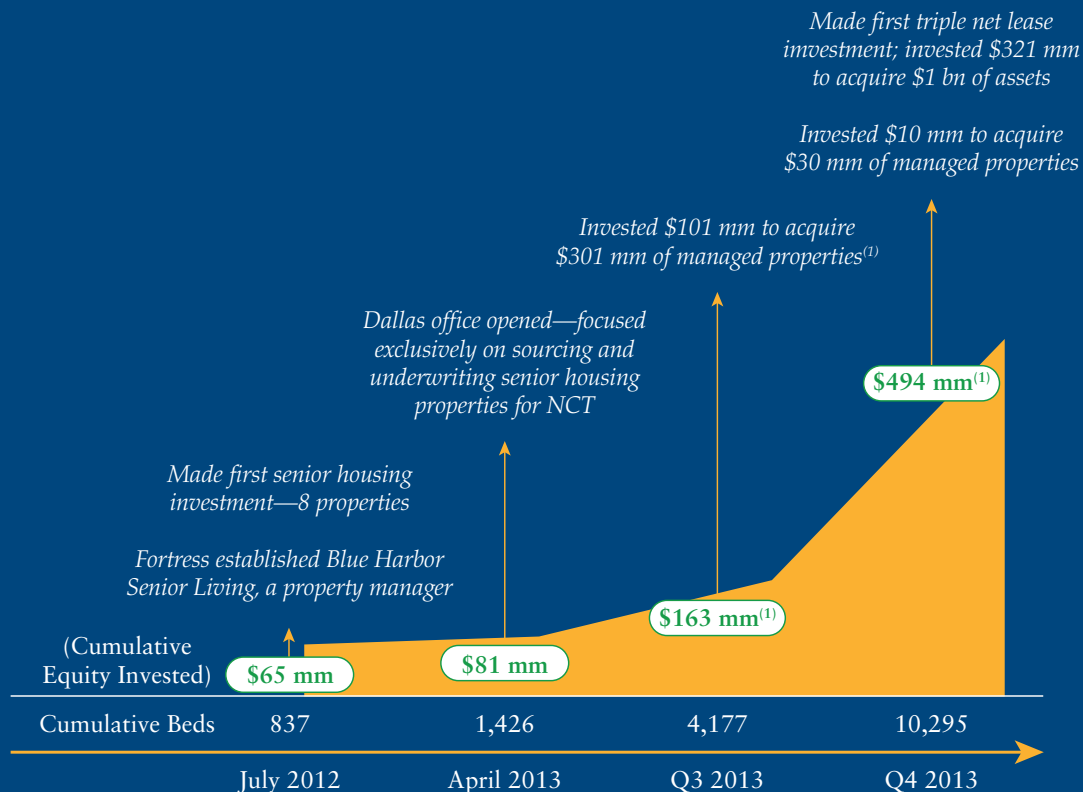
2013 ANNUAL REPORT

CUMULATIVE COMMON DIVIDENDS SINCE DECEMBER 2011⁽¹⁾



(1) Includes Regular Cash & Special Per Share Dividends, but excludes Stock Dividends.

EVOLUTION OF NEWCASTLE'S SENIOR HOUSING BUSINESS



(1) Received \$19 million of proceeds from a portfolio refinancing which occurred in Q3 2013.

FELLOW SHAREHOLDERS:

It is again my pleasure to share with you some observations on Newcastle's remarkable progress throughout the past year. Our company delivered strong results across all measures for shareholders in 2013, and is positioned well for continued success in 2014 and beyond.

About two years ago, we set out on a path to rebuild the foundation of Newcastle. Our goal was to create value for shareholders by delivering strong returns in our core commercial Real Estate Debt business, and take advantage of new investment opportunities that we believed offered outsized returns. As I reflect on the progress we have made, it is clear this strategy has been successful. We created two viable dividend-paying businesses, New Residential Investment Corp. and New Media Investment Group, and transformed Newcastle into a significant owner of senior housing properties in the United States.

In January 2013, we announced the spin-off of substantially all of Newcastle's residential mortgage related assets, including the company's investments in excess mortgage servicing rights, to form New Residential Investment Corp. We believed at the time, and continue to believe, that the migration of servicing within the \$10 trillion U.S. residential mortgage market would create great investment opportunities. On May 16, 2013, New Residential began trading on the New York Stock Exchange as a standalone public company. *Please visit New Residential's website for more information: www.newresi.com.*

In September 2013, we announced our plan to lead the restructuring of existing debt interests in GateHouse Media. During that period we converted our debt interests in GateHouse Media to equity, acquired Dow Jones Local Media and spun off our interests in these investments to form New Media Investment Group. We envisioned the opportunity for a well-capitalized and best-in-class local media company to take advantage of investment opportunities in the distressed \$35 billion traditional print market. By acquiring deep-rooted community media brands at attractive valuations and by layering on a digital strategy to stabilize and grow cash flows, we believed, and continue to believe, that there is great potential to generate outsized returns for investors. Today, New Media is trading as a standalone public company on the New York Stock Exchange, and is the largest publisher of locally based print and online media in the U.S. New Media completed its first acquisition in March, and hopes to continue to expand its portfolio throughout 2014. *Please visit New Media's website for more information: www.newmediainv.com.*

So, has it all worked out? Let's look back to December 13, 2011 when we began this transformation with our inaugural investment in excess mortgage servicing rights. At the time, Newcastle's stock price was \$4.40 per share. From that date through March 31, 2014, the three companies (Newcastle, New Residential and New Media) have paid or announced total cash dividends of \$2.35 per share and have a Newcastle price per share equivalent of \$12.25, which represents a total return to shareholders of over 230%.

INVESTMENT ACTIVITY & PERFORMANCE:

Newcastle's two core businesses, Senior Housing and Real Estate Debt, experienced tremendous success in 2013. We invested over \$540 million at mid to high-teens targeted returns, and remained focused on maximizing recoveries in our existing CDOs and other debt investments.

- **Senior Housing:** Our senior housing portfolio has evolved into a considerable business since the first acquisition nearly 18 months ago. At the end of 2013, we had acquired 84 properties with an aggregate purchase price of \$1.6 billion—representing one of the largest portfolios of independent living and assisted living properties in the United States.

Our unique market insight enhances our ability to uncover niche opportunities.



We believe our senior housing business has one of the best product mixes in the industry. Our portfolio today is 100% independent living or assisted living, and 95% of our revenue is generated by private (non-government) sources. Furthermore, we completed our first triple-net lease acquisition in December, through the transformational Holiday acquisition. As a result of that transaction, 57% of our properties are now owned in a triple-net lease structure and 43% of our properties are managed by third party operators.

Since the senior housing space continues to be dominated by smaller players, we believe there is an attractive opportunity to further drive consolidation. Toward this end, we established a dedicated acquisition team in Dallas to focus exclusively on senior housing investments. This formal commitment to Newcastle's growth started to produce results almost immediately, as we closed on approximately \$1.4 billion of deals following the opening of the office in April 2013.

Through our rapid period of expansion, our primary goal is still to maintain investment discipline and deliver attractive risk-adjusted returns. We continue to target assets that have the potential to generate mid-teens levered returns and, in the case of our managed properties, could produce levered returns in excess of 20% over several years.

Heading into 2014, we believe we are very well positioned to continue to grow our senior housing portfolio. In addition, as part of our continuing efforts to provide value to our shareholders, we are currently considering a spin-off of our senior housing business.

- **Real Estate Debt:** 2013 was a very productive year for our Real Estate Debt business. We focused on harvesting and optimizing the value of our investments. At year-end, our Real Estate Debt portfolio consisted of \$2.1 billion of assets financed with \$1.4 billion of primarily match funded, non-recourse debt. The weighted average carrying value of the portfolio improved from a price of 87.2% to 89.2% of par, or \$43 million, over the course of the year.

In total, we expect \$600–\$650 million of net principal recovery from our Real Estate Debt investments if held to maturity over an average life of approximately 2 to 3 years; however, we continue to pursue creative strategies to maximize our recovery over a shorter period of time.

Over the course of 2013, we generated \$241 million of cash through collapses, liquidations and normal course pay downs within our CDO portfolios. In addition, we were able to opportunistically invest \$59 million of equity and repurchase \$153 million of debt at an average price of 88% of par within the capital structure of CDO VIII and CDO IX, which we believe will potentially be worth 100%, generating a targeted return of 18%.

Our goal is to maximize recovery of our Real Estate Debt holdings to reinvest into higher yielding assets, portfolio restructurings and other opportunistic investments.

Last year was an exceptional year for Newcastle, and 2014 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.

Sincerely,



KENNETH M. RIIS

Chief Executive Officer and President

March 31, 2014



NEWCASTLE
INVESTMENT CORP.

2013 FORM 10-K

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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
(State or other jurisdiction of incorporation
or organization)

81-0559116
(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:

| <u>Title of each class:</u> | <u>Name of exchange on which registered:</u> |
|--|--|
| 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.

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 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.

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).

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 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 No

The aggregate market value of the common stock held by non-affiliates as of June 30, 2013 (computed based on the closing price on such date as reported on the NYSE) was: \$1.5 billion.

The number of shares outstanding of the registrant's common stock was 351,453,495 as of February 21, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the registrant's Definitive Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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:

- changes in global, national and local economic conditions, including, but not limited to, a prolonged economic slowdown and a downturn in the real estate market;
- reductions in cash flows received from our investments;
- the availability and cost of capital for future investments, particularly in a rising interest rate environment, and our ability to deploy capital accretively;
- our ability to profit from opportunistic investments, such as our investment in golf, and to mitigate the risks associated with managing operating businesses and asset classes with which we have limited experience;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- changes in our asset portfolio and investment strategy as a result of a spin-off of our senior housing business or other factors;
- adverse changes in the financing markets we access affecting our ability to finance our investments;
- 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 risks that default and recovery rates on our real estate securities and loan portfolios deteriorate compared to our underwriting estimates;
- 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;
- our dependence on our property managers and tenants in our senior housing business;
- the ability of our property managers and tenants to comply with laws, rules and regulations in the operation of our properties, to deliver high quality services, to attract and retain qualified personnel and to attract residents;
- increases in costs at our senior housing properties (including, but not limited to, the costs of labor, supplies, insurance and property taxes);
- geographical concentrations with respect to the mortgage loans underlying and collateral securing certain of our debt investments, our senior housing properties and our golf courses.
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans or changes in the healthcare industry;
- competition within the finance, real estate, senior housing industries, as well as other industries, such as the golf industry, in which we have and/or may pursue additional investments;
- the impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our property managers and tenants;
- our ability and willingness to maintain our qualification as a REIT; 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 Newcastle Investment Corp. ("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 prove 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

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PART I

Item 1. Business.

Overview

Newcastle Investment Corp. (“Newcastle”) is a real estate investment trust (“REIT”) that focuses on opportunistically investing in, and actively managing, a variety of real estate related and other investments. Newcastle is externally managed and advised by an affiliate of Fortress Investment Group LLC, or Fortress (the “Manager”). Newcastle’s common stock is traded on the New York Stock Exchange under the symbol “NCT.”

We currently invest in (1) senior housing properties, (2) real estate debt and (3) other investments. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, and we actively explore new business opportunities and asset categories as part of our business strategy. Our objective is to leverage our longstanding investment expertise to drive attractive risk-adjusted returns. We target stable long-term cash flows and seek to employ conservative capital structures to generate returns throughout different interest rate environments. We take an active approach centered around identifying and executing on opportunities, responding to the changing market environment, and dynamically managing our investment portfolio to enhance returns.

In our senior housing business, we acquire and own senior housing properties. We either have our properties operated pursuant to property management agreements with third parties (“managed properties”) or lease our properties to third-party tenants (“triple net lease properties”). Currently, our managed properties are managed by affiliates or subsidiaries of either Holiday Acquisition Holdings LLC (“Holiday”) or FHC Property Management LLC (together with its subsidiaries, “Blue Harbor”). Holiday is a portfolio company that is majority owned by private equity funds managed by an affiliate of our Manager, and Blue Harbor is an affiliate of our Manager. All of our triple net lease properties are currently leased to Holiday. As of December 31, 2013, we owned 33 managed properties and 51 triple net lease properties. For more information about our portfolio, see “—Developments in 2013—Senior Housing Acquisitions” and “—Investment Portfolio—Other Investments—Senior Housing Investments” below.

In the fourth quarter of 2013, we changed our financial reporting segments. In particular, we established media and golf segments in connection with the restructurings of certain debt investments, as further described below under “—Developments in 2013—Restructuring and Spin-off of Media Investments” and “—Developments in 2013—Restructuring of Golf Investment.”

The following table summarizes our segment results at December 31, 2013:

| GAAP | Debt Investments (A) | | | | | Inter-segment | | Total |
|--------------------------|----------------------|------------|----------------|------------|------------|---------------|-----------------|--------------|
| | Senior Housing (A) | CDOs | Other Debt (B) | Media (C) | Golf | Corporate | Elimination (D) | |
| Investments | \$ 1,463,758 | \$925,690 | \$ 1,279,549 | \$ 542,275 | \$ 358,439 | \$ - | \$ (87,529) | \$4,482,182 |
| Cash and restricted cash | 31,263 | 2,377 | - | 38,288 | 22,890 | 23,492 | - | 118,310 |
| Other assets | 55,430 | 47,285 | 3,442 | 110,183 | 34,898 | 987 | (154) | 252,071 |
| Total assets | 1,550,451 | 975,352 | 1,282,991 | 690,746 | 416,227 | 24,479 | (87,683) | 4,852,563 |
| Debt | (1,076,828) | (645,938) | (1,149,547) | (182,016) | (181,910) | (51,237) | 87,529 | (3,199,947) |
| Other liabilities | (61,886) | (19,194) | (2,235) | (113,251) | (185,552) | (44,528) | 154 | (426,492) |
| Total liabilities | (1,138,714) | (665,132) | (1,151,782) | (295,267) | (367,462) | (95,765) | 87,683 | (3,626,439) |
| Preferred stock | - | - | - | - | - | (61,583) | - | (61,583) |
| Noncontrolling interests | - | - | - | (60,913) | (366) | - | - | (61,279) |
| GAAP book value | \$ 411,737 | \$ 310,220 | \$ 131,209 | \$ 334,566 | \$ 48,399 | \$ (132,869) | \$ - | \$ 1,103,262 |

- (A) The collateralized debt obligations (“CDOs”) segment represents debt investments financed with CDOs. Assets held within non-recourse structures, including all of the assets in the senior housing and CDO segments, are not available to satisfy obligations outside of such financings, except to the extent net cash flow distributions are received from such structures. Creditors or beneficial interest holders of these structures generally have no recourse to the general credit of Newcastle. Therefore, our exposure to the economic losses from such structures generally 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) The Other Debt segment represents debt investments other than our CDO investments. The following table summarizes the investments in this segment:

| | December 31, 2013 | | | |
|---|----------------------------|-------------------|-----------------------------|--------------------|
| | Investments | | Debt | |
| | Outstanding Face Amount | Carrying Value | Outstanding Face Amount* | Carrying Value* |
| <u>Non-Recourse</u> | | | | |
| Manufactured housing loan portfolio I | \$ 102,681 | \$ 91,924 | \$ 74,248 | \$ 66,446 |
| Manufactured housing loan portfolio II | 128,975 | 128,117 | 93,863 | 93,536 |
| Subprime mortgage loans subject to call options | 406,217 | 406,217 | 406,217 | 406,217 |
| Real estate securities | 56,466 | 50,961 | 39,665 | 36,095 |
| Operating real estate | N/A | 6,597 | 6,000 | 6,000 |
| Subtotal | \$ 694,339 | \$ 683,816 | \$ 619,993 | \$ 608,294 |
| <u>Other</u> | | | | |
| Unlevered real estate securities | 129,563 | 4,296 | - | - |
| Levered real estate securities | 514,994 | 551,270 | 516,134 | 516,134 |
| Other investments | N/A | 6,160 | - | - |
| Residential mortgage loans | 45,323 | 34,007 | 25,119 | 25,119 |
| | \$ 1,384,219 | \$ 1,279,549 | \$ 1,161,246 | \$ 1,149,547 |

* An aggregate face amount of \$133.9 million (carrying value of \$87.5 million) of debt represents inter-segment financing, which is eliminated upon consolidation.

(C) In February 2014, the media segment was spun off from Newcastle and will not be reported as a segment in future filings.

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

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 5 to Part II, Item 8, “Financial Statements and Supplementary Data.”

Developments in 2013

Spin-off of Residential Assets

On May 15, 2013, we spun off our wholly owned subsidiary New Residential Investment Corp. (“New Residential”). Prior to the spin-off, we contributed to New Residential all of our investments in excess mortgage servicing rights (“Excess MSR’s”), the non-Agency residential mortgage backed securities (“RMBS”) we had acquired since the second quarter of 2012, certain Agency Adjustable Rate Mortgage (“ARM”) RMBS, the residential mortgage loans we had acquired since the beginning of 2013, our interest in a portfolio of consumer loans, and cash and cash equivalents of \$181.6 million. The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock of New Residential to our common stockholders of record at the close of business on May 6, 2013. The distribution ratio was one share of New Residential common stock for each share of Newcastle common stock. For additional information about the New Residential spin-off, see Note 4 to Part II, Item 8, “Financial Statements and Supplementary Data.”

Senior Housing Acquisitions

During 2013, we invested a total of \$364.9 million of cash to acquire senior housing properties, including the Holiday Portfolio (defined below) and various other properties, as described below.

On December 23, 2013, we completed the acquisition of a 51-property portfolio of independent living senior housing properties (the “Holiday Portfolio”) from certain affiliates of Holiday for approximately \$1.0 billion. We funded the purchase price with \$719.4 million of non-recourse debt financing and \$281.1 million of cash. The Holiday Portfolio includes properties located across 24 states with 5,842 units in aggregate. Concurrently with the closing of the Holiday acquisition, we leased these properties to certain affiliates of Holiday (collectively, the “Master Tenants”) pursuant to two triple net master leases on nearly identical terms. Each master lease has a 17-year term and first-year rent equal to 6.5% of the purchase price with annual increases during the following three years of 4.5% and up to 3.75% thereafter. Under each master lease, the respective Master Tenant is responsible for (i) operating its portion of the Holiday Portfolio and bearing the related costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance and the payroll expense of property level employees, and (ii) complying with the terms of the mortgage financing documents. The Master Tenants’ obligations to us under the master leases are guaranteed by a subsidiary of Holiday (the “Guarantor”). The Guarantor is required to maintain a minimum net worth (book value plus accumulated depreciation and certain other adjustments as defined in the guaranty) of

\$150 million, a minimum fixed charge coverage ratio (earnings before interest expense, taxes, depreciation, amortization and rent (“EBITDAR”) divided by rent and interest) of 1.10 and a maximum leverage ratio (debt plus 10 times cash rent divided by EBITDAR) of 10 to 1. While we believe that the financial covenants contained in the master leases and the guaranty of lease agreements enhance the security of payments that will be owed to us under the master leases, these security features may not ensure timely payment in full of all amounts due to us under the master leases or the guaranty of lease agreements. See “Risk Factors—Risks Related to Our Business—The Master Tenants may be unable to cover their lease obligations to us, and there can be no assurance that the Guarantor will be able to cover any shortfall.” For details about the financing, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt Obligations.” Holiday is one of the largest private owners and operators of senior housing properties in North America.

During 2013, we also completed acquisitions of 21 other senior housing properties for an aggregate purchase price of approximately \$302.8 million, financed with \$219.0 million of mortgage loans and \$83.8 million of cash. These properties are located across 5 states and have more than 3,000 beds in aggregate. These properties are managed by Holiday or Blue Harbor.

For additional information about these investments, see Note 3 to Part II, Item 8, “Financial Statements and Supplementary Data.”

As of February 23, 2014, we have signed either a purchase and sale agreement or a letter of intent (granting us exclusive right to negotiate a purchase and sale agreement) with respect to 11 properties with an aggregate estimated purchase price of \$266.0 million (including assumed debt and other transaction costs). There can be no assurance that we will complete any particular investment, including those that are under contract, which are subject to material closing conditions, including, in certain transactions, financing conditions. Moreover, any senior housing property that we do acquire in the future may have different characteristics and expected returns than those in our existing portfolio and may expose us to additional regulatory and operational risks. See “—Government Regulation of Our Senior Housing Business.”

As part of our continuing efforts to provide value to our stockholders, we are currently considering a spin-off of our senior housing business from the remainder of our investment portfolio. If the transaction resulted in our senior housing business being held in a stand-alone entity, we expect that such entity would elect and qualify to be taxed as a REIT. Our board has not formally evaluated any such transaction, and there can be no assurance as to the timing, terms, structure or completion of any such transaction. Any such transaction would be subject to a number of risks and uncertainties, could have tax implications for the holders of shares of our common stock, and could adversely affect the price of shares of our common stock.

Restructuring and Spin-Off of Media Investments

During 2013, we completed a restructuring of our debt investment in GateHouse Media, Inc. (“GateHouse”), and we acquired Dow Jones Local Media Group (renamed Local Media Group Holdings LLC, or “Local Media”) from News Corp.

We completed the purchase of Local Media on September 3, 2013. The purchase price for Local Media was approximately \$86.9 million, including capitalized transaction costs of approximately \$4.3 million. We funded the purchase price with \$53.9 million of cash and financed the remainder. As described in more detail below, as part of the restructuring of GateHouse, we contributed Local Media to GateHouse’s successor, New Media Investment Group Inc. (“New Media” or the “Media business”).

GateHouse’s restructuring was completed on November 26, 2013. We sponsored a prepackaged plan of reorganization (as amended or supplemented, the “Plan”) for GateHouse. On September 27, 2013, GateHouse commenced voluntary Chapter 11 proceedings in the United States Bankruptcy Court for the District of Delaware, and the court confirmed the Plan on November 6, 2013.

Pursuant to the Plan, (i) we formed New Media as a wholly owned subsidiary of Newcastle, (ii) GateHouse and Local Media became wholly owned subsidiaries of New Media, (iii) we offered to either purchase in cash the claims of other GateHouse debt holders at 40% of the face amount of their claims or issue to other debt holders a pro rata share of the common stock of New Media and the net cash proceeds, if any, from a new financing (the “GateHouse Credit Facilities”), and (iv) we exchanged our debt claims for equity of New Media and net cash proceeds from the GateHouse Credit Facilities and, in accordance with the elections made by other debt holders, purchased approximately \$441.5 million of claims and issued

approximately 15.4% of New Media's common stock to certain third parties. As a result, and taking into account the value assigned to our contribution of Local Media to New Media, we became the owner of approximately 84.6% of New Media.

We spun off New Media on February 13, 2014. The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock we held of New Media to our common stockholders of record at the close of business on February 6, 2014. The distribution ratio was 0.0722 shares of New Media common stock for each share of Newcastle common stock. For more information about the acquisition and spin-off of the Media business, see Notes 3 and 20 to Part II, Item 8, "Financial Statements and Supplementary Data."

Restructuring of Golf Investment

In December 2013, we restructured an investment in mezzanine debt issued by NGP Mezzanine, LLC ("NGP"), the indirect parent of NGP Realty Sub, L.P. ("National Golf"). National Golf owns 27 golf courses across 8 states, and leases these courses to American Golf Corporation ("American Golf"), an affiliated operating company. American Golf also leases an additional 54 golf courses and manages 11 courses, all owned by third parties. As part of the transaction, we acquired the equity of NGP and American Golf's indirect parent, AGC Mezzanine Pledge LLC ("AGC"), and therefore consolidated these entities as of December 31, 2013.

In the original investment in 2006, we invested approximately \$110 million in mezzanine debt issued by NGP. At the time of the transaction, the mezzanine debt had an outstanding face amount of approximately \$68 million, which we valued at approximately \$29 million.

On December 30, 2013, pursuant to an agreement with the other senior creditors of National Golf, we and National Golf's senior lender entered into a new senior debt facility with a principal amount of \$109 million, of which we committed to fund \$54.5 million (and have funded \$47 million to date). We also acquired the equity of NGP and AGC for \$2.0 million and acquired the ground lease for an 18-hole golf course, clubhouse and other related facilities and improvements (the "Vineyard Property") for an additional \$0.5 million (collectively, the "Golf business"). As a result of our consolidation of these entities, our debt investments in these entities are eliminated in consolidation.

We believe that the financial results of the Golf business can be improved significantly utilizing the operational expertise of our Manager. For more information about this investment, see Note 3 to Part II, Item 8, "Financial Statements and Supplementary Data."

Investment Portfolio

The following summarizes our consolidated investment portfolio at December 31, 2013 (dollars in millions):

| | 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⁾ |
|---|----------------------------|--|---|-------------------|--------------------------|-----------------------|---|
| Debt Investments | | | | | | | |
| Commercial Assets | | | | | | | |
| CMBS | \$ 333 | \$ 228 | 5.7% | \$ 284 | 50 | BB- | 2.6 |
| Mezzanine Loans | 172 | 140 | 3.5% | 140 | 9 | 85% | 1.3 |
| B-Notes | 109 | 101 | 2.6% | 101 | 4 | 75% | 1.5 |
| Whole Loans | 30 | 30 | 0.7% | 30 | 2 | 49% | 0.0 |
| CDO Securities ⁽⁴⁾ | 74 | 57 | 1.4% | 60 | 2 | BB+ | 3.1 |
| Other Investments ⁽⁵⁾ | 69 | 69 | 1.7% | 69 | 2 | -- | - |
| Total Commercial Assets | 787 | 625 | 15.5% | 684 | | | 2.1 |
| Residential Assets | | | | | | | |
| MH and Residential Loans | 281 | 253 | 6.3% | 253 | 7,756 | 706 | 5.5 |
| Non-Agency RMBS | 97 | 41 | 1.0% | 58 | 34 | CCC+ | 4.4 |
| Real Estate ABS | 8 | - | 0.0% | - | 1 | C | - |
| | 386 | 294 | 7.3% | 311 | | | 5.1 |
| FNMA/FHLMC securities | 515 | 543 | 13.5% | 546 | 64 | AAA | 3.6 |
| Total Residential Assets | 901 | 837 | 20.8% | 857 | | | 4.2 |
| Corporate Assets | | | | | | | |
| REIT Debt | 29 | 29 | 0.7% | 31 | 5 | BB+ | 1.8 |
| Corporate Bank Loans | 257 | 167 | 4.2% | 167 | 5 | C | 0.9 |
| Total Corporate Assets | 286 | 196 | 4.9% | 198 | | | 1.0 |
| Total Debt Investments | 1,974 | 1,658 | 41.2% | 1,739 | | | 3.0 |
| Other Investments | | | | | | | |
| Senior Housing Investments ⁽⁶⁾ | 1,496 | 1,464 | 36.4% | 1,464 | | | |
| Media Investments ⁽⁶⁾ | 546 | 542 | 13.5% | 542 | | | |
| Golf Investment ⁽⁶⁾ | 358 | 358 | 8.9% | 358 | | | |
| Total Portfolio / WA | \$ 4,374 | \$ 4,022 | 100.0% | \$ 4,103 | | | |
| Reconciliation to GAAP total assets: | | | | | | | |
| Subprime mortgage loans subject to call option ⁽⁷⁾ | | | | 406 | | | |
| Other commercial real estate | | | | 7 | | | |
| Cash and restricted cash | | | | 118 | | | |
| Other | | | | 219 | | | |
| GAAP total assets | | | | \$ 4,853 | | | |

WA – Weighted average, in all tables.

- (1) Net of impairment.
- (2) Credit represents the weighted average of minimum ratings 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, represent the most recent credit ratings available as of the reporting date and may not be current.
- (3) Weighted average life is based on the timing of expected principal reduction on the asset.
- (4) Represents non-consolidated CDO securities, excluding nine securities with a zero value, which had an aggregate face amount of \$114.5 million.
- (5) Represents \$25.0 million of equity investment in a real estate owned property and \$44.0 million in a linked transaction.
- (6) Face amount of senior housing, media and golf investments represents the gross carrying amount, including intangibles and, for media, goodwill, and excludes accumulated depreciation and amortization.
- (7) 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.

Debt Investments

The following table reflects the spread between the yield and the cost of financing our portfolio of debt investments at December 31, 2013:

| | |
|-------------------------------|---------------------|
| Weighted average asset yield | 8.13% |
| Weighted average funding cost | <u>1.71%</u> |
| Net interest spread | <u><u>6.42%</u></u> |

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 | CCC | 6 | \$ 12,442 | \$ 10,673 | 4.7% | \$ 11,652 | 27.3% | 44.0% | 1.6 |
| 2004 | BB+ | 9 | 33,435 | 26,285 | 11.5% | 31,809 | 3.0% | 7.8% | 1.4 |
| 2005 | B+ | 9 | 80,133 | 33,672 | 14.8% | 60,814 | 4.0% | 6.8% | 1.7 |
| 2006 | BB- | 15 | 108,544 | 74,451 | 32.7% | 87,805 | 2.7% | 12.0% | 1.8 |
| 2007 | CCC+ | 3 | 13,237 | 2,599 | 1.1% | 3,274 | 5.5% | 7.2% | 0.8 |
| 2010 | BB | 3 | 35,000 | 33,184 | 14.6% | 36,608 | 0.0% | 2.0% | 6.7 |
| 2011 | BB+ | 5 | 50,330 | 47,014 | 20.6% | 52,507 | 0.0% | 4.2% | 4.4 |
| Total / WA | BB- | 50 | \$ 333,121 | \$ 227,878 | 100.0% | \$ 284,469 | 3.4% | 9.1% | 2.6 |

- (A) The year in which the securities were issued.
 (B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CMBS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.
 (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 | 9 | \$ 172,197 | \$ 139,720 | 51.6% | \$ 139,720 | 70.9% | 85.0% | 7.0% |
| B-Notes | 4 | 109,323 | 101,383 | 37.4% | 101,383 | 63.8% | 75.1% | 0.0% |
| Whole Loans | 2 | 29,715 | 29,715 | 11.0% | 29,715 | 0.0% | 48.6% | 0.0% |
| Total/WA | 15 | \$ 311,235 | \$ 270,818 | 100.0% | \$ 270,818 | 61.7% | 78.0% | 3.9% |

- (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) |
|-----------------------|-------------------------------|--------|----------------------------------|-------------------------------|----------------------------|--|----------------|-----------------------------------|
| Newcastle | CMBS | 1 | CCC | \$ 9,898 | \$ - | \$ - | \$ 2,002 | 11.4% |
| Sorin | CMBS | 1 | BBB | 63,995 | 56,996 | 100.0% | 57,755 | 55.2% |
| TOTAL/WA | | 2 | BB+ | \$ 73,893 | \$ 56,996 | 100.0% | \$ 59,757 | 49.3% |

- (A) Represents non-consolidated CDO securities, excluding nine securities with a zero carrying value, which had an aggregate face amount of \$114.5 million.
 (B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CDO assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.
 (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 | \$ 103,182 | \$ 90,378 | 35.7% | \$ 90,378 | 12.1 | \$ 327,855 | 0.9% | 9.5% |
| Manufactured Housing Loans Portfolio II | 706 | 131,603 | 127,569 | 50.4% | 127,569 | 14.5 | 434,739 | 1.4% | 7.8% |
| Residential Loans Portfolio I | 710 | 42,194 | 31,726 | 12.5% | 31,726 | 10.7 | 646,357 | 11.4% | 0.5% |
| Residential Loans Portfolio II | 737 | 3,774 | 3,582 | 1.4% | 3,582 | 9.1 | 83,950 | 0.0% | 0.0% |
| Total / WA | 706 | \$ 280,753 | \$ 253,255 | 100.0% | \$ 253,255 | 13.0 | \$ 1,492,901 | 2.7% | 7.2% |

(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.

Non-Agency RMBS (A)

Security Characteristics

| Vintage (B) | Average Minimum Rating (C) | Number of Securities | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total | | Principal Subordination (D) | Excess Spread (E) |
|-------------|----------------------------|----------------------|-------------------------|----------------------|----------------------|----------------|-----------------------------|-------------------|
| | | | | | Amortized Cost Basis | Carrying Value | | |
| Pre 2004 | D | 3 | \$ 1,247 | \$ 252 | 0.6% | \$ 687 | 4.5% | 3.9% |
| 2004 | CCC | 5 | 5,940 | 1,179 | 2.9% | 2,726 | 4.4% | 2.4% |
| 2005 | CCC- | 17 | 44,172 | 7,991 | 19.6% | 15,758 | 17.7% | 4.2% |
| 2006 | B+ | 5 | 33,953 | 23,208 | 57.1% | 28,739 | 41.8% | 4.0% |
| 2007 | CCC+ | 4 | 11,450 | 8,045 | 19.8% | 9,671 | 24.3% | 4.1% |
| Total / WA | CCC+ | 34 | \$ 96,762 | \$ 40,675 | 100.0% | \$ 57,581 | 25.9% | 4.0% |

Collateral Characteristics

| Vintage (B) | Average Loan Age (years) | Collateral Factor (F) | 3 Month | | Cumulative Losses to Date |
|-------------|--------------------------|-----------------------|---------|-----------------|---------------------------|
| | | | CPR (G) | Delinquency (H) | |
| Pre 2004 | 10.7 | 0.06 | 9.0% | 18.6% | 2.6% |
| 2004 | 9.5 | 0.13 | 13.1% | 12.4% | 3.2% |
| 2005 | 8.8 | 0.17 | 9.1% | 25.0% | 12.0% |
| 2006 | 7.8 | 0.24 | 9.1% | 23.2% | 23.1% |
| 2007 | 7.0 | 0.36 | 9.0% | 26.8% | 28.3% |
| Total / WA | 8.3 | 0.21 | 9.3% | 23.7% | 17.1% |

(A) This includes subprime retained securities in the securitizations of Subprime Portfolios I. For further information on this securitization, see Note 7 to our consolidated financial statements included in this report.

(B) The year in which the securities were issued.

(C) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no ABS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.

(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 REO.

Agency ARM RMBS (FNMA/FHLMC Securities)

| Months to Reset (A) | Number of Securities | Outstanding Face Amount | Amortized Cost Basis (G) | Percentage of Total Amortized Cost Basis | Carrying Value (G) | Weighted Average | | | | | |
|---------------------|----------------------|-------------------------|--------------------------|--|--------------------|------------------|--------------|--------------------|---------------------------|------------------|---------------------|
| | | | | | | Coupon | Margin | Periodic Cap | | Lifetime Cap (D) | Months to Reset (F) |
| | | | | | | | | 1st Coupon Adj (B) | Subsequent Coupon Adj (C) | | |
| 1-12 | 44 | \$ 294,291 | \$ 310,086 | 57.1% | \$ 312,855 | 2.56% | 1.87% | N/A (E) | 1.95% | 9.84% | 7 |
| 13-24 | 12 | 114,552 | 121,333 | 22.4% | 121,744 | 3.54% | 1.79% | 4.71% | 2.00% | 8.54% | 17 |
| 25-36 | 8 | 106,151 | 111,381 | 20.5% | 111,832 | 3.13% | 1.86% | 5.00% | 2.00% | 8.13% | 30 |
| Total | 64 | \$ 514,994 | \$ 542,800 | 100.0% | \$ 546,431 | 2.90% | 1.85% | 4.85% | 1.97% | 9.20% | 14 |

- (A) Of these investments, 84.3% reset based on 12-month LIBOR index, 14.3% reset based on the 1-year Treasury Constant Maturity Rate and 1.4% reset based on the 12 month Treasury Average. After the initial fixed rate period, 98.6% of these securities reset annually and 1.4% reset monthly.
- (B) Represents the maximum change in the coupon at the end of the fixed rate period.
- (C) Represents the maximum change in the coupon at each reset date subsequent to the first coupon adjustment.
- (D) Represents the maximum coupon on the underlying security over its life.
- (E) Not applicable as 41 of the securities (91% of the current face of this category) are past the first coupon adjustment period. The remaining three securities (9% of the current face of this category) have a maximum change in the coupon of 5.0% at the end of the fixed rate period.
- (F) Represents the current weighted average months to the next interest rate reset.
- (G) Amortized cost basis and carrying value excludes \$4.8 million of principal receivables as of December 31, 2013.

In January 2014, we sold all of the remaining FNMA/FHLMC securities at an average price of 105.82% for total proceeds of \$532.2 million and repaid \$516.1 million of repurchase agreements associated with these securities, and we recognized a gain of approximately of \$1.9 million.

REIT Debt

| Industry | Average Minimum Rating (A) | Number | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total | |
|-------------------|----------------------------|----------|-------------------------|----------------------|----------------------|------------------|
| | | | | | Amortized Cost Basis | Carrying Value |
| Retail | A- | 1 | \$ 4,500 | \$ 4,141 | 14.4% | \$ 4,874 |
| Diversified | B- | 1 | 12,000 | 11,994 | 41.8% | 12,615 |
| Multifamily | BBB | 1 | 5,000 | 4,980 | 17.5% | 5,208 |
| Healthcare | BBB+ | 2 | 7,700 | 7,552 | 26.3% | 8,489 |
| Total / WA | BB+ | 5 | \$ 29,200 | \$ 28,667 | 100.0% | \$ 31,186 |

Corporate Bank Loans

| Industry | Average Minimum Rating (A) | Number | Outstanding Face Amount | Amortized Cost Basis | Percentage of Total Amortized | |
|-------------------|----------------------------|----------|-------------------------|----------------------|-------------------------------|-------------------|
| | | | | | Cost Basis | Carrying Value |
| Resorts | NR | 3 | \$ 231,265 | \$ 155,579 | 93.3% | \$ 155,579 |
| Restaurant | B | 2 | 25,329 | 11,131 | 6.7% | 11,131 |
| Total / WA | C | 5 | \$ 256,594 | \$ 166,710 | 100.0% | \$ 166,710 |

- (A) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no corporate assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.

Credit Risk Management – Debt Investments

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.

Other Investments

Senior Housing Investments

We currently own 51 dedicated independent living (“IL-only”) properties that are triple net leased to Holiday. We have 33 managed properties, including 2 IL-only properties and 31 properties with some combination of independent living, assisted living or memory care (“AL/MC”) properties. Our properties are located across 25 states. IL-only properties are age-restricted, multifamily rental properties with central dining that provide residents access to meals and other services such as housekeeping, linen service, transportation and social and recreational activities. A typical resident is 80 to 85 years old and is relatively healthy. Residents are typically charged all-inclusive monthly rates. AL/MC properties are state-regulated rental properties that provide the same services as IL-only and additionally have staff to provide residents assistance with activities of daily living, such as management of medications, bathing, dressing, toileting, ambulating and eating. AL/MC properties may include memory care facilities that specifically provide care for individuals with Alzheimer’s disease and other forms of dementia or memory loss. The average age of an AL/MC resident is similar to that of an IL-only resident, but AL/MC residents typically have greater healthcare needs. Residents are typically charged all-inclusive monthly rates for IL-only services and additional “care charges” for AL/MC services, which vary depending on the types of services required. AL/MC properties are generally private pay, though many states will allow residents to cover a portion of the cost with Medicaid. The table below sets forth key characteristics of our portfolio.

| Asset Type | Real Estate Property Investments as of December 31, 2013 | | | | | Revenues for the Year Ended December 31, 2013 | | |
|-----------------------------|--|----------------|--|--|---|---|---------------------------|------------------|
| | Number of Communities | Number of Beds | Real Estate Property Investment at Original Cost | Percent of Total Real Estate Property Investment | Real Estate Property Investment per Bed | Total Revenues (1) | Percent of Total Revenues | Number of States |
| | | | | | | | | |
| Managed Properties | 33 | 4,453 | \$ 432,077 | 31.5% | \$ 97.0 | \$ 83,349 | 97.8% | 11 |
| Triple Net Lease Properties | 51 | 5,842 | 937,548 | 68.5% | 160.5 | 1,918 | 2.2% | 24 |
| Total | 84 | 10,295 | \$ 1,369,625 | 100.0% | | \$ 85,267 | 100.0% | |

- (1) Revenues relate to the period the properties were owned by us in 2013 and, therefore, are not indicative of full-year results for all properties. For example, the triple net lease properties were acquired on December 23, 2013.

As of December 31, 2013, the average occupancy rate of our senior housing properties was 90% for acquisitions completed in 2012 and 82% for acquisitions completed in 2013 (excluding managed properties that we had owned for less than one full quarter as of December 31, 2013).

Our portfolio of senior housing properties is broadly diversified by geographic location throughout the United States. The following table shows the geographic location of our senior housing properties, and the percentage of total revenues by geographic location for the year ended December 31, 2013:

Managed Properties:

| Location | Number of Communities | Number of Beds | Percent of Revenue (1) |
|----------------|--------------------------|-------------------|---------------------------|
| Arizona | 1 | 108 | 5.45% |
| California | 3 | 328 | 18.96% |
| Florida | 16 | 2,330 | 25.47% |
| Idaho | 1 | 121 | 6.98% |
| New York | 1 | 109 | 1.85% |
| North Carolina | 1 | 176 | 2.21% |
| Oregon | 2 | 164 | 10.44% |
| Pennsylvania | 2 | 291 | 5.22% |
| Texas | 1 | 230 | 7.10% |
| Utah | 4 | 475 | 15.92% |
| Virginia | 1 | 121 | 0.40% |
| | <u>33</u> | <u>4,453</u> | <u>100.00%</u> |

- (1) Various properties were acquired in 2013. Percent of revenue is based on revenues related to the period the properties were owned by us in 2013 and, therefore, are not indicative of full-year results.

Triple Net Lease Properties:

| Location | Number of Communities | Number of Beds | Percent of Revenue (1) |
|----------------|--------------------------|-------------------|---------------------------|
| Arizona | 1 | 115 | 1.39% |
| California | 2 | 235 | 5.00% |
| Colorado | 4 | 439 | 6.63% |
| Connecticut | 2 | 276 | 5.66% |
| Florida | 3 | 370 | 6.46% |
| Illinois | 1 | 111 | 1.62% |
| Iowa | 2 | 215 | 2.74% |
| Kansas | 2 | 238 | 3.66% |
| Kentucky | 1 | 117 | 2.61% |
| Louisiana | 1 | 103 | 0.66% |
| Michigan | 1 | 121 | 1.68% |
| Mississippi | 1 | 93 | 0.91% |
| Missouri | 3 | 320 | 6.68% |
| Montana | 1 | 115 | 1.88% |
| Nevada | 1 | 121 | 2.32% |
| New York | 2 | 234 | 5.15% |
| North Carolina | 2 | 240 | 5.05% |
| Oregon | 6 | 601 | 9.81% |
| Pennsylvania | 2 | 228 | 4.59% |
| Tennessee | 1 | 109 | 1.17% |
| Texas | 9 | 1,088 | 17.74% |
| Utah | 1 | 117 | 2.09% |
| Virginia | 1 | 120 | 2.45% |
| Wisconsin | 1 | 116 | 2.08% |
| | <u>51</u> | <u>5,842</u> | <u>100.00%</u> |

- (1) All of the triple net lease properties were acquired on December 23, 2013. Percent of revenue is based on revenues related to the period the properties were owned by us in 2013 and, therefore, are not indicative of full-year results.

Managed Properties

As of December 31, 2013, either Blue Harbor or Holiday managed all of our managed properties. We pay annual property management fees pursuant to long-term property management agreements. Currently, all of our property management agreements have initial 10-year terms, with successive automatic 1-year renewal periods. For AL/MC properties, we pay base management fees equal to 6% of revenue for the first two years and 7% thereafter. For IL-only properties, we pay base management fees of 5% of revenues. As managers, Blue Harbor and Holiday do not lease our properties and, therefore, we are not directly exposed to their credit risk in the same manner or to the same extent as a triple net lease tenant. However, we rely on our managers' personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior housing operations efficiently and effectively. We also rely on our managers to set appropriate resident fees and to otherwise operate our seniors housing communities in compliance with the terms of our management agreements and all applicable laws and regulations. Although we have various rights as the property owner under our management agreements, including various rights to set budget guidelines and to terminate and exercise remedies under those agreements as provided therein, Blue Harbor's or Holiday's failure, inability or unwillingness to satisfy its respective obligations under those agreements, to efficiently and effectively manage our properties or to provide timely and accurate accounting information with respect thereto could have a material adverse effect on us.

Triple Net Lease Properties

The Holiday Portfolio is leased to Holiday pursuant to two triple net master leases on nearly identical terms. Each master lease has a 17-year term and first-year rent equal to 6.5% of the purchase price with annual increases during the following three years of 4.5% and up to 3.75% thereafter. Under each master lease, the respective Master Tenant is responsible for (i) operating its portion of the Holiday Portfolio and bearing the related costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance, and the payroll expense of property-level employees, and (ii) complying with the terms of the mortgage financing documents.

Media Investments

As part of the acquisition of the Media investments, we obtained an 84.6% ownership in New Media. New Media is one of the largest publishers of locally based print and online media in the United States as measured by the number of daily publications. New Media operates in 338 markets across 24 states. New Media's portfolio of products includes 435 community publications, 353 related websites, and 6 yellow page directories, serves more than 128,000 business advertising accounts and reaches approximately 12 million people on a weekly basis. We spun-off New Media in February 2014 as described above.

Golf Investment

As noted above, we restructured a debt investment that resulted in our acquisition of National Golf and American Golf. National Golf owns 27 golf courses and leases them to American Golf. American Golf also leases 54 golf courses owned by third parties and manages 11 golf courses owned by third parties. We categorize our owned and leased golf courses as public or private. Set forth below is additional information about our golf courses.

Public Courses. Public courses generate revenues principally through daily green fees, golf cart rentals and food, beverage and merchandise sales. Amenities at these courses generally include practice facilities, and pro shops with food and beverage facilities. In some cases, our public courses have small clubhouses with banquet facilities.

Private Courses. Private courses are open to members only and generate revenues principally through initiation fees, membership dues, guest fees, and food, beverage and merchandise sales. Amenities at these courses typically include practice facilities, full service clubhouses with a pro shop, locker room facilities and multiple food and beverage outlets, including grills, restaurants and banquet facilities.

Managed Courses. Our 11 managed courses are properties that American Golf manages pursuant to a management agreement with the owner. We will recognize revenue from these courses in an amount equal to the respective management fee.

The following table summarizes certain information about our golf courses as of December 31, 2013.

| | Number of Courses | Number of Golf Holes |
|---------------------|-------------------|----------------------|
| <i>Leased:</i> | | |
| Public | 47 | 864 |
| Private | 7 | 189 |
| Total Leased | 54 | 1,053 |
| <i>Owned:</i> | | |
| Public | 12 | 234 |
| Private | 15 | 306 |
| Total Owned | 27 | 540 |
| <i>Managed:</i> | 11 | 198 |
| Total | 92 | 1,791 |
| <u>Location</u> | | |
| California | 54 | 1,026 |
| Florida | 2 | 81 |
| Georgia | 10 | 171 |
| Hawaii | 1 | 18 |
| Idaho | 1 | 18 |
| Michigan | 1 | 18 |
| New Jersey | 2 | 36 |
| New Mexico | 1 | 27 |
| New York | 6 | 126 |
| Oklahoma | 3 | 54 |
| Oregon | 4 | 90 |
| Tennessee | 2 | 36 |
| Texas | 3 | 54 |
| Virginia | 1 | 18 |
| Washington | 1 | 18 |
| Total | 92 | 1,791 |

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, 2013 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. Additionally, the 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. Further details regarding the forms of financing that are currently utilized are presented in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under “– Liquidity and Capital Resources.”

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 financing (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 enter into hedging transactions to manage our exposure to fluctuations in interest rates 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, 2013 (dollars in thousands):

| Debt Obligation | Collateral | | | | | | | | | | | | Aggregate Notional Amount of Current Hedges (3) |
|---|-------------------------|----------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------|--------------------------|--------------------|-----------------------------------|-------------------------------|-----------------------------------|-----------------|---|
| | 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) | Weighted Average Maturity (Years) | Face Amount (2) | |
| CDO Bonds Payable | \$ 543,516 | \$ 544,525 | 2.3% | 1.9 | \$ 532,625 | \$ 1,020,951 | \$ 763,391 | \$ 836,160 | 1.9 | \$ 387,182 | | \$ 387,182 | \$ 193,758 |
| Other Bonds and Notes Payable | 243,745 | 230,279 | 3.5% | 3.1 | 96,129 | 231,656 | 220,041 | 220,041 | 5.4 | 21,933 | | 21,933 | - |
| Repurchase Agreements | 556,347 | 556,347 | 0.5% | 0.1 | 556,347 | 551,023 | 574,812 | 578,443 | 3.7 | 551,023 | | 551,023 | - |
| Mortgage Notes Payable | 1,077,163 | 1,076,828 | 4.7% | 6.8 | 198,584 | N/A | 1,463,758 | 1,463,758 | N/A | N/A | | N/A | - |
| Media Credit Facilities (4) | 183,000 | 182,016 | 7.9% | 4.7 | 183,000 | N/A | - | - | N/A | N/A | | N/A | - |
| Golf Credit Facilities (4) | 152,498 | 152,498 | 5.2% | 4.0 | 46,922 | N/A | - | - | N/A | N/A | | N/A | - |
| Junior Subordinated Notes Payable | 51,004 | 51,237 | 7.4% | 21.3 | - | - | - | - | - | - | | - | - |
| Subtotal debt obligations | 2,807,273 | 2,793,730 | 3.6% | 4.2 | \$ 1,613,607 | \$ 1,803,630 | \$ 3,022,002 | \$ 3,098,402 | 2.9 | \$ 960,138 | | \$ 960,138 | \$ 193,758 |
| Financing on Subprime Mortgage Loans Subject to Call Option | 406,217 | 406,217 | | | | | | | | | | | |
| Total debt obligations | \$ 3,213,490 | \$ 3,199,947 | | | | | | | | | | | |

- (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 related to the senior housing business.
- (3) Including a \$88.7 million notional amount of interest rate swap agreements in CDO VI which were economic hedges not designated as hedges for accounting purposes.
- (4) These facilities are collateralized by all of the assets of the respective businesses.

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 14 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)(2) | Net Proceeds (millions) |
|-------------------|--------------------|------------------------------|-------------------------|
| Formation - 2010 | 62,027,184 | | |
| 2011 | 43,153,825 | \$4.55 - \$6.00 | \$ 210.9 |
| 2012 | 67,344,636 | \$6.22 - \$6.71 | \$ 434.9 |
| 2013 | 178,927,850 | \$4.97 - \$10.48 | \$ 1,262.6 |
| December 31, 2013 | <u>351,453,495</u> | | |

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors.

(2) On May 15, 2013, we completed the spin-off of New Residential. The May 15, 2013 closing price of our common stock on the NYSE was \$12.33. On May 16, 2013, the opening price of our common stock was \$5.79.

Our Investment Guidelines

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 REITs. Our investment guidelines state:

- 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.

These investment guidelines may be changed by our board of directors without the approval of our stockholders. 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 Management Agreement

We are party to an amended and restated management agreement with FIG LLC, our Manager and an affiliate of Fortress Investment Group LLC, dated April 25, 2013 (the “management agreement”), pursuant to which FIG LLC provides for the day-to-day management of our operations and performs (or causes to be performed) such services and activities relating to our investments and operations as may be appropriate.

The management agreement requires our Manager to manage our business affairs, under the direction of our board of directors, in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. The Manager is responsible for, among other things, (i) the purchase and sale of our investments, (ii) the financing of our investments, (iii) management of our investments, including arranging for leases, maintenance, insurance, and servicing, as applicable, and (iv) investment advisory services.

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 2013, 2012, or 2011.

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.

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 other companies, including other REITs, 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.

For more information about the competition we face generally and in our senior housing and golf businesses specifically, see Part I, Item 1A, “Risk Factors—Risks Related to Our Business—Competition may affect our senior housing property managers’ and tenant operators’ ability to meet their obligations to us or make it difficult for us to identify and purchase, or

develop, suitable senior housing properties to grow our investment portfolio” and “Risk Factors—Risks Related to Our Business —We are subject to significant competition, and we may not compete successfully.”

Government Regulation of Our Senior Housing Business.

AL/MC properties and operators are subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities. While the AL/MC properties within our portfolio are subject to many varying types of regulatory and licensing requirements, we expect that the healthcare industry, in general, will continue to face increased regulation, enforcement and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. In fact, some states have revised and strengthened their regulation of senior housing properties and that trend may continue. In addition, efforts by third-party payors, such as Governmental Programs (defined below) and private insurance payor organizations (which include insurance companies, health maintenance organizations and other types of health plans/managed care organizations) to impose more stringent controls upon operators are expected to intensify and continue. Changes in applicable federal, state or local laws and regulations and new interpretations of existing laws and regulations could have a material adverse effect on our business.

As used in this section, “Governmental Program” means individually and collectively, any federal, state or local governmental reimbursement programs administered through a governmental body, agency thereof, or contractor thereof (including a Governmental Program Payor), including without limitation the Medicare and Medicaid programs or successor programs to any of them. “Governmental Program Payor” means a private insurance payor organization which has a contract with a Governmental Program to arrange for the provision of assisted living facility or skilled nursing facility (“SNF”) services to Governmental Program beneficiaries, and which receives reimbursement from the Governmental Program to do so.

Our AL/MC senior housing properties are regulated by state and local laws governing licensure, provision of services, staffing requirements and other operational matters. The laws that govern our facilities vary greatly from one jurisdiction to another. Owners and/or operators of certain senior housing properties, including, but not limited to, AL/MC facilities, are required to be licensed or certified by the state in which they operate. In granting and renewing such licenses, the state regulatory agencies consider numerous factors relating to a facility’s physical plant and operations, including, but not limited to, admission and discharge standards, staffing and training. A decision to grant or renew a license may also be affected by a facility’s record with respect to licensure compliance, patient and consumer rights, medication guidelines and other regulations. Certain states require additional licensure and impose additional staffing and other operational standards in order for a facility to provide higher levels of assisted living services. Senior housing properties may also be subject to state and/or local building, zoning, fire and food service laws before licensing or certification may be granted. Our facilities may also be affected by changes in accreditation standards or procedures of accreditation bodies that are recognized by states or a Governmental Program in the licensure or certification process.

In the future, we may also acquire senior housing properties that include skilled nursing facilities (“SNF”). SNFs are licensed by the state in which the facility is located, and if an owner chooses to participate in Medicaid or Medicare, or certain other Governmental Programs, the facility must also be certified to participate in such programs. In that regard, SNFs are particularly subject to myriad, comprehensive federal Medicare and Medicaid certification requirements that not only require state licensure, but which also separately (apart from state licensure) regulate the type and quality of the medical and/or nursing care provided, ancillary services (e.g., respiratory, occupational, physical and infusion therapies), qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment, reimbursement and rate setting, and other operational issues and policies.

In the future, we may also acquire certain health care facilities (including assisted living facilities in some states, and SNFs in most states) that are subject to a variety of certificate of need (“CON”) or similar laws. None of our portfolio is currently subject to such laws. Where applicable, such laws generally require, among other requirements, as a predicate to licensure that a facility demonstrate the need for (i) constructing a new facility, (ii) adding beds or expanding an existing facility, (iii) investing in major capital equipment or adding new services, (iv) changing the ownership or control of an existing licensed facility, or (v) terminating services that have been previously approved through the CON process. These laws could affect, and even restrict, our ability to expand into new markets and to expand our facilities and services in existing markets. In addition, CON laws may constrain the ability of an operator to transfer responsibility for operating a particular facility to a new operator. If we have to replace a facility operator who is excluded from participating in a federal or state health care program (as discussed below), our ability to replace the operator may be affected by a particular state’s CON laws, regulations, and applicable guidance governing changes in provider control.

Aside from CON considerations, transfers of ownership, provider control and/or operations of assisted living facilities and SNFs are subject to licensure and other regulatory approvals not required for transfers of other types of commercial operations and real estate. These regulations may also constrain or even impede our ability to replace tenant operators or

managers of our facilities, and they may also impact our acquisition or sale of senior housing properties. In addition, if any of our licensed facilities are operated outside of its licensed authority, doing so could subject the facility to penalties, including closure of the facility. Failure to obtain licensure or loss or suspension of licensure or certification may prevent an assisted living facility or SNF from operating, or result in a suspension of Governmental Program reimbursement payment, until all licensure or certification issues have been resolved.

The significant portion of the revenues received by our facilities are from self-pay residents. The remaining revenue source is primarily Medicaid under certain federal waiver programs. As a part of the Omnibus Budget Reconciliation Act (“OBRA”) of 1981, Congress established a waiver program enabling some states to offer Medicaid reimbursement to assisted living providers as an alternative to institutional long-term care services. The provisions of OBRA and subsequent federal enactments permit states to seek a waiver from typical Medicaid requirements to develop cost-effective alternatives to long-term care, including Medicaid payments for assisted living, and in some instances including payment for such services through Governmental Program Payors. In 2013, approximately 4.2% of the revenues at our senior housing properties were from Medicaid reimbursement. There can be no guarantee that a state Medicaid program operating pursuant to a waiver will be able to maintain its waiver status, that funding levels will not decrease, or that eligibility requirements will not change.

Rates paid by self-pay residents are set by our senior housing properties and are determined by local market conditions and operating costs.

The level of assisted living Medicaid reimbursement varies from state to state. Thus, the revenues generated by our assisted living facilities may be adversely affected by payor mix, acuity level, changes in Medicaid eligibility and reimbursement levels. In addition, a state could lose its Medicaid waiver and no longer be permitted to utilize Medicaid dollars to reimburse for assisted living services. Such changes in revenues could in turn have a material adverse effect on our business.

Unlike assisted living operators, SNF operators typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private insurance payor organizations (and perhaps minimal self-pay). Consequently, changes in federal or state reimbursement policies may also adversely affect our business if we acquire facilities with an SNF component.

The percentage of federal Medicaid revenue support used for long-term care varies from state to state, due in part to different ratios of elderly population and eligibility requirements. Within certain federal guidelines, states have a fairly wide range of discretion to determine eligibility and to establish a reimbursement methodology for SNF Medicaid patients. Many states reimburse SNFs pursuant to fixed daily Medicaid rates, which are applied prospectively based on patient acuity and the historical costs incurred in providing patient care. Reasonable costs typically include allowances for staffing, administrative and general expenses, property, and equipment (e.g., real estate taxes, depreciation and fair rental).

The Medicare SNF benefit covers skilled nursing care, rehabilitation services and other goods and services and the facility receives a pre-determined daily rate for each day of care, up to 100 days. These prospective payment system (“PPS”) rates are expected to cover all operating and capital costs that efficient facilities would be expected to incur in furnishing most SNF services, with certain high-cost, low-probability ancillary services paid separately.

There is a risk that some skilled nursing facilities’ costs could exceed the fixed payments under the SNF PPS, and there is also a risk that payments under the SNF PPS may be set below the costs to provide certain items and services, which could have a material adverse effect on a SNF. Further, SNFs are subject to periodic pre- and post-payment reviews, and other audits by federal and state authorities. Such a review or audit could result in recoupments, denials, or delay of payments in the future, which could have a material adverse effect on the business of a SNF.

In the ordinary course of business, our AL/MC facilities have been and are subject regularly to inspections, inquiries, investigations and audits by state agencies that oversee applicable laws and regulations. State licensure laws, and where applicable, Governmental Program certification, require license renewals and compliance surveys on an annual or bi-annual basis. The failure of our AL/MC facility managers or operators to maintain or renew any required license or regulatory approval, as well as the failure of our managers or operators to correct serious deficiencies identified in a compliance survey, could result in the suspension of operations at a facility. In addition, if an AL/MC or SNF facility, where applicable, is found to be out of compliance with Governmental Program conditions of participation, the facility’s manager or operator may be excluded from participating in those Governmental Programs. Any such occurrence may impair the ability of a manager or operator to meet its obligations. If we have to replace a manager or operator, our ability to do so may be affected by the federal and state regulations governing such changes. This may result in payment delays, an inability to find a replacement manager or operator or other difficulties. Unannounced surveys or inspections of a facility may occur annually or bi-annually, or following a regulator’s receipt of a complaint regarding the facility. From time –to- time, our facilities receive deficiency reports from state regulatory bodies resulting from such inspections or surveys. Most

deficiencies are resolved through a plan of corrective action relating to the facility's operations, but whether the deficiencies are cured or not, the applicable governmental authority typically has the authority to take further action against a licensee. Such an action could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license or Governmental Program participation, suspension or denial of admissions, or imposition of other sanctions, including criminal penalties. The imposition of such sanctions may adversely affect our business.

Assisted living facilities and SNFs that participate in Governmental Programs are subject to numerous federal, state, and local laws, including their implementing regulations and applicable governmental guidance, that govern the operational, financial and other arrangements that may be entered into by health care facilities and other providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by Governmental Programs. Other laws require providers to furnish only medically necessary services and submit to the Governmental Program and Governmental Program Payors valid and accurate statements for each service, and other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed property and the quality of care provided. Sanctions for violations of these laws may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments, and exclusion from any Governmental Program participation. In certain circumstances, violation of these laws (such as those prohibiting abusive and fraudulent behavior and in the case of Governmental Program Payors, also prohibiting insurance fraud) with respect to one facility may subject other facilities under common control or ownership to sanctions, including exclusion from participation in Governmental Programs. In the ordinary course of business, our facilities are regularly subjected to inquiries, investigations, and audits by the federal and state agencies that oversee these laws.

All health care providers, including but not limited to assisted living facilities and SNFs that participate in Governmental Programs, are also subject to the Federal Anti-Kickback Statute, a criminal statute which generally prohibits persons from offering, providing, soliciting, or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a federal Governmental Program. SNFs and certain other types of health care facilities and providers are also subject to the Federal Ethics in Patient Referral Act of 1989, commonly referred to as the "Stark Law." The Stark Law generally prohibits the submission of claims to Medicare for payment if the claim results from a physician referral for certain designated services and the physician has a financial relationship with the health service provider that does not qualify under one of the exceptions for a financial relationship under the Stark Law. Many states have similar prohibitions on physician self-referrals and submission of claims which are applicable to all payor sources, including state Medicaid programs.

Further, health care facilities and other providers, including, but not limited to, assisted living facilities and SNFs, that receive Governmental Program payments, are subject to substantial financial and other (in some cases, criminal) penalties under the Civil Monetary Penalties Act, the Federal False Claims Act and, in particular, actions under the Federal False Claims Act's "whistleblower" provisions. Violations of these laws can also subject persons and entities to termination from participation in Governmental Programs or result in the imposition of substantial damages, fines or other penalties. Private enforcement of health care fraud has increased due in large part to amendments to the Federal False Claims Act that encourage private individuals to sue on behalf of Governmental. These whistleblower suits brought by private individuals, known as qui tam actions, may be filed by almost anyone, including present and former patients, nurses and other employees. Significantly, if a claim is successfully adjudicated, the Federal False Claims Act provides for treble damages, in addition to penalties up to \$11,000 per claim. Various state false claim act and anti-kickback laws may also apply to each facility operator, regardless of payor source (i.e. such as a private insurance payor organization or a Governmental Program), and violations of those state laws can also result in substantial fines and/or adverse licensure actions to our material detriment.

Government investigations and enforcement actions brought against the health care industry have increased dramatically over the past several years and are expected to continue. Some of these enforcement actions represent novel legal theories and expansions in the application of the Federal False Claims Act. Governmental agencies, both state and federal, are also devoting increasing attention and resources to anti-fraud initiatives against healthcare facilities and other providers. Legislative developments, including changes to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), have greatly expanded the definition of health care fraud and related offenses and broadened its scope to include certain private insurance payor organizations in addition to Governmental Programs. Congress also has greatly increased funding for the Department of Justice, Federal Bureau of Investigation and the Office of the Inspector General of the Department of Health and Human Services to audit, investigate and prosecute suspected health care fraud. Moreover, a significant portion of the billions in health care fraud recoveries over the past several years has also been returned to government agencies to further fund their fraud investigation and prosecution efforts.

HIPAA regulations provide for communication of health information through standard electronic transaction formats and for the privacy and security of health information. In order to comply with the regulations, health care providers often must

undertake significant operational and technical implementation efforts. Operators also may face significant financial exposure if they fail to maintain the privacy and security of medical records and other personal health information about individuals. The Health Information Technology for Economic and Clinical Health (“HITECH”) Act, passed in February 2009, strengthened the HHS Secretary’s authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009. HITECH directs the HHS Secretary to provide for periodic audits to ensure covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, increasing the likelihood that a HIPAA violation will result in an enforcement action. CMS issued an interim Final Rule which conformed HIPAA enforcement regulations to the HITECH Act, increasing the maximum penalty for multiple violations of a single requirement or prohibition to \$1.5 million. Higher penalties may accrue for violations of multiple requirements or prohibitions. Additionally, on January 17, 2013, CMS released a final rule, which expands the applicability of HIPAA and HITECH and strengthens the government’s ability to enforce these laws. The final rule broadens the definition of “business associate” and provides for civil money penalty liability against covered entities and business associates for the acts of their agents regardless of whether a business associate agreement is in place. Additionally, the final rule adopts certain changes to the HIPAA enforcement regulations to incorporate the increased and tiered civil monetary penalty structure provided by HITECH, and makes business associates of covered entities directly liable under HIPAA for compliance with certain of the HIPAA privacy standards and HIPAA security standards. HIPAA violations are also potentially subject to criminal penalties.

The Patient Protection and Affordable Care Act (the “Affordable Care Act”) and the Health Care and Education Reconciliation Act of 2010, which amends the Affordable Care Act (collectively, the “Health Reform Laws”) and the June 28, 2012 United States Supreme Court ruling upholding the individual mandate of the Health Reform Laws and partially invalidating the expansion of Medicaid (further discussed below), may have a significant impact on Medicare, Medicaid, other Governmental Programs, and as well on private insurance payor organizations, which in turn may impact the reimbursement amounts received by our facilities which participate in Governmental Programs. In fact, the Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system. Together, the Health Reform Laws make the most sweeping and fundamental changes to the U.S. healthcare system undertaken since the creation of Medicare and Medicaid and contain various provisions that may directly impact our business.

These new Health Reform laws include without limitation the expansion of Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on certain private insurance payor organizations (including Governmental Program Payors), establishing health insurance exchanges and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. Because many of our facilities deliver healthcare services, we will be impacted by the risks associated with the healthcare industry, including the Health Reform Laws. While the expansion of health care coverage may result in some additional demand for services provided by our facilities, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect our business. The Health Reform Laws also enhance certain fraud and abuse penalty provisions in the event of one or more violations of the federal health care regulatory laws. In addition, the Health Reform Laws have provisions that impact the health coverage that our managers or future operators provide to their respective employees. We cannot predict whether the existing Health Reform Laws, or future healthcare reform legislation or regulatory changes, will have a material impact on our business.

Additionally, certain provisions Health Care Reform Laws are designed to increase transparency and program integrity of SNFs. Specifically, SNFs will be required to institute compliance and ethics programs. Additionally, the Health Reform Laws make it easier for consumers to file complaints against nursing homes by mandating that states establish complaint websites. The provisions calling for enhanced transparency will increase the administrative burden and costs on SNF providers.

Government Regulation of Our Golf Business

Our golf facilities and operations are subject to a number of environmental laws. As a result, we may be required to incur costs to comply with the requirements of these laws, such as those relating to water resources, discharges to air, water and land, the handling and disposal of solid and hazardous waste, and the cleanup of properties affected by regulated materials. Under these and other environmental requirements, we may be required to investigate and clean up hazardous or toxic substances or chemical releases from current or formerly owned or operated facilities.

Environmental laws typically impose cleanup responsibility and liability without regard to whether the relevant entity knew of or caused the presence of the contaminants. We may use certain substances and generate certain wastes that may be deemed hazardous or toxic under such laws, and from time to time have incurred, and in the future may incur, costs related to cleaning up contamination resulting from historic uses of certain of our current or former properties or our treatment, storage or disposal of wastes at facilities owned by others. Our facilities are also subject to risks associated with mold, asbestos and other indoor building contaminants. The costs of investigation, remediation or removal of regulated materials

may be substantial, and the presence of those substances, or the failure to remediate a property properly, may impair our ability to use, transfer or obtain financing for our property. We may be required to incur costs to remediate potential environmental hazards, mitigate environmental risks in the future, or comply with other environmental requirements.

In addition, in order to improve, upgrade or expand some of our facilities, we may be subject to environmental review under the National Environmental Policy Act and, for projects in California, the California Environmental Quality Act. Both acts require that a specified government agency study any proposal for potential environmental impacts and include in its analysis various alternatives. Any improvement proposal may not be approved or may be approved with modifications that substantially increase the cost or decrease the desirability of implementing the project.

We are also subject to regulation by the United States Occupational Safety and Health Administration and similar health and safety laws in other jurisdictions. These regulations impact a number of aspects of operations, including golf course maintenance and food handling and preparation.

The ownership and operation of our facilities subjects us to federal, state and local laws regulating zoning, land development, land use, building design and construction, and other real estate-related laws and regulations.

Our facilities and operations are subject to the Americans with Disabilities Act of 1990, as amended by the ADA Amendments Act of 2008 (the "ADA"). The rules implementing the ADA have been further revised by the ADA Amendments Act of 2008, which included additional compliance requirements for golf facilities and recreational areas. The ADA generally requires that we remove architectural barriers when readily achievable so that our facilities are made accessible to people with disabilities. Noncompliance could result in imposition of fines or an award of damages to private litigants. Federal legislation or regulations may further amend the ADA to impose more stringent requirements with which we would have to comply.

We are also subject to various local, state and federal laws, regulations and administrative practices affecting our business. For instance, we must comply with provisions regulating equal employment, minimum wages, and licensing requirements and regulations for the sale of food and alcoholic beverages.

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. Taxable income generated by our taxable REIT subsidiaries ("TRS") is subject to regular corporate income tax.

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."

Employees

As described above under “– The Management Agreement,” we are managed by FIG LLC, an affiliate of Fortress Investment Group LLC. As a result, except in our media and golf operations which are discussed below, 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 agreements.

Media

As of December 31, 2013, our media segment had approximately 4,992 employees, consisting of hourly and salaried employees. We employed union personnel at a number of our core publications representing approximately 717 full-time equivalent employees. As of December 31, 2013, there were 27 collective bargaining agreements covering union personnel. Most of our unionized employees work under collective bargaining agreements that expire in 2014. As described above, in February 2014, we spun-off our media segment. As a result, we no longer employ these employees.

Golf

As of December 31, 2013, there were approximately 4,450 employees at our golf facilities, consisting primarily of hourly employees. Other than a small group of golf course maintenance staff at one of our clubs, our employees are not unionized. We believe we have a good working relationship with our employees, and the golf business has not experienced interruptions as a result of labor disputes.

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

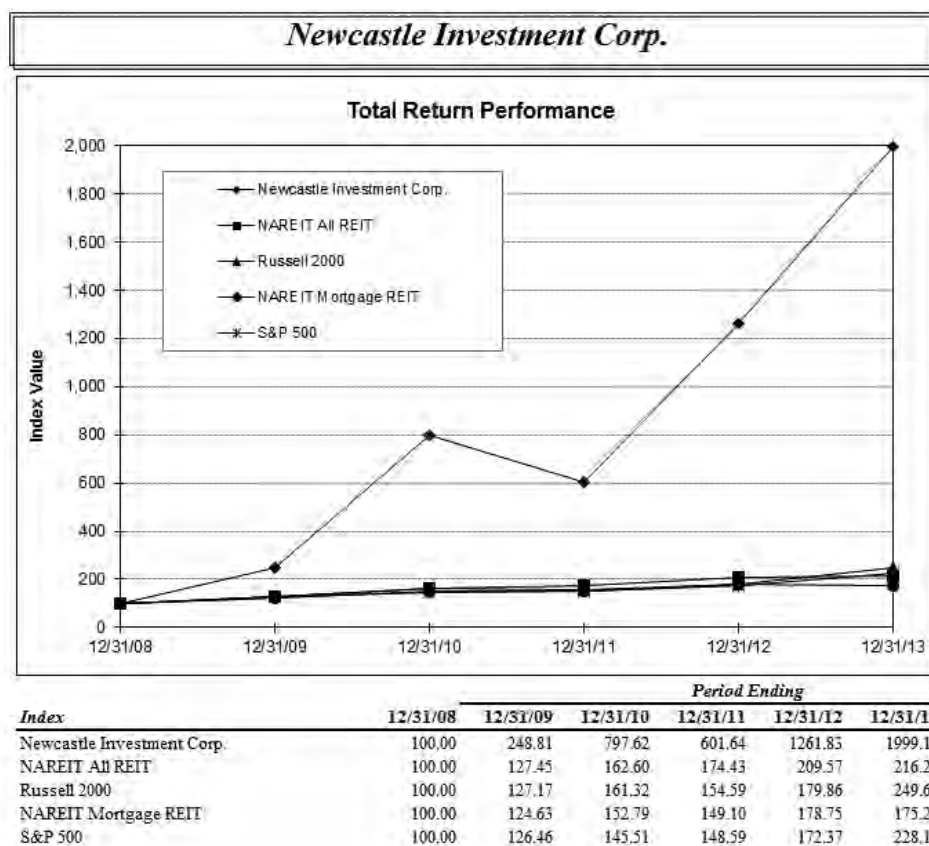
We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors; the Audit, Nominating and Corporate Governance, and Compensation committees of our board of directors are composed 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 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.

Performance Graph

The following graph compares the cumulative total return for Newcastle's 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 the Newcastle's common stock and in each of the indices on December 31, 2008, and that all dividends were reinvested. The past performance of Newcastle's common stock is not an indication of future performance. Newcastle's historical stock price has been adjusted to take into consideration the impact of the spin-off of New Residential in May 2013.



Item 1A. Risk Factors

Before you invest in our common stock, you should carefully consider the risks involved, including the risks set forth below.

Risks Related to the Financial Markets

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

The markets in which we operate are 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;
- 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 for a variety of reasons.

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 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, 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, 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 the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Market Considerations” in this report.

Furthermore, in our golf business, a substantial portion of our revenue is derived from discretionary or leisure spending by our members and guests, and such spending can be particularly sensitive to changes in general economic conditions. An economic downturn, whether local, regional, national or global, may lead to increases in unemployment, loss of consumer confidence and a reduction in discretionary spending, which would likely result in increased attrition (i.e., resignations of members of our private courses), a decrease in the rate of new memberships, a decrease in rounds played at our daily fee courses and reduced spending by our members and guests. As a result, our golf business, financial condition and results of operations may be materially adversely affected by an economic downturn.

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 imposes mandatory clearing and will impose 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.

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. As a result, such loan modifications could negatively affect our business, results of operations and financial condition. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Related to Our Manager

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

None of our officers or other senior employees who perform services for us is an employee of Newcastle. Instead, these individuals are employees of our manager. In addition, in our senior housing business, we rely on services provided by individuals who are employees of affiliates of our manager or companies owned by private equity funds managed by affiliates of our manager. Accordingly, 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. Furthermore, we are dependent on the services of certain key employees of our manager whose compensation is partially 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. 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. We may also be adversely affected by operational risks, including cyber security attacks, that could disrupt our manager's financial, accounting and other data processing systems.

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

There are conflicts of interest inherent in our relationship with our manager, as described below. 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.

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.

Our management agreement, as amended, does not limit or restrict our manager or its affiliates from engaging in any business or managing other pooled investment vehicles that make investments that meet our investment objectives. Entities managed by our manager or its affiliates—including investment funds, private investment funds, or businesses managed by our manager—have investment objectives that overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. These entities may invest in assets that meet our investment objectives, including real estate securities, real estate related and other loans, senior housing properties and other operating real estate, and other assets. 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 an investment vehicle other than us and have no obligation to offer to us the opportunity to participate in any particular investment opportunity.

Certain members of our board of directors, including our chairman, are officers of our manager. Certain employees of our manager who perform services for us also perform services for companies and funds that compete with us. These employees may serve as officers and/or directors of these other entities. The ability of our manager and its officers and employees to engage in other business activities may reduce the amount of time our manager, its officers or other employees spend managing us.

In addition, we have engaged or may engage (subject to our investment guidelines) in material transactions with our manager or an entity managed by our manager or one of its affiliates, including, but not limited to, certain financing arrangements, purchases of debt, co-investments, acquisitions of senior housing properties and other assets, that present an actual, potential or perceived conflict of interest. We may invest in portfolio companies of private equity funds managed by our manager (or an affiliate thereof). We currently have debt investments in a portfolio company.

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 or to pursue separation transactions, such as the spin-off of New Residential and the spin-off of New Media. In addition to its management fee, our manager is 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. Our manager is eligible to receive compensation in the form of options in connection with the completion of our common equity offerings. Therefore, our manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition to the shares available for issuance under the 2012 Newcastle Nonqualified Stock Option and Incentive Plan (the “Option Plan”), our board of directors may also determine to grant options to our manager that are not issued pursuant to the Option Plan, provided that the number of shares underlying any options granted to our manager in connection with any capital raising efforts will not exceed 10% of the shares sold in such offering and would be subject to NYSE rules. See also “—Risks Related to Our Business—Our agreements with New Residential may not reflect terms that would have resulted from arm’s-length negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential for certain liabilities.”

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 we are not required to obtain stockholder consent to change our investment strategy or asset portfolio.

Our manager is authorized to follow very broad investment guidelines, and our directors do not approve each investment decision made by our manager. Our investment guidelines are purposefully broad to enable our manager 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. Our manager’s investment decisions are based on a variety of factors, such as changing market conditions. 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. We do not have policies requiring the allocation of equity to different investment categories, although our investment guidelines do restrict investments of more than 20% of our total equity (as determined on the date of such investment) in any single asset. Consequently, our manager has great latitude in determining which investments are appropriate for us, including the latitude to build concentrations in certain positions and to invest in asset classes that may differ significantly from those in our existing portfolio. Our directors periodically review our investment guidelines and our investment portfolio. However, our directors rely primarily on information provided to them by our manager, and they do not review or pre-approve each proposed investment or the related financing arrangements. A transaction entered into by our manager that contravenes the terms of our management agreement may be difficult or impossible to unwind by the time it is reviewed by our directors. In addition, we are not required to obtain stockholder consent in order to change our investment strategy and asset portfolio, which may result in making investments that are different, riskier or less profitable than our current investments.

Our investment strategy and asset portfolio have undergone meaningful changes in recent years and will continue to evolve in light of existing market conditions and investment opportunities. As part of our continuing efforts to provide value to our stockholders, we are currently considering a spin-off of our senior housing business from the remainder of our investment portfolio. If the transaction resulted in our senior housing business being held in a stand-alone entity, we expect that such entity would elect and qualify to be taxed as a REIT. Our board has not formally evaluated any such transaction, and there can be no assurance as to the timing, terms, structure or completion of any such transaction. Any such transaction would be subject to a number of risks and uncertainties, could have tax implications for the holders of shares of our common stock, and could adversely affect the price of shares of our common stock. See “—Risks Related to Our Business—We are actively exploring new business opportunities and asset categories, which could entail significant risks and adversely affect our financial condition, results of operations and liquidity.”

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 Related to Our Business

We are actively exploring new business opportunities and asset categories, which could entail significant risks and adversely affect our financial condition, results of operations and liquidity.

Consistent with our broad investment guidelines and our investment objectives, we have acquired and/or are pursuing a variety of assets that differ from the assets in our legacy portfolio, such as senior housing properties, a golf business, Excess MSRs (which we spun-off in May 2013) and media assets (which we spun-off in February 2014). Although we currently believe that we will have significant investment opportunities in the future, these opportunities may not materialize. In addition, our ability to act on new investment opportunities may be constrained by the requirements of the Investment Company Act of 1940, as amended (the "1940 Act"), and federal tax law.

New investments may not be profitable (or as profitable as we expect), may increase our exposure to certain industries (such as the golf industry), may increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations, may divert managerial attention from more profitable opportunities, and may require significant financial resources. A change in our investment strategy may also 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. Moreover, new investments may present risks that are difficult for us to adequately assess, given our lack of familiarity with a particular asset class or other reasons. The risks related to new asset categories or the financing risks associated with such assets could adversely affect our results of operations, financial condition and liquidity, and could impair our ability to pay dividends on both our common stock and preferred stock. See "—Risks Related to Our Manager—Our directors have approved very broad investment guidelines for our manager, and we are not required to obtain stockholder consent to change our investment strategy or asset portfolio."

We recently acquired a golf business, which is subject to various risks that could have a negative impact on our financial results.

In December 2013, we completed a restructuring of an investment in mezzanine debt issued by NGP, the indirect parent of National Golf. National Golf owns 27 golf courses across 9 states, and leases these courses to American Golf, an affiliated operating company. American Golf also leases an additional 54 golf courses and manages 11 courses owned by third parties, respectively. As part of the restructuring, we acquired the equity of NGP and American Golf's indirect parent, AGC, and therefore consolidated these entities as of December 31, 2013.

We have never owned or operated a golf business, and there can be no assurance that we will be able to successfully manage this business. Our ability to attract and retain members and increase usage at our golf facilities is critical to the

success of our golf business, and there can be no assurance that we will be able to do so. See “—We are actively exploring new business opportunities and asset categories, which could entail significant risks and adversely affect our financial condition, results of operations and liquidity.” Moreover, the golf companies we have acquired, and the golf industry generally, have experienced a period of declining revenue and profitability. See “—We have invested in operating businesses in distressed industries, such as golf, and such investments are subject to operational and other business risks.”

Our golf business is subject to various risks that may not apply to our other operations. For example, unusual weather patterns and extreme weather events, such as heavy rains, prolonged snow accumulations, high winds, extended heat waves and drought, could negatively affect our facilities. The maintenance of satisfactory turf grass conditions on our golf courses, which requires significant amounts of water. Our ability to irrigate a golf course could be adversely impacted by a drought or other cause of water shortage and government imposing water restrictions. We have a concentration of golf facilities in states (such as California, Georgia, and New York) that experience periods of unusually hot, cold, dry or rainy weather. Unfavorable weather patterns in such states, or any other circumstance or event that causes a prolonged disruption in the operations of our facilities in such states (including, without limitation, economic and demographic changes in these areas), could have a particularly adverse impact on our golf business.

Seasonality will affect our golf business’s results of operations. Usage of golf facilities tends to decline significantly during the first and fourth quarters, when colder temperatures and shorter days reduce the demand for outdoor activities. As a result, we expect the golf business to generate a disproportionate share of its annual revenue in the second and third quarters of each year. Accordingly, our golf business is especially vulnerable to events that may negatively impact its operations during the second and third quarters, when guest and member usage is highest.

In addition, we may be required to make significant cash outlays in connection with “initiation deposits.” Members of our private courses are generally required to pay an initiation deposit upon their acceptance as a member and, in most cases, such deposits are fully refundable after a fixed number of years (typically, 30 years) and upon the occurrence of other contract-specific conditions. While we will make a refund to any member whose initiation deposit is eligible to be refunded, we may be subject to various states’ escheatment laws with respect to initiation deposits that have not been refunded to members. All states have escheatment laws and generally require companies to remit to the state cash in an amount equal to unclaimed and abandoned property after a specified period of dormancy, which is typically 3 to 5 years. Moreover, most of the states in which we conduct business hire independent agents to conduct unclaimed and abandoned property audits. We currently do not remit to states any amounts relating to initiation deposits that are eligible to be refunded to members based upon our interpretation of the applicability of such laws to initiation deposits. The analysis of the potential application of escheatment laws to our initiation deposits is complex, involving an analysis of constitutional and statutory provisions and contractual and factual issues. While we do not believe that initiation deposits must be escheated, we may be forced to remit such amounts if we are challenged and fail to prevail in our position.

If one or more of the foregoing risks were to materialize, our golf business could be adversely affected, which could have a material adverse effect on our financial condition, results of operations and liquidity.

The geographic distribution of the 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 commercial and residential mortgage loans underlying, and collateral securing, certain of our investments, including our mortgage-backed securities, 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 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, thereby reducing our future returns 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 no assets in our consolidated CDOs as of December 31, 2013 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 February 2014 remittance date for CDO VI, this CDO was not in compliance with its applicable over collateralization tests and consequently, we are not receiving residual cash flows from this CDO, 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, 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 cancellations 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 the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in this report.

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 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, among other things, the failure to satisfy specific over collateralization tests, failure to satisfy certain “key man” requirements or an event of default occurring for the failure to pay interest on certain 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 certain 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 the date of this report, 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 constituting manager termination events, or other manager termination events, may occur in other CDOs, and we could be removed as the collateral manager of those CDOs if such events of default occur. Moreover, our cash flows, business, results of operations and/or financial condition could be materially and negatively impacted if such 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 may be subject to significant impairment charges, which would 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 and the amount of accrued interest recognized as income from such investment, which could have a material adverse effect on our results of operations and 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. In addition, the amount we ultimately realize from certain of our debt investments may be dependent on our ability to execute long-term strategies involving corporate reorganizations of the applicable issuer.

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 in the past and may experience in the future, counterparties electing to roll our repurchase agreements may charge higher spreads 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, 2013, we had \$617.0 million outstanding under repurchase agreement financings, including linked transactions. These repurchase agreement obligations are with six 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 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 counterparty 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, 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.

The consolidation and elimination of counterparties has increased our counterparty concentration risk. We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. As of the date of this report, we had obligations to repurchase assets pursuant to repurchase agreements with six different 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.

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, since the 2008 recession, non-recourse term financing not subject to margin requirements has been more 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 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 securities and loan investments on attractive terms or at all.

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.

As non-recourse long-term financing structures become available to us and are utilized, such structures expose us to risks that 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.

Our investments in loans, and the loans underlying our investments in securities, are subject to delinquency, foreclosure and loss, and we may convert a debt position into an equity position in order to preserve the value of our investment, which could result in losses to us and expose us to additional risks.

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 a 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 financial condition, earnings and cash flow from operations. Foreclosure of a loan, particularly a commercial loan, or any other restructuring activities 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-backed securities, FNMA/FHLMC securities, and real estate related asset-backed securities. 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.

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

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, insurance companies and other investors, including funds and companies affiliated with our manager. Our management agreement, as amended, does not limit or restrict our manager or its affiliates from engaging in any business or managing other pooled investment vehicles that make investments that meet our investment objectives. See “—Risks Related to Our Manager—There are conflicts of interest in our relationship 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.

Our manager or its affiliates have and may in the future raise, acquire or manage investment vehicles that are entitled to a priority or exclusive right to invest in certain types of assets. If such an investment vehicle exists, that vehicle’s exclusivity would prevent us from investing in the assets over which the investment vehicle has exclusivity because we do not have the exclusive right to invest in any particular type of asset. This dynamic may reduce the type of assets in which we are able to invest.

Our golf facilities compete on a local and regional level with other golf facilities. Competition tends to be based on market penetration, demographic and quality factors, as opposed to price factors. The level of competition and primary competitors vary by region and are subject to change as existing facilities are renovated or new facilities are developed. An increase in the number or quality of similar facilities in a particular region could significantly increase competition, which could have a negative impact on the results of operations for our golf segment.

For competition risk related to our senior housing business, see “—Competition may affect our senior housing property managers’ and tenant operators’ ability to meet their obligations to us or make it difficult for us to identify and purchase, or develop, suitable senior housing properties to grow our investment portfolio.”

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.

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

We have investments in real estate related and other 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 have invested 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 have investments in B Notes—mortgage loans 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 or businesses 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. In the past, dislocation in the trading markets has reduced the trading for many real estate securities, resulting in less transparent prices for those securities. During such times, it is more difficult for us to sell many of our assets because, if we were to sell such assets, we would likely not have access to readily ascertainable market prices when establishing valuations of them. 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.

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 and other 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 have invested in RMBS collateralized by subprime mortgage loans, which are subject to increased risks.

We have invested 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 FNMA and FHLMC. 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 have invested 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. Department of Justice 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 led to a 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 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 \$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 housing properties, 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 housing properties and engage third parties (including affiliates of our Manager) to manage the operations or lease the properties. The income we recognize from any senior housing properties that we engage third parties to manage would be dependent on the ability of the property manager(s) of such facilities to successfully manage these properties. The property manager(s) 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 property manager’s inability to successfully compete with other companies on one or more of the foregoing levels could adversely affect the senior housing property and materially reduce the income we would receive from an investment in such facility.

We may continue to purchase senior housing properties and engage the sellers of such facilities or other third parties under a triple net lease in which the rental payments are fixed with scheduled periodic increases that are either fixed or based on the Consumer Price Index with caps. The properties we currently lease to Holiday account for a meaningful portion of our total revenues and net operating income from our senior housing properties, and because our leases with Holiday are triple net leases, we depend on Holiday to pay all operating costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance, and payroll expense of property-level employees in connection with the leased properties. We cannot assure you that Holiday will have sufficient assets, income and access to financing to enable them to satisfy its obligations to us, and any failure, inability or unwillingness by Holiday to do so could have a material adverse effect on us. In addition, although a subsidiary of Holiday provided a lease guaranty in connection with the leases, and a subsidiary of Holiday agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their business, we cannot assure you that the guaranty will be sufficient to satisfy Holiday’s obligations to us, and we cannot assure you that Holiday will have sufficient assets, income and access to financing to enable it to satisfy its obligations to us. Our reliance on Holiday for a meaningful portion of our total revenues and net operating income from our senior housing investments creates credit risk. If Holiday becomes unable or unwilling to satisfy its obligations to us, our financial condition and results of operations could be weakened.

As a result of any new investment in senior housing properties, 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 controls. We temporarily excluded the senior housing properties acquired in 2013 from management’s annual assessment of the effectiveness of internal control in 2013 pursuant to a one-year deferral permissible under PCAOB and SEC guidelines 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 property. These events, among others, could result in the loss of part or all of any investment we make in a senior housing property.

Furthermore, the ability to successfully manage a senior housing property depends on occupancy levels. A material decline in occupancy levels and revenues may make it more difficult for the manager of any senior housing property 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 housing properties will be subject to the applicable REIT qualification tests, and we may have to hold certain interests through taxable REIT subsidiaries (“TRS”), which may negatively impact our returns from these assets.

We are not permitted to operate our AL/MC properties, and we are dependent on the property managers of our AL/MC properties and on tenants for our triple net lease properties.

Because federal income tax laws generally restrict REITs and their pass-through subsidiaries from operating healthcare properties, we do not manage our AL/MC senior housing properties. Instead, AL/MC investments are structured to be compliant with the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”).

The RIDEA structure permits a REIT to lease facilities to a subsidiary that qualifies as a taxable REIT subsidiary (“TRS”) if the TRS hires an eligible independent contractor (“EIK”) to manage the property. Under this structure, the REIT leases health care properties to the TRS and receives rent while the TRS earns income from the properties’ operations, and pays a management fee to the EIK and rent to the REIT property owner.

Accordingly, our TRS has retained Blue Harbor and Holiday to manage facilities that are leased to it by us. Although we have various rights as the tenant under our management agreements, we rely upon our property managers’ personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior housing operations efficiently and effectively. We also rely on our property managers to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our facilities in compliance with the terms of our management agreements and all applicable laws and regulations. We rely on Holiday and Blue Harbor to attract and retain skilled management personnel and property level personnel who are responsible for the day-to-day operations of our facilities. Increases in labor costs and other property operating expenses, or significant changes in Holiday’s or Blue Harbor’s ability to manage our facilities efficiently and effectively could adversely affect the income we receive from our facilities and have a material adverse effect on us. As managers, our property managers do not lease our facilities, and, therefore, we are not directly exposed to their credit risk in the same manner or to the same extent as our triple net tenants. However, any adverse developments in Holiday’s or Blue Harbor’s business and affairs or financial condition could impair its ability to manage our properties efficiently and effectively and could have a material adverse effect on us.

While we monitor our property managers’ and tenants’ performance, we have limited recourse under our management agreements if we believe that the property managers are not performing adequately. In addition, our property managers may manage, own or invest in, properties that compete with our properties, which may result in conflicts of interest. As a result, our property managers may make decisions regarding competing properties that are not in our best interests.

The triple net lease structure also provides us with a REIT-eligible structure for owning health care facilities. The triple net lease structure permits a REIT to lease facilities to a third-party operator and collect rent from the operator. Unlike the RIDEA structure, the triple net lease structure creates credit risk from the tenant.

Due to the dependency of our revenues on private pay sources, events which adversely affect the ability of seniors to afford the monthly resident fees (including downturns in the economy, housing market, consumer confidence or the equity markets and unemployment among resident family members) could cause our occupancy rates, revenues and results of operations to decline.

Costs to seniors associated with independent and certain assisted living services are not generally reimbursable under government reimbursement programs such as Medicaid. Economic downturns, softness in the housing market, higher levels of unemployment among resident family members, lower levels of consumer confidence, changes to social security benefits, stock market volatility, interest rate volatility, adverse changes to fixed income arrangements and/or changes in demographics could adversely affect the ability of seniors to afford our resident fees. If we are unable to retain and/or

attract seniors with sufficient income, assets or other resources required to pay the fees associated with independent and assisted living services and other service offerings, our occupancy rates, revenues and results of operations could decline.

Increases in labor costs at our senior housing properties may have a material adverse effect on us.

Wages and employee benefits represent a significant part of the expenses of any senior housing property. In connection with our RIDEA, AL/MC properties and in connection with our IL-only properties that are managed by our property managers, we rely on our property managers to attract and retain skilled management personnel and property level personnel who are responsible for the day-to-day operations of our facilities.

The market for qualified nurses and healthcare professionals is highly competitive. Periodic and geographic area shortages of nurses or other trained personnel may require our property managers to increase the wages and benefits offered to its employees in order to attract and retain these personnel or to hire more expensive temporary personnel. Also, our property managers may have to compete with numerous other employers for lesser skilled workers.

As we acquire additional facilities, we may be required to pay increased compensation or offer other incentives to retain key personnel and other employees. Employee benefits costs, including employee health insurance and workers' compensation insurance costs, have materially increased in recent years. Increasing employee health and workers' compensation insurance costs may materially and negatively affect our earnings at our senior housing properties. We cannot assure you that labor costs at our senior housing properties will not increase or that any increase will be matched by corresponding increases in rates charged to residents. Any significant failure by our property managers to control labor costs or to pass on any such increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations. In addition, if the Master Tenants of the Holiday Portfolio fail to attract and retain qualified personnel, their ability to satisfy their obligations to us could be impaired.

Termination of assisted living resident agreements and resident attrition could adversely affect our revenues and earnings at our senior housing properties.

State regulations governing assisted living facilities typically require a written resident agreement with each resident. Most of these regulations also require that each resident have the right to terminate these assisted living resident agreements for any reason on reasonable notice. Consistent with these regulations, most resident agreements at our senior housing properties allow residents to terminate their agreements on 30 days' notice. Thus, our property managers may be unable to contract with assisted living residents to stay for longer periods of time, unlike typical apartment leasing arrangements that involve lease agreements with terms of up to a year or longer. If a large number of residents elected to terminate their resident agreements at or around the same time, our revenues and earnings from our assisted living facilities could be materially and adversely affected. In addition, the advanced ages of the residents at our senior housing properties makes the resident turnover rate in these facilities difficult to predict.

Our property managers and tenants (including the Master Tenants) may be faced with significant potential litigation and rising insurance costs that not only affect their ability to obtain and maintain adequate liability and other insurance, but also may affect their ability to pay their lease payments and fulfill their insurance and indemnification obligations to us.

In some states, advocacy groups monitor the quality of care at assisted and independent living communities, and these groups have brought litigation against operators. Also, in several instances, private litigation by assisted and independent living community residents or their families have succeeded in winning very large damage awards for alleged neglect. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance. The cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment in many parts of the United States continues. This may affect the ability of some of our property managers and tenants (including the Master Tenants) to obtain and maintain adequate liability and other insurance and manage their related risk exposures. In addition to causing some of our property managers and tenants (including the Master Tenants) to be unable to fulfill their insurance, indemnification and other obligations to us under their property management agreements or leases and thereby potentially exposing us to those risks, these litigation risks and costs could cause some of our property managers and future tenants to become unable to pay rents due to us. Such nonpayment could potentially affect our ability to meet future monetary obligations under our financing arrangements.

The failure of our property managers and tenants (including the Master Tenants) to comply with laws relating to the operation of our property managers' and tenants' (including the Master Tenants') facilities may have a material adverse effect on the ability of our tenants (including the Master Tenants) to pay us rent, the profitability of our managed facilities and the values of our properties.

We and our property managers and tenants (including the Master Tenants) are subject to or impacted by extensive, frequently changing federal, state and local laws and regulations. Some of these laws and regulations include: state and

local licensure laws; laws protecting consumers against deceptive practices; laws relating to the operation of our properties and how our property managers and tenants (including the Master Tenants) conduct their operations, such as fire, health and safety laws and privacy laws; federal and state laws affecting communities that participate in Medicaid; the Americans with Disabilities Act and similar state and local laws; and safety and health standards set by the Occupational Safety and Health Administration. We and our property managers and tenants (including the Master Tenants) expend significant resources to maintain compliance with these laws and regulations, and responding to any allegations of noncompliance also results in the expenditure of significant resources. If we or our property managers or tenants (including the Master Tenants) fail to comply with any applicable legal requirements, or are unable to cure deficiencies, certain sanctions may be imposed and, if imposed, may adversely affect our tenants' (including the Master Tenants') ability to pay their rent, the profitability of affected facilities managed by our property managers and the values of our properties. Further, changes in the regulatory framework could have a material adverse effect on the ability of our tenants (including the Master Tenants) to pay us rent (and any such nonpayment could potentially affect our ability to meet future monetary obligations under our financing arrangements), the profitability of our facilities managed by our property managers and the values of our properties.

We and our property managers and our tenants (including the Master Tenants) are required to comply with federal and state laws governing the privacy, security, use and disclosure of individually identifiable information, including financial information and protected health information. Under the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), we and our property managers and tenants (including the Master Tenants) are required to comply with the HIPAA privacy rule, security standards, and standards for electronic healthcare transactions. State laws also govern the privacy of individual health information, and these laws are, in some jurisdictions, more stringent than HIPAA. Other federal and state laws govern the privacy of individually identifiable information. If we or our property managers or tenants (including the Master Tenants) fail to comply with applicable federal or state standards, we or they could be subject to civil sanctions and criminal penalties, which could materially and adversely affect our business, financial condition and results of operations.

Our properties and their operations are subject to extensive regulations.

Various governmental authorities mandate certain physical characteristics of senior housing properties. Changes in laws and regulations relating to these matters may require significant expenditures. Our property management agreements generally require our managers to maintain our properties in compliance with applicable laws and regulations, and we expend resources to monitor their compliance. We anticipate that any leases we sign in the future will also require our future tenants to maintain our properties in compliance with applicable laws and regulations. The Holiday master leases include such requirements. However, our property managers and tenants (including the Master Tenants) may neglect maintenance of our properties if they suffer financial distress. We may agree to fund capital expenditures in return for rent increases or other concessions. Our available financial resources or those of our property managers and tenants (including the Master Tenants) may be insufficient to fund the expenditures required to operate our properties in accordance with applicable laws and regulations. If we fund these expenditures, our tenants' (including the Master Tenants') financial resources may be insufficient to satisfy their increased rental payments to us or other incremental obligations.

Licensing and Medicaid laws may also require some or all of our senior housing property managers and tenants to comply with extensive standards governing their operations. In addition, certain laws prohibit fraud by senior housing operators and other healthcare communities, including civil and criminal laws that prohibit false claims in, Medicaid and other programs and that regulate patient referrals. In recent years, the federal and state governments have devoted increasing resources to monitoring the quality of care at senior housing communities and to anti-fraud investigations in healthcare operations generally. When violations of applicable laws are identified, federal or state authorities may impose civil monetary damages, treble damages, repayment requirements and criminal sanctions. Healthcare communities may also be subject to license revocation or conditional licensure and exclusion from Medicaid participation or conditional participation. When quality of care deficiencies or improper billing are identified, various laws may authorize civil money penalties or fines; the suspension, modification, or revocation of a license or Medicaid participation; the suspension or denial of admissions of residents; the denial of payments in full or in part; the implementation of state oversight, temporary management or receivership; and the imposition of criminal penalties. We, our property managers and our future tenants (including the Master Tenants) may receive notices of potential sanctions from time to time, and governmental authorities may impose such sanctions from time to time on our facilities. If our property managers and future tenants (including the Master Tenants) are unable to cure deficiencies which have been identified or which are identified in the future, these sanctions may be imposed, and if imposed, may adversely affect our future tenants' (including the Master Tenants') ability to pay rents to us (and any such nonpayment could potentially affect our ability to meet future monetary obligations under our financing arrangements), and our ability to identify substitute property managers or tenants. Federal and state requirements for change in control of healthcare communities, including, as applicable, approvals of the proposed operator for licensure, certificate of need and Medicaid participation, may also limit or delay our ability to find substitute tenants or property managers. If any of our property managers or future tenants (including the Master Tenants) becomes unable to operate our properties, or if any of our future tenants becomes unable to pay its rent because it has violated government regulations or

payment laws, we may experience difficulty in finding a substitute tenant or property manager or selling the affected property for a fair and commercially reasonable price, and the value of an affected property may decline materially.

Our golf business is also subject to extensive regulations, including, without limitation, labor, health and safety, environmental, zoning and land-use laws. For more information, see “Business—Government Regulation of Our Golf Business.”

The Master Tenants may be unable to cover their lease obligations to us, and there can be no assurance that the Guarantor will be able to cover any shortfall.

Prior to our acquisition of the Holiday Portfolio, Holiday did not have a lease expense to cover like the lease expense that is payable to us under the master leases. If our master leases had been in effect for the year ended December 31, 2013, EBITDAR less capital expenditures from the Holiday Portfolio, excluding any contribution from the Guarantor, would have resulted in a lease coverage ratio (i.e., the ratio of (i) EBITDAR less capital expenditures to (ii) lease expense) of 1.1x.

If either of the Master Tenants is not able to satisfy its obligations to us, we would be entitled, among other remedies, to use any funds of Holiday then held by us and to seek recourse against the Guarantor under its guaranty of the applicable master lease. Such guaranty includes certain financial covenants of the Guarantor, including maintaining a minimum net worth of \$150 million (book value plus accumulated depreciation, and certain other adjustments as defined in the guaranty), a minimum fixed charge coverage ratio of 1.10 and a maximum leverage ratio of 10 to 1. The Guarantor has guaranteed significant lease obligations of various other subsidiaries in addition to its guaranty of the Master Tenants’ obligations. In the future, the Guarantor may execute additional guaranties of the lease obligations of its subsidiaries without limitation, though subject to covenants. As of the closing of the Holiday Acquisition, the Guarantor had a net worth (book value plus accumulated depreciation and certain other adjustments) of approximately \$420 million (which amount includes a \$43.5 million security deposit posted by the Master Tenants). There can be no assurance that the Guarantor will have the resources necessary to satisfy its obligations to us under its guaranty of the master leases in the event that either of the Master Tenants fails to satisfy its lease obligations to us in full, which could have a material adverse effect on us.

Our acquisitions of senior housing properties may not be successful.

We intend to acquire additional senior housing properties. We cannot assure that we will be able to consummate attractive acquisition opportunities or that acquisitions we make will be successful. We might encounter unanticipated difficulties and expenditures relating to any acquired properties. Newly acquired properties might require significant management attention. We might never realize the anticipated benefits of our acquisitions. Notwithstanding pre-acquisition due diligence, we do not believe that it is possible to fully understand a property before it is owned and operated for an extended period of time. For example, we could acquire a property that contains undisclosed defects in design or construction. In addition, after our acquisition of a property, the market in which the acquired property is located may experience unexpected changes that adversely affect the property’s value. The occupancy of properties that we acquire may decline during our ownership, and rents or returns that are in effect or expected at the time a property is acquired may decline thereafter. Also, our property operating costs for acquisitions may be higher than we anticipate and acquisitions of properties may not yield the returns we expect and, if financed using debt or new equity issuances, may result in stockholder dilution. For these reasons, among others, any acquisitions of additional properties may not succeed or may cause us to experience losses.

Competition may affect our senior housing property managers’ and tenant operators’ ability to meet their obligations to us or make it difficult for us to identify and purchase, or develop, suitable senior housing properties to grow our investment portfolio.

We face significant competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. If we cannot identify and purchase a sufficient quantity of senior housing properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, it could have a material adverse effect on our business, financial condition and results of operations.

The healthcare industry is also highly competitive, and our operators, tenants and managers may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. The operations of our AL/MC, RIDEA properties and our IL-only owned and managed properties depend on the competitiveness and financial viability of the facilities. If our managers are unable to successfully compete with other operators and managers by maintaining profitable occupancy and rate levels, their ability to generate income for us may be materially adversely

affected. The operations of our triple net lease tenants also depend upon their ability to successfully compete with other operators and managers. If our tenants are unable to successfully compete, their ability to fulfill their obligations to us, including the ability to make rent payments to us, may be materially adversely affected. We cannot assure you that future changes in government regulation will not adversely affect the healthcare industry, including our seniors housing and healthcare operations, tenants and operators, nor can we be certain that our tenants, operators and managers will achieve and maintain occupancy and rate levels that will enable them to satisfy their obligations to us. Any adverse changes in the regulation of the healthcare industry or the competitiveness of our tenants, operators and managers could have a more pronounced effect on us than if we had investments outside the seniors housing and healthcare industries.

Our tenant operators (including the Master Tenants) may become subject to bankruptcy or insolvency proceedings.

Our tenant operators (including the Master Tenants) may not be able to meet the rent or other payments due us, which may result in a tenant bankruptcy or insolvency, or that a tenant might become subject to bankruptcy or insolvency proceedings for other reasons. Although our operating lease agreements provide us with the right to evict tenant operators, demand immediate payment of rent and exercise other remedies, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant in bankruptcy or subject to insolvency proceedings may be able to limit or delay our ability to collect unpaid rent and to exercise other rights and remedies.

We may be required to fund certain expenses (e.g., real estate taxes and maintenance) to preserve the value of an investment property, avoid the imposition of liens on a property and/or transition a property to a new tenant. If we cannot transition a leased property to a new tenant, we may take possession of that property, which may expose us to certain successor liabilities. Should such events occur, our revenue and operating cash flow may be adversely affected.

Transfers of health care facilities may require regulatory approvals and these facilities may not have efficient alternative uses.

Transfers of health care facilities to successor operators frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under certificate of need (“CON”) or determination of need laws, state licensure laws and Medicaid provider arrangements, that are not required for transfers of other types of real estate. The replacement of a health care facility operator could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. Alternatively, given the specialized nature of our facilities, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor operators or find efficient alternative uses, our revenue and operations may be adversely affected.

Certain of our properties may require a license or registration to operate.

Failure to obtain a license or registration or loss of a required license or registration would prevent a facility from operating in the manner intended by the property managers or tenant operators. These events could materially adversely affect our property managers’ ability to generate income for us or our tenant operators’ ability to make rent payments to us. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of health care facilities, by requiring a CON or other similar approval from a state agency.

The impact of the comprehensive healthcare regulation enacted in 2010 on us and our property managers and tenant operators cannot accurately be predicted.

The Health Reform Laws provide states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, The United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion will allow states not to participate in the expansion—and to forego funding for the Medicaid expansion—without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our property managers’ and tenant operators’ revenues, through new patients, but further straining state budgets. While the federal government will pay for approximately 100% of those additional costs from 2014 to 2016, states will be expected to begin paying for part of those additional costs in 2017. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other health care expenditures could be reduced as a result. A significant reduction in other health care related spending by states to pay for increased Medicaid costs could affect our property managers’ and tenant operators’ revenue streams, which could materially and adversely affect our business, financial condition and results of operations.

Overbuilding in markets in which our senior housing properties are located could adversely affect our future occupancy rates, operating margins and profitability.

The senior housing industry generally has limited barriers to entry, and, as a consequence, the development of new senior housing properties could outpace demand. If development outpaces demand for those asset types in the markets in which our properties are located, those markets may become saturated and we could experience decreased occupancy, reduced operating margins and lower profitability.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which in the case of our senior housing and golf businesses, may include personal identifying information. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing this confidential information, such as individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition and results of operations.

Our investments in debt 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.

Debt 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 debt 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 debt securities portfolio would tend to increase. Such changes in the market value of our debt 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 (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. In addition, our ability to hedge is limited by certain undertakings that we made to the U.S. Commodity Futures Trading Commission in order to avail ourselves of no-action relief from the requirement to register as a commodity pool operator.

Accounting for derivatives under U.S. generally accepted accounting principles ("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 many of the 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. In connection with new investments, 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 certain assets from management's annual assessment of the effectiveness of internal control in 2013 pursuant to a one-year deferral permissible under PCAOB and SEC guidelines, and we may avail ourselves of this flexibility in the future with respect to other newly acquired businesses. Our management identified a material weakness in our internal controls with respect to our financial statements for the year ended December 31, 2011. Although this was remediated, 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.

Our risk of litigation includes lawsuits that could be brought by residents of our senior housing properties, users of our golf courses or property-level employees in our senior housing and golf businesses. For instance, we are subject to federal and state laws governing minimum wage requirements, overtime compensation, discrimination and family and medical leave. Any lawsuit alleging a violation of any such laws could result in a settlement or other resolution that requires us to make a substantial payment, which could have a material adverse effect on our financial condition and results of operations. In addition, accidents or injuries in connection with our senior housing or golf properties could subject us to liability and reputational harm.

We have invested in operating businesses in distressed industries, such as golf, and such investments are subject to operational and other business risks.

We opportunistically pursue a variety of investments, such as our recent restructuring of a debt investment in National Golf and, as a consequence, we are subject to risks of the industries in which we may invest, which may include non-real estate related operating businesses in deeply distressed industries. These investments are subject to the risks of the industry in which such business(es) operate, and we expect any businesses we acquire to be subject to similar issues and risks. Businesses operating in distressed industries can face declining revenues, profitability, margins, customer base, product acceptance and growth prospects as well as concerns regarding increased fixed costs, lack of available financing or lack of a viable long-term strategy. Some or all of these risks may exist in any investment we make in a distressed business or industry. As a result, investments in distressed operating businesses involve heightened risks, and we cannot assure you that any such investments will be profitable. We may acquire significant positions in distressed businesses for strategic reasons, which may require us to expend significant capital on investments that differ from, and involve a higher degree of risk than, other assets currently in our portfolio. In addition, acquiring an operating business exposes us to some or all of the meaningful risks associated with owning an operating business. Any loss of invested capital in such businesses would adversely affect our results of operation, profitability and the amount of funds available for distribution as a dividend to our

stockholders. See “—We recently acquired a golf business, which is subject to various risks that could have a negative impact on our financial results.”

Our agreements with New Residential may not reflect terms that would have resulted from arm’s-length negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential for certain liabilities.

We completed a spin-off of New Residential in May 2013. The terms of the agreements related to the spin-off of New Residential, including a Separation and Distribution Agreement dated April 26, 2013 (the “Separation and Distribution Agreement”) between us and New Residential 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.

In the Separation and Distribution Agreement, we have agreed to indemnify New Residential and its affiliates and representatives against losses arising from: (a) any liability related to our junior subordinated notes due 2035; (b) any other liability that has not been defined as a liability of New Residential; (c) any failure by us and our subsidiaries (other than New Residential and its subsidiaries) (collectively, the “Newcastle Group”) to pay, perform or otherwise promptly discharge any liability listed under (a) and (b) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the Separation and Distribution Agreement; (d) any breach by any member of the Newcastle Group of any provision of the Separation and Distribution Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and (e) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the information statement or the registration statement of which the information statement is a part that relates solely to any assets owned, directly or indirectly by us, other than New Residential’s initial portfolio of assets. Any indemnification payments that we may be required to make could have a significantly negative effect on our liquidity and results of operations.

Risks Related 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 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 shares. This could make it difficult to sell shares 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.

Our failure to qualify as a REIT would potentially give rise to a claim for damages from New Residential.

In connection with the spin-off of New Residential, which was completed in May 2013, we represented in the Separation and Distribution Agreement that we have no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. We also covenanted in the Separation and Distribution Agreement to use our reasonable best efforts to maintain our REIT status for each of our taxable years ending on or before December 31, 2014 (unless we obtain an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that our failure to maintain our REIT status will not cause New Residential to fail to qualify as a REIT under the successor REIT rules). In the event of a breach of this representation or covenant, New Residential may be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations.

If New Residential fails to qualify as a REIT for 2013, it would significantly affect our ability to maintain our REIT status.

For federal income tax purposes we recorded approximately \$600 million of gain as a result of the spin-off of New Residential in May 2013. If New Residential qualified for taxation as a REIT for 2013, that gain is qualifying income for purposes of our 2013 REIT income tests. If, however, New Residential failed to qualify as a REIT for 2013, that gain is non-qualifying income for purposes of the 75% gross income test. Although New Residential covenanted in the Separation and Distribution Agreement to use reasonable best efforts to qualify as a REIT in 2013, no assurance can be given that it so qualified. If New Residential failed to qualify, it could cause us to fail our 2013 REIT income tests, which could 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.

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.

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 and certain built-in losses to reduce our future taxable income, potentially increases our related REIT distribution requirement, and potentially adversely affects our liquidity.

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 and net capital 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 and net capital 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 and net capital 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 TRSs pursuant to special provisions of the Code.

We currently lease certain “qualified healthcare properties” to our TRSs (or a limited liability company of which a 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, 2013, 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, \$101.9 million of such cancellations had been effected through December 31, 2013, 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, 2013, 2012 and 2011, we repurchased \$35.9 million, \$34.1 million and \$188.9 million face amount of our outstanding CDO debt and notes payable at a discount and recorded \$4.6 million, \$23.2 million and \$81.1 million of gain for tax purposes, respectively (of which only \$4.6 million, \$24.1 million and \$66.1 million of gain relating to \$35.9 million, \$39.3 million and \$171.8 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 cash flow 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. 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 of directors may deem relevant from time to time.

The stock ownership limit imposed by the 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 not 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 TRSs. 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.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our stock nor gain from the sale of stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock; and
- to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a “taxable mortgage pool,” or if we hold residual interests in a real estate mortgage investment conduit, a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

The tax on prohibited transactions will limit our ability to engage in transactions which would be treated as prohibited transactions for U.S. federal income tax purposes.

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of our trade or business. We might be subject to this tax if we were to dispose of or securitize loans or certain other assets in a manner that was treated as a prohibited transaction for U.S. federal income tax purposes.

We intend to conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain sales of loans or certain other assets at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% prohibited transaction tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to prevent prohibited transaction characterization.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To qualify as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

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), which is available for entities “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.”

Reliance on this exemption limits our ability to make certain investments. Section 3(c)(5)(C) generally requires that at least 55% of our assets be comprised of qualifying real estate assets and at least 80% of our assets be comprised of a combination of qualifying real estate assets and real estate related assets. In satisfying the 55% requirement, based on guidance from the SEC and its staff, we treat Agency ARM RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. The SEC and its staff have not issued guidance with respect to whole pool non-Agency RMBS for purposes of Section 3(c)(5)(C). Accordingly, based on our own judgment and analysis of the guidance with respect to Agency whole pool certificates, we treat non-Agency ARM RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. We also treat whole mortgage loans that we acquire directly as qualifying real estate assets provided that 100% of the loan is secured by real estate when we acquire the loan and we have the unilateral right to foreclose on the mortgage. In addition, we treat investments in Agency partial pool RMBS and non-Agency partial pool RMBS as real estate related assets. Section 3(c)(5)(C) 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.

In August 2011, the SEC 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 like us should be regulated in a manner similar to investment companies. The request for public comment has not yet resulted in SEC rulemaking or interpretive guidance and there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or SEC guidance regarding Section 3(c)(5)(C), will not change in a manner that adversely affects our operations. If the SEC takes action that could result in our 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.

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 in the past. The trading price of our common stock could fluctuate significantly in the future and could be negatively affected 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;
- additional offerings of our common stock;
- actions by rating agencies;
- short sales of our common stock;
- any decision to pursue a distribution or disposition of a meaningful portion of our assets;
- 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-off 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. 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 “—Risks Related to Our REIT Status and Other Matters—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 shares 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 choose to pay dividends in our own stock, or make a distribution of a subsidiary's common 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-off or other transaction, as in the case of our spin-off of New Residential in May 2013 and our spin-off of New Media in February 2014. We are currently considering a spin-off of our senior housing business, which could result in the distribution of a taxable dividend, although there can be no assurance as to the timing, terms, structure or completion of any such transaction. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution 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 1,000,000,000 shares of common stock and we are authorized to reclassify a portion of our authorized preferred stock into common stock, and there were 351,453,495 shares of our common stock outstanding as of February 21, 2014. 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 ("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.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments received more than 180 days prior to December 31, 2013.

Item 2. Properties.

Our direct investments in senior housing and golf properties are described under “Business – Investment Portfolio.”

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.

Our golf business’s executive office is located at 6080 Center Drive, Suite 500, Los Angeles, California, 90045. Its telephone number is (310) 664-4210.

We maintain our properties in good condition and believe that our current facilities are adequate to meet the present needs of our business. We do not believe any individual property is material to our financial condition or results of operations.

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.

| 2013 | High | Low | Last Sale | Distributions Declared |
|-------------------------------|----------|---------|-----------|---------------------------|
| First Quarter | \$ 11.65 | \$ 8.80 | \$ 11.17 | \$ 0.22 |
| Second Quarter ⁽¹⁾ | \$ 12.49 | \$ 4.70 | \$ 5.23 | \$ 0.17 |
| Third Quarter | \$ 5.97 | \$ 5.00 | \$ 5.62 | \$ 0.10 |
| Fourth Quarter | \$ 5.94 | \$ 5.18 | \$ 5.74 | \$ 0.10 |

| 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 |

⁽¹⁾ On May 15, 2013, we completed the spin-off of New Residential. The May 15, 2013 closing price of our Common Stock on the NYSE was \$12.33. On May 16, 2013, the opening price of our Common Stock was \$5.79.

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 21, 2014, the closing sale price for our common stock, as reported on the NYSE, was \$4.80. As of February 21, 2014, there were approximately 62 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 June 2002, Newcastle (with the approval of Newcastle’s board of directors) adopted the Newcastle Nonqualified Stock Option and Incentive Award Plan, or the Newcastle Option Plan, for officers, directors, consultants and advisors, including the Manager and its employees.

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 of directors may also determine to issue options to the Manager that are not subject to the 2012 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. Upon exercise, all options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless advance approval is made to settle the option in shares of common stock.

The following table summarizes the total number of outstanding securities in the incentive plans and the number of securities remaining for future issuance, as well as the weighted average strike price of all outstanding securities as of December 31, 2013 (adjusted for options which expired unexercised on January 9, 2014).

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options | Weighted Average Strike Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance Under the 2012 Equity Compensation Plan |
|--|--|--|--|
| Equity Compensation Plans Approved by Security Holders: | | | |
| Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan | 7,579,941 | \$ 4.81 | - |
| 2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan | 19,699,372 | 4.31 | 154,925 |
| Total Approved | 27,279,313 | (1) \$ 4.45 | 154,925 (2) |

Equity Compensation Plans Not Approved

by Security Holders:

None

- (1) Includes options relating to (i) 24,318,843 shares held by an affiliate of our Manager; (ii) 2,956,470 shares granted to our Manager and assigned to certain of Fortress's employees; and (iii) an aggregate of 4,000 shares granted to our directors, other than Mr. Edens, but does not include options relating to 2,934,890 shares granted to an affiliate of our Manager with a strike price of \$5.25 per share that were not issued pursuant to an equity compensation plan.
- (2) The maximum available for issuance is 20,000,000 shares in the aggregate over the term of the 2012 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 (i) an aggregate of 79,870 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 periods subsequent to the adoption of the 2012 Plan and (ii) an aggregate of 65,833 options which have been previously exercised.

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, 2013 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, | | | | |
|--|-------------------------|------------|------------|------------|--------------|
| | 2013 (1) | 2012 | 2011 | 2010 | 2009 |
| Operating Data | | | | | |
| Interest income | \$ 213,715 | \$ 282,951 | \$ 291,036 | \$ 300,272 | \$ 361,866 |
| Interest expense | 90,973 | 109,924 | 138,035 | 172,219 | 218,410 |
| Net interest income | 122,742 | 173,027 | 153,001 | 128,053 | 143,456 |
| Impairment (reversal) | (19,769) | (5,664) | 1,110 | (240,858) | 548,540 |
| Net interest income (loss) after impairment/reversal | 142,511 | 178,691 | 151,891 | 368,911 | (405,084) |
| Other revenues | 148,960 | 20,075 | 1,899 | 1,708 | 1,547 |
| Other income | 37,144 | 262,294 | 180,495 | 282,287 | 227,399 |
| Expenses | 207,506 | 66,118 | 30,327 | 30,901 | 33,099 |
| Income (loss) from continuing operations before income tax | 121,109 | 394,942 | 303,958 | 622,005 | (209,237) |
| Income tax expense | 2,100 | - | - | - | - |
| Income (loss) from continuing operations | 119,009 | 394,942 | 303,958 | 622,005 | (209,237) |
| Income (loss) from discontinued operations | 33,332 | 39,168 | 561 | (343) | (667) |
| Net income (loss) | 152,341 | 434,110 | 304,519 | 621,662 | (209,904) |
| Preferred dividends | (5,580) | (5,580) | (5,580) | (7,453) | (13,501) |
| Excess of carrying amount of exchanged preferred stock over fair value of consideration paid | - | - | - | 43,043 | - |
| Net income attributable to noncontrolling interests | (928) | - | - | - | - |
| Income (loss) applicable to common stockholders | \$ 145,833 | \$ 428,530 | \$ 298,939 | \$ 657,252 | \$ (223,405) |
| Income (loss) per share of common stock, diluted | \$ 0.51 | \$ 2.94 | \$ 3.65 | \$ 10.96 | \$ (4.23) |
| Income (loss) from continuing operations per share of common stock, after preferred dividends, excess of carrying amount of exchanged preferred stock over fair value of consideration paid and net income attributable to noncontrolling interest diluted | \$ 0.40 | \$ 2.67 | \$ 3.64 | \$ 10.97 | \$ (4.21) |
| Income (loss) from discontinued operations per share of common stock diluted | \$ 0.11 | \$ 0.27 | \$ 0.01 | \$ (0.01) | \$ (0.02) |
| Weighted average number of shares of common stock outstanding, diluted | 283,310 | 145,766 | 81,990 | 59,949 | 52,864 |
| Dividends declared per share of common stock | \$ 0.59 | \$ 0.84 | \$ 0.40 | \$ - | \$ - |

- (1) The 2013 operating data includes the impact of the acquisitions of the Holiday Portfolio, other senior housing properties and the Media investments. See additional information in Note 3 to our consolidated financial statements which appear in Part II, Item 8, “Financial Statements and Supplementary Data.”

| | As Of December 31, | | | | |
|--|--------------------|--------------|--------------|--------------|--------------|
| | 2013 (1) | 2012 | 2011 | 2010 | 2009 |
| Balance Sheet Data | | | | | |
| Real estate securities, available-for-sale | \$ 984,263 | \$ 1,691,575 | \$ 1,731,744 | \$ 1,860,584 | \$ 1,830,795 |
| Real estate related loans, held-for-sale, net | 437,530 | 843,132 | 813,580 | 782,605 | 573,862 |
| Residential mortgage loans, held-for-investment, net | 255,450 | 292,461 | 331,236 | 124,974 | - |
| Residential mortgage loans, held-for-sale, net | 2,185 | 2,471 | 2,687 | 253,213 | 383,647 |
| Investments in senior housing real estate, net | 1,362,900 | 162,801 | - | - | - |
| Investments in other real estate, net | 266,170 | 6,672 | - | - | - |
| Property, plant and equipment, net | 270,188 | - | - | - | - |
| Intangibles, net | 345,125 | 19,086 | - | - | - |
| Goodwill | 126,686 | - | - | - | - |
| Other investments | 25,468 | 24,907 | 24,907 | 24,907 | - |
| Cash and cash equivalents | 105,944 | 231,898 | 157,356 | 33,524 | 68,300 |
| Restricted cash | 12,366 | 2,064 | 105,040 | 157,005 | 200,251 |
| Assets of discontinued operations | - | 245,069 | 43,971 | - | - |
| Total assets | 4,852,563 | 3,945,312 | 3,651,799 | 3,687,111 | 3,514,628 |
| Total debt | 3,199,947 | 2,781,761 | 3,299,693 | 3,745,811 | 4,940,204 |
| Total liabilities | 3,626,439 | 2,872,252 | 3,459,710 | 3,934,696 | 5,155,280 |
| Common stockholders' equity (deficit) | 1,103,262 | 1,011,477 | 130,506 | (309,168) | (1,793,152) |
| Preferred stock | 61,583 | 61,583 | 61,583 | 61,583 | 152,500 |
| Noncontrolling interests | 61,279 | - | - | - | - |
| Supplemental Balance Sheet Data | | | | | |
| Common shares outstanding | 351,453 | 172,526 | 105,181 | 62,027 | 52,913 |
| Book value (deficit) per share of common stock | \$ 3.14 | \$ 5.86 | \$ 1.24 | \$ (4.98) | \$ (33.89) |
| Other Data | | | | | |
| Core Earnings (2) | \$ 140,903 | \$ 163,217 | \$ 120,169 | \$ 91,376 | \$ 98,331 |

- (1) The 2013 balance sheet data includes the impact of the acquisitions of the Holiday Portfolio, other senior housing properties and the Media and Golf businesses. See additional information in Note 3 to our consolidated financial statements, which appear in Part II, Item 8, "Financial Statements and Supplementary Data."
- (2) Newcastle has the following 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, including investments in equity method investees 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) the net operating income on its real estate, media and golf investments, (v) its operating expenses and (vi) 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 sixth variable listed above and adjusting the consumer loans portfolio accounting to a level yield methodology. It also excludes depreciation and amortization charges and acquisition and spin-off related expenses. "Core earnings" 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 is the judgment of management that depreciation and amortization charges are not indicative of operating performance and that acquisition and spin-off related expenses are not part of our core operations. 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, which is among the factors considered when determining the amount of distributions to our shareholders. Newcastle changed its definition of "Core Earnings" to exclude acquisition and spin-off related expenses in the third quarter of 2013. The calculation of "Core Earnings" has been retroactively adjusted for all periods presented.

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.

Calculation of Core Earnings:

| | Year Ended December 31, | | |
|---|-------------------------|-------------------|-------------------|
| | 2013 | 2012 | 2011 |
| Income applicable to common stockholders | \$ 145,833 | \$ 428,530 | \$ 298,939 |
| Add (deduct): | | | |
| Impairment (reversal) | (19,769) | (5,664) | 1,110 |
| Other income | (35,401) | (262,294) | (180,495) |
| Impairment (reversal), other (income) loss and other adjustments from discontinued operations | (6,429) | (17,421) | (428) |
| Depreciation and amortization (A) | 33,093 | 6,975 | 12 |
| Acquisition and spin-off related expenses | 23,576 | 13,091 | 1,031 |
| Core earnings | <u>\$ 140,903</u> | <u>\$ 163,217</u> | <u>\$ 120,169</u> |

(A) Includes \$2.7 million of depreciation and amortization expense in equity method investments for the year ended December 31, 2013.

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 is a real estate investment trust that focuses on opportunistically investing in, and actively managing, a variety of real estate related and other investments. Newcastle is externally managed and advised by an affiliate of Fortress Investment Group LLC, or Fortress. Newcastle's common stock is traded on the New York Stock Exchange under the symbol "NCT."

We currently invest in (1) senior housing properties, (2) real estate debt and (3) other investments. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, and we actively explore new business opportunities and asset categories as part of our business strategy. Our objective is to leverage our longstanding investment expertise to drive attractive risk-adjusted returns. We target stable long-term cash flows and seek to employ conservative capital structures to generate returns throughout different interest rate environments. We take an active approach centered around identifying and executing on opportunities, responding to the changing market environment, and dynamically managing our investment portfolio to enhance returns.

For further information relating to Newcastle's business, see Item 1, "Business."

During the fourth quarter of 2013, we changed our financial reporting segments. In particular, we established media and golf segments in connection with the restructurings of certain debt investments, as further described in Item 1, "Business—Developments in 2013—Restructuring and Spin-off of Media Investments" and Item 1, "Business—Developments in 2013—Restructuring of Golf Investment."

We conduct our business through the following segments: (i) investments in senior housing properties ("senior housing"), (ii) debt investments financed with collateralized debt obligations ("CDOs"), (iii) other debt investments ("Other Debt"), (iv) investments in media ("Media"), (v) investment in golf courses and facilities ("Golf") and (vi) corporate. Revenues attributable to each segment, as restated for previously reported periods, are disclosed below (in thousands).

| For the Year Ended | Senior Housing (1) | Debt Investments | | | Golf (3) | Corporate | Inter-segment | | Total |
|--------------------|--------------------|------------------|------------|-----------|----------|-----------|---------------|------------|-------|
| | | CDOs | Other Debt | Media (2) | | | Elimination | | |
| December 31, 2013 | \$ 85,270 | \$ 119,292 | \$ 101,024 | \$ 61,637 | \$ - | \$ 198 | \$ (4,746) | \$ 362,675 | |
| December 31, 2012 | \$ 18,026 | \$ 197,007 | \$ 93,867 | \$ - | \$ - | \$ 170 | \$ (6,044) | \$ 303,026 | |
| December 31, 2011 | \$ - | \$ 218,475 | \$ 80,133 | \$ - | \$ - | \$ 167 | \$ (5,840) | \$ 292,935 | |

(1) We completed the acquisition of a portfolio of 51 IL-only properties on December 23, 2013 which are included in this segment.

(2) We spun-off our Media business in February 2014.

(3) The Golf business was acquired on December 30, 2013.

Market Considerations

Our ability to generate income is dependent on, among other factors, our ability to raise capital and finance investments on favorable terms, deploy capital on a timely basis at attractive returns, and exit investments at favorable yields. Market conditions outside of our control, such as interest rates, credit spreads and stock market volatility affect these objectives in a variety of ways.

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. During 2013, we successfully accessed the capital markets, issuing 178,700,952 shares for total net proceeds of \$1.3 billion. However, rising interest rates or stock market volatility could impair our ability to raise equity capital on attractive terms.

Debt Investments

Interest rates have risen significantly in recent months and may continue to increase, although the timing of any further increases is uncertain. We have investments in both floating and fixed rate real estate related securities and loans, which are affected by interest rates in different ways. We expect that the value of our floating rate assets would not be significantly affected by a change in interest rates (whether an increase or decrease), since the coupon tracks the movement in rates, while the value of fixed rate assets can be negatively affected by rising interest rates. However, in general, rising interest rates are usually indicative of a strengthening economic environment, which could reduce the credit risk of some of our investments. With respect to our fixed rate assets, we believe that the negative impact of rising interest rates could potentially be offset by the positive impact of reduced credit risk.

Credit spreads also affect the value of our investments in debt securities and loans. Credit spreads decreased, or “tightened,” during 2013 relative to 2012, which has had a favorable impact on the value of our portfolio. Credit spreads measure the yield relative to a specified benchmark that the market demands on securities and loans based on the credit risk of such assets. The value of our portfolio tends to increase when spreads tighten, because under these circumstances the yield on our investments will generally be higher than the yield available on comparable new investments. However, tightening spreads tend to reduce the yields available on potential new investments. Conversely, when spreads increase or “widen,” the potential yields on new investments increase, but the value of our existing investments in debt securities and loans tends to decline. As a result, widening spreads negatively affect our ability to exit investments at attractive returns. Credit spreads also affect the cost of financing, with widening spreads tending to increase the cost, and tightening spreads tending to reduce it.

Senior Housing

We believe that the senior housing sector currently presents an attractive investment opportunity. Specifically:

- we expect projected changes in demographics will drive increased demand for senior housing, creating favorable supply-demand fundamentals;
- targeting smaller portfolios enables us to reduce competition with other active REIT buyers of large portfolios; and
- capitalizing on the experience of our Manager in the senior housing industry, we expect to generate growth in property-level net operating income when operational and structural efficiencies are achieved.

We made eight acquisitions of senior housing properties comprised of 72 properties in 2013. We continue to explore opportunities to invest in additional senior housing properties across the United States. While we generally target small portfolios, we have invested in large portfolios that we believe offer attractive risk-adjusted returns.

Our senior housing acquisitions have been financed with a combination of fixed and floating rate debt. Rising interest rates would increase the cost of our floating rate financing and negatively impact the returns on our senior housing investments.

Media Business

We spun off New Media on February 13, 2014. The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock we held of New Media to our common stockholders of record at the close of business on February 6, 2014. The distribution ratio was 0.0722 shares of New Media common stock for each share of Newcastle common stock. For more information about the acquisition and spin off of the media business, see Notes 3 and 20 to our consolidated financial statements included in Part II, Item 8 “Financial Statements and Supplementary Data.”

Golf Business

With respect to our Golf business, trends in consumer discretionary spending as well as climate and weather patterns have a significant impact on the markets in which we operate. We believe improving economic conditions and improvements in local housing markets will help drive membership growth and golf rounds played.

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.

General

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 and the CDO VIII Repack are also considered VIEs, but we do not control the decisions that most significantly impact their economic performance and, for the subprime securitizations, no longer receive a significant portion of their returns, and therefore do not consolidate them.

In addition, our investments in RMBS, CMBS, CDO securities and real estate related and other 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.

Debt Investments

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 13 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, 2013.

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. 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 3 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 \$1.0 billion carrying value of securities valued using quotations as of December 31, 2013, a 100 basis point change in credit spreads would impact estimated fair value by approximately \$16.7 million.

Our estimation of the fair value of level 3 assets valued using internal models (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 2013, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally improved compared to assumptions used at December 31, 2012 and 2011. In 2013, Newcastle increased the prepayment assumptions based on actual prepayment speeds rising throughout the year as rates remained historically low and lenders were able to lend to a broader lender base due to less strict credit standards. Default assumptions decreased due to lower levels of delinquent underlying loans. Loss severity assumptions were decreased based on observed decreases in recent loss severities. Decreasing the projected delinquency, default, and severity rates were a result of rising property values throughout the year and an increased incentive for borrowers to remain current as they gained more equity in their investments. 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, in comparison to the 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.

For CMBS valued with internal models, which have an aggregate fair value of \$1.8 million as of December 31, 2013, a 10% unfavorable change in our assumptions would result in the following decreases in such aggregate fair value (in thousands):

| | CMBS |
|--|----------|
| Outstanding face amount | \$ 2,482 |
| Fair value | \$ 1,770 |
| Effect on fair value with 10% unfavorable change in: | |
| Discount rate | \$ (23) |
| Prepayment rate | N/A |
| Default rate | \$ - |
| Loss severity | \$ 61 |

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 will be deemed to have occurred. Our non-Agency RMBS acquired with evidence of deteriorated credit quality for which it was deemed probable, at acquisition, that we would be unable to collect all contractually required payments as they come due, fall within the scope of loans and debt securities acquired with deteriorated credit quality, as opposed to beneficial interests in securitized financial assets. We note that primarily all of our securities, except our FNMA/FHLMC securities and our non-Agency RMBS acquired with evidence of deteriorated credit quality, 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, 2013, we had 13 securities with a carrying amount of \$24.7 million that had been downgraded during 2013. We did not record a net other-than-temporary impairment charge on these securities for the year ended December 31, 2013. 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.

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 and other loans, including corporate bank 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 7 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 7 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data."

Investments in Equity Method Investees

We account for our interests in entities over which we exercise significant influence, but with respect to which the requirements for consolidation are not met, as investments in equity method investees. We record equity method investments initially at cost, and adjust the carrying amount to reflect our share of the earnings or losses of the investee, including all adjustments similar to those made in preparing consolidated financial statements. Our equity method investments are primarily comprised of Xanadu and, for the period from September 3, 2013 until November 26, 2013, Local Media Group. Other equity method investments are included within other investments on our balance sheet.

Senior Housing

Purchase Accounting

The senior housing properties acquired 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 housing properties 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.

Senior Housing Revenue Recognition

Our triple net leases provide for periodic and determinable increases in base rent. We recognize base rental revenues under these leases on a straight-line basis over the applicable lease term when collectability is reasonably assured. Recognizing rental income on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a straight-line rent receivable that is included in Receivables and Other Assets on our Consolidated Balance Sheets.

We recognize rental, care, and ancillary income, other than nonrefundable community fee income, monthly as services are provided. We recognize nonrefundable community fee income on a straight-line basis over the average resident length of stay. Our lease agreements with residents generally have a term of 24 to 33 months and are cancelable by the resident upon 30 days' notice.

Other Businesses

Purchase Accounting

The media and golf assets acquired 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

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.

Goodwill and Intangible Assets

We assess the potential impairment of goodwill and intangible assets with indefinite lives on an annual basis. We perform our impairment at the reporting unit level. The fair value of the applicable reporting unit is compared to its carrying value. Estimating the fair value of a reporting unit requires us to make significant judgments, estimates and assumptions. We estimate fair value by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, we rely on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, we calculate the impairment as the excess of the carrying value of goodwill over its implied fair value. The sum of the fair values of the reporting units are reconciled to our current market capitalization (based upon the stock market price) plus an estimated control premium.

We assess the recoverability of our definite lived intangible assets, whenever events or changes in business circumstances indicate the carrying amount of the assets, or other appropriate grouping of assets, may not be fully recoverable. The assessment of recoverability is based on comparing management's estimates of the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. Factors leading to impairment include significant under-performance relative to historical or projected results, significant changes in the manner of use of the acquired assets or the strategy for our overall business and significant negative industry or economic trends.

Pension and Postretirement Liabilities

An asset or liability is recognized in the consolidated balance sheet reflecting the funded status of pension and other postretirement benefit plans such as retiree health and life insurance, with current-year changes in the funded status recognized in the statement of equity.

The determination of pension plan obligations and expense is based on a number of actuarial assumptions. Two critical assumptions are the expected long-term rate of return on plan assets and the discount rate applied to pension plan obligations. For other postretirement benefit plans, which provide for certain health care and life insurance benefits for qualifying retired employees and which are not funded, critical assumptions in determining related obligations and expense are the discount rate and the assumed health care cost-trend rates.

Our only pension plan has assets valued at \$20.3 million and the plan's benefit obligation is \$24.3 million resulting in the plan being 83% funded as of December 31, 2013.

To determine the expected long-term rate of return on the pension plan's assets, we considered the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets, input from actuaries and investment consultants, and long-term inflation assumptions. We used an assumption of 8.0% for the expected return on pension plan assets for 2013. If we were to reduce the rate of return by 50 basis points, then the expense for 2013 would have increased approximately \$0.1 million.

We developed our discount rate for our other postretirement benefit plans using the same methodology as that described for the pension. The assumed health care cost-trend rate also affects other postretirement benefit liabilities and expense. A 100 basis point increase in the health care cost trend rate would result in an increase of approximately \$0.4 million in the December 31, 2013 postretirement benefit obligation and a 100 basis point decrease in the health care cost trend rate would result in a decrease of approximately \$0.3 million in the December 31, 2013 postretirement benefit obligation.

Recent Accounting Pronouncements

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, 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

Consolidated Results

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

Comparison of Results of Operations for the years ended December 31, 2013 and 2012

| | Year Ended December 31, | | Increase (Decrease) | |
|---|-------------------------|------------|---------------------|----------|
| | 2013 | 2012 | Amount | % |
| Interest income | \$ 213,715 | \$ 282,951 | \$ (69,236) | (24.5%) |
| Interest expense | 90,973 | 109,924 | (18,951) | (17.2%) |
| Net interest income | 122,742 | 173,027 | (50,285) | (29.1%) |
| Impairment (Reversal) | | | | |
| Valuation allowance (reversal) on loans | (25,035) | (24,587) | (448) | (1.8%) |
| Other-than-temporary impairment on securities, net | 5,266 | 18,923 | (13,657) | (72.2%) |
| | (19,769) | (5,664) | (14,105) | (249.0%) |
| Net interest income after impairment/reversal | 142,511 | 178,691 | (36,180) | (20.2%) |
| Other Revenues | | | | |
| Rental income | 74,936 | 17,081 | 57,855 | 338.7% |
| Care and ancillary income - senior housing | 12,387 | 2,994 | 9,393 | 313.7% |
| Media income - total | 61,637 | - | 61,637 | N.M. |
| | 148,960 | 20,075 | 128,885 | N.M. |
| Other Income | | | | |
| Gain on settlement of investments, net | 17,369 | 232,897 | (215,528) | (92.5%) |
| Gain on extinguishment of debt | 4,565 | 24,085 | (19,520) | (81.0%) |
| Equity in earnings of Local Media Group | 1,870 | - | 1,870 | N.M. |
| Other income, net | 13,340 | 5,312 | 8,028 | 151.1% |
| | 37,144 | 262,294 | (225,150) | (85.8%) |
| Expenses | | | | |
| Loan and security servicing expense | 3,857 | 4,260 | (403) | (9.5%) |
| Property operating expenses | 53,718 | 12,943 | 40,775 | 315.0% |
| Media operating expenses | 49,092 | - | 49,092 | N.M. |
| General and administrative expense | 36,775 | 17,247 | 19,528 | 113.2% |
| Management fee to affiliate | 33,091 | 24,693 | 8,398 | 34.0% |
| Depreciation and amortization | 30,973 | 6,975 | 23,998 | 344.1% |
| | 207,506 | 66,118 | 141,388 | 213.8% |
| Income from continuing operations before income tax | \$ 121,109 | \$ 394,942 | \$ (273,833) | (69.3%) |

N.M. – Not meaningful

Interest Income

Interest income decreased by \$69.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to a (i) a \$64.4 million net decrease in interest income as a result of the deconsolidation of CDO X in September 2012 and (ii) a \$6.4 million decrease in interest income as a result of the sale of the assets in CDO IV in May 2013, partially offset by a \$1.6 million net increase in interest income as a result of new investments made including investments that were spun-off on May 15, 2013 and the investment in outstanding debt of GateHouse through November 25, 2013.

Interest Expense

Interest expense decreased by \$19.0 million primarily due to (i) a \$27.1 million decrease in interest expense as a result of the deconsolidation of CDO X in September 2012 and (ii) a \$3.5 million decrease in interest expense as a result of the sale of the assets in CDO IV in May 2013. The decreases described above were partially offset by (i) a \$9.1 million increase in mortgage interest expense as a result of the incurrence of mortgage notes used to fund the acquisition of senior housing properties since 2012 and (ii) a \$2.5 million net increase in interest expense primarily due to a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities, non-agency RMBS and other investments.

Valuation (Reversal) Allowance on Loans

The valuation allowance (reversal) on loans changed by \$0.4 million primarily due to a \$9.1 million increase in the reversal of the valuation allowance on our manufactured housing loans and residential mortgage loans in the 2013 period compared to the 2012 period as a result of market conditions for these assets improving more in the 2013 period than in the 2012 period. This change was partially offset by an \$8.7 million decrease in valuation allowance (reversal) related to our real estate and other loans during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Other-than-temporary Impairment on Securities, Net

The other-than-temporary impairment on securities decreased by \$13.7 million primarily due to market conditions improving in 2013. We recorded an impairment charge of \$1.5 million on 22 securities which were not part of the spin-off during the year ended December 31, 2013, compared to an impairment charge of \$18.9 million on 13 securities during the year ended December 31, 2012. In addition, we recorded \$3.8 million of impairment charges during the year ended December 31, 2013 on FNMA/FHLMC securities and non-Agency RMBS in connection with the spin-off of New Residential.

Other Revenues

The other revenues increased by \$128.9 million primarily due to (i) a \$61.6 million increase in revenue from our Media business which was acquired during the fourth quarter of 2013, and (ii) a \$67.2 million increase in rental and care and ancillary income during 2013 from our senior housing business due to the acquisitions of the senior housing properties since July 2012.

Gain on Settlement of Investments, Net

The net gain on settlement of investments decreased by \$215.5 million. During the year ended December 31, 2013, as part of the sale of the assets in CDO IV in May 2013, Newcastle recorded a gain of \$4.2 million on the sale of the assets and a \$0.9 million gain on the CDO IV hedge termination. In addition, Newcastle recorded a gain of \$12.3 million as part of the sale or restructuring of 10 securities and loans during 2013. During the year ended December 31, 2012, we recorded a net gain of \$224.3 million on the sale of CDO X and a gain of \$8.6 million on 27 securities and loans that were sold.

Gain on Extinguishment of Debt

The gain on extinguishment of debt decreased by \$19.5 million primarily due to a higher average price of debt repurchased in the year ended December 31, 2013 compared to the year ended December 31, 2012. We repurchased \$35.9 million face amount of our own CDO debt and other bonds payable at an average price of 87.1% of par during the year ended December 31, 2013 compared to \$39.3 million face amount of CDO debt and other bonds payable at an average price of 38.4% of par during the year ended December 31, 2012.

Other Income, Net

Other income increased by \$8.0 million primarily due to (i) \$7.0 million of unrealized losses recognized on certain interest rate swap agreements that were de-designated as accounting hedges during the year ended December 31, 2012, and (ii) a \$1.5 million increase in the fair value of certain non-hedge interest rate swap agreements as a result of changes in interest rates in the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase was partially offset by a \$0.5 million decrease related to collateral management fee income.

Loan and Security Servicing Expense

Loan and security servicing expense remained relatively stable during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Property Operating Expense

The property operating expenses increased by \$40.8 million due to the acquisitions of the senior housing properties since July 2012.

Media Operating Expenses

Media operating expenses increased by \$49.1 million due to the restructuring of the Media business on November 26, 2013.

General and Administrative Expense

General and administrative expense increased by \$19.5 million primarily due to an increase in professional fees related to the acquisition costs for investments in senior housing properties, the restructuring and spin-off of the Media investments, the restructuring of the Golf investment and the New Residential spin-off.

Management Fee to Affiliate

Management fees increased by \$8.4 million primarily due to (i) an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013, and (ii) an increase in property management fees in connection with the acquisitions of senior housing properties since July 2012, partially offset by the decrease in gross equity of \$1.2 billion due to the New Residential spin-off.

Depreciation and Amortization

The depreciation and amortization expense increased by \$24.0 million due to the acquisitions of the senior housing properties since July 2012, and the additional depreciation expense recorded as a result of the Media restructuring during the fourth quarter of 2013.

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 | \$ 282,951 | \$ 291,036 | \$ (8,085) | (2.8%) |
| Interest expense | 109,924 | 138,035 | (28,111) | (20.4%) |
| Net interest income | 173,027 | 153,001 | 20,026 | 13.1% |
| 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 after impairment (reversal) | 178,691 | 151,891 | 26,800 | 17.6% |
| Other Revenues | 20,075 | 1,899 | 18,176 | N.M. |
| Other Income | | | | |
| Gain 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%) |
| Other income, net | 5,312 | 36,204 | (30,892) | (85.3%) |
| | 262,294 | 180,495 | 81,799 | 45.3% |
| 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 | 17,247 | 6,267 | 10,980 | 175.2% |
| Management fee to affiliate | 24,693 | 18,289 | 6,404 | 35.0% |
| Depreciation and amortization | 6,975 | 12 | 6,963 | N.M. |
| | 66,118 | 30,327 | 35,791 | 118.0% |
| Income from continuing operations before income tax | \$ 394,942 | \$ 303,958 | \$ 90,984 | 29.9% |

N.M. - Not meaningful

Interest Income

Interest income decreased by \$8.1 million during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to 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 partially offset by 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.

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 housing properties 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 housing properties 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 \$8.6 million on 27 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.

Other Income (Loss), Net

Other income decreased by \$30.9 million primarily due to (i) a \$5.8 million greater increase in the fair value of certain non-hedge 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 and (iii) a \$1.5 million increase in other income related to hedge ineffectiveness and collateral management fee income. The increases in (i) to (iii) 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 housing properties since July 2012.

General and Administrative Expense

General and administrative expense increased by \$11.0 million primarily due to an increase in professional fees related to the acquisitions of senior housing properties 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 housing properties 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 housing properties 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.

Segment Results

Comparison of Senior Housing Results of Operations for the years ended December 31, 2013 and 2012

| | Year Ended December 31, | | Increase (Decrease) | |
|---|-------------------------|------------|---------------------|----------|
| | 2013 | 2012 | Amount | % |
| Revenues | | | | |
| Rental income | \$ 72,880 | \$ 15,032 | \$ 57,848 | 384.8% |
| Care and ancillary income | 12,387 | 2,994 | 9,393 | 313.7% |
| Total Revenues | 85,267 | 18,026 | 67,241 | 373.0% |
| Expenses | | | | |
| Property operating expenses | \$ 52,713 | \$ 11,539 | \$ 41,174 | 356.8% |
| General and administrative expense | 15,948 | 5,764 | 10,184 | 176.7% |
| Depreciation and amortization | 26,905 | 5,784 | 21,121 | 365.2% |
| Interest expense, net | 10,778 | 1,688 | 9,090 | 538.5% |
| Management fee to affiliate | 5,034 | 1,082 | 3,952 | 365.2% |
| Total Expenses | 111,378 | 25,857 | 85,521 | 330.7% |
| Other gain (loss), net | \$ 11 | \$ (82) | \$ 93 | 113.4% |
| Loss from continuing operations before income tax | \$ (26,100) | \$ (7,913) | \$ (18,187) | (229.8%) |

N.M. - Not meaningful

Rental Income

Rental income increased by \$57.8 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Care and ancillary income

Care and ancillary income increased by \$9.4 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Property operating expenses

Property and operating expenses increased by \$41.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

General and administrative expense

General and administrative expense increased by \$10.2 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Depreciation and amortization

Depreciation and amortization increased by \$21.1 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Interest expense, net

Interest expense, net increased by \$9.1 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Management fee to affiliate

Management fee to affiliate increased by \$4.0 million during the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the acquisitions of senior housing properties since July 2012.

Golf Segment

We completed the acquisition of our golf investment on December 30, 2013 and therefore our golf segment had no impact on our results of operations for the year ended December 30, 2013. In subsequent periods, revenues from our golf segment

will be composed mainly of revenues from daily green fees, golf cart rentals and food, beverage and merchandise sales for our public courses, and initiation fees, membership dues, guest fees, and food, beverage and merchandise sales for our private courses. We expect operating expenses to primarily consist of labor expenses, food and beverage costs, golf course maintenance costs and general and administrative costs.

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.

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, 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, capital expenditures, hedging activity, potential margin calls and operating expenses. In addition, we anticipate cash requirements with respect to incremental investments, including (but not limited to) senior housing properties. We may elect to meet the cash requirements of these incremental investments through proceeds from the monetization of our assets or from additional borrowings or equity offerings. 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 shortfall 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) revenues received from our senior housing properties, Media business (which we spun-off in February 2014) and Golf business, (ii) the net cash flow from our CDOs that have not failed their over collateralization or interest coverage tests, plus (iii) the net cash flow from our non-CDO debt investments that are not subject to mandatory debt repayment, including principal and sales proceeds, less (iv) operating expenses (primarily management fees, operating expenses, professional fees, insurance and taxes), less (v) interest on the junior subordinated notes payable and debt related to our senior housing, Media and Golf segments, 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.

REIT Compliance Requirements

To maintain our status as a REIT under the Code, we must distribute annually at least 90% of our REIT taxable income. On May 15, 2013, we distributed, in a taxable distribution, 100% of the common stock of New Residential Investment Corp. with a value of \$1.7 billion for tax purposes. As a result, we do not believe that there will be any additional REIT distribution requirements for the year ended December 31, 2013. As of December 31, 2012, we had a loss carryforward,

inclusive of net operating loss and capital loss, of approximately \$750.2 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. 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 or 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.

Update on Liquidity, Capital Resources and Capital Obligations

Certain details regarding our liquidity, current financings and capital obligations as of February 21, 2014 are set forth below:

- *Unrestricted Cash Available to Invest After Commitments* – We are currently fully invested after commitments;
- *Margin Exposure and Recourse Financings* – We have margin exposure on a \$60.6 million repurchase agreement related to the financing of our purchase from a third party financial institution of certain repackaged Newcastle CDO VIII debt (treated as linked transactions), a \$25.1 million repurchase agreement related to the financing of residential mortgage loans, and a \$46.2 million repurchase agreement related to the financing of Newcastle CDO IX Class A-2 notes.

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

| Recourse Financings | February 21, 2014 | December 31, 2013 | December 31, 2012 |
|--------------------------------------|-------------------|-------------------|-------------------|
| CDO Securities | \$ 46,200 | \$ 15,094 | \$ 1,415 |
| Non-Agency RMBS | - | - | 150,922 |
| Residential Mortgage Loans | 25,056 | 25,119 | - |
| Linked transactions | 60,561 | 60,646 | - |
| Non-FNMA/FHLMC recourse financings | 131,817 | 100,859 | 152,337 |
| FNMA/FHLMC securities ⁽¹⁾ | - | 516,134 | 772,855 |
| Total recourse financings | \$ 131,817 | \$ 616,993 | \$ 925,192 |

- (1) In January 2014, we sold \$503.0 million face of remaining FNMA/FHLMC securities and repaid \$516.1 million of associated repurchase agreements.

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. Our business strategy is dependent upon our ability to finance our investments at rates that provide a positive net spread.

- *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, 2013 is described in Part I, Item 1, “Business – Investment Portfolio.”

Debt Obligations

Our debt obligations, as summarized in Note 14 to Part II, Item 8, “Financial Statements and Supplementary Data,” existing at December 31, 2013 (gross of \$13.5 million of discounts) had contractual maturities as follows (in thousands):

| | Nonrecourse | Recourse | Total |
|------------|---------------------|-------------------|---------------------|
| 2014 | \$ 13,593 | \$ 560,659 | \$ 574,252 |
| 2015 | 16,537 | 5,813 | 22,350 |
| 2016 | 41,083 | 9,625 | 50,708 |
| 2017 | 73,297 | 162,529 | 235,826 |
| 2018 | 142,789 | 103,219 | 246,008 |
| Thereafter | 2,034,346 | 50,000 | 2,084,346 |
| Total | <u>\$ 2,321,645</u> | <u>\$ 891,845</u> | <u>\$ 3,213,490</u> |

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

The financing of certain of our senior housing properties, our Media business (which we spun-off in February 2014), and our Golf business as well as our other non-CDO debt obligations, contain various customary loan covenants, in some cases including a minimum fixed charge coverage ratio, maximum leverage ratio, minimum EBITDA amounts, debt service coverage ratio, debt yield and/or minimum net worth requirement. We were in compliance with all of the covenants in these financings as of December 31, 2013. In addition, as of December 31, 2013, we had complied with the general investment guidelines adopted by our board of directors that limit total leverage.

Repurchase Agreements

The following table provides additional information regarding short term borrowings (dollars in thousands). The outstanding short-term borrowings were used to finance certain of our investments in FNMA/FHLMC securities and our investments in certain senior notes issued by Newcastle CDO VIII, CDO IX and Residential Mortgage Loans. All of the repurchase agreements have full recourse to Newcastle.

| | Outstanding Balance at December 31, 2013 | Three Months Ended December 31, 2013 | | | Year Ended December 31, 2013 | | |
|----------------------------|---|---|----------------------------------|--------------------------------------|---|----------------------------------|--------------------------------------|
| | | Average Daily Amount Outstanding | Maximum Amount Outstanding | Weighted Average Interest Rate | Average Daily Amount Outstanding | Maximum Amount Outstanding | Weighted Average Interest Rate |
| | | | | | | | |
| FNMA/FHLMC | \$ 516,134 | \$ 489,862 | \$ 547,366 | 0.37% | \$ 632,669 | \$ 1,351,728 | 0.41% |
| CDO Securities | 15,094 | 15,054 | 15,094 | 1.82% | 4,619 | 15,094 | 1.82% |
| Non-Agency RMBS | - | - | - | N/A | 71,311 | 302,033 | 2.18% |
| Linked Transactions | 60,646 | 60,064 | 60,646 | 1.67% | 31,240 | 60,646 | 1.68% |
| Residential Mortgage Loans | 25,119 | 13,359 | 25,119 | 2.17% | 3,367 | 25,119 | 2.17% |

The non-Agency RMBS repurchase agreements were transferred to New Residential as part of the distribution on May 15, 2013. The weighted average differences between the fair value of the assets and the face amount of financing for the FNMA/FHLMC securities, CDO IX Class A-2, linked transactions, and Residential Mortgage Loans repurchase agreements were 5%, 30%, 42% and 20%, respectively, during the year ended December 31, 2013. In January 2014, we sold \$503.0 million face amount of the remaining FNMA/FHLMC securities at an average price of 105.82% for total proceeds of \$532.2 million and repaid all \$516.1 million of repurchase agreements.

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, 2013, the equity was valued at zero and the retained notes had a carrying value of \$2.5 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, 2013, 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

The following table presents certain information regarding the junior subordinated notes (dollars in thousands).

| | |
|-------------------------|------------|
| Outstanding face amount | \$51,004 |
| Weighted average coupon | 7.57% (A) |
| Maturity | April 2035 |

Collateral General credit of Newcastle

(A) LIBOR + 2.25% after April 2016

Non-recourse Manufactured Housing Loan Financing

On April 15, 2010, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio I. The securitization transaction is accounted for as a secured borrowing. 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.

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.

Non-Recourse Senior Housing Financing

The following table summarizes our senior housing financing as of December 31, 2013 (dollars in thousands):

| | Non-recourse Financing | Weighted Average Coupon | Maturity Date |
|------------------------------------|---------------------------|----------------------------|-----------------------------|
| <u>Managed Properties</u> | | | |
| Fixed Rate | \$ 158,894 | 3.93% | August 2018 - March 2020 |
| Floating Rate | 198,584 | 4.60% | August 2016 - December 2018 |
| <u>Triple Net Lease Properties</u> | | | |
| Fixed Rate | 719,350 | 4.15% | January 2021 - January 2024 |

Media Business Credit Facilities

Prior to the February 13, 2014 spin-off, we had an aggregate amount of \$208.0 million in secured term and revolving loans related to the financing of the Media business, of which \$25.0 million in revolving loans were undrawn. We had a \$33.0 million secured term loan secured by all of the assets of Local Media Group. At Local Media Group, we also had a revolving credit facility with \$10.0 million of additional available funding which was undrawn. This facility matures in September 2018 and has a weighted average interest rate of 7.50%. We also had \$125.0 million of secured term loans secured by all of the assets of GateHouse and a revolving credit facility with \$40.0 million of additional available funding of which \$15.0 million was undrawn. The GateHouse facilities mature from November 2018 through November 2019 and have a weighted average interest rate of 8.02%.

Golf Credit Facilities

As of result of the restructuring of our Golf investment, we have approximately \$152.5 million in loans that mature in December 2017 (excluding a 12-month extension) related to our Golf business, that have a weighted average interest rate of 5.19%.

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 below presents data, including the most recent quarterly cash flows received by Newcastle, for each of our consolidated CDOs, and sets forth which of the CDOs have satisfied these tests in the most recent quarter. The amounts are as of December 31, 2013 unless otherwise noted. For those CDOs that have failed their applicable over collateralization tests, the impact of failing is already reflected in the cash flow 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 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 VI | | | CDO VIII | | | CDO IX | | | |
|---------------------------------------|--------|-------------|-------------------|------------|-------------|-------------------|--------|-------------|-------------------|------|
| Balance Sheet: | | | | | | | | | | |
| Assets Face Amount | | \$ 166,452 | | \$ 569,064 | | \$ 540,819 | | | | |
| Assets Fair Value | | 123,478 | | 444,823 | | 430,375 | | | | |
| Issued Debt Face Amount (1) | | 188,147 | | 336,233 | | 236,735 | | | | |
| Derivative Net Liabilities Fair Value | | 7,423 | | 6,117 | | - | | | | |
| Cash Receipts: | | | | | | | | | | |
| Quarterly net cash receipts (2) | | \$ 78 | | \$ 3,647 | | \$ 6,493 | | | | |
| Collateral Composition (3): | | | | | | | | | | |
| | | <u>Face</u> | <u>Fair Value</u> | | <u>Face</u> | <u>Fair Value</u> | | <u>Face</u> | <u>Fair Value</u> | |
| CMBS | \$ | 100,498 | \$ 80,089 | BB- | \$ 127,751 | \$ 120,542 | BB | \$ 80,701 | \$ 82,857 | BB |
| REIT Debt | | 29,200 | 31,186 | BB+ | - | - | - | - | - | - |
| ABS | | 36,754 | 12,203 | CC | 65,452 | 58,503 | B+ | 2,650 | 2,718 | A |
| Bank Loans | | - | - | | 160,860 | 117,349 | C | 141,400 | 107,609 | D |
| Mezzanine Loans / B-Notes / | | | | | | | | | | |
| Whole Loans | | - | - | - | 153,501 | 125,112 | CCC | 225,457 | 179,890 | CC |
| CDO | | - | - | - | 61,500 | 23,317 | D | 67,529 | 43,797 | CCC+ |
| Residential Loans | | - | - | - | - | - | | 3,774 | 3,524 | NR |
| Other Investments | | - | - | - | - | - | | 19,308 | 9,980 | - |
| Cash for Reinvestment | | - | - | - | - | - | | - | - | - |
| Total | \$ | 166,452 | \$ 123,478 | B+ | \$ 569,064 | \$ 444,823 | CCC | \$ 540,819 | \$ 430,375 | CCC- |
| Collateral on Negative Watch (4) | \$ | - | | | \$ | - | | \$ | - | |
| CDO Cash Flow Triggers (5): | | | | | | | | | | |
| Over Collateralization (6): | | | | | | | | | | |
| As of Dec-2013 remittance | | | | | | | | | | |
| Cushion (Deficit) (\$) | | | \$(175,312) | | | \$ 78,385 | | | \$ 148,426 | |
| As of Feb-2014 remittance | | | | | | | | | | |
| Cushion (Deficit) (\$) | | | (174,256) | | | 82,613 | | | 154,672 | |
| Interest Coverage (6): | | | | | | | | | | |
| As of Dec-2013 remittance | | | | | | | | | | |
| Cushion (Deficit) (%) | | | (189.2%) | | | 112.5% | | | 301.5% | |
| As of Feb-2014 remittance | | | | | | | | | | |
| Cushion (Deficit) (%) | | | (287.0%) | | | 141.9% | | | 350.3% | |
| CDO Overview: | | | | | | | | | | |
| Effective | | | Aug-05 | | | Mar-07 | | | Jul-07 | |
| Reinvestment Period End (7) | | | Passed | | | Passed | | | Passed | |
| Optional Call (8) | | | Passed | | | Passed | | | Passed | |
| Auction Call (9) | | | Apr-15 | | | Nov-16 | | | May-17 | |
| WA Debt Spread (bps) (10) | | | 50 | | | 66 | | | 96 | |

See footnotes on next page.

- (1) Includes 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, 2013. Cash receipts for this period included \$0.7 million of senior CDO collateral management fees, and may not be indicative of cash receipts for subsequent periods. Excluded from the quarterly net cash receipts was \$4.9 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 includes CDO bonds of \$ 121.5 million and other bonds and notes payable of \$20.5 million issued by Newcastle, bank loans of \$45.7 million, collateralized by Newcastle real estate properties and a third party CDO security, and \$67.7 million of mezzanine loans, which are eliminated in consolidation. The fair value of these CDO bonds, other bonds and notes payable, bank loans and mezzanine loans was \$60.3 million, \$19.2 million, \$44.0 million and \$29.4 million at December 31, 2013, respectively. Also reflected are weighted average credit ratings, which were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
- (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 2013 for all 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, 2013 or February 25, 2014, as applicable, and may change or have changed subsequent to that date. 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 2013 remittance date we were not receiving cash flows from CDO VI (other than senior management fees and cash flows on 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 the availability of suitable securities, market prices and other factors that are beyond our control. Such rebalancing efforts may be extremely difficult 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 Related 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 amounts of the bids are 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, 2013 (dollars in thousands):

| Class | Original Face Amount | Current Face Amount (1) | | | | Total | Stated Interest Rate | |
|-----------------|----------------------|-------------------------|--------------------|-----------------------------------|-------------------|---------|----------------------|--|
| | | Held By | | | | | | |
| | | Third Parties | Newcastle CDOs (2) | Newcastle Outside of its CDOs (3) | | | | |
| CDO VI | | | | | | | | |
| Class I-MM | \$ 323,000 | \$ 96,129 | \$ - | \$ 10,974 | \$ 107,103 | LIBOR + | 0.25% | |
| Class I-B | 59,000 | 59,000 | - | - | 59,000 | LIBOR + | 0.40% | |
| Class II | 33,000 | 23,803 | - | 10,349 | 34,152 | LIBOR + | 0.50% | |
| Class III-FL | 15,000 | 5,264 | - | 10,528 | 15,792 | LIBOR + | 0.80% | |
| Class III-FX | 5,000 | - | - | 6,573 | 6,573 | | 5.67% | |
| Class IV-FL | 9,600 | 660 | - | 9,902 | 10,562 | LIBOR + | 1.70% | |
| Class IV-FX | 2,400 | 3,291 | - | - | 3,291 | | 6.55% | |
| Class V | 21,000 | - | - | 30,595 | 30,595 | | 7.81% | |
| Preferred | 32,000 | - | - | 32,000 | 32,000 | | N/A | |
| | <u>\$ 500,000</u> | <u>\$ 188,147</u> | <u>\$ -</u> | <u>\$ 110,921</u> | <u>\$ 299,068</u> | | | |
| CDO VIII | | | | | | | | |
| Class I-A | \$ 462,500 | \$ 169,457 | \$ - | \$ 11,406 | \$ 180,863 | LIBOR + | 0.28% | |
| Class I-AR | 60,000 | 23,463 | - | - | 23,463 | 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 | |
| | <u>\$ 950,000</u> | <u>\$ 264,733</u> | <u>\$ 71,500</u> | <u>\$ 215,406</u> | <u>\$ 551,639</u> | | | |

| Class | Original Face Amount | Current Face Amount (1) | | | | Total | Stated Interest Rate |
|-----------|----------------------|-------------------------|--------------------|-----------------------------------|-------------------|---------------|----------------------|
| | | Held By | | | | | |
| | | Third Parties | Newcastle CDOs (2) | Newcastle Outside of its CDOs (3) | | | |
| CDO IX | | | | | | | |
| Class A-1 | \$ 379,500 | \$ 111,140 | \$ - | \$ - | \$ 111,140 | LIBOR + 0.26% | |
| Class A-2 | 115,500 | 40,500 | - | 75,000 | 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 | |
| | <u>\$ 825,000</u> | <u>\$ 186,765</u> | <u>\$ 50,000</u> | <u>\$ 255,350</u> | <u>\$ 492,115</u> | | |

- (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 June 2013, Newcastle completed the sale of 100% of the assets in CDO IV. Newcastle sold \$153.4 million face amount of collateral at an average price of 95% of par, or \$145.2 million. Subsequently, Newcastle paid off \$71.9 million of outstanding third party debt and terminated the CDO. This transaction resulted in approximately \$73.1 million of proceeds to Newcastle of which approximately \$5.3 million was received in Newcastle CDO VIII. Newcastle recovered par on \$59.5 million of CDO debt which had been repurchased in the past at an average price of 52% of par and \$8.0 million of proceeds on its subordinated interests. In connection with this transaction, we recorded a net gain on sale of assets of \$4.2 million and a \$0.8 million gain on hedge termination during June 2013.

During 2013, we repurchased \$35.9 million face amount of CDO bonds and notes payable for \$31.3 million and recorded a gain of \$4.6 million. 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.

Equity

Common Stock

On June 6, 2013, our stockholders approved an amendment to Newcastle's charter, to increase the total number of authorized shares of common stock, par value \$0.01 per share, from 500 million shares to 1.0 billion shares and correspondingly, to increase the total number of authorized shares of Newcastle's capital stock from 600 million shares to 1.1 billion shares, which includes 100 million shares of preferred stock, par value \$0.01 per share.

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

| Year | Shares Issued | Range of Issue Prices (1)(2) | Net Proceeds (millions) |
|-------------------|--------------------|------------------------------|-------------------------|
| Formation - 2010 | 62,027,184 | | |
| 2011 | 43,153,825 | \$4.55 - \$6.00 | \$ 210.9 |
| 2012 | 67,344,636 | \$6.22 - \$6.71 | \$ 434.9 |
| 2013 | 178,927,850 | \$4.97 - \$10.48 | \$ 1,262.6 |
| December 31, 2013 | <u>351,453,495</u> | | |

- (1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors.
- (2) On May 15, 2013, we completed the spin-off of New Residential. The May 15, 2013 closing price of our common stock on the NYSE was \$12.33. On May 16, 2013, the opening price of our common stock was \$5.79.

Common Dividends Paid

| <u>Declared for the Period Ended</u> | <u>Paid</u> | <u>Amount Per Share (1)</u> |
|--------------------------------------|--------------|-----------------------------|
| 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 |
| March 31, 2013 | April 2013 | \$0.22 |
| June 30, 2013 | July 2013 | \$0.17 |
| September 30, 2013 | October 2013 | \$0.10 |
| December 31, 2013 | January 2014 | \$0.10 |

(1) On May 15, 2013, we completed the spin-off of New Residential through a distribution of shares valued at \$6.89 per share.

Prior to the spin-off, Newcastle had issued options to the Manager in connection with capital raising activities. In connection with the spin-off, 21.5 million options that were held by the Manager, or by the directors, officers or employees of the Manager, were converted into an adjusted Newcastle option and a new New Residential option. The strike price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the spin-off and to maintain the ratio of the strike price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date.

Newcastle's outstanding options at December 31, 2013 consisted of the following:

| <u>Number of Options</u> | <u>Strike Price</u> | <u>Expiration Date</u> |
|--------------------------|----------------------|------------------------|
| 328,350 | \$ 11.74 | 1/9/2014 |
| 343,275 | 11.49 | 5/25/2014 |
| 162,500 | 14.05 | 11/22/2014 |
| 330,000 | 13.24 | 1/12/2015 |
| 2,000 | 13.83 | 8/1/2015 |
| 170,000 | 13.16 | 11/1/2016 |
| 242,000 | 14.01 | 1/23/2017 |
| 456,000 | 12.40 | 4/11/2017 |
| 1,580,166 | 2.72 | 3/29/2021 |
| 2,424,833 | 2.07 | 9/27/2021 |
| 2,000 | 2.28 | 12/20/2021 |
| 1,867,167 | 2.82 | 4/3/2022 |
| 2,265,000 | 3.05 | 5/21/2022 |
| 2,499,167 | 3.04 | 7/31/2022 |
| 5,750,000 | 4.24 | 1/11/2023 |
| 2,300,000 | 4.75 | 2/15/2023 |
| 4,025,000 | 4.97 | 6/17/2023 |
| 5,795,095 | 5.25 | 11/22/2023 |
| Total W/A | <u>\$ 30,542,553</u> | <u>4.60</u> |

Upon exercise, these options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless advance approval is made to settle the option in shares of common stock.

Through December 31, 2013, Fortress had assigned, for no value, outstanding options relating to approximately 3.0 million shares of our common stock to certain of Fortress's employees.

As of December 31, 2013, our outstanding options issued prior to 2011 had a weighted average strike price of \$12.66 and our outstanding options issued in 2011 and thereafter had a weighted average strike price of \$4.03. Our options outstanding were summarized as follows:

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---------------------|-------------------------------|------------|---------------------|-------------------------------|------------|
| | Issue Prior to 2011 | Issued in 2011 and thereafter | Total | Issue Prior to 2011 | Issued in 2011 and thereafter | Total |
| Held by the Manager | 1,496,555 | 25,996,428 | 27,492,983 | 1,751,172 | 7,934,166 | 9,685,338 |
| Issued to the Manager and subsequently transferred to certain Manager's employees | 535,570 | 2,510,000 | 3,045,570 | 701,937 | 3,010,000 | 3,711,937 |
| Issued to the independent directors | 2,000 | 2,000 | 4,000 | 10,000 | 2,000 | 12,000 |
| Total | 2,034,125 | 28,508,428 | 30,542,553 | 2,463,109 | 10,946,166 | 13,409,275 |

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 relating to 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 our 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 relating to 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 relating to 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, we issued 57,500,000 shares of our 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 us, in connection with this offering, we granted options to the Manager relating to 5,750,000 shares of our 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, we issued 23,000,000 shares of our 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 us, in connection with this offering, we granted options to the Manager relating to 2,300,000 shares of our common stock at a price of \$10.48, which had a fair value of approximately \$8.4 million as of the grant date.

In June 2013, we issued 40,250,000 shares of our common stock in a public offering at a price to the underwriters of \$4.92 per share for net proceeds of approximately \$197.6 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 750,000 shares at a price of \$4.97 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 relating to 4,025,000 shares of our common stock at a price of \$4.97, which had a fair value of approximately \$3.8 million as of the grant date.

In November 2013, we issued 57,950,952 shares of our common stock in a public offering at a price to the underwriters of \$5.21 per share for net proceeds of approximately \$301.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 450,952 shares at a price of \$5.25 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 relating to 5,795,095 shares of our common stock at a price of \$5.25, which had a fair value of approximately \$6.0 million as of the grant date.

As of December 31, 2013, approximately 6.4 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. 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.

All accrued dividends on our preferred stock have been paid through January 31, 2014.

Noncontrolling Interest

Noncontrolling interest represents the equity interest in consolidated subsidiaries not owned by Newcastle. Noncontrolling interest is reported as a component of equity. In addition, changes in Newcastle’s ownership interest while Newcastle retains its controlling interest are accounted for as equity transactions, and, upon a gain or loss of control, retained ownership interests are remeasured at fair value, with any gain or loss recognized in earnings.

Newcastle’s noncontrolling interest is primarily comprised of the 15.4% of New Media and its subsidiaries, Local Media Group and GateHouse, that Newcastle does not own.

Accumulated Other Comprehensive Income (Loss)

During the year ended December 31, 2013, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

| | Gains/ Losses on Cash Flow Hedges | Gains / Losses on Securities | Other | Total Accumulated Other Comprehensive Income (Loss) |
|--|---|---------------------------------|--------|---|
| Accumulated other comprehensive income (loss), December, 31, 2012 | \$ (12,024) | \$ 82,788 | \$ - | \$ 70,764 |
| Net unrealized gain on securities | - | 45,128 | - | 45,128 |
| Reclassification of net realized (gain) loss on securities into earnings | - | (995) | - | (995) |
| Spin-off of New Residential | - | (44,513) | - | (44,513) |
| Net unrecognized gain and prior service cost | - | - | 458 | 458 |
| Net unrealized gain on derivatives designated as cash flow hedges | 5,933 | - | - | 5,933 |
| Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings | 99 | - | - | 99 |
| Accumulated other comprehensive income (loss), December 31, 2013 | \$ (5,992) | \$ 82,408 | \$ 458 | \$ 76,874 |

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. Net unrealized gains on our real estate securities decreased for the year ended December 31, 2013 in accumulative other comprehensive income primarily as a result of the spin-off of New Residential, which was partially offset by an increase in unrealized gains caused by a net tightening of credit spreads. Net unrealized losses on derivatives designated as cash flow hedges decreased for the year ended December 31, 2013, primarily as a result of swap interest payments.

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

Cash Flow

Operating Activities

Net cash flow provided by operating activities increased from \$97.3 million for the year ended December 31, 2012 to \$106.2 million for the year ended December 31, 2013. It increased from \$57.0 million for the year ended December 31, 2011 to \$97.3 million for the year ended December 31, 2012. These changes resulted primarily from the factors described below:

2013 compared to 2012

- Net operating cash generated from the senior housing properties including triple net lease properties increased approximately \$52.2 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to the increase in the number of senior housing properties in 2013. This includes the receipt of tenant security deposits of \$43.3 million.
- Net operating cash of approximately \$10.5 million in the Media business following the restructuring of the Media investments.
- Net cash receipts from our investments in other real estate securities and loans increased approximately \$10.8 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to higher investments in FNMA/FHLMC securities and higher investments in real estate related loans.
- Net cash receipts from our CDOs decreased approximately \$24.9 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to the deconsolidation of CDO X in September 2012, and lower receipts from CDO VIII and IX as a result of paydowns in 2013. This was offset by increased interest receipts in our retained CDO IV bonds.
- Net cash receipts from our manufactured housing loan portfolios decreased approximately \$2.0 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to paydowns.
- Cash receipts from excess mortgage servicing income decreased approximately \$16.4 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to the spin-off of New Residential on May 15, 2013.
- Management fees paid increased approximately \$6.8 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 due to an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013.
- General and administrative expenses paid increased approximately \$14.5 million for the year ended December 31, 2013 compared to the year ended December 31, 2012 due to higher fees paid in connection with the acquisitions of Excess MSRs, senior housing properties and other corporate activities.

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 housing portfolio of approximately \$3.7 million for the year ended December 31, 2012 since we began investing in senior housing 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 housing 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 housing properties, and other corporate activities.

Investing Activities

Investing activities used \$2.9 billion, \$1.1 billion and \$0.2 billion during the years ended December 31, 2013, 2012 and 2011, respectively. Uses of cash flows from investing activities consisted primarily of the investments made in senior housing properties, real estate securities, loans, Excess MSRs, the restructuring of the Media business and the Golf business, and the contributions made to equity method investees. Proceeds from cash flows from investing activities consisted primarily of proceeds from the sale, repayment, and settlement of investments along with distributions from equity method investees.

Financing Activities

Financing activities provided \$2.7 billion, \$1.1 billion and \$0.3 billion during the years December 31, 2013, 2012 and 2011, respectively. The public offerings of common stock, borrowings under repurchase agreements and under mortgage notes payable and return of margin deposits under repurchase agreements served as the primary sources of cash flow from financing activities. Uses of cash flow from financing activities included the repayment of repurchase agreements, the contribution of cash to New Residential upon the spin-off, the payment of deferred financing costs, the payment of common and preferred dividends, and the payment of costs related to the common stock offerings.

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, 2013, 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.

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

Contractual Obligations

As of December 31, 2013, we had the following material contractual obligations (payments in thousands):

| <u>Contract</u> | <u>Terms</u> |
|-----------------------------------|--|
| CDO Bonds Payable | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Other Bonds and Notes Payable | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Repurchase Agreements | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Mortgage Notes Payable | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Credit Facilities, Media and Golf | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Junior Subordinated Notes Payable | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| Derivative Liabilities | Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 “Financial Statements and Supplementary Data.” |
| 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 17 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 | We entered into property management agreements with Holiday and with Blue Harbor to manage newly acquired senior housing properties. For more information on these management agreements see Note 17 to Part II, Item 8, “Financial Statements and Supplementary Data.” |
| 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 | | | | | Total |
|---|---|-------------------|-------------------|---------------------|-----------|------------------|
| | 2014 | 2015-2016 | 2017-2018 | Thereafter | | |
| CDO bonds payable (1) | \$ 4,198 | \$ 8,395 | \$ 8,395 | \$ 675,650 | \$ | 696,638 |
| Other bonds and notes payable (1) | 7,891 | 15,782 | 15,782 | 373,594 | | 413,049 |
| Repurchase agreements (2) | 556,347 | - | - | - | | 556,347 |
| Mortgage notes payable (1) | 57,537 | 147,945 | 297,229 | 904,145 | | 1,406,856 |
| Credit facilities, media and golf (1) | 26,464 | 58,619 | 298,284 | 53,890 | | 437,257 |
| 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 | 6,304 | 3,460 | 80,991 | | 94,618 |
| Interest rate swaps, treated as hedges (4) | - | 6,203 | - | - | | 6,203 |
| Non-hedge derivative obligations (5) | 7,592 | - | - | - | | 7,592 |
| Management agreement (6) | 33,673 | 67,346 | 67,346 | 841,824 | | 1,010,189 |
| Operating lease obligations (7) | 46,288 | 82,152 | 63,595 | 244,628 | | 436,663 |
| Membership deposit liability (8) | 7,314 | 177 | 1,673 | 225,839 | | 235,003 |
| Pension benefit payments (9) | * | * | * | * | | * |
| Property management agreements | * | * | * | * | | * |
| Loan servicing agreements | * | * | * | * | | * |
| Trustee agreements | * | * | * | * | | * |
| Total | \$ 751,167 | \$ 392,923 | \$ 755,764 | \$ 3,400,561 | \$ | 5,300,415 |

* These contracts do not have fixed and determinable payments.

- (1) Includes interest based on rates existing at December 31, 2013 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 7 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, 2013 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, 2013 fair value on January 1, 2014.
- (6) Amounts reflect base management fees for the next 30 years assuming no change in gross equity, as defined, from December 31, 2013.
- (7) Includes office space and equipment leases for our media business and leases of golf courses and related facilities. Excludes escalation charges which per our lease agreements are not fixed and determinable payments.
- (8) This obligation represents refundable membership initiation deposits due generally 30 years after the date of acceptance of a member.
- (9) The periods in which these obligations will be settled in cash are not readily determinable and are subject to numerous future events or assumptions. We estimate cash requirements for these obligations in 2014 totaling approximately \$1.9 million.

Inflation

For our assets and liabilities that are financial in nature, 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 the following 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, including investments in equity method investees 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) the net operating income on its real estate, media and golf investments, (v) its operating expenses and (vi) 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 sixth variable listed above and adjusting the consumer loans portfolio accounting to a level yield methodology. It also excludes depreciation and amortization charges and acquisition and spin-off related expenses. Core earnings 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 is the judgment of management that depreciation and amortization charges are not indicative of operating performance and that acquisition and spin-off related expenses are not part of our core operations. 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, which is among the factors considered when determining the amount of distributions to our shareholders. Newcastle changed its definition of Core earnings to exclude acquisition and spin-off related expenses in the third quarter of 2013. The calculation of Core earnings has been retroactively adjusted for all periods presented.

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations – 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, | | |
|---|-------------------------|-------------------|-------------------|
| | 2013 | 2012 | 2011 |
| Income applicable to common stockholders | \$ 145,833 | \$ 428,530 | \$ 298,939 |
| Add (deduct): | | | |
| Impairment (reversal) | (19,769) | (5,664) | 1,110 |
| Other income | (35,401) | (262,294) | (180,495) |
| Impairment (reversal), other (income) loss and other adjustments from discontinued operations | (6,429) | (17,421) | (428) |
| Depreciation and amortization (A) | 33,093 | 6,975 | 12 |
| Acquisition and spin-off related expenses | 23,576 | 13,091 | 1,031 |
| Core earnings | <u>\$ 140,903</u> | <u>\$ 163,217</u> | <u>\$ 120,169</u> |

(A) Includes \$2.7 million of depreciation and amortization expense in equity method investments for the year ended December 31, 2013.

Pro forma core earnings reflect our core earnings as adjusted to give effect to the New Residential spin-off transaction (see Note 4) as if it had taken place on January 1, 2013.

| | Year Ended December 31, 2013 |
|--|---------------------------------|
| Pro forma income (loss) from continuing operations after preferred dividends and noncontrolling interest (Note 22) | \$ 110,612 |
| Add (Deduct): | |
| Impairment (reversal) | (23,525) |
| Other (income) loss | (35,343) |
| Depreciation and amortization (A) | 33,093 |
| Acquisition and spin-off related expenses | 23,576 |
| Pro forma core earnings | <u>\$ 108,413</u> |

(A) Includes \$2.7 million of depreciation and amortization expenses in equity method investments for the year ended December 31, 2013.

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. See further disclosure regarding Agency ARM RMBS under Part I, Item 1, “Business—Investment Portfolio—Debt Investments—Agency ARM RMBS (FNMA/FHLMC Securities)” for information about the reset terms and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Update on Liquidity, Capital Resources and Capital Obligations” for information on related debt.

As of December 31, 2013, a 100 basis point increase in short term interest rates would decrease our earnings by approximately \$1.7 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, as their fair value is not 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, 2013, a 100 basis point change in short term interest rates would impact our net book value by approximately \$10.6 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, 2013, a 25 basis point movement in credit spreads would impact our net book value by approximately \$6.0 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. Corporate bank loans are also subject to the risk of a bankruptcy filing of the related entity.

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.

In addition, we may derive a significant portion of our revenues by leasing senior housing properties under triple net leases in which the rental payments are fixed with scheduled periodic increases that are either fixed or based on the Consumer Price Index with caps and floors. We also earn revenue from senior housing properties managed by third parties. For these properties, rental rates may fluctuate due to lease rollovers and renewals and economic or market conditions.

To the extent that the Holiday Portfolio accounts for a significant portion of our total senior housing revenues and net operating income, such concentration would create credit risk. We could be adversely affected if the Master Tenants become unable or unwilling to satisfy their obligations to us. There is no assurance that the Master Tenants or the related guarantor will have sufficient assets, income and access to financing to enable them to satisfy their obligations to us.

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 13 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, 2013 and December 31, 2012

Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011

Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011

Consolidated Statements of Equity (Deficit) for the years ended December 31, 2013, 2012 and 2011

Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011

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. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Newcastle Investment Corp. and Subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 3, 2014

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, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (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 (1) the consolidated results of the twenty-one senior housing properties acquired during 2013, (2) the consolidated results of New Media Investment Group, Inc. from November 26, 2013 through December 31, 2013, and (3) the consolidated results of the golf business acquired on December 30, 2013 through December 31, 2013, which are included in the 2013 consolidated financial statements of Newcastle Investment Corp. and Subsidiaries and constituted approximately \$1,434,427,000 and \$542,217,000 of total and net assets, respectively, as of December 31, 2013 and approximately \$90,853,000 and \$7,000 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 (1) the consolidated results of the twenty-one senior housing properties acquired during 2013, (2) the consolidated results of New Media Investment Group, Inc. from November 26, 2013 through December 31, 2013, and (3) the consolidated results of the golf business acquired on December 30, 2013 through December 31, 2013.

In our opinion, Newcastle Investment Corp. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have 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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013 of Newcastle Investment Corp. and Subsidiaries and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 3, 2014

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

| | December 31, | |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Assets | | |
| Real estate securities, available-for-sale - Note 6 | \$ 984,263 | \$ 1,691,575 |
| Real estate related and other loans, held-for-sale, net - Note 7 | 437,530 | 843,132 |
| Residential mortgage loans, held-for-investment, net - Note 7 | 255,450 | 292,461 |
| Residential mortgage loans, held-for-sale, net - Note 7 | 2,185 | 2,471 |
| Subprime mortgage loans subject to call option - Note 7 | 406,217 | 405,814 |
| Investments in senior housing real estate, net of accumulated depreciation - Note 9 | 1,362,900 | 162,801 |
| Investments in other real estate, net of accumulated depreciation - Note 10 | 266,170 | 6,672 |
| Property, plant and equipment, net of accumulated depreciation - Note 11 | 270,188 | - |
| Intangibles, net of accumulated amortization - Note 12 | 345,125 | 19,086 |
| Goodwill - Note 12 | 126,686 | - |
| Other investments | 25,468 | 24,907 |
| Cash and cash equivalents | 105,944 | 231,898 |
| Restricted cash | 12,366 | 2,064 |
| Receivables and other assets | 252,071 | 17,362 |
| Assets of discontinued operations | - | 245,069 |
| Total Assets | \$ 4,852,563 | \$ 3,945,312 |
| Liabilities and Equity | | |
| Liabilities | | |
| CDO bonds payable - Note 14 | \$ 544,525 | \$ 1,091,354 |
| Other bonds and notes payable - Note 14 | 230,279 | 183,390 |
| Repurchase agreements - Note 14 | 556,347 | 929,435 |
| Mortgage notes payable - Note 14 | 1,076,828 | 120,525 |
| Credit facilities, media and golf - Note 14 | 334,514 | - |
| Financing of subprime mortgage loans subject to call option - Note 7 | 406,217 | 405,814 |
| Junior subordinated notes payable - Note 14 | 51,237 | 51,243 |
| Dividends payable | 36,075 | 38,884 |
| Accounts payable, accrued expenses and other liabilities | 390,417 | 51,127 |
| Liabilities of discontinued operations | - | 480 |
| Total Liabilities | \$ 3,626,439 | \$ 2,872,252 |
| Commitments and contingencies - Notes 16, 17 and 18 | | |
| 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, 2013 and 2012 | \$ 61,583 | \$ 61,583 |
| Common stock, \$0.01 par value, 1,000,000,000 and 500,000,000 shares authorized, 351,453,495 and 172,525,645 shares issued and outstanding at December 31, 2013 and 2012, respectively | 3,515 | 1,725 |
| Additional paid-in capital | 2,970,786 | 1,710,083 |
| Accumulated deficit | (1,947,913) | (771,095) |
| Accumulated other comprehensive income - Note 2 | 76,874 | 70,764 |
| Total Newcastle Stockholders' Equity | 1,164,845 | 1,073,060 |
| Noncontrolling interests | 61,279 | - |
| Total Equity | \$ 1,226,124 | \$ 1,073,060 |
| Total Liabilities and Equity | \$ 4,852,563 | \$ 3,945,312 |

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 exclude intercompany balances that eliminate in consolidation.

| | December 31, | |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs | | |
| Real estate securities, available-for-sale | \$ 426,695 | \$ 567,685 |
| Real estate related and other loans, held-for-sale, net | 437,530 | 813,301 |
| Residential mortgage loans, held-for-investment, net | 223,628 | 292,461 |
| Subprime mortgage loans subject to call option | 406,217 | 405,814 |
| Investments in other real estate, net of accumulated depreciation | 6,597 | 6,672 |
| Other investments | 19,308 | 18,883 |
| Restricted cash | 2,377 | 2,064 |
| Receivables and other assets | 3,727 | 7,535 |
| Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs | \$ 1,526,079 | \$ 2,114,415 |

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 due to third parties 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, | |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle | | |
| CDO bonds payable | \$ 544,525 | \$ 1,091,354 |
| Other bonds and notes payable | 230,279 | 183,390 |
| Repurchase agreements | - | 4,244 |
| Financing of subprime mortgage loans subject to call option | 406,217 | 405,814 |
| Derivative liabilities | 13,795 | 31,576 |
| Accounts payable, accrued expenses and other liabilities | 6,766 | 8,365 |
| Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle | \$ 1,201,582 | \$ 1,724,743 |

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011
 (dollars in thousands, except share data)

| | Year Ended December 31, | | |
|--|-------------------------|--------------------|-------------------|
| | 2013 | 2012 | 2011 |
| Interest income | \$ 213,715 | \$ 282,951 | \$ 291,036 |
| Interest expense | 90,973 | 109,924 | 138,035 |
| Net interest income | <u>122,742</u> | <u>173,027</u> | <u>153,001</u> |
| Impairment (Reversal) | | | |
| Valuation allowance (reversal) on loans - Note 7 | (25,035) | (24,587) | (15,163) |
| Other-than-temporary impairment on securities- Note 6 | 5,222 | 19,359 | 12,955 |
| 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 (income) loss into net income | 44 | (436) | 2,885 |
| | <u>(19,769)</u> | <u>(5,664)</u> | <u>1,110</u> |
| Net interest income (loss) after impairment/reversal | 142,511 | 178,691 | 151,891 |
| Other Revenues | | | |
| Rental income | 74,936 | 17,081 | 1,899 |
| Care and ancillary income - senior housing | 12,387 | 2,994 | - |
| Advertising income - media | 38,757 | - | - |
| Circulation income - media | 16,649 | - | - |
| Commercial printing and other income - media | 6,231 | - | - |
| Total other revenues | <u>148,960</u> | <u>20,075</u> | <u>1,899</u> |
| Other Income | | | |
| Gain on settlement of investments, net - Note 2 | 17,369 | 232,897 | 78,181 |
| Gain on extinguishment of debt - Note 14 | 4,565 | 24,085 | 66,110 |
| Equity in earnings of Local Media Group | 1,870 | - | - |
| Other income, net - Note 2 | 13,340 | 5,312 | 36,204 |
| | <u>37,144</u> | <u>262,294</u> | <u>180,495</u> |
| Expenses | | | |
| Loan and security servicing expense | 3,857 | 4,260 | 4,649 |
| Property operating expenses | 53,718 | 12,943 | 1,110 |
| Media operating expenses | 49,092 | - | - |
| General and administrative expense | 36,775 | 17,247 | 6,267 |
| Management fee to affiliate - Note 17 | 33,091 | 24,693 | 18,289 |
| Depreciation and amortization | 30,973 | 6,975 | 12 |
| | <u>207,506</u> | <u>66,118</u> | <u>30,327</u> |
| Income from continuing operations before income tax | 121,109 | 394,942 | 303,958 |
| Income tax expense - Note 19 | 2,100 | - | - |
| Income from continuing operations | 119,009 | 394,942 | 303,958 |
| Income from discontinued operations - Note 4 | 33,332 | 39,168 | 561 |
| Net Income | 152,341 | 434,110 | 304,519 |
| Preferred dividends | (5,580) | (5,580) | (5,580) |
| Net income attributable to noncontrolling interest | (928) | - | - |
| Income Applicable To Common Stockholders | <u>\$ 145,833</u> | <u>\$ 428,530</u> | <u>\$ 298,939</u> |
| Income Per Share of Common Stock | | | |
| Basic | \$ 0.53 | \$ 2.97 | \$ 3.65 |
| Diluted | <u>\$ 0.51</u> | <u>\$ 2.94</u> | <u>\$ 3.65</u> |
| Income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest | | | |
| Basic | 0.41 | 2.70 | 3.64 |
| Diluted | <u>0.40</u> | <u>2.67</u> | <u>3.64</u> |
| Income from discontinued operations per share of common stock | | | |
| Basic | \$ 0.12 | \$ 0.27 | \$ 0.01 |
| Diluted | <u>\$ 0.11</u> | <u>\$ 0.27</u> | <u>\$ 0.01</u> |
| Weighted Average Number of Shares of Common Stock Outstanding | | | |
| Basic | 276,881,294 | 144,146,370 | 81,983,973 |
| Diluted | <u>283,309,645</u> | <u>145,766,413</u> | <u>81,990,297</u> |

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011

(dollars in thousands)

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2013 | 2012 | 2011 |
| Net income | \$ 152,341 | \$ 434,110 | \$ 304,519 |
| Other comprehensive income (loss): | | | |
| Net unrealized gain (loss) on securities | 45,128 | 136,527 | (4,786) |
| Reclassification of net realized (gain) loss on securities into earnings | (995) | 8,727 | (60,503) |
| Net unrealized gain (loss) on derivatives designated as cash flow hedges | 5,933 | 18,807 | 15,514 |
| Reclassification of net realized loss on derivatives designated as cash flow hedges into earnings | 99 | 5,303 | 12,540 |
| Net unrecognized gain and prior service cost | 458 | - | - |
| Other comprehensive income (loss) | 50,623 | 169,364 | (37,235) |
| Other comprehensive income attributable to noncontrolling interest | (928) | - | - |
| Total comprehensive income | \$ 202,036 | \$ 603,474 | \$ 267,284 |

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011
(dollars in thousands, except share data)

| | Newcastle Stockholders | | | | | | | Total Stock- holders' Equity (Deficit) | |
|---|------------------------|-----------|--------------|----------|----------------------------------|------------------------|---|--|-----------------------------|
| | Preferred Stock | | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Accumulated Other Comp. Income (Loss) | | Noncontrolling Interests |
| | Shares | Amount | Shares | Amount | | | | | |
| 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 | - | - | - | - | - | 304,519 | - | 304,519 | |
| Other comprehensive income (loss) | - | - | - | - | - | - | (37,235) | (37,235) | |
| 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 designated as cash flow hedges | - | - | - | - | - | - | 34,367 | 34,367 | |
| Net income | - | - | - | - | - | 434,110 | - | 434,110 | |
| Other comprehensive income | - | - | - | - | - | - | 169,364 | 169,364 | |
| 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 | |
| Dividends declared | - | - | - | - | - | (168,761) | - | (168,761) | |
| Issuance of common stock | - | - | 178,927,850 | 1,790 | 1,260,703 | - | - | 1,262,493 | |
| Noncontrolling interest recorded upon restructuring of media business | - | - | - | - | - | - | - | 60,351 | |
| Spin-off of New Residential | - | - | - | - | - | (1,159,470) | (44,513) | (1,203,983) | |
| Net income | - | - | - | - | - | 151,413 | - | 152,341 | |
| Other comprehensive income | - | - | - | - | - | - | 50,623 | 50,623 | |
| Equity (deficit) - December 31, 2013 | 2,463,321 | \$ 61,583 | 351,453,495 | \$ 3,515 | \$ 2,970,786 | \$ (1,947,913) | \$ 76,874 | \$ 1,226,124 | |

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011

(dollars in thousands)

| | Year Ended December 31, | | |
|--|-------------------------|--------------------|------------------|
| | 2013 | 2012 | 2011 |
| Cash Flows From Operating Activities | | | |
| Net income | \$ 152,341 | \$ 434,110 | \$ 304,519 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) | | | |
| Depreciation and amortization | 30,973 | 7,451 | 312 |
| Accretion of discount and other amortization | (30,621) | (45,582) | (44,786) |
| Interest income in CDOs redirected for reinvestment or CDO bond paydown | (1,895) | (5,484) | (10,279) |
| Interest income on investments accrued to principal balance | (26,588) | (22,835) | (19,507) |
| Interest expense on debt accrued to principal balance | 440 | 437 | 728 |
| Non-cash directors' compensation | 350 | 280 | 149 |
| Reversal of valuation allowance on loans | (25,035) | (24,587) | (15,163) |
| Other-than-temporary impairment on securities | 5,266 | 18,923 | 15,840 |
| Impairment of long-lived assets | - | - | 433 |
| Change in fair value of investments in excess mortgage servicing rights | (3,894) | (9,023) | (367) |
| Change in investments in equity method investees in excess mortgage servicing rights | (19,170) | - | - |
| Equity in earnings of equity method investees | (1,746) | - | - |
| Distributions of earnings from equity method investees | 1,069 | - | - |
| Gain on settlement of investments (net) | (17,369) | (232,897) | (77,310) |
| Gain on deconsolidation | - | - | (45,072) |
| Unrealized (gain)/loss on non-hedge derivatives and hedge ineffectiveness | (10,467) | (2,547) | 11,572 |
| Gain on extinguishment of debt | (4,565) | (24,085) | (66,110) |
| Change in: | | | |
| Restricted cash | 8,013 | 2,223 | 1,161 |
| Receivables and other assets | (19,077) | (1,702) | (1,342) |
| Accounts payable, accrued expenses and other liabilities | 63,684 | 3,220 | 1,226 |
| Payment of deferred interest | (648) | (568) | - |
| Deferred interest received | 5,125 | - | 1,027 |
| Net cash provided by operating activities | <u>106,186</u> | <u>97,334</u> | <u>57,031</u> |
| Cash Flows From Investing Activities | | | |
| Principal repayments from repurchased CDO debt | 114,592 | 42,835 | 65,912 |
| Principal repayments from CDO securities | 3,405 | 2,014 | 10,728 |
| Principal repayments from non-Agency RMBS | 25,178 | 20,729 | 118 |
| Return of investments in excess mortgage servicing rights | 15,803 | 29,167 | 760 |
| Principal repayments from loans and non-CDO securities (excluding non-Agency RMBS) | 351,268 | 126,125 | 82,789 |
| Restructuring of investments in media and golf, net of cash and cash equivalents assumed | (60,654) | - | - |
| Purchase of real estate securities | (1,307,862) | (989,709) | (333,895) |
| Purchase of securities accounted for as linked transactions | (103,140) | - | - |
| Purchase of real estate related and other loans | (382,771) | (27,226) | - |
| Proceeds from sale of investments | 46,536 | 127,000 | 3,885 |
| Acquisition of investments in excess mortgage servicing rights | - | (221,832) | (40,492) |
| Acquisition of investments in real estate | (1,249,410) | (185,686) | - |
| Additions to investments in real estate | (4,804) | (296) | - |
| Proceeds from sale of real estate held for sale | - | - | 650 |
| Acquisition of servicing rights | - | - | (2,268) |
| Deposits paid on investments | (505) | (25,857) | - |
| Return of deposit paid on investments | - | 25,582 | - |
| Payments on settlement of derivative instruments | - | - | (14,322) |
| Contributions to equity method investees | (386,501) | - | - |
| Distributions of capital from equity method investees | 12,134 | - | - |
| Net cash provided by (used in) investing activities | <u>(2,926,731)</u> | <u>(1,077,154)</u> | <u>(226,135)</u> |

Continued on next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011

(dollars in thousands)

| | Year Ended December 31, | | |
|--|-------------------------|-------------|--------------|
| | 2013 | 2012 | 2011 |
| Cash Flows From Financing Activities | | | |
| Repurchases of CDO bonds payable | \$ (31,285) | \$ (35,748) | \$ (101,954) |
| Issuance of other bonds payable | - | - | 142,736 |
| Repayments of other bonds and notes payable | (40,347) | (42,443) | (204,151) |
| Borrowings under repurchase agreements | 2,306,433 | 782,749 | 321,020 |
| Borrowings under repurchase agreements accounted for as linked transactions | 60,646 | - | - |
| Repayments of repurchase agreements | (1,359,161) | (93,054) | (100,012) |
| Margin deposits under repurchase agreements | (207,905) | (87,895) | (15,754) |
| Return of margin deposits under repurchase agreements | 175,405 | 87,895 | 15,754 |
| Borrowings under mortgage notes payable | 904,509 | 120,525 | - |
| Repayment of mortgage notes payable | (747) | - | - |
| Issuance of common stock | 1,264,769 | 435,821 | 211,567 |
| Costs related to issuance of common stock | (2,471) | (1,083) | (905) |
| Contribution of cash to New Residential upon spin-off | (181,582) | - | - |
| Common stock dividends paid | (165,989) | (104,196) | (23,706) |
| Preferred stock dividends paid | (5,580) | (5,580) | (8,371) |
| Payment of financing costs | (40,633) | (2,385) | (1,581) |
| Purchase of derivative instruments | - | (244) | - |
| Proceeds from settlement of derivative instruments | 217 | - | - |
| Restricted cash returned from refinancing activities | 18,312 | - | 58,293 |
| Net cash provided by financing activities | 2,694,591 | 1,054,362 | 292,936 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (125,954) | 74,542 | 123,832 |
| Cash and Cash Equivalents, Beginning of Period | 231,898 | 157,356 | 33,524 |
| Less Cash and Cash Equivalents of Discontinued Operations | - | - | (9) |
| Cash and Cash Equivalents, End of Period | \$ 105,944 | \$ 231,898 | \$ 157,347 |
| Supplemental Disclosure of Cash Flow Information | | | |
| Cash paid during the period for interest expense | \$ 48,892 | \$ 71,395 | \$ 99,096 |
| Cash paid during the period for income taxes | \$ 899 | \$ - | \$ - |
| Supplemental Schedule of Non-Cash Investing and Financing Activities | | | |
| Common stock dividends declared but not paid | \$ 35,145 | \$ 37,954 | \$ 15,777 |
| Preferred stock dividends declared but not paid | \$ 930 | \$ 930 | \$ 930 |
| Assumption of mortgage notes payable, at fair value | \$ 43,128 | \$ - | \$ - |
| Re-issuance of other bonds and notes payable to third parties upon deconsolidation of CDO | \$ - | \$ 29,959 | \$ 5,751 |
| Issuance of seller financing for acquisition of senior housing properties, at fair value | \$ 9,412 | \$ - | \$ - |
| Purchase price payable on investments in excess mortgage servicing rights | \$ - | \$ 59 | \$ 3,250 |
| Reduction of Assets and Liabilities relating to the spin-off of New Residential | | | |
| Real estate securities, available for sale | \$ 1,647,289 | \$ - | \$ - |
| Residential mortgage loans, held-for-investment, net | \$ 35,865 | \$ - | \$ - |
| Investments in excess mortgage servicing rights at fair value | \$ 229,936 | \$ - | \$ - |
| Investments in equity method investees | \$ 392,469 | \$ - | \$ - |
| Receivables and other assets | \$ 37,844 | \$ - | \$ - |
| Repurchase agreements | \$ 1,320,360 | \$ - | \$ - |
| Accrued expenses and other liabilities | \$ 642 | \$ - | \$ - |
| Acquisitions of Assets and Liabilities relating to media and golf investments, non-cash portion | | | |
| Investments in other real estate | \$ 259,573 | \$ - | \$ - |
| Property, plant and equipment | \$ 272,153 | \$ - | \$ - |
| Intangibles | \$ 244,885 | \$ - | \$ - |
| Goodwill | \$ 126,686 | \$ - | \$ - |
| Receivables and other assets | \$ 145,191 | \$ - | \$ - |
| Credit facilities | \$ 334,498 | \$ - | \$ - |
| Accounts payable, accrued expenses and other liabilities | \$ 287,439 | \$ - | \$ - |
| Noncontrolling interests | \$ 366 | \$ - | \$ - |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013, 2012 and 2011

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1. ORGANIZATION

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in 2002. Newcastle focuses on opportunistically investing in, and actively managing, a variety of real estate-related and other investments. 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.

On April 26, 2013, Newcastle announced that its board of directors had formally declared the distribution of shares of common stock of New Residential Investment Corp. ("New Residential," NYSE: NRZ), a then wholly owned subsidiary of Newcastle. Following the spin-off, New Residential is an independent, publicly traded REIT primarily focused on investing in residential mortgage related assets. The spin-off transaction was effected as a taxable pro rata distribution by Newcastle of all the outstanding shares of common stock of New Residential to the stockholders of record of Newcastle at the close of business on May 6, 2013. The stockholders of Newcastle as of the record date received one share of New Residential common stock for each share of Newcastle common stock held.

In connection with the spin-off, Newcastle contributed to New Residential all of its investments in excess mortgage servicing rights ("Excess MSRs") as of May 15, 2013, the non-Agency residential mortgage backed securities ("RMBS") Newcastle had acquired since the second quarter of 2012, certain Agency ARM RMBS, the residential mortgage loans Newcastle had acquired since the beginning of 2013, its interest in a portfolio of consumer loans and a cash and cash equivalents balance of \$181.6 million.

As described in more detail in Note 3, during 2013 Newcastle expanded its investments in senior housing. In addition, during the fourth quarter of 2013 Newcastle restructured its Media debt investments and its Golf debt investment.

As a result, Newcastle changed its financial reporting segments and now conducts its business through the following segments: (i) investments in senior housing properties ("senior housing"), (ii) debt investments financed with collateralized debt obligations ("CDOs"), (iii) other debt investments ("other debt"), (iv) investments in media ("Media"), (v) investments in golf courses and facilities ("Golf") and (vi) corporate. With respect to the CDOs and other debt investments, 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.

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 is entitled to 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 17.

Newcastle has its senior housing properties managed pursuant to property management agreements (the "Senior Housing Management Agreements") with third parties (collectively, the "Senior Housing Managers"). Currently, the Senior Housing Managers are affiliates or subsidiaries of either Holiday Acquisition Holdings LLC ("Holiday"), a portfolio company that is majority owned by private equity funds managed by an affiliate of Newcastle's Manager, or FHC Property Management LLC (together with its subsidiaries, "Blue Harbor"), an affiliate of Newcastle's Manager.

Approximately 6.4 million shares of Newcastle's common stock were held by Fortress, through its affiliates, and its principals at December 31, 2013. In addition, Fortress, through its affiliates, held options relating to approximately 27.5 million shares of Newcastle's common stock at December 31, 2013.

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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)(2) | Net Proceeds (millions) |
|-------------------|--------------------|------------------------------|-------------------------|
| Formation - 2010 | 62,027,184 | | |
| 2011 | 43,153,825 | \$4.55 - \$6.00 | \$ 210.9 |
| 2012 | 67,344,636 | \$6.22 - \$6.71 | \$ 434.9 |
| 2013 | 178,927,850 | \$4.97 - \$10.48 | \$ 1,262.6 |
| December 31, 2013 | <u>351,453,495</u> | | |

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to Newcastle's independent directors.

(2) On May 15, 2013, Newcastle completed the spin-off of New Residential. The May 15, 2013 closing price of Newcastle's common stock on the NYSE was \$12.33. On May 16, 2013, the opening price of Newcastle's common stock was \$5.79.

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 is required to be consolidated 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. Newcastle's CDO subsidiaries and its manufactured housing loan financing structures (Note 14) are special purpose entities which are considered VIEs of which Newcastle is the primary beneficiary. Therefore, the debt issued by such entities is considered a non-recourse secured borrowing of Newcastle. The subprime securitizations and CDO VIII Repack (Note 5) are also considered VIEs, but Newcastle does not control the decisions that most significantly impact their economic performance and, for the subprime securitizations, no longer receive a significant portion of their returns, and therefore do not consolidate them.

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, 2013, 2012 or 2011. With respect to 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.

Noncontrolling interests represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Newcastle. This is primarily related to noncontrolling interests in New Media Investment Group, Inc. (Note 3).

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

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, 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.

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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 consolidated statements of income, adjusted for unrealized gains or losses on securities available for sale and derivatives designated as cash flow hedges and, upon the consolidation of GateHouse (see Note 3), net unrecognized gain and prior period service costs and credits relating to pension and other postretirement benefits.

The following table summarizes Newcastle's accumulated other comprehensive income:

| | December 31, | |
|---|------------------|------------------|
| | 2013 | 2012 |
| Net unrealized gains on securities | \$ 82,408 | \$ 82,788 |
| Net unrealized losses on derivatives designated as cash flow hedges | (5,992) | (12,024) |
| Net unrecognized gain and prior service cost | 458 | - |
| Accumulated other comprehensive income | <u>\$ 76,874</u> | <u>\$ 70,764</u> |

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 \$0.2 million and \$2.7 million in 2013 and 2012, respectively. No prepayments penalties were received in 2011.

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 it has the intent to sell a given security in an unrealized loss position, or if it is more likely than not that it 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

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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.

Media Income - Advertising income from the publication of newspapers is recognized when advertisements are published in newspapers or placed on digital platforms or, with respect to certain digital advertising, each time a user either clicks on or views certain ads, net of commissions and provisions for estimated sales incentives including rebates, rate adjustments, and discounts.

Circulation income includes single-copy and subscription revenues. Circulation income is based on the number of copies of the printed newspaper (through home-delivery subscriptions and single-copy sales) and digital subscriptions sold and the rates charged to the respective customers. Single-copy income is recognized based on date of publication, net of provisions for related returns. Proceeds from subscription income are deferred at the time of payment and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

Other income is recognized when the related service or product has been delivered.

Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet until the services are performed or the product is delivered.

Rental Income, Care and Ancillary Income — Newcastle records rental revenue, care and ancillary income as they become due as provided for in the leases.

Triple Net Lease Properties – Triple net leases with Holiday provide for periodic and determinable increases in base rent. Base rental revenues are recognized under these leases on a straight-line basis over the applicable lease term when collectability is reasonably assured.

Gain (Loss) on Settlement of Investments, Net and Other Income (Loss), Net — These items are comprised of the following:

| | Year Ended December 31, | | |
|--|-------------------------|-------------------|------------------|
| | 2013 | 2012 | 2011 |
| Gain (loss) on settlement of investments, net | | | |
| Gain on settlement of real estate securities | \$ 9,853 | \$ 14,629 | \$ 81,434 |
| Loss on settlement of real estate securities | (3,592) | (4,433) | (5,091) |
| Gain on sale of CDO X interests | - | 224,317 | - |
| Gain on repayment/disposition of loans held for sale | 10,716 | - | 1,838 |
| Loss on repayment/disposition of loans held for sale | (354) | (1,614) | - |
| Gain on termination of derivative | 813 | - | - |
| Loss on disposal of long-lived assets | (67) | (2) | - |
| | <u>\$ 17,369</u> | <u>\$ 232,897</u> | <u>\$ 78,181</u> |
| Other income (loss), net | | | |
| Gain on non-hedge derivative instruments | \$ 10,577 | \$ 9,101 | \$ 3,284 |
| Unrealized loss recognized upon de-designation of hedges | (110) | (7,036) | (13,939) |
| Hedge ineffectiveness | - | 483 | (917) |
| Gains on deconsolidation | - | - | 45,072 |
| Equity in earnings of equity method investees | (124) | - | 272 |
| Collateral management fee income, net | 1,279 | 1,786 | 2,432 |
| Other income | 1,718 | 978 | - |
| | <u>\$ 13,340</u> | <u>\$ 5,312</u> | <u>\$ 36,204</u> |

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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 ("AOCI") Components | Income Statement Location | Year Ended December 31, 2013 | 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 comprehensive income | \$ (5,266) | \$ (18,923) |
| Gain on settlement of real estate securities | Gain (loss) on settlement of investments, net | 9,853 | 14,629 |
| Loss on settlement of real estate securities | Gain (loss) on settlement of investments, net | (3,592) | (4,433) |
| | | \$ 995 | \$ (8,727) |
| Net realized gain (loss) on derivatives designated as cash flow hedges | | | |
| Gain (loss) recognized upon de-designation | Other income (loss) | \$ (110) | \$ (7,036) |
| Hedge ineffectiveness | Other income (loss) | - | 483 |
| Amortization of deferred gain (loss) | Interest expense | 11 | 1,250 |
| Gain (loss) reclassified from AOCI into income, related to effective portion | Interest expense | (6,128) | - |
| | | \$ (6,227) | \$ (5,303) |
| Total reclassifications | | \$ (5,232) | \$ (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 either the straight line basis or the interest method. Interest rate cap premiums, if any, are included in receivables and other 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 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.

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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 accumulated other comprehensive income 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 has entered into certain transactions which financed the purchase of certain assets with the seller of these assets. The contemporaneous purchase of the asset and the associated financing are treated as a linked transaction and accordingly recorded on a net basis as a non-hedge derivative instrument, with changes in market value recorded on the statement of income.

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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 are Bank of America and Bank of New York Mellon.

Media Operating Expenses — Media operating expenses consist primarily of expenses to produce and circulate the related media publications and are expensed as incurred.

Management Fees to Affiliate — These represent amounts due to the Manager and Senior Housing Managers pursuant to the Management Agreement and Senior Housing Management Agreements. For further information on the Management Agreement, see Note 17.

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.

Purchase Accounting — In determining the allocation of a purchase price between net tangible and identified intangible assets acquired and liabilities assumed, management makes 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. In the case of real property, 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.

Investments in Senior Housing Real Estate, Other Real Estate and Property, Plant and Equipment, Net — Real estate and related improvements are recorded at cost less accumulated depreciation. Costs that both materially add value and appreciably extend the useful life of an asset are capitalized. 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. With respect to golf course improvements (included in land improvements), only costs associated with original construction, complete replacements, or the addition of new trees, sand traps, fairways or greens are capitalized. Expenditures for repairs and maintenance are expensed as incurred.

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.

Depreciation is calculated using the straight-line method based on the following estimated useful lives:

| | |
|--|---|
| Buildings | 25-40 years |
| Building improvements | 3-10 years |
| Machinery and equipment | 3-20 years |
| Furniture, fixtures, and computer software | 3-7 years |
| Leasehold improvements | shorter of the lease term or estimated useful life of the asset |

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Goodwill and Intangibles — Resident lease intangibles reflect the fair value of in-place resident leases at acquisition of senior housing properties. 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.

Non-compete intangibles reflect the fair value of non-compete agreements at acquisition relating to the senior housing business. 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.

Land lease intangibles related to the senior housing business reflect the fair value of the land lease agreements in place at acquisition. Newcastle estimates the fair value of land lease intangibles as the difference between (a) the leased fee value and (b) the fee simple value. The acquisition fair values of the land lease intangibles are amortized over the contractual lives of the respective leases.

The payment in lieu of taxes (“PILOT”) intangible asset related to the senior housing business reflects the fair value of the PILOT agreement in place at acquisition. Newcastle estimates the fair value of the PILOT intangible as the present value of the difference between the (a) market taxes and (b) the anticipated PILOT amounts. The acquisition fair value of the PILOT intangible is amortized over the contractual life of the agreement.

Intangible assets relating to the media business consist of advertiser, subscriber and customer relationships, mastheads and trade names. These intangible assets are recorded at the fair value at the date of acquisition. Newcastle estimates the fair value of the advertiser, subscriber and customer relationships and the trade names using the multi-period excess earnings method under the income approach. This valuation method is based on first forecasting revenue for the existing customer base and then applying expected attrition rates. Mastheads are not amortized because it has been determined that the useful lives of such mastheads are indefinite.

Intangible assets relating to the golf business consist primarily of leasehold advantages (disadvantages), management contracts and membership base. A leasehold advantage (disadvantage) exists to Newcastle when it pays a contracted rent that is below (above) market rents at the date of the transaction. The value of a leasehold advantage (disadvantage) is calculated based on the differential between market and contracted rent, which is tax effected and discounted to present value based on an after-tax discount rate corresponding to each golf course. The management contract intangible represents Newcastle’s golf course management contracts for both leased and managed properties, is valued utilizing a discounted cash flow methodology under the income approach, and is amortized over the average contractual term of the agreements. The membership base intangible represents Newcastle’s relationship with its private golf club members, is valued using the multi-period excess earnings method under the income approach, and is amortized over the weighted average remaining useful life of the private memberships.

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Amortization of intangible assets is included within depreciation and amortization on the consolidated statements of income and is calculated using the straight-line method based on the following estimated useful lives:

| | |
|-------------------------------------|-----------------|
| Senior housing | |
| In-place resident lease intangibles | 2 - 3 years (1) |
| Non-compete intangibles | 5 years |
| Land lease intangibles | 74 - 82 years |
| PILOT intangibles | 13 years |
| Other intangibles | 2 - 5 years |
| Media business | |
| Advertiser relationships | 14-16 years |
| Customer relationships | 15 - 16 years |
| Subscriber relationships | 15 -16 years |
| Trade name | 10 years |
| Golf business | |
| Trade name | 30 - 40 years |
| Leasehold intangibles | 9 - 10 years |
| Management contracts | 11 - 12 years |
| Internally-developed software | 5 years |
| Membership base | 7 - 9 years |

(1) Amortized over 24 months for AL/MC properties and 33 months for IL-only properties.

The excess of acquisition costs over the estimated fair value of tangible and identifiable intangible net assets acquired is recorded as goodwill. Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist which may include an economic downturn in a market, a change in the assessment of future operations or a decline in Newcastle's stock price. Newcastle performs its impairment analysis at the reporting unit level. The reporting units have discrete financial information which are regularly reviewed by management. The fair value of the applicable reporting unit is compared to its carrying value. Newcastle estimates fair value by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, Newcastle relies on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, Newcastle calculates the impairment as the excess of the carrying value of goodwill over its implied fair value.

Impairment of Real Estate, Property, Plant and Equipment and Finite-lived Intangible Assets - Newcastle periodically reviews the carrying amounts of its long-lived assets, including real estate, property, plant and equipment and finite-lived intangible assets, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. The assessment of recoverability is based on management's estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value. Newcastle generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

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, | |
|---|------------------|-----------------|
| | 2013 | 2012 |
| CDO bond sinking funds | 1,902 | 1,254 |
| CDO trustee accounts | 475 | 810 |
| New Media letters of credit and other cash reserves | 6,477 | - |
| Collateral for Golf lease obligations | 3,512 | - |
| | <u>\$ 12,366</u> | <u>\$ 2,064</u> |

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Supplemental non-cash investing and financing activities relating to CDOs are disclosed below:

| | Year Ended December 31, | | |
|---|-------------------------|--------------|------------|
| | 2013 | 2012 | 2011 |
| Restricted cash generated from sale of securities | \$ 136,148 | \$ 56,629 | \$ 336,911 |
| Restricted cash generated from sale of real estate related and other loans | \$ 104,837 | \$ - | \$ 125,141 |
| Restricted cash generated from paydowns on securities and loans | \$ 331,349 | \$ 274,832 | \$ 546,752 |
| Restricted cash used for purchases of real estate securities | \$ - | \$ 143,184 | \$ 427,826 |
| Restricted cash used for purchases of real estate related and other loans | \$ - | \$ 91,481 | \$ 384,850 |
| Restricted cash used for repayments of CDO bonds payable | \$ 513,879 | \$ 166,845 | \$ 101,687 |
| Restricted cash used for repurchases of CDO bonds payable and other bonds payable | \$ - | \$ - | \$ 3,213 |
| Restricted cash used for purchases of derivative instruments | \$ - | \$ 408 | \$ - |
| Restricted cash used for settlement of derivative instruments | \$ 1,563 | \$ - | \$ - |
| 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 |

Receivables and Other Assets

Receivables and other assets are comprised of the following, net of allowances for uncollectable amounts of \$4.9 million and \$0.1 million as of December 31, 2013 and 2012, respectively.

| | December 31, | |
|---------------------------|-------------------|------------------|
| | 2013 | 2012 |
| Accounts receivable, net | \$ 83,905 | \$ 1,102 |
| Deferred financing costs | 50,770 | 2,249 |
| Derivative assets | 43,662 | 165 |
| Prepaid expenses | 18,635 | 2,183 |
| Interest receivable | 4,667 | 8,959 |
| Deposits | 19,555 | - |
| Inventory | 12,837 | - |
| Miscellaneous assets, net | 18,040 | 2,704 |
| | <u>\$ 252,071</u> | <u>\$ 17,362</u> |

Accounts Receivable, Net - Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts. The allowance for doubtful accounts is based upon several factors including the length of time the receivables are past due, historical payment trends and current economic factors. Collateral is generally not required.

Deferred Financing Costs - Deferred costs consist primarily of costs incurred in obtaining financing which are amortized into interest expense over the term of such financing using either the straight line basis or the effective interest method.

Derivative Assets - All derivatives are recognized as either assets or liabilities on the balance sheet and measured at fair value.

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Prepaid Expenses – Prepaid expenses consists primarily of prepaid insurance and prepaid rent and are expensed over the useful lives of the goods or services.

Interest Receivable – Interest receivable consists of interest earned on real estate securities, real estate related and other loans and residential mortgage loans that has not yet been received.

Deposits – Deposits consist primarily of workers compensation premiums and health care insurance funds related to the media business.

Inventory - Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first out (“FIFO”) method. Media inventory is predominately raw materials and consists primarily of newsprint. Golf inventories consist primarily of food, beverages and merchandise held for sale.

Accounts payable, accrued expenses and other liabilities

Accounts payable, accrued expenses and other liabilities are comprised of the following:

| | December 31 | |
|--|-------------------|------------------|
| | 2013 | 2012 |
| Accounts payable and accrued expenses | \$ 104,309 | \$ 6,833 |
| Membership deposit liabilities | 71,644 | - |
| Deferred revenue | 67,740 | 6,584 |
| Security deposits payable | 48,823 | 33 |
| Unfavorable leasehold interests | 24,598 | - |
| Derivative liabilities | 13,795 | 31,576 |
| Pension and other postretirement benefit obligations | 10,471 | - |
| Self-insurance liabilities | 6,384 | - |
| Accrued rent | 6,314 | - |
| Due to affiliates | 5,878 | 3,579 |
| Miscellaneous liabilities | 30,461 | 2,522 |
| | <u>\$ 390,417</u> | <u>\$ 51,127</u> |

Accounts Payable and Accrued Liabilities - Accounts payable reflect expenses related to goods and services received that have not yet been paid and accrued liabilities reflect invoices that have not yet been received.

Membership Deposit Liabilities - Private country club members pay an advance initiation fee upon their acceptance as a member to the country club. Initiation fees are generally deposits which are refundable 30 years after the date of acceptance as a member. The difference between the amount paid by the member (net of incremental direct costs, primarily commissions) and the net present value of the future refund obligation is deferred and recognized on a straight-line basis over the estimated average expected life of an active membership (currently seven years), and included in deferred revenue above.

The present value of the refund obligation is recorded as a membership deposit liability in the consolidated balance sheets and accretes over the nonrefundable term (30 years) using the effective interest method. This accretion is recorded as interest expense in the consolidated statements of income.

Deferred Revenue – Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue until services performed or the product is delivered.

Security Deposits Payable - Security deposits payable relate to deposits made by tenants of Newcastle’s properties primarily related to the senior housing business.

Unfavorable Leasehold Interests - Unfavorable leasehold interests relates to leases acquired as part of the Golf business where the terms of the leasehold contracts are less favorable than the estimated market terms of the leases at the acquisition date.

Derivative Liabilities - All derivatives are recognized as either assets or liabilities on the balance sheet and measured at fair value.

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Pension and Other Postretirement Benefit Obligations – Newcastle recognizes an asset or liability in the consolidated balance sheets reflecting the funded status of pension and other postretirement benefit plans such as retiree health and life insurance, with current-year changes in the funded status recognized in accumulated other comprehensive loss. The determination of pension plan obligations and expense is based on a number of actuarial assumptions. Two critical assumptions are the expected long-term rate of return on plan assets and the discount rate applied to pension plan obligations. For other postretirement benefit plans, which provide for certain health care and life insurance benefits for qualifying retired employees and which are not funded, critical assumptions in determining other postretirement benefit obligations and expense are the discount rate and the assumed health care cost-trend rates.

Self-Insurance Liabilities - Newcastle maintains self-insured medical and workers' compensation programs for the media business. Newcastle purchases stop loss coverage from third-parties which limits exposure to large claims. Newcastle records a liability for medical and workers' compensation costs during the period in which they occur as well as an estimate of incurred but not reported claims. Newcastle also is self insured for property and casualty losses for the media business and accrues for losses.

Accrued Rent – Golf properties pay rent on certain properties in arrears.

Due to Affiliates – Represents amounts due to the Manager and the Senior Housing Managers pursuant to the Management Agreement and Senior Housing Management Agreements.

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 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 16.

Income Taxes – Newcastle operates so as to qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of Newcastle's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities are conducted through taxable REIT subsidiaries ("TRS") and therefore are subject to federal and state income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Newcastle recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. Interest and penalties on uncertain tax positions are included as a component of the provision for income taxes on the consolidated statements of income.

Accretion of Discount and Other Amortization — As reflected on the consolidated statements of cash flows, this item is comprised of the following:

| | For the year ended December 31, | | |
|---|---------------------------------|--------------------|--------------------|
| | 2013 | 2012 | 2011 |
| Accretion of net discount on securities, loans and other investments | \$ (34,525) | \$ (48,608) | \$ (45,387) |
| Amortization of net discount on debt obligations | 2,859 | 1,525 | (823) |
| Amortization of deferred financing costs and interest rate cap premiums | 1,056 | 2,751 | 3,740 |
| Amortization of net deferred hedge (gains) and losses - debt | (11) | (1,250) | (2,316) |
| | <u>\$ (30,621)</u> | <u>\$ (45,582)</u> | <u>\$ (44,786)</u> |

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Securitization of Subprime Mortgage Loans — Newcastle's accounting policy for its securitization of subprime mortgage loans is disclosed in Note 7.

Recent Accounting Pronouncements — 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 other comprehensive income 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 statements. Newcastle has adopted this accounting standard and presents this information, above under "Reclassification from Accumulated Other Comprehensive Income into Net Income."

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, 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. ACQUISITIONS IN 2013

A. Acquisitions of Senior Housing Properties

(i) Managed Properties

During 2013, Newcastle completed the acquisitions of 21 senior housing properties in seven different portfolios for an aggregate purchase price of approximately \$302.8 million plus acquisition-related costs. Each of these acquisitions was accounted for as a business combination, under which all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred. For 18 of the properties, Newcastle has retained Holiday to manage the properties. Pursuant to the property management agreements with Holiday, Newcastle pays management fees equal to either (i) 5% of the property's effective gross income (as defined in the agreements) or (ii) 6% of the property's effective gross income (as defined in the agreements) for the first two years and 7% thereafter. For the other 3 properties acquired, Newcastle has retained Blue Harbor to manage the properties. Pursuant to the agreements with Blue Harbor, Newcastle pays management fees equal to 6% of the property's effective gross income (as defined in the agreements) for the first two years and 7% thereafter.

(ii) Holiday Portfolio

In addition to the acquisitions described in paragraph (i) above, on December 23, 2013, Newcastle completed the acquisition of 51 independent living senior housing properties (the "Holiday Portfolio") from certain affiliates of Holiday for an aggregate purchase price of approximately \$1.0 billion plus acquisition-related costs. The Holiday Portfolio includes properties located across 24 states with 5,842 units in aggregate. This acquisition was accounted for as a business combination, under which all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred.

On December 23, 2013 Newcastle also entered into two triple net master leases of the Holiday Portfolio with certain affiliates of Holiday (collectively, the "Master Tenants"). Each lease has a 17-year term and first-year rent equal to 6.5% of the purchase price with annual increases during the following three years of 4.5% and up to 3.75% thereafter. Under each lease, the respective Master Tenant is responsible for (i) operating its portion of the Holiday Portfolio and bearing the related costs, including maintenance, utilities, taxes, insurance, repairs and capital improvements, and (ii) complying with the terms of the mortgage financing documents.

Each master lease includes (i) a covenant requiring the Master Tenant to maintain a minimum lease coverage ratio, which the master lease defines as net operating income for the applicable trailing 12-month period for the Holiday Portfolio divided by the base rent for such trailing 12-month period, which steps up during the term of the lease and is subject to certain cure provisions, (ii) minimum capital expenditure requirements, (iii) customary operating covenants, events of default, and remedies, (iv) a non-compete clause restricting certain affiliates of the Master Tenant from developing or constructing new independent living properties within a specified radius of any property acquired by Newcastle in this transaction, and (v) restrictions on a change of control of the Master Tenants and Guarantor (as defined below), subject to certain exceptions. The master lease also required the Master Tenants to fund a security deposit in the amount of approximately \$43.4 million, which serves as security for the Master Tenants' performance of their respective obligations to Newcastle under the master leases. Additionally, the Master Tenants granted Newcastle a first priority security interest in certain personal property and receivables arising from the operations of the Holiday

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Portfolio, which security interest secures the Master Tenants' obligations under the master leases. The Master Tenants' obligations to Newcastle under the master leases are also guaranteed by Holiday AL Holdings LP, a subsidiary of Holiday (the "Guarantor"). The Guarantor is required to maintain a minimum net worth of \$150 million, a minimum fixed charge coverage ratio of 1.10 and a maximum leverage ratio of 10 to 1.

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

| | At Acquisition | | |
|--|-----------------------|----------------------|--------------------|
| | Managed Properties | Holiday Portfolio | Total |
| <u>Allocation of Purchase Price (A)(B)</u> | | | |
| Investments in Real Estate | \$ 268,010 | \$ 937,548 | \$1,205,558 |
| Resident Lease Intangibles | 31,673 | 57,883 | 89,556 |
| Non-compete Intangibles | 1,000 | - | 1,000 |
| Land Lease Intangibles | - | 3,498 | 3,498 |
| PILOT Intangible | 3,700 | - | 3,700 |
| Other Intangibles | 500 | 1,546 | 2,046 |
| Assumed mortgage notes payable | (43,128) | - | (43,128) |
| Other Assets, net of other liabilities | (2,157) | - | (2,157) |
| Subtotal | <u>\$ 259,598</u> | <u>\$ 1,000,475</u> | <u>\$1,260,073</u> |
| Mortgage Notes Payable (C) | (175,871) | (719,350) | \$ (895,221) |
| Net Assets Acquired | <u>\$ 83,727</u> | <u>\$ 281,125</u> | <u>\$ 364,852</u> |
| Total acquisition related costs (D) | \$ 6,118 | \$ 3,604 | \$ 9,722 |

- (A) Due to the timing of the acquisitions, for the November and December acquisitions, Newcastle is still obtaining additional information relating to the purchase price allocation. Therefore, the review process of the purchase price allocation is not complete. Newcastle expects to complete this process within twelve months of the acquisition.
- (B) Includes \$1.5 million for the fair value of an earn-out payment to the seller if the aggregate EBITDA in one of the portfolios acquired for any calendar years in which the third, fourth, fifth and/or sixth anniversary of the acquisition date occurs is equal to or in excess of an earn-out threshold, as defined within the agreement. The undiscounted earn-out payment is limited to \$4.6 million, as per the agreement.
- (C) See Note 14.
- (D) Acquisition related costs are expensed as incurred and included within general and administrative expense on the consolidated statements of income.

B. Restructuring and Spin-off of Media Investments

During 2013, Newcastle completed a restructuring of its debt investment in GateHouse Media, Inc. ("GateHouse"), and formed Local Media Group Holdings LLC to acquire Dow Jones Local Media Group (renamed Local Media Group Holdings LLC, or "Local Media Group") from News Corp.

Newcastle completed the purchase of Local Media Group on September 3, 2013 for an aggregate purchase price of approximately \$86.9 million, including capitalized transaction costs of approximately \$4.3 million. Newcastle made a total equity investment of \$53.9 million and financed the remainder of the purchase price with \$33.0 million of debt (the "Local Media Group Acquisition").

As discussed in Note 14, the above \$33.0 million of debt was drawn from a \$43.0 million credit agreement that Local Media Group signed on September 3, 2013 with Credit Suisse AG, Cayman Islands Branch and Credit Suisse Loan Funding LLC (collectively "Credit Suisse").

The Local Media Group operations are managed by GateHouse, pursuant to a management and advisory agreement. As a result of this agreement, management determined that Local Media Group was a variable interest entity and that GateHouse was the primary beneficiary because it had both the power to direct the activities that most significantly impact the economic performance of Local Media Group and it participated in the residual returns of Local Media Group that could be significant to Local Media Group. Since Newcastle was not the primary beneficiary from September 3, 2013 through November 25, 2013, it did not consolidate Local Media Group and recorded its investment in Local Media Group as an equity method investment.

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Newcastle sponsored a prepackaged plan of reorganization (as amended or supplemented, the “Plan”) for GateHouse. Prior to entering into the Plan, Newcastle owned approximately 52.2% of GateHouse’s \$1.2 billion of outstanding debt. On September 27, 2013, GateHouse commenced voluntary Chapter 11 proceedings in the United States Bankruptcy Court for the District of Delaware, and the court confirmed the Plan on November 6, 2013. GateHouse’s restructuring was completed on November 26, 2013.

Pursuant to the Plan, (i) Newcastle formed New Media Investment Group Inc. (“New Media”) as a wholly owned subsidiary of Newcastle, (ii) GateHouse and Local Media Group became wholly owned subsidiaries of New Media, (iii) Newcastle offered to either purchase in cash the claims of other GateHouse debt holders at 40% of the face amount of their claims or issue to other debt holders a pro rata share of the common stock of New Media and the net cash proceeds, if any, from a new financing (the “GateHouse Credit Facilities”), and (iv) Newcastle exchanged its debt claims for equity of New Media and net cash proceeds from the GateHouse Credit Facilities and, in accordance with the elections made by other debt holders, purchased approximately \$441.5 million of claims and issued approximately 15.4% of New Media’s common stock to certain third parties. As a result, and taking into account the value assigned to the contribution of Local Media Group to New Media, Newcastle became the owner of approximately 84.6% of New Media.

Pursuant to the Plan, GateHouse’s common stock was canceled and the holders received 1,362,479 warrants in New Media a then wholly owned subsidiary of Newcastle. The warrants have a strike price of \$46.35 per share and expire on November 26, 2023. As of February 13, 2014, New Media’s common stock had a closing trading price of \$12.67 per share.

As part of the Plan, but not contingent on the Plan, GateHouse entered into the GateHouse credit facilities in the aggregate amount of \$165.0 million. For additional information related to the GateHouse credit facilities, see Note 14.

Newcastle accounted for the transaction as a business combination. The New Media assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed was allocated to goodwill.

Significant assumptions were as follows.

- *Intangibles* – The estimated fair values of the acquired subscriber relationships, advertiser relationships and customer relationships were determined based on an excess earnings approach, a form of the income approach, which values assets based upon associated estimated discounted cash flows. A static pool approach using historical attrition rates was used to estimate attrition rates of 5.0% to 7.5% for advertiser relationships, subscriber relationships and customer relationships. The growth rate was estimated to be 0.0% and the discount rates were estimated to range from 14.5% to 17.0% for advertiser relationships and 14.5% to 15.5% for subscriber and customer relationships.

Mastheads fair values were determined based on a relief from royalty method, an income approach. Key assumptions utilized in this valuation include revenue projections, royalty rates of 1.3% to 2.0%, a long term growth rate of 0.0% and discount rates of 14.0% to 25.0%.

- *Property, plant and equipment* –The estimated fair values for property, plant and equipment were determined under three approaches: the cost approach (used for equipment where an active secondary market is not available and building improvements), the direct sales comparison (market) approach (used for land and equipment where an active market is available), and the income approach (used for intangibles). These approaches are based on the cost to reproduce assets, market exchanges for comparable assets and the capitalization of income. Useful lives range from 2 to 13 years for personal property and 10 to 30 years for real property.

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The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

| | As of November 26, 2013 | |
|-------------------------------|--------------------------------|----------------|
| Cash and cash equivalents | \$ | 22,368 |
| Property, plant and equipment | | 272,153 |
| Intangibles | | 146,019 |
| Goodwill | | 126,686 |
| Restricted cash | | 6,295 |
| Receivables and other assets | | 100,483 |
| Total assets acquired | | <u>674,004</u> |
| Less: | | |
| Credit facilities | | 182,000 |
| Other liabilities | | 102,910 |
| Net assets acquired | <u>\$</u> | <u>389,094</u> |

See Note 20 related to the February 13, 2014 spin-off of New Media.

C. Restructuring of Golf Investment

In December 2013, Newcastle restructured an investment in mezzanine debt issued by NGP Mezzanine, LLC (“NGP”), the indirect parent of NGP Realty Sub, L.P. (“National Golf”). NGP owns 27 golf courses across 8 states, and leases these courses to American Golf Corporation (“American Golf”), an affiliated operating company. American Golf also leases an additional 54 golf courses and manages 11 courses, all owned by third parties. As part of the transaction, Newcastle acquired the equity of NGP and American Golf’s indirect parent, AGC Mezzanine Pledge LLC (“AGC”), and therefore consolidated these entities as of December 31, 2013.

In the original investment in 2006, Newcastle invested approximately \$110 million in mezzanine debt issued by NGP. At the time of the transaction, the mezzanine debt had an outstanding face amount of approximately \$68 million, which was valued at approximately \$29.4 million.

On December 30, 2013, pursuant to an agreement with the other senior creditors of National Golf, Newcastle and National Golf’s senior lender entered into a new senior debt facility with a principal amount of \$109 million, of which Newcastle committed to fund \$54.5 million (and have funded \$46.9 million to date). Newcastle also acquired the equity of NGP and AGC for \$2.0 million and acquired the ground lease for an 18-hole golf course, clubhouse and other related facilities and improvements (the “Vineyard Property”) for an additional \$0.5 million (collectively, the “Golf business”). As a result of Newcastle’s consolidation of these entities, its debt investments in these entities are eliminated in consolidation.

The acquisition was accounted for as a business combination. The purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. Due to the timing of the acquisition, Newcastle is still obtaining additional information relating to the purchase price allocation. Therefore, the review process of the purchase price allocation is not complete. Newcastle expects to complete this process within twelve months of the acquisition.

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The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

| | As of December 30, 2013 | |
|----------------------------------|-------------------------|---------|
| Cash | \$ | 19,378 |
| Investments in other real estate | | 259,573 |
| Intangible assets | | 98,866 |
| Restricted cash | | 3,512 |
| Receivables and other assets | | 34,898 |
| Total assets acquired | \$ | 416,227 |
| Less: | | |
| Credit facilities | | 228,832 |
| Other liabilities | | 184,529 |
| Noncontrolling interest | | 366 |
| Net assets acquired | \$ | 2,500 |

4. SPIN-OFF OF NEW RESIDENTIAL

As previously discussed in Note 1, on May 15, 2013, Newcastle completed the spin-off of New Residential from Newcastle.

On April 1, 2013, Newcastle completed a co-investment in a portfolio of consumer loans with a UPB of approximately \$4.2 billion as of December 31, 2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The investment was completed through newly formed limited liability companies (collectively, the “Consumer Loan Companies”), which acquired the portfolio from HSBC Finance Corporation and its affiliates. Newcastle invested approximately \$250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf Finance Inc. (“Springleaf”), which is majority-owned by Fortress funds managed by the Manager, acquired 47%, and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C., acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies financed \$2.2 billion of the approximately \$3.0 billion purchase price with asset-backed notes. The investment in the portfolio of consumer loans was made in contemplation of, and was included in the May 15, 2013 spin-off. Newcastle has no continuing involvement in the consumer loans business post spin-off. Accordingly, the operating results are presented in discontinued operations.

The following table presents the carrying value of the assets and liabilities of New Residential, immediately preceding the May 15, 2013 spin-off.

| | |
|---|---------------------|
| Assets | |
| Real estate securities, available-for-sale | \$ 1,647,289 |
| Residential mortgage loans, held-for-investment, net | 35,865 |
| Investments in excess mortgage servicing rights at fair value | 229,936 |
| Investments in equity method investees | 392,469 |
| Cash and cash equivalents | 181,582 |
| Receivables and other assets | 37,844 |
| Total assets | \$ 2,524,985 |
| Liabilities | |
| Repurchase agreements | \$ 1,320,360 |
| Accrued expenses and other liabilities | 642 |
| Total liabilities | \$ 1,321,002 |
| Net Assets | \$ 1,203,983 |

For pro forma information relating to the May 15, 2013 spin-off, see Note 22.

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As a result of the May 15, 2013 spin-off, for all periods presented, the assets, liabilities and results of operations of those components of Newcastle's operations that (i) were part of the spin-off, and (ii) represent operations in which Newcastle has no significant continuing involvement, are presented separately in discontinued operations in Newcastle's consolidated financial statements. These components are primarily related to Excess MSRs and consumer loans.

Assets and liabilities of discontinued operations as of December 31, 2012 were as follows:

Assets

| | | |
|---|-----------|----------------|
| Investments in excess mortgage servicing rights at fair value | \$ | 245,036 |
| Receivables and other assets | | 33 |
| Total assets of discontinued operations | \$ | 245,069 |

Liabilities

| | | |
|---|-----------|------------|
| Purchase price payable on investments in excess mortgage servicing rights | \$ | 59 |
| Accrued expenses and other liabilities | | 421 |
| Total liabilities of discontinued operations | \$ | 480 |

Results of operations from discontinued operations were as follows:

| | Year Ended December 31, | | |
|---|--------------------------------|------------------|---------------|
| | 2013 | 2012 | 2011 |
| Interest Income | \$ 15,095 | \$ 27,508 | \$ 1,260 |
| Rental Income | - | - | 136 |
| Total Revenue | <u>15,095</u> | <u>27,508</u> | <u>1,396</u> |
| Other gain (loss) | (2,388) | 17,421 | 428 |
| Change in fair value of investments in excess mortgage servicing rights | 3,894 | - | - |
| Change in fair value of investments in equity method investees | 885 | - | - |
| Earnings from investments in equity method investees | 18,286 | - | - |
| Total other income | <u>20,677</u> | <u>17,421</u> | <u>428</u> |
| Property operating costs | 15 | 26 | 177 |
| General and administrative expenses | 2,425 | 5,735 | 1,086 |
| Total expenses | <u>2,440</u> | <u>5,761</u> | <u>1,263</u> |
| Income from discontinued operations | \$ 33,332 | \$ 39,168 | \$ 561 |

The spin-off also resulted in a \$1.2 billion reduction in the basis upon which Newcastle's management fees are computed (and an equivalent reduction in the basis upon which the incentive compensation threshold is computed), as well as a reduction in the strike price of Newcastle's then outstanding options (see Note 16).

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5. SEGMENT REPORTING AND VARIABLE INTEREST ENTITIES

Newcastle conducts its business through the following segments: (i) investments in senior housing properties (“senior housing”), (ii) debt investments financed with collateralized debt obligations (“CDOs”), (iii) other debt investments (“other debt”), (iv) investments in media (“media”), (v) investment in golf courses and facilities (“golf”) and (vi) corporate. With respect to the CDOs and other debt segments, Newcastle is generally entitled to receive net cash flows from these structures on a periodic basis.

In the fourth quarter of 2013, Newcastle changed the composition of its reportable segments. Newcastle established media and golf segments in connection with the restructurings of certain debt investments (see Note 3). These restructurings, accompanied by reductions in Newcastle’s investments in debt resulting from realizations, caused a change in the way Newcastle’s chief operating decision maker (“CODM”) viewed Newcastle’s business and the way in which such business is reported to management. Newcastle’s CODM and management now review operating results based on business lines, as opposed to financing types, and Newcastle’s segment reporting has been updated accordingly. Segment information for previously reported periods has been restated to reflect this change to the composition of 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 14) and management fees pursuant to the Management Agreement (Note 17).

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Summary financial data on Newcastle's segments is given below, together with reconciliation to the same data for Newcastle as a whole:

| Year Ended | Senior Housing (A) | Debt Investments (A) | | Media (C) | Golf | Corporate | Consumer Loans | Inter-segment Elimination (D) | T total |
|---|--------------------|----------------------|----------------|------------|------------|--------------|-----------------|-------------------------------|--------------|
| | | CDOs | Other Debt (B) | | | | | | |
| December 31, 2013 | | | | | | | Excess MSRs and | | |
| Interest income | \$ 3 | \$ 119,292 | \$ 98,968 | \$ - | \$ - | \$ 198 | \$ - | \$ - | \$ 213,715 |
| Interest expense | 10,781 | 24,996 | 54,534 | 1,591 | - | 3,817 | - | (4,746) | 90,973 |
| Net interest income (expense) | (10,778) | 94,296 | 44,434 | (1,591) | - | (3,619) | - | - | 122,742 |
| Impairment (reversal) | - | (9,338) | (10,431) | - | - | - | - | - | (19,769) |
| Other revenues | 85,267 | - | 2,056 | 61,637 | - | - | - | - | 148,960 |
| Other income (loss) | 11 | 23,946 | 11,344 | 1,843 | - | - | - | - | 37,144 |
| Property operating expenses | 52,713 | - | 1,005 | - | - | - | - | - | 53,718 |
| Depreciation and amortization | 26,905 | - | 219 | 3,845 | - | 4 | - | - | 30,973 |
| Other operating expenses | 20,982 | 741 | 3,144 | 50,671 | - | 47,277 | - | - | 122,815 |
| Income tax expense | 1,038 | - | - | 1,062 | - | - | - | - | 2,100 |
| Income (loss) from continuing operations | (27,138) | 126,839 | 63,897 | 6,311 | - | (50,900) | - | - | 119,009 |
| Income (loss) from discontinued operations | - | - | (46) | - | - | - | 33,378 | - | 33,332 |
| Net income (loss) | (27,138) | 126,839 | 63,851 | 6,311 | - | (50,900) | 33,378 | - | 152,341 |
| Preferred dividends | - | - | - | - | - | (5,580) | - | - | (5,580) |
| Net income attributable to noncontrolling interests | - | - | - | (928) | - | - | - | - | (928) |
| Income (loss) applicable to common stockholders | \$ (27,138) | \$ 126,839 | \$ 63,851 | \$ 5,383 | \$ - | \$ (56,480) | \$ 33,378 | \$ - | \$ 145,833 |
| December 31, 2013 | | | | | | | | | |
| Investments | \$ 1,463,758 | \$ 925,690 | \$ 1,279,549 | \$ 542,275 | \$ 358,439 | \$ - | \$ - | \$ (87,529) | \$ 4,482,182 |
| Cash and restricted cash | 31,263 | 2,377 | - | 38,288 | 22,890 | 23,492 | - | - | 118,310 |
| Other assets | 55,430 | 47,285 | 3,442 | 110,183 | 34,898 | 987 | - | (154) | 252,071 |
| Total assets | 1,550,451 | 975,352 | 1,282,991 | 690,746 | 416,227 | 24,479 | - | (87,683) | 4,852,563 |
| Debt | (1,076,828) | (645,938) | (1,149,547) | (182,016) | (181,910) | (51,237) | - | 87,529 | (3,199,947) |
| Other liabilities | (61,886) | (19,194) | (2,235) | (113,251) | (185,552) | (44,528) | - | 154 | (426,492) |
| Total liabilities | (1,138,714) | (665,132) | (1,151,782) | (295,267) | (367,462) | (95,765) | - | 87,683 | (3,626,439) |
| Preferred stock | - | - | - | - | - | (61,583) | - | - | (61,583) |
| Noncontrolling interest | - | - | - | (60,913) | (366) | - | - | - | (61,279) |
| GAAP book value | \$ 411,737 | \$ 310,220 | \$ 131,209 | \$ 334,566 | \$ 48,399 | \$ (132,869) | \$ - | \$ - | \$ 1,103,262 |

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| Year Ended December 31, 2012 | Senior | | | | | | | Excess | | | Total |
|---|-------------|----------------------|--------------|-----------|------|-------------|----------------|----------|-------------------------------|--------------|-------|
| | Housing (A) | Debt Investments (B) | CDOs | Media (C) | Golf | Corporate | Consumer Loans | MSRs and | Inter-segment Elimination (D) | | |
| Interest income | \$ - | \$ 197,007 | \$ 91,818 | \$ - | \$ - | \$ 170 | \$ - | \$ - | \$ (6,044) | \$ 282,951 | |
| Interest expense | 1,688 | 56,767 | 53,700 | - | - | 3,813 | - | - | (6,044) | 109,924 | |
| Net interest income (expense) | (1,688) | 140,240 | 38,118 | - | - | (3,643) | - | - | - | 173,027 | |
| Impairment (reversal) | - | (7,381) | 1,717 | - | - | - | - | - | - | (5,664) | |
| Other revenues | 18,026 | - | 2,049 | - | - | - | - | - | - | 20,075 | |
| Other income (loss) | (82) | 260,025 | 2,351 | - | - | - | - | - | - | 262,294 | |
| Property operating expenses | 11,539 | - | 1,404 | - | - | - | - | - | - | 12,943 | |
| Depreciation and amortization | 5,784 | - | 1,191 | - | - | - | - | - | - | 6,975 | |
| Other operating expenses | 6,846 | 916 | 3,359 | - | - | 35,079 | - | - | - | 46,200 | |
| Income (loss) from continuing operations | (7,913) | 406,730 | 34,847 | - | - | (38,722) | - | - | - | 394,942 | |
| Income (loss) from discontinued operations | - | - | (68) | - | - | - | 39,236 | - | - | 39,168 | |
| Net income (loss) | (7,913) | 406,730 | 34,779 | - | - | (38,722) | 39,236 | - | - | 434,110 | |
| Preferred dividends | - | - | - | - | - | (5,580) | - | - | - | (5,580) | |
| Income (loss) applicable to common stockholders | \$ (7,913) | \$ 406,730 | \$ 34,779 | \$ - | \$ - | \$ (44,302) | \$ 39,236 | \$ - | \$ - | \$ 428,530 | |
| December 31, 2012 | | | | | | | | | | | |
| Investments | \$ 181,887 | \$1,417,729 | \$ 1,911,639 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (62,336) | \$ 3,448,919 | |
| Cash and restricted cash | 9,720 | 2,064 | - | - | - | 222,178 | - | - | - | 233,962 | |
| Other assets | 5,111 | 7,429 | 4,777 | - | - | 202 | - | - | (157) | 17,362 | |
| Assets of discontinued operations | - | - | - | - | - | - | 245,069 | - | - | 245,069 | |
| Total assets | 196,718 | 1,427,222 | 1,916,416 | - | - | 222,380 | 245,069 | (62,493) | - | 3,945,312 | |
| Debt | (120,525) | (1,097,013) | (1,575,316) | - | - | (51,243) | - | 62,336 | - | (2,781,761) | |
| Other liabilities | (5,084) | (37,259) | (2,856) | - | - | (44,969) | (406) | 157 | - | (90,011) | |
| Liabilities of discontinued operations | - | - | (74) | - | - | - | - | - | - | (480) | |
| Total liabilities | (125,609) | (1,134,272) | (1,578,246) | - | - | (96,212) | (406) | 62,493 | - | (2,872,252) | |
| Preferred stock | - | - | - | - | - | (61,583) | - | - | - | (61,583) | |
| GAAP book value | \$ 71,109 | \$ 292,950 | \$ 338,170 | \$ - | \$ - | \$ 64,585 | \$ 244,663 | \$ - | \$ - | \$ 1,011,477 | |

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| Year Ended December 31, 2011 | Excess MSRs and Consumer Loans | | | | | | | Total |
|---|---|------------------------------|-----------|-----------|------|-------------|----------------------------------|------------|
| | Senior Housing (A) | Debt Investments (A) CDOs | (B) | Media (C) | Golf | Corporate | Inter-segment Elimination (D) | |
| Interest income | \$ - | \$ 218,475 | \$ 78,234 | \$ - | \$ - | \$ 167 | \$ - | \$ 291,036 |
| Interest expense | - | 86,110 | 53,950 | - | - | 3,815 | - | 138,035 |
| Net interest income (expense) | - | 132,365 | 24,284 | - | - | (3,648) | - | 153,001 |
| Impairment (reversal) | - | (3,876) | 4,986 | - | - | - | - | 1,110 |
| Other revenues | - | - | 1,899 | - | - | - | - | 1,899 |
| Other income (loss) | - | 175,702 | 4,793 | - | - | - | - | 180,495 |
| Property operating expenses | - | - | 1,110 | - | - | - | - | 1,110 |
| Depreciation and amortization | - | - | 12 | - | - | - | - | 12 |
| Other operating expenses | - | 1,058 | 3,622 | - | - | 24,525 | - | 29,205 |
| Income (loss) from continuing operations | - | 310,885 | 21,246 | - | - | (28,173) | - | 303,958 |
| Income (loss) from discontinued operations | - | - | (11) | - | - | - | - | 561 |
| Net income (loss) | - | 310,885 | 21,235 | - | - | (28,173) | - | 304,519 |
| Preferred dividends | - | - | - | - | - | (5,580) | - | (5,580) |
| Income (loss) applicable to common stockholders | \$ - | \$ 310,885 | \$ 21,235 | \$ - | \$ - | \$ (33,753) | \$ - | \$ 298,939 |

(A) Assets held within non-recourse structures, including all of the assets in the senior housing and CDO segments, are not available to satisfy obligations outside of such financings, except to the extent net cash flow distributions are received from such structures. Furthermore, creditors or beneficial interest holders of these structures generally have no recourse to the general credit of Newcastle. Therefore, the exposure to the economic losses from such structures generally is limited to 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) The following table summarizes the investments and debt in the other debt segment:

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| | December 31, 2013 | | | | December 31, 2012 | | | |
|---|-------------------------|----------------|--------------------------|-----------------|-------------------------|----------------|--------------------------|-----------------|
| | Investments | | Debt | | Investments | | Debt | |
| | Outstanding Face Amount | Carrying Value | Outstanding Face Amount* | Carrying Value* | Outstanding Face Amount | Carrying Value | Outstanding Face Amount* | Carrying Value* |
| Non-Recourse | \$ 102,681 | \$ 91,924 | \$ 74,248 | \$ 66,446 | \$ 118,746 | \$ 100,124 | \$ 90,551 | \$ 81,963 |
| Manufactured housing loan portfolio I | 128,975 | 128,117 | 93,863 | 93,536 | 153,193 | 150,123 | 117,907 | 117,191 |
| Manufactured housing loan portfolio II | 406,217 | 406,217 | 406,217 | 406,217 | 406,217 | 405,814 | 406,217 | 405,814 |
| Subprime mortgage loans subject to call options | 56,466 | 50,961 | 39,665 | 36,095 | 63,505 | 53,979 | 44,585 | 40,572 |
| Real estate securities | N/A | 6,597 | 6,000 | 6,000 | N/A | 6,672 | 6,000 | 6,000 |
| Operating real estate | 694,339 | 683,816 | 619,993 | 608,294 | 741,661 | 716,712 | 665,260 | 651,540 |
| Subtotal | | | | | | | | |
| Other | | | | | | | | |
| Real estate loans | - | - | - | - | 80,298 | 29,831 | - | - |
| Unlevered real estate securities | 129,563 | 4,296 | - | - | 229,299 | 68,863 | - | - |
| Levered real estate securities | 514,994 | 551,270 | 516,134 | 516,134 | 1,112,796 | 1,049,029 | 923,776 | 923,776 |
| Other Investments | N/A | 6,160 | - | - | N/A | 6,024 | - | - |
| Residential mortgage loans | 45,323 | 34,007 | 25,119 | 25,119 | 55,997 | 41,180 | - | - |
| | \$ 1,384,219 | \$ 1,279,549 | \$ 1,161,246 | \$ 1,149,547 | \$ 2,220,051 | \$ 1,911,639 | \$ 1,589,036 | \$ 1,575,316 |

* As of December 31, 2013 and December 31, 2012, aggregate face amounts of \$133.9 million and \$71.1 million (carrying values of \$87.5 million and \$62.5 million), respectively, of debt represents intersegment financing, which is eliminated upon consolidation.

(C) In February 2014, the media segment was spun off from Newcastle and will not be reported as a segment in future filings.

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

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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 and CDO VIII repack), 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 and the CDO VIII Repack are also considered VIEs, but Newcastle does not control the decisions that most significantly impact their economic performance and no longer receive a significant portion of their returns, and therefore do not consolidate them.

In addition, Newcastle’s investments in RMBS, CMBS, CDO securities and real estate related and other 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, 2013, 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 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, 2013, Newcastle had no continuing involvement with CDO X as it had been liquidated.

Newcastle had variable interests in the following unconsolidated VIEs at December 31, 2013, in addition to the subprime securitizations which are described in Note 7:

| Entity | Gross Assets (A) | Debt (B) | Carrying Value of Newcastle's Investment (C) |
|---------------------|------------------|------------|--|
| Newcastle CDO V | \$ 200,616 | \$ 226,615 | \$ 2,002 |
| CDO VIII Repack (D) | \$ 146,645 | \$ 146,645 | \$ 104,308 |

(A) Face amount.

(B) Newcastle CDO V includes \$39.8 million face amount of debt owned by Newcastle with a carrying value of \$2.0 million at December 31, 2013. CDO VIII Repack includes \$116.8 million face amount of debt owned by Newcastle with a carrying value of \$104.3 million at December 31, 2013.

(C) This amount represents Newcastle’s maximum exposure to loss from this entity.

(D) See Notes 13 and 14 for information about the securitization that is collateralized by certain Newcastle CDO VIII Class I Notes.

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6. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at December 31, 2013 and 2012, 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.

| Asset Type | Amortized Cost Basis | | | | | | | | | | Gross Unrealized | | | Weighted Average | | |
|--------------------------|----------------------------|----------------------|---|---------------------|------------------|--------------------|-----------------------|-------------------------|---------------|--------------|------------------|----------------------------|-----------------------------------|------------------|------------|------------|
| | Outstanding Face Amount | Before Impairment | Other-Than- Temporary- Impairment | After Impairment | Gains | Losses | Carrying Value (A) | Number of Securities | Rating (B) | Coupon | Yield | Maturity (Years) (C) | Principal Subordination (D) | | | |
| | | | | | | | | | | | | | | Impairment | Impairment | Impairment |
| December 31, 2013 | | | | | | | | | | | | | | | | |
| CMBS-Conduit | \$ 238,400 | \$ 215,341 | \$ (69,099) | \$ 146,242 | \$ 52,900 | \$ (208) | \$ 198,934 | 34 | BB- | 5.47% | 17.00% | 2.6 | 10.2% | | | |
| CMBS- Single Borrower | 91,492 | 90,788 | (12,364) | 78,424 | 3,964 | (82) | 82,306 | 15 | BB | 5.71% | 7.16% | 2.4 | 7.8% | | | |
| CMBS-Large Loan | 3,229 | 3,212 | - | 3,212 | 17 | - | 3,229 | 1 | BBB- | 6.63% | 8.87% | 0.3 | 8.1% | | | |
| REIT Debt | 29,200 | 28,667 | - | 28,667 | 2,519 | - | 31,186 | 5 | BB+ | 5.89% | 6.86% | 1.8 | N/A | | | |
| Non-Agency RMBS | 96,762 | 103,535 | (62,860) | 40,675 | 16,907 | (1) | 57,581 | 34 | CCC+ | 1.07% | 12.20% | 4.4 | 25.9% | | | |
| ABS-Franchise | 8,464 | 7,647 | (7,647) | - | - | - | - | 1 | C | 6.69% | 0.00% | - | 0.0% | | | |
| FNMA/FHLMC (G) | 514,994 | 548,456 | (817) | 547,639 | 3,631 | - | 551,270 | 64 | AAA | 2.90% | 1.25% | 3.6 | N/A | | | |
| CDO (E) | 188,364 | 71,857 | (14,861) | 56,996 | 2,761 | - | 59,757 | 11 | CCC- | 3.20% | 7.56% | 1.2 | 19.1% | | | |
| Total/Average (F) | \$ 1,170,905 | \$ 1,069,503 | \$ (167,648) | \$ 901,855 | \$ 82,699 | \$ (291) | \$ 984,263 | 165 | BBB | 3.65% | 5.44% | 2.9 | | | | |
| 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 | | | |
| Non-Agency RMBS | 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 (G) | 768,619 | 818,866 | - | 818,866 | 3,860 | (2,191) | 820,535 | 58 | AAA | 3.05% | 1.40% | 3.5 | N/A | | | |
| CDO | 203,477 | 82,399 | (14,861) | 67,538 | 3,487 | - | 71,025 | 13 | BB | 2.83% | 7.07% | 1.6 | 20.9% | | | |
| Total/Average (F) | \$ 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 | | | | |

(A) See Note 13 regarding the estimation of fair value, which is equal to carrying value for all securities.

(B) 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, represent the most recent credit ratings available as of the reporting date and may not be current.

(C) The weighted average maturity is based on the timing of expected principal reduction on the assets.

(D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to Newcastle's investments.

(E) Includes two CDO bonds issued by a third party with a carrying value of \$57.8 million, three CDO bonds issued by CDO V (which has been deconsolidated) and held as an investment by Newcastle with a carrying value of \$2.0 million and six CDO bonds issued by C-BASS with no carrying value.

(F) As of December 31, 2013 and 2012, the total outstanding face amount of fixed rate securities was \$0.4 billion and \$0.5 billion, respectively, and of floating rate securities were \$0.8 billion and \$1.5 billion, respectively.

(G) Amortized cost basis and carrying value include principal receivable of \$4.8 million and \$7.4 million as of December 31, 2013 and 2012, respectively.

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On June 27, 2013 Newcastle sold FNMA/FHLMC securities with an aggregate face amount of approximately \$22.8 million to New Residential for approximately \$1.2 million, net of related financing. New Residential purchased the securities on the same terms as they were purchased by Newcastle.

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the years ended December 31, 2013, 2012 and 2011, Newcastle recorded other-than-temporary impairment charges (“OTTI”) of \$5.2 million, \$19.3 million and \$12.9 million, respectively, with respect to real estate securities of which \$3.8 million was recorded on certain real estate securities included in the spin-off of New Residential as Newcastle determined it did not have the intent to hold the securities past May 15, 2013 (gross of \$0.0 million, \$0.4 million and (\$2.9) million of other-than-temporary impairment recognized (reversed) in other comprehensive income in 2013, 2012 and 2011, 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 the collectability of 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, 2013.

| Securities in an Unrealized Loss Position | Outstanding Face Amount | Amortized Cost Basis | | | Gross Unrealized | | Carrying Value | Number of Securities | Weighted Average | | | Maturity (Years) |
|---|-------------------------|----------------------|---------------------------------|------------------|------------------|-----------------|------------------|----------------------|------------------|--------------|--------------|------------------|
| | | Before Impairment | Other-than-Temporary Impairment | After Impairment | Gains | Losses | | | Rating | Coupon | Yield | |
| Less Than Twelve Months | \$ 14,456 | \$ 17,024 | \$ (2,874) | \$ 14,150 | \$ - | \$ (115) | \$ 14,035 | 6 | BBB+ | 5.58% | 6.34% | 0.9 |
| Twelve or More Months | 11,157 | 10,963 | - | 10,963 | - | (176) | 10,787 | 2 | B | 5.38% | 5.74% | 3.2 |
| Total | \$ 25,613 | \$ 27,987 | \$ (2,874) | \$ 25,113 | \$ - | \$ (291) | \$ 24,822 | 8 | BB+ | 5.49% | 6.08% | 1.9 |

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, 2013 | | | |
|--|----------------------|-------------------|-------------------|-----------------|
| | Amortized Cost Basis | | Unrealized Losses | |
| | Fair Value | After Impairment | Credit (B) | Non-Credit (C) |
| Securities Newcastle intends to sell | \$ 179,225 | \$ 179,225 | \$ (817) | 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 | (2,873) | (1) |
| Non credit impaired securities | 24,822 | 25,112 | - | (290) |
| Total debt securities in an unrealized loss position | \$ 204,047 | \$ 204,338 | \$ (3,690) | \$ (291) |

- (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.

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(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:

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income | \$ (4,770) | \$ (20,207) |
| 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 | (89) | (4,581) |
| Additions for credit losses on securities for which an OTTI was previously recognized without any portion of OTTI recognized in other comprehensive income | (2,874) | - |
| Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive income at the current measurement date | 120 | 14,771 |
| Reduction for securities sold during the period | 4,739 | 1,498 |
| Reduction for securities deconsolidated during the period | - | 3,736 |
| Reduction for increases in cash flows expected to be collected that are recognized over the remaining life of the security | 1 | 13 |
| Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income | <u>\$ (2,873)</u> | <u>\$ (4,770)</u> |

The securities are encumbered by various debt obligations, as described in Note 14, at December 31, 2013.

The table below summarizes the geographic distribution of the collateral securing the CMBS and ABS at December 31, 2013:

| Geographic Location | CMBS | | ABS | |
|---------------------|-------------------------|---------------|-------------------------|---------------|
| | Outstanding Face Amount | Percentage | Outstanding Face Amount | Percentage |
| Western U.S. | \$ 74,067 | 22.2% | \$ 32,080 | 30.5% |
| Northeastern U.S. | 60,858 | 18.3% | 21,972 | 20.9% |
| Southeastern U.S. | 66,534 | 20.0% | 20,722 | 19.7% |
| Midwestern U.S. | 49,413 | 14.8% | 13,704 | 13.0% |
| Southwestern U.S. | 64,632 | 19.4% | 10,567 | 10.0% |
| Other | 12,720 | 3.8% | 6,181 | 5.9% |
| Foreign | 4,897 | 1.5% | - | 0.0% |
| | <u>\$ 333,121</u> | <u>100.0%</u> | <u>\$ 105,226</u> | <u>100.0%</u> |

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.

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7. REAL ESTATE RELATED AND OTHER LOANS, RESIDENTIAL MORTGAGE LOANS AND SUBPRIME MORTGAGE LOANS

The following is a summary of real estate related and other 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.

| Loan Type | December 31, 2013 | | | | | | December 31, 2012 | | | |
|---|-------------------------|--------------------|------------|-----------------|-------------------------|---------------------------------------|---|----------------------------|----------------|-----------------|
| | 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 | \$ 172,197 | \$ 139,720 | 9 | 6.63% | 7.00% | 1.3 | 77.5% | \$ 12,000 | \$ 442,529 | 10.10% |
| Corporate Bank Loans | 256,594 | 166,710 | 5 | 24.18% | 13.39% | 0.9 | 9.9% | - | 208,863 | 18.85% |
| B-Notes | 109,323 | 101,385 | 4 | 10.12% | 5.30% | 1.5 | 79.3% | - | 161,610 | 10.40% |
| Whole Loans | 29,715 | 29,715 | 2 | 3.65% | 3.72% | 0.0 | 98.0% | - | 30,130 | 5.21% |
| Total Real Estate Related and other Loans Held-for-Sale, Net (D) | \$ 567,829 | \$ 437,530 | 20 | 13.92% | 9.39% | 1.1 | 48.4% | \$ 12,000 | \$ 843,132 | 12.15% |
| Non-Securitized Manufactured Housing Loan Portfolio I | \$ 501 | \$ 130 | 14 | 81.79% | 7.90% | 0.9 | 0.0% | \$ - | \$ 163 | 38.84% |
| Non-Securitized Manufactured Housing Loan Portfolio II | 2,628 | 2,055 | 97 | 15.39% | 10.05% | 5.1 | 9.5% | 216 | 2,308 | 15.46% |
| Total Residential Mortgage Loans Held-for-Sale, Net (F) | \$ 3,129 | \$ 2,185 | 111 | 19.34% | 9.71% | 4.4 | 8.0% | \$ 216 | \$ 2,471 | 17.00% |
| Securitized Manufactured Housing Loan Portfolio I | \$ 102,681 | \$ 91,924 | 2,820 | 9.44% | 8.60% | 6.1 | 0.6% | \$ 976 | \$ 100,124 | 9.48% |
| Securitized Manufactured Housing Loan Portfolio II | 128,975 | 128,117 | 4,653 | 8.11% | 9.62% | 4.9 | 16.5% | 1,998 | 150,123 | 7.54% |
| Residential Loans | 45,968 | 35,409 | 172 | 7.49% | 2.26% | 5.2 | 100.0% | 6,756 | 42,214 | 7.41% |
| Total Residential Mortgage Loans Held-for-Investment, Net (E) (F) | \$ 277,624 | \$ 255,450 | 7,645 | 8.50% | 8.02% | 5.4 | 24.4% | \$ 9,730 | \$ 292,461 | 8.19% |
| Subprime Mortgage Loans Subject to Call Option | \$ 406,217 | \$ 406,217 | | | | | | | \$ 405,814 | |

(A) The aggregate United States federal income tax basis for such assets at December 31, 2013 was approximately \$748.5 million (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 \$4.3 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, 2013 and December 31, 2012, \$76.5 million and \$137.7 million face amount of real estate related and other loans, respectively, was on non-accrual status.

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(D) Loans which are more than 3% of the total current carrying value (or \$13.1 million) at December 31, 2013 are as follows:

| Loan Type | December 31, 2013 | | | | | | |
|-------------------------------|-------------------------|-------------------|-----------------|------------|---------------|--------------|-----------------------------------|
| | Outstanding Face Amount | Carrying Value | Prior Liens (1) | Loan Count | Yield (2) | Coupon (2) | Weighted Average Maturity (Years) |
| Individual Bank Loan (3) | \$ 185,579 | \$ 155,579 | 573,000 | 1 | 24.90% | 15.55% | 0.6 |
| Individual B-Note Loan (4) | 52,169 | 49,236 | 2,013,921 | 1 | 12.00% | 3.04% | 0.8 |
| Individual Mezzanine Loan (4) | 36,016 | 34,395 | 742,473 | 1 | 7.00% | 7.00% | 1.3 |
| Individual Whole Loan (5) | 29,117 | 29,117 | - | 1 | 3.65% | 3.65% | 0.0 |
| Individual Mezzanine Loan (4) | 28,939 | 28,939 | 169,933 | 1 | 7.00% | 8.00% | 0.6 |
| Individual Mezzanine Loan (4) | 24,581 | 24,581 | 311,649 | 1 | 9.00% | 9.00% | 3.3 |
| Individual Mezzanine Loan (4) | 24,500 | 24,500 | 75,000 | 1 | 6.00% | 8.17% | 0.9 |
| Individual B-Note Loan (4) | 21,500 | 21,500 | 36,000 | 1 | 7.00% | 8.48% | 0.3 |
| Individual B-Note Loan (4) | 22,629 | 18,795 | 128,897 | 1 | 12.00% | 7.32% | 5.0 |
| Individual Mezzanine Loan (6) | 14,205 | 14,205 | - | 1 | 3.42% | 3.31% | 0.0 |
| Others (7) | 128,594 | 36,683 | - | 10 | 7.73% | 6.85% | 1.4 |
| | <u>\$ 567,829</u> | <u>\$ 437,530</u> | | <u>20</u> | <u>13.92%</u> | <u>9.39%</u> | <u>1.1</u> |

- (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. Following a public offering by the debt issuer in January 2014, Newcastle received cash of \$83.3 million, which reduced the face of the loan to \$99.4 million.
- (4) Interest only payments over life to maturity and balloon principal payment upon maturity.
- (5) Interest only payments over life to maturity with a discounted payoff option prior to April 2014. The borrower repaid the financing and received the discount in January 2014.
- (6) The borrower repaid the financing in January 2014.
- (7) Various terms of payment. This represents \$71.0 million, \$44.0 million, \$13.0 million and \$0.6 million face amounts of bank loans, mezzanine loans, B-notes and whole loans, respectively. Each of the ten loans had a carrying value of less than \$13.1 million at December 31, 2013.

(E) The following is an aging analysis of past due residential loans held-for-investment as of December 31, 2013:

| | 30-59 Days | 60-89 Days | Over 90 Days | REO | Total Past | | Total Outstanding Face Amount |
|--|------------|------------|--------------|----------|------------|------------|-------------------------------|
| | Past Due | Past Due | Past Due | | Due | Current | |
| Securitized Manufactured Housing Loan Portfolio I | \$ 655 | \$ 99 | \$ 550 | \$ 327 | \$ 1,631 | \$ 101,050 | \$ 102,681 |
| Securitized Manufactured Housing Loan Portfolio II | \$ 963 | \$ 390 | \$ 1,208 | \$ 400 | \$ 2,961 | \$ 126,014 | \$ 128,975 |
| Residential Loans | \$ 392 | \$ 798 | \$ 4,832 | \$ 1,126 | \$ 7,148 | \$ 38,820 | \$ 45,968 |

Newcastle's management monitors the credit qualities of the Manufactured Housing Loan Portfolios I and II and residential loans 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 and other loans and non-securitized manufactured housing loans were classified as held-for-sale as of December 31, 2013 and December 31, 2012. 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, 2013 and December 31, 2012. 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, 2013 and December 31, 2012.

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The following is a summary of real estate related and other loans by maturity at December 31, 2013:

| Year of Maturity ⁽¹⁾ | Outstanding | | Number of Loans |
|---------------------------------|-------------------|-------------------|--------------------|
| | Face Amount | Carrying Value | |
| Delinquent ⁽²⁾ | \$ 12,000 | \$ - | 1 |
| 2014 | 115,623 | 49,236 | 5 |
| 2015 | 57,943 | 56,271 | 5 |
| 2016 | 64,955 | 63,334 | 2 |
| 2017 | 94,912 | 81,213 | 4 |
| 2018 | 22,628 | 18,796 | 1 |
| Thereafter | 199,768 | 168,680 | 2 |
| Total | \$ 567,829 | \$ 437,530 | 20 |

(1) Based on the final extended maturity date of each loan investment as of December 31, 2013.

(2) Includes loans that are non-performing, in foreclosure, or under bankruptcy.

Activities relating to the carrying value of real estate related and other loans and residential mortgage loans are as follows:

| | Held for Sale | | Held for Investment | |
|---|------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Real Estate Related Loans | Residential Mortgage Loans | Residential Mortgage Loans | NPL Reverse Mortgage Loans |
| 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 | \$ - |
| Purchases / additional fundings | 315,296 | - | - | 35,138 |
| Interest accrued to principal balance | 26,588 | - | - | - |
| Principal paydowns | (257,335) | (373) | (45,665) | - |
| Sales | (101,338) | - | - | - |
| New Residential spin-off | - | - | - | (35,865) |
| Conversion to equity-GateHouse | (393,531) | - | - | - |
| Elimination after restructure-Golf | (29,412) | - | - | - |
| Valuation (allowance) reversal on loans | 19,479 | 105 | 5,451 | - |
| Gain on repayment of loans held for sale | 7,216 | - | - | - |
| Accretion of loan discount and other amortization | 6,689 | - | 3,684 | 727 |
| Other | 746 | (18) | (481) | - |
| December 31, 2013 | \$ 437,530 | \$ 2,185 | \$ 255,450 | \$ - |

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The following is a rollforward of the related loss allowance:

| | Held for Sale | | Held for Investment | |
|---|-------------------------------------|----------------------------|--------------------------------|--|
| | Real Estate Related and Other Loans | Residential Mortgage Loans | Residential Mortgage Loans (B) | |
| 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) | |
| Charge-offs (A) | 68,546 | 143 | 4,780 | |
| Valuation (allowance) reversal on loans | 19,479 | 105 | 5,451 | |
| Balance at December 31, 2013 | \$ (94,037) | \$ (824) | \$ (12,247) | |

(A) The charge-offs for real estate related loans represent three and six loans which were written off, sold, restructured, or paid off at a discounted price during 2013 and 2012, respectively.

(B) 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 and other loans was approximately \$761.7 million, \$843.4 million and \$795.3 million during 2013, 2012 and 2011, respectively, on which Newcastle earned approximately \$81.5 million, \$81.5 million and \$65.7 million of gross interest revenues, respectively.

The average carrying amount of Newcastle's residential mortgage loans was approximately \$282.7 million, \$312.5 million and \$354.9 million during 2013, 2012 and 2011, respectively, on which Newcastle earned approximately \$27.3 million, \$31.6 million and \$34.1 million of gross interest revenues, respectively.

The loans are encumbered by various debt obligations as described in Note 14.

The table below summarizes the geographic distribution of real estate related and other loans and residential loans at December 31, 2013:

| Geographic Location | Real Estate Related and Other Loans | | Residential Mortgage Loans | |
|---------------------|-------------------------------------|------------|----------------------------|------------|
| | Outstanding Face Amount | Percentage | Outstanding Face Amount | Percentage |
| Western U.S. | \$ 94,204 | 29.9% | \$ 168,132 | 59.9% |
| Northeastern U.S. | 34,847 | 11.0% | 9,014 | 3.2% |
| Southeastern U.S. | 52,178 | 16.5% | 61,646 | 22.0% |
| Midwestern U.S. | 11,296 | 3.6% | 10,490 | 3.7% |
| Southwestern U.S. | 32,005 | 10.1% | 31,424 | 11.2% |
| Foreign | 91,129 | 28.9% | 47 | 0.0% |
| | \$ 315,659 | 100.0% | \$ 280,753 | 100.0% |
| Other | 252,170 | (A) | | |
| | \$ 567,829 | | | |

(A) Includes corporate bank loans which are not directly secured by real estate assets.

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

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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, 2013:

| | Subprime Portfolio | | |
|--|--------------------|------------|------------|
| | I | II | Total |
| Total securitized loans (unpaid principal balance) (A) | \$ 372,661 | \$ 506,620 | \$ 879,281 |
| Loans subject to call option (carrying value) | \$ 299,176 | \$ 107,041 | \$ 406,217 |
| Retained interests (fair value) (B) | \$ 2,485 | \$ - | \$ 2,485 |

(A) Average loan seasoning of 101 months and 83 months for Subprime Portfolios I and II, respectively, at December 31, 2013.

(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 weighted average yield of the retained note was 24.53% as of December 31, 2013.

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The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of December 31, 2013 (unaudited, except stated otherwise):

| | Subprime Portfolio | |
|---|--------------------|------------|
| | I | II |
| Loan unpaid principal balance (UPB) (A) | \$ 372,661 | \$ 506,620 |
| Weighted average coupon rate of loans | 5.88% | 5.19% |
| Delinquencies of 60 or more days (UPB) (B) | \$ 110,539 | \$ 204,653 |
| Net credit losses for year ended | | |
| December 31, 2013 | \$ 26,388 | \$ 44,855 |
| December 31, 2012 | \$ 27,548 | \$ 34,866 |
| Cumulative net credit losses | \$ 246,805 | \$ 301,574 |
| Cumulative net credit losses as a % of original UPB | 16.4% | 27.7% |
| Percentage of ARM loans (C) | 51.5% | 57.0% |
| Percentage of loans with loan-to-value ratio >90% | 9.4% | 7.7% |
| Percentage of interest-only loans | 11.4% | 14.2% |
| Face amount of debt (A) (D) | \$ 368,661 | \$ 506,620 |
| Weighted average funding cost of debt (E) | 0.53% | 0.45% |

(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, 2013.

(E) Includes the effect of applicable hedges.

Newcastle received negligible cash flows from the retained interests of Subprime Portfolios I and II during the years ended December 31, 2013, 2012 and 2011.

8. INVESTMENTS IN 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 for \$2.2 million pursuant to a bankruptcy proceeding. 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 years ended December 31, 2013 and 2012, Newcastle recorded \$0.3 million and \$0.3 million, respectively of servicing rights amortization and no servicing rights impairment. As of December 31, 2013, Newcastle’s servicing asset had a carrying value of \$1.4 million recorded in receivables and other assets.

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(dollars in tables in thousands, except per share data)

9. INVESTMENTS IN SENIOR HOUSING REAL ESTATE

In the year ended December 31, 2013, Newcastle completed eight acquisitions of senior housing properties described in Note 3.

The following table sets forth certain information regarding the investments in real estate at December 31, 2013:

| Property Type (A) | City, State | Initial Cost | | | | Gross Carrying Amount (B) (F) | | | | Accumulated Depreciation (B)(C) | | | | | | | | | | | | | |
|--------------------------------|------------------------|--------------|----------|-----------------------|-----------------------------------|-------------------------------|----------|-----------------------|-----------------------------------|---------------------------------|-------|----|--------|----|---------|----|-------|----|-------|----|---------|----|---------|
| | | Land | Building | Building Improvements | Furniture, Fixtures and Equipment | Land | Building | Building Improvements | Furniture, Fixtures and Equipment | | | | | | | | | | | | | | |
| <i>Investments during 2012</i> | | | | | | | | | | | | | | | | | | | | | | | |
| AL/MC | Scottsdale, AZ | \$ | 2,307 | \$ | 16,809 | \$ | 183 | \$ | 101 | \$ | 170 | \$ | 2,307 | \$ | 16,809 | \$ | 327 | \$ | 127 | \$ | 19,570 | \$ | (708) |
| AL/MC | Citrus Heights, CA | | 831 | | 3,089 | | 94 | | 59 | | 29 | | 831 | | 3,090 | | 114 | | 67 | | 4,102 | | (154) |
| AL/MC | Santa Cruz, CA | | 2,255 | | 20,931 | | 265 | | 58 | | 124 | | 2,255 | | 20,932 | | 370 | | 76 | | 23,633 | | (870) |
| AL/MC | Clovis, CA | | 1,133 | | 16,789 | | 205 | | 45 | | 77 | | 1,133 | | 16,790 | | 235 | | 91 | | 18,249 | | (671) |
| AL/MC | Boise, ID | | 1,465 | | 13,157 | | 477 | | 58 | | 116 | | 1,465 | | 13,157 | | 580 | | 71 | | 15,273 | | (599) |
| AL/MC | Corvallis, OR | | 1,060 | | 4,886 | | 164 | | 8 | | 56 | | 1,060 | | 4,886 | | 196 | | 32 | | 6,174 | | (209) |
| AL/MC | Eugene, OR | | 935 | | 20,383 | | 411 | | 91 | | 88 | | 935 | | 20,383 | | 507 | | 83 | | 21,908 | | (862) |
| AL/MC | Cottonwood Heights, UT | | 1,496 | | 16,160 | | 238 | | 58 | | 154 | | 1,496 | | 16,160 | | 275 | | 175 | | 18,106 | | (674) |
| AL/MC | Bountiful, UT | | 570 | | 9,492 | | 66 | | 50 | | 362 | | 570 | | 9,492 | | 298 | | 180 | | 10,540 | | (355) |
| AL/MC | Taylorsville, UT | | 1,111 | | 3,009 | | 117 | | 39 | | 266 | | 1,111 | | 3,009 | | 242 | | 180 | | 4,542 | | (154) |
| AL/MC | Salt Lake City, UT | | 700 | | 3,253 | | 44 | | 15 | | 212 | | 700 | | 3,253 | | 131 | | 140 | | 4,224 | | (129) |
| AL/MC | Fort Worth, TX | | 2,130 | | 16,260 | | 338 | | 672 | | 139 | | 2,130 | | 16,260 | | 423 | | 726 | | 19,539 | | (775) |
| Subtotal 2012 | | \$ | 15,993 | \$ | 144,218 | \$ | 2,602 | \$ | 1,254 | \$ | 1,793 | \$ | 15,993 | \$ | 144,221 | \$ | 3,698 | \$ | 1,948 | \$ | 165,860 | \$ | (6,160) |
| <i>Investments during 2013</i> | | | | | | | | | | | | | | | | | | | | | | | |
| IL-only | Poughkeepsie, NY | | - | | 11,848 | | 282 | | 670 | | 102 | | - | | 11,849 | | 341 | | 712 | | 12,902 | | (215) |
| AL/MC | Brooksville, FL | | 1,807 | | 8,578 | | 211 | | 568 | | 74 | | 1,807 | | 8,578 | | 230 | | 623 | | 11,238 | | (150) |
| AL/MC | Port Charlotte, FL | | 1,078 | | 8,381 | | 231 | | 679 | | 51 | | 1,078 | | 8,383 | | 238 | | 721 | | 10,420 | | (158) |
| AL/MC | Bradenton, FL | | 1,177 | | 9,129 | | 211 | | 748 | | 75 | | 1,177 | | 9,129 | | 229 | | 805 | | 11,340 | | (172) |
| AL/MC | Brooksville, FL | | 708 | | 4,895 | | 244 | | 439 | | 43 | | 708 | | 4,895 | | 254 | | 472 | | 6,329 | | (101) |
| AL/MC | Bradenton, FL | | 1,367 | | 14,124 | | 235 | | 1,247 | | 124 | | 1,367 | | 14,124 | | 259 | | 1,347 | | 17,097 | | (270) |
| AL/MC | Hollywood, FL | | 918 | | 4,057 | | 204 | | 509 | | 94 | | 918 | | 4,057 | | 239 | | 568 | | 5,782 | | (99) |
| AL/MC | Pinellas Park, FL | | 1,447 | | 9,564 | | 185 | | 848 | | 56 | | 1,447 | | 9,564 | | 203 | | 886 | | 12,100 | | (183) |
| AL/MC | Lake Placid, FL | | 1,217 | | 4,442 | | 277 | | 838 | | 40 | | 1,217 | | 4,442 | | 282 | | 873 | | 6,814 | | (131) |
| AL/MC | Hollywood, FL | | 948 | | 4,624 | | 126 | | 399 | | 50 | | 948 | | 4,624 | | 138 | | 437 | | 6,147 | | (91) |
| AL/MC | Venice, FL | | 1,078 | | 13,034 | | 277 | | 838 | | 59 | | 1,078 | | 13,034 | | 290 | | 884 | | 15,286 | | (222) |
| AL/MC | New Bern, NC | | 1,676 | | 12,808 | | 234 | | 1,148 | | 132 | | 1,676 | | 12,808 | | 258 | | 1,256 | | 15,998 | | (250) |
| AL/MC | Winter Haven, FL | | 3,532 | | 21,840 | | 222 | | 1,477 | | 148 | | 3,532 | | 21,840 | | 287 | | 1,560 | | 27,219 | | (371) |
| AL/MC | Sanford, FL | | 1,407 | | 8,742 | | 269 | | 629 | | 63 | | 1,407 | | 8,742 | | 291 | | 670 | | 11,110 | | (159) |
| AL/MC | Spring Hill, FL | | 798 | | 5,449 | | 248 | | 529 | | 44 | | 798 | | 5,449 | | 261 | | 560 | | 7,068 | | (114) |
| AL/MC | Lakeland, FL | | 1,108 | | 14,790 | | 48 | | 918 | | 76 | | 1,108 | | 14,790 | | 76 | | 972 | | 16,940 | | (239) |
| AL/MC | Media, PA | | 1,940 | | 15,834 | | 406 | | 870 | | 140 | | 1,940 | | 15,834 | | 440 | | 976 | | 19,190 | | (233) |
| AL/MC | Port Charlotte, FL | | 2,000 | | 13,316 | | 252 | | 1,370 | | 163 | | 2,000 | | 13,316 | | 275 | | 1,510 | | 17,101 | | (213) |
| AL/MC | Pittsburgh, PA | | 3,260 | | 11,435 | | 203 | | 410 | | 207 | | 3,260 | | 11,435 | | 352 | | 468 | | 15,515 | | (129) |
| IL-only | Richmond, VA | | 1,630 | | 9,241 | | 329 | | 705 | | 115 | | 1,630 | | 9,241 | | 419 | | 730 | | 12,020 | | (69) |
| AL/MC | Fort Myers, FL | | 1,950 | | 9,018 | | 242 | | 1,040 | | 48 | | 1,950 | | 9,018 | | 242 | | 1,088 | | 12,298 | | (18) |
| IL-only | Surprise, AZ | | 1,150 | | 11,083 | | 248 | | 646 | | - | | 1,150 | | 11,083 | | 248 | | 646 | | 13,127 | | (9) |
| IL-only | Santa Clara, CA | | - | | 17,979 | | 609 | | 767 | | - | | - | | 17,979 | | 609 | | 767 | | 19,555 | | (15) |
| IL-only | Pueblo, CO | | 454 | | 13,983 | | 63 | | 384 | | - | | 454 | | 13,983 | | 63 | | 384 | | 14,884 | | (10) |
| IL-only | Rocky Hill, CT | | - | | 23,976 | | 215 | | 615 | | - | | - | | 23,976 | | 215 | | 615 | | 24,806 | | (18) |
| IL-only | Farmington, CT | | 3,649 | | 23,586 | | 155 | | 272 | | - | | 3,649 | | 23,586 | | 155 | | 272 | | 27,662 | | (16) |
| IL-only | Urbandale, IA | | 706 | | 12,017 | | 270 | | 484 | | - | | 706 | | 12,017 | | 270 | | 484 | | 13,477 | | (10) |
| IL-only | Bettendorf, IA | | 1,512 | | 10,991 | | 136 | | 474 | | - | | 1,512 | | 10,991 | | 136 | | 474 | | 13,113 | | (9) |
| IL-only | Topeka, KS | | 333 | | 14,500 | | 221 | | 746 | | - | | 333 | | 14,500 | | 221 | | 746 | | 15,800 | | (13) |

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(dollars in tables in thousands, except per share data)

| Property Type (A) | City, State | Initial Cost | | | | Costs | | | | Gross Carrying Amount (B) (F) | | | | Accumulated Depreciation (B)(C) |
|-----------------------------------|------------------|--------------|--------------|--------------|-----------------------------------|---------------------------------------|------------|--------------|--------------|-----------------------------------|--------------|-------------|--|---------------------------------|
| | | Land | Building | Improvements | Furniture, Fixtures and Equipment | Capitalized Subsequent to Acquisition | Land | Building | Improvements | Furniture, Fixtures and Equipment | Total | | | |
| <i>Senior Housing Properties:</i> | | | | | | | | | | | | | | |
| IL-only | Salem, OR | 1,411 | 16,772 | 240 | 907 | - | 1,411 | 16,772 | 240 | 907 | 19,330 | (15) | | |
| IL-only | St Louis, MO | 1,079 | 24,741 | 162 | 847 | - | 1,079 | 24,741 | 162 | 847 | 26,829 | (19) | | |
| IL-only | Durham, NC | 1,079 | 22,424 | 199 | 615 | - | 1,079 | 22,424 | 199 | 615 | 24,317 | (17) | | |
| IL-only | Cary, NC | 2,137 | 19,310 | 195 | 786 | - | 2,137 | 19,310 | 195 | 786 | 22,428 | (16) | | |
| IL-only | Reno, NV | 1,079 | 19,821 | 336 | 615 | - | 1,079 | 19,821 | 336 | 615 | 21,851 | (16) | | |
| IL-only | Salem, OR | 917 | 6,423 | 362 | - | - | 917 | 6,423 | 362 | - | 7,702 | (5) | | |
| IL-only | Corvallis, OR | 1,129 | 7,830 | 77 | 232 | - | 1,129 | 7,830 | 77 | 232 | 9,268 | (6) | | |
| IL-only | Hillsboro, OR | 1,643 | 11,890 | 125 | 494 | - | 1,643 | 11,890 | 125 | 494 | 14,152 | (10) | | |
| IL-only | Eugene, OR | 1,603 | 17,452 | 262 | 686 | - | 1,603 | 17,452 | 262 | 686 | 20,003 | (14) | | |
| IL-only | Harrisburg, PA | 1,008 | 22,683 | 116 | 776 | - | 1,008 | 22,683 | 116 | 776 | 24,583 | (18) | | |
| IL-only | Boyertown, PA | 313 | 18,292 | 91 | 504 | - | 313 | 18,292 | 91 | 504 | 19,200 | (14) | | |
| IL-only | Clarksville, TN | 635 | 10,624 | 149 | 302 | - | 635 | 10,624 | 149 | 302 | 11,710 | (8) | | |
| IL-only | Dallas, TX | 2,389 | 12,364 | 167 | 534 | - | 2,389 | 12,364 | 167 | 534 | 15,454 | (10) | | |
| IL-only | Denton, TX | 1,018 | 18,611 | 237 | 726 | - | 1,018 | 18,611 | 237 | 726 | 20,592 | (15) | | |
| IL-only | San Antonio, TX | 1,553 | 15,056 | 178 | 272 | - | 1,553 | 15,056 | 178 | 272 | 17,059 | (11) | | |
| IL-only | Flower Mound, TX | 2,107 | 17,616 | 243 | 716 | - | 2,107 | 17,616 | 243 | 716 | 20,682 | (15) | | |
| IL-only | Dallas, TX | 2,883 | 12,230 | 232 | 454 | - | 2,883 | 12,230 | 232 | 454 | 15,799 | (10) | | |
| IL-only | Eau Claire, WI | 524 | 18,951 | 250 | 655 | - | 524 | 18,951 | 250 | 655 | 20,380 | (15) | | |
| IL-only | Simi Valley, CA | 3,161 | 21,489 | 191 | 719 | - | 3,161 | 21,489 | 191 | 719 | 25,560 | (17) | | |
| IL-only | Lakewood, CO | 1,307 | 13,656 | 542 | 344 | - | 1,307 | 13,656 | 542 | 344 | 15,849 | (11) | | |
| IL-only | Greeley, CO | 233 | 13,572 | 151 | 588 | - | 233 | 13,572 | 151 | 588 | 14,544 | (11) | | |
| IL-only | Fort Collins, CO | 628 | 17,671 | 154 | 618 | - | 628 | 17,671 | 154 | 618 | 19,071 | (14) | | |
| IL-only | Tallahassee, FL | 1,084 | 19,912 | 259 | 658 | - | 1,084 | 19,912 | 259 | 658 | 21,913 | (16) | | |
| IL-only | Sarasota, FL | 658 | 21,508 | 213 | 658 | - | 658 | 21,508 | 213 | 658 | 23,037 | (16) | | |
| IL-only | Port Richey, FL | 1,084 | 13,796 | 202 | 760 | - | 1,084 | 13,796 | 202 | 760 | 15,842 | (12) | | |
| IL-only | Normal, IL | 324 | 14,112 | 209 | 618 | - | 324 | 14,112 | 209 | 618 | 15,263 | (12) | | |
| IL-only | Wichita, KS | 496 | 17,438 | 213 | 790 | - | 496 | 17,438 | 213 | 790 | 18,937 | (15) | | |
| IL-only | Paducah, KY | 263 | 23,413 | 199 | 851 | - | 263 | 23,413 | 199 | 851 | 24,726 | (19) | | |
| IL-only | Shreveport, LA | 517 | 5,479 | 72 | 172 | - | 517 | 5,479 | 72 | 172 | 6,240 | (4) | | |
| IL-only | Fort Gratiot, MI | 61 | 15,552 | 334 | 821 | - | 61 | 15,552 | 334 | 821 | 16,768 | (14) | | |
| IL-only | St Joseph, MO | 851 | 15,913 | 277 | 618 | - | 851 | 15,913 | 277 | 618 | 17,659 | (13) | | |
| IL-only | Ridge land, MS | 952 | 7,020 | 199 | 527 | - | 952 | 7,020 | 199 | 527 | 8,698 | (7) | | |
| IL-only | Missoula, MT | 304 | 16,090 | 141 | 648 | - | 304 | 16,090 | 141 | 648 | 17,183 | (13) | | |
| IL-only | Greece, NY | 689 | 20,181 | 184 | 658 | - | 689 | 20,181 | 184 | 658 | 21,712 | (16) | | |
| IL-only | Fayetteville, NY | 770 | 25,116 | 166 | 658 | - | 770 | 25,116 | 166 | 658 | 26,710 | (18) | | |
| IL-only | Ballwin, MO | 1,236 | 16,134 | 159 | 517 | - | 1,236 | 16,134 | 159 | 517 | 18,046 | (12) | | |
| IL-only | Corvallis, OR | 1,520 | 17,659 | 219 | 831 | - | 1,520 | 17,659 | 219 | 831 | 20,229 | (15) | | |
| IL-only | Lemoine, PA | 922 | 25,074 | 148 | 658 | - | 922 | 25,074 | 148 | 658 | 26,802 | (18) | | |
| IL-only | Arlington, TX | 314 | 9,525 | 473 | 385 | - | 314 | 9,525 | 473 | 385 | 10,697 | (9) | | |
| IL-only | Richardson, TX | 1,297 | 11,872 | 206 | 699 | - | 1,297 | 11,872 | 206 | 699 | 14,074 | (11) | | |
| IL-only | Lubbock, TX | 1,003 | 20,501 | 425 | 932 | - | 1,003 | 20,501 | 425 | 932 | 22,861 | (18) | | |
| IL-only | North Logan, UT | 1,033 | 17,356 | 337 | 729 | - | 1,033 | 17,356 | 337 | 729 | 19,455 | (15) | | |
| IL-only | Yorktown, VA | 2,178 | 19,055 | 197 | 679 | - | 2,178 | 19,055 | 197 | 679 | 22,109 | (15) | | |
| Subtotal 2013 | | \$ 86,242 | \$ 1,055,448 | \$ 16,344 | \$ 47,524 | \$ 1,904 | \$ 86,242 | \$ 1,055,451 | \$ 17,006 | \$ 48,763 | \$ 1,207,462 | \$ (4,262) | | |
| Total | | \$ 102,235 | \$ 1,199,666 | \$ 18,946 | \$ 48,778 | \$ 3,697 | \$ 102,235 | \$ 1,199,672 | \$ 20,704 | \$ 50,711 | \$ 1,373,322 | \$ (10,422) | | |

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(dollars in tables in thousands, except per share data)

| Property Type (A) | City, State | Year Acquired (D) | Year Constructed/ Renovated (D) | Net Carrying Value | | Encumbrances (E) | |
|-------------------|------------------------|-------------------|------------------------------------|--------------------|------------|------------------|------------|
| | | | | 12/31/2013 | 12/31/2012 | 12/31/2013 | 12/31/2012 |
| | | | | \$ | \$ | \$ | \$ |
| AL/MC | Scottsdale, AZ | 2012 | 1999/2005 | 18,862 | 19,212 | 16,380 | 12,600 |
| AL/MC | Citrus Heights, CA | 2012 | 1997/2011 | 3,948 | 4,027 | 3,440 | 2,940 |
| AL/MC | Santa Cruz, CA | 2012 | 1990/NA | 22,763 | 23,272 | 19,850 | 17,220 |
| AL/MC | Clovis, CA | 2012 | 1998/2007 | 17,578 | 17,969 | 15,343 | 11,700 |
| AL/MC | Boise, ID | 2012 | 1997/2011 | 14,674 | 15,016 | 12,799 | 12,960 |
| AL/MC | Corvallis, OR | 2012 | 1999/NA | 5,965 | 6,069 | 5,166 | 3,020 |
| AL/MC | Eugene, OR | 2012 | 1998/NA | 21,046 | 21,607 | 18,425 | 15,480 |
| AL/MC | Cottonwood Heights, UT | 2012 | 2001/NA | 17,432 | 17,772 | 15,159 | 12,480 |
| AL/MC | Bountiful, UT | 2012 | 1978/2000 | 10,185 | 10,171 | 8,819 | 10,024 |
| AL/MC | Taylorsville, UT | 2012 | 1976/1994 | 4,388 | 4,276 | 3,704 | 3,341 |
| AL/MC | Salt Lake City, UT | 2012 | 1984/2007 | 4,095 | 4,017 | 3,476 | 2,635 |
| AL/MC | Fort Worth, TX | 2012 | 1986/NA | 18,764 | 19,393 | 16,125 | 16,125 |
| | | | | \$ 159,700 | \$ 162,801 | \$ 138,686 | \$ 120,525 |
| IL-only | Poughkeepsie, NY | 2013 | 2001/NA | 12,687 | - | 14,100 | - |
| AL/MC | Brooksville, FL | 2013 | 1960/2012 | 11,088 | - | 9,951 | - |
| AL/MC | Port Charlotte, FL | 2013 | 1998/NA | 10,262 | - | 9,240 | - |
| AL/MC | Bradenton, FL | 2013 | 1973/1988 | 11,168 | - | 10,041 | - |
| AL/MC | Brooksville, FL | 2013 | 1988/NA | 6,228 | - | 5,603 | - |
| AL/MC | Bradenton, FL | 2013 | 1988/NA | 16,827 | - | 15,128 | - |
| AL/MC | Hollywood, FL | 2013 | 1998/NA | 5,683 | - | 5,069 | - |
| AL/MC | Pinellas Park, FL | 2013 | 1986/2007 | 11,917 | - | 10,735 | - |
| AL/MC | Lake Placid, FL | 2013 | 2007/NA | 6,683 | - | 6,039 | - |
| AL/MC | Hollywood, FL | 2013 | 1988/2012 | 6,056 | - | 5,434 | - |
| AL/MC | Venice, FL | 2013 | 1998/NA | 15,064 | - | 13,572 | - |
| AL/MC | New Bern, NC | 2013 | 1985/2004 | 15,748 | - | 14,141 | - |
| AL/MC | Winter Haven, FL | 2013 | 1984/NA | 26,848 | - | 19,199 | - |
| AL/MC | Sanford, FL | 2013 | 1984/NA | 10,951 | - | 5,549 | - |
| AL/MC | Spring Hill, FL | 2013 | 1988/2006 | 6,954 | - | 7,405 | - |
| AL/MC | Lakeland, FL | 2013 | 1984/NA | 16,701 | - | 9,082 | - |
| AL/MC | Media, PA | 2013 | 1995/NA | 18,957 | - | 16,875 | - |
| AL/MC | Port Charlotte, FL | 2013 | 1985/2004 | 16,888 | - | 14,250 | - |
| AL/MC | Pittsburgh, PA | 2013 | 1996/NA | 15,386 | - | 8,250 | - |
| IL-only | Richmond, VA | 2013 | 1987/2008 | 11,951 | - | 8,775 | - |
| AL/MC | Fort Myers, FL | 2013 | 1988/NA | 12,280 | - | 10,688 | - |
| IL-only | Surprise, AZ | 2013 | 1998/NA | 13,118 | - | 10,046 | - |
| IL-only | Santa Clara, CA | 2013 | 1991/NA | 19,340 | - | 14,814 | - |
| IL-only | Pueblo, CO | 2013 | 1985/NA | 14,874 | - | 11,392 | - |
| IL-only | Rocky Hill, CT | 2013 | 1998/NA | 24,788 | - | 18,988 | - |
| IL-only | Farmington, CT | 2013 | 1989/NA | 27,646 | - | 21,174 | - |
| IL-only | Urbandale, IA | 2013 | 1995/NA | 13,467 | - | 10,316 | - |
| IL-only | Bettendorf, IA | 2013 | 1990/NA | 13,104 | - | 10,037 | - |
| IL-only | Topeka, KS | 2013 | 1998/NA | 15,787 | - | 12,094 | - |
| IL-only | Salem, OR | 2013 | 1990/NA | 19,315 | - | 14,797 | - |
| IL-only | St Louis, MO | 2013 | 2006/NA | 26,810 | - | 20,537 | - |
| IL-only | Durham, NC | 2013 | 1989/NA | 24,300 | - | 18,615 | - |
| IL-only | Cary, NC | 2013 | 2003/NA | 22,412 | - | 17,169 | - |
| IL-only | Reno, NV | 2013 | 2002/NA | 21,835 | - | 16,726 | - |
| IL-only | Salem, OR | 2013 | 1990/NA | 7,697 | - | 5,897 | - |

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| Property Type (A) | City, State | Year | Year | Net Carrying Value | | Encumbrances (E) | |
|-------------------|------------------|--------------|---------------------------|--------------------|------------|------------------|------------|
| | | Acquired (D) | Constructed/Renovated (D) | 12/31/2013 | 12/31/2012 | 12/31/2013 | 12/31/2012 |
| IL-only | Corvallis, OR | 2013 | 1983/NA | 9,262 | - | 7,094 | - |
| IL-only | Hillsboro, OR | 2013 | 1996/NA | 14,142 | - | 10,834 | - |
| IL-only | Eugene, OR | 2013 | 1995/NA | 19,989 | - | 15,311 | - |
| IL-only | Harrisburg, PA | 2013 | 2000/NA | 24,565 | - | 18,819 | - |
| IL-only | Boyertown, PA | 2013 | 1997/NA | 19,186 | - | 14,697 | - |
| IL-only | Clarksville, TN | 2013 | 1993/NA | 11,702 | - | 8,965 | - |
| IL-only | Dallas, TX | 2013 | 1996/NA | 15,444 | - | 11,830 | - |
| IL-only | Denton, TX | 2013 | 2005/NA | 20,577 | - | 15,763 | - |
| IL-only | San Antonio, TX | 2013 | 1984/NA | 17,048 | - | 13,058 | - |
| IL-only | Flower Mound, TX | 2013 | 2007/NA | 20,667 | - | 15,832 | - |
| IL-only | Dallas, TX | 2013 | 2001/NA | 15,789 | - | 12,094 | - |
| IL-only | Eau Claire, WI | 2013 | 2003/NA | 20,365 | - | 15,601 | - |
| IL-only | Simi Valley, CA | 2013 | 2006/NA | 25,543 | - | 19,658 | - |
| IL-only | Lakewood, CO | 2013 | 1992/NA | 15,838 | - | 12,190 | - |
| IL-only | Greeley, CO | 2013 | 1986/NA | 14,533 | - | 11,185 | - |
| IL-only | Fort Collins, CO | 2013 | 1987/NA | 19,057 | - | 14,668 | - |
| IL-only | Tallahassee, FL | 2013 | 2001/NA | 21,897 | - | 16,854 | - |
| IL-only | Sarasota, FL | 2013 | 2005/NA | 23,021 | - | 17,719 | - |
| IL-only | Port Richey, FL | 2013 | 1987/NA | 15,830 | - | 12,184 | - |
| IL-only | Normal, IL | 2013 | 1989/NA | 15,251 | - | 11,739 | - |
| IL-only | Wichita, KS | 2013 | 2001/NA | 18,922 | - | 14,565 | - |
| IL-only | Paducah, KY | 2013 | 2004/NA | 24,707 | - | 19,017 | - |
| IL-only | Shreveport, LA | 2013 | 1988/NA | 6,236 | - | 4,799 | - |
| IL-only | Fort Gratiot, MI | 2013 | 2001/NA | 16,754 | - | 12,895 | - |
| IL-only | St Joseph, MO | 2013 | 1990/NA | 17,646 | - | 13,581 | - |
| IL-only | Ridgeland, MS | 2013 | 1986/NA | 8,691 | - | 6,689 | - |
| IL-only | Missoula, MT | 2013 | 1997/NA | 17,170 | - | 13,216 | - |
| IL-only | Greece, NY | 2013 | 2004/NA | 21,696 | - | 16,699 | - |
| IL-only | Fayetteville, NY | 2013 | 2003/NA | 26,692 | - | 20,543 | - |
| IL-only | Ballwin, MO | 2013 | 1990/NA | 18,034 | - | 13,879 | - |
| IL-only | Corvallis, OR | 2013 | 1999/NA | 20,214 | - | 15,558 | - |
| IL-only | Lemoyne, PA | 2013 | 2002/NA | 26,784 | - | 20,614 | - |
| IL-only | Arlington, TX | 2013 | 1987/NA | 10,688 | - | 8,227 | - |
| IL-only | Richardson, TX | 2013 | 1996/NA | 14,063 | - | 10,824 | - |
| IL-only | Lubbock, TX | 2013 | 1997/NA | 22,843 | - | 17,582 | - |
| IL-only | North Logan, UT | 2013 | 2001/NA | 19,440 | - | 14,963 | - |
| IL-only | Yorktown, VA | 2013 | 2005/NA | 22,094 | - | 17,003 | - |
| | | | Subtotal | \$ 1,203,200 | \$ - | \$ 938,477 | \$ - |
| | | | Total | \$ 1,362,900 | \$ 162,801 | \$ 1,077,163 | \$ 120,525 |

(A) IL-only represents independent living properties, and AL/MC represents properties that provide a combination of independent living, assisted living or memory care services.

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(B) The following is a rollforward of the gross carrying amount and accumulated depreciation of senior housing real estate for the years ended December 31, 2013, 2012 and 2011.

| | Year ended December 31, | |
|--|-------------------------|-------------------|
| | 2013 | 2012 |
| <u>Gross Carrying Amount</u> | | |
| Balance at beginning of year | \$ 164,359 | \$ - |
| Additions: | | |
| Acquisitions of real estate | 1,205,558 | 164,067 |
| Improvements | 3,450 | 296 |
| Transferred from operating real estate held for sale | - | - |
| Disposals: | | |
| Disposal of long-lived assets | (45) | (4) |
| Balance at end of year | <u>\$ 1,373,322</u> | <u>\$ 164,359</u> |
| <u>Accumulated Depreciation</u> | | |
| Balance at beginning of year | \$ (1,558) | \$ - |
| Additions: | | |
| Depreciation expense | (8,874) | (1,559) |
| Transferred from assets held for sale | - | - |
| Disposals: | | |
| Disposal of long-lived assets | 10 | 1 |
| Balance at end of year | <u>\$ (10,422)</u> | <u>\$ (1,558)</u> |

(C) Depreciation is calculated on a straight line basis using the estimated useful lives detailed in Note 2.

(D) Unaudited.

(E) See Note 14.

(F) The aggregate United States federal income tax basis for Newcastle's senior housing real estate at December 31, 2013 was approximately \$1.4 billion.

The investments in senior housing real estate are generally financed with non-recourse mortgage notes payable (see Note 14).

The following table sets forth the future contracted minimum rentals, excluding contingent rent escalations, for Newcastle's triple net leases relating to the Holiday Portfolio as of December 31, 2013:

| | <u>Total Holiday Portfolio</u> |
|------------|------------------------------------|
| 2014 | \$ 65,031 |
| 2015 | 67,957 |
| 2016 | 71,015 |
| 2017 | 74,211 |
| 2018 | 76,808 |
| Thereafter | 1,170,819 |
| Total | <u>\$ 1,525,841</u> |

The resident leases relating to Newcastle's managed senior housing properties are generally cancellable with a 30-day notice.

10. INVESTMENTS IN OTHER REAL ESTATE

In the year ended December 31, 2013, Newcastle acquired other real estate assets as part of the acquisition of the golf business, which consisted primarily of land, buildings, machinery and equipment. These assets were recognized at fair value on the acquisition date. The following table summarizes the balances of other real estate assets at December 31, 2013. Please refer to Note 3 for a description of the Golf acquisition.

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| Property Type (A) | City, State | Initial Cost | | | | | | | | Gross Carrying Amount (B), (F) | | | | | | | Accumulated Depreciation (B),(C) |
|---|-----------------|--------------|-----------|-----------------------|-----------------------------------|--------------------------|---------------------------------------|-----------|-----------|--------------------------------|-----------------------------------|--------------------------|------------|------------|--|--|----------------------------------|
| | | Land | Building | Building Improvements | Furniture, Fixtures and Equipment | Construction In-Progress | Capitalized Subsequent to Acquisition | Land | Building | Building Improvements | Furniture, Fixtures and Equipment | Construction In-Progress | Total | | | | |
| GC | California | \$ 62,000 | \$ 21,185 | \$ 406 | \$ 12,461 | \$ 4,766 | \$ - | \$ 62,000 | \$ 21,185 | \$ 406 | \$ 12,461 | \$ 4,766 | \$ 159,528 | \$ - | | | |
| GC | Florida | - | - | 759 | 822 | 35 | - | - | - | 759 | 822 | 35 | 2,022 | - | | | |
| GC | Georgia | 2,400 | 1,635 | 8,055 | 729 | - | 2,400 | 1,635 | 8,055 | 729 | - | - | 12,819 | - | | | |
| GC | Hawaii | - | - | 17 | 135 | - | - | - | 17 | 135 | - | - | 344 | - | | | |
| GC | Idaho | 2,700 | 321 | 1,995 | 271 | 13 | 2,700 | 321 | 1,995 | 271 | 13 | - | 5,300 | - | | | |
| GC | New Jersey | 7,733 | - | - | - | - | 7,733 | - | - | - | - | - | 7,733 | - | | | |
| GC | New Mexico | 1,700 | 1,171 | 6,703 | 447 | 359 | 1,700 | 1,171 | 6,703 | 447 | 359 | 359 | 10,380 | - | | | |
| GC | New York | - | 22,818 | 2,168 | 2,219 | 48 | - | 22,818 | 2,168 | 2,219 | 48 | 48 | 27,253 | - | | | |
| GC | Oklahoma | - | 761 | 294 | 344 | 68 | - | 761 | 294 | 344 | 68 | 68 | 1,467 | - | | | |
| GC | Oregon | 6,900 | 1,540 | 7,166 | 457 | 50 | 6,900 | 1,540 | 7,166 | 457 | 50 | 50 | 16,113 | - | | | |
| GC | Tennessee | 6,400 | 297 | 2,018 | 322 | 233 | 6,400 | 297 | 2,018 | 322 | 233 | 233 | 9,270 | - | | | |
| GC | Texas | - | 166 | 276 | 569 | 59 | - | 166 | 276 | 569 | 59 | 59 | 1,070 | - | | | |
| GC | Virginia | - | 33 | 1 | 66 | - | - | - | 33 | 1 | 66 | - | 100 | - | | | |
| GC | Washington | 3,701 | 265 | 1,993 | 186 | 29 | 3,701 | 265 | 1,993 | 186 | 29 | 29 | 6,174 | - | | | |
| | | \$ 93,534 | \$ 50,615 | \$ 90,736 | \$ 19,028 | \$ 5,660 | \$ 93,534 | \$ 50,615 | \$ 90,736 | \$ 19,028 | \$ 5,660 | \$ 259,573 | \$ - | | | | |
| <i>Other Operating Real Estate (E):</i> | | | | | | | | | | | | | | | | | |
| OB | Beavercreek, OH | \$ 386 | \$ 2,287 | \$ - | \$ - | \$ - | \$ 364 | \$ 2,170 | \$ 390 | \$ - | \$ - | \$ - | \$ 2,924 | \$ (779) | | | |
| OB | Beavercreek, OH | 401 | 2,326 | - | - | - | 381 | 2,268 | 92 | - | - | - | 2,741 | (547) | | | |
| OB | Beavercreek, OH | 382 | 2,242 | - | - | - | 361 | 2,150 | 488 | - | - | - | 2,999 | (741) | | | |
| | | \$ 1,169 | \$ 6,855 | \$ - | \$ - | \$ - | \$ 1,106 | \$ 6,588 | \$ 970 | \$ - | \$ - | \$ - | \$ 8,664 | \$ (2,067) | | | |
| | | \$ 94,703 | \$ 57,470 | \$ 90,736 | \$ 19,028 | \$ 5,660 | \$ 94,640 | \$ 57,203 | \$ 91,706 | \$ 19,028 | \$ 5,660 | \$ 268,237 | \$ (2,067) | | | | |

| Property Type (A) | City, State | Year Acquired (D) | Year Constructed/ Renovated (D) | Net Rentable Sq. Ft. (D) | Ending Occupancy (D) |
|-------------------|-----------------|-------------------|---------------------------------|--------------------------|----------------------|
| OB | Beavercreek, OH | 2006 | 1984/2006 | 55,024 Sq. Ft. | 84.40% |
| OB | Beavercreek, OH | 2006 | 1985/2006 | 29,916 Sq. Ft. | 100.00% |
| OB | Beavercreek, OH | 2006 | 1987/2006 | 45,500 Sq. Ft. | 100.00% |

Other Operating Real Estate (E):

| | | | | | |
|----|-----------------|------|-----------|----------------|---------|
| OB | Beavercreek, OH | 2006 | 1984/2006 | 55,024 Sq. Ft. | 84.40% |
| OB | Beavercreek, OH | 2006 | 1985/2006 | 29,916 Sq. Ft. | 100.00% |
| OB | Beavercreek, OH | 2006 | 1987/2006 | 45,500 Sq. Ft. | 100.00% |

(A) OB represents office building. GC represents golf course.

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(B) The following is a rollforward of the gross carrying amount and accumulated depreciation of real estate for the years ended December 31, 2013 and 2012.

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|--|---------------------------------|---------------------------------|
| <u>Gross Carrying Amount</u> | | |
| Balance at beginning of year | \$ 8,520 | \$ - |
| Additions: | | |
| Acquisitions of real estate | 259,573 | - |
| Improvements | 144 | - |
| Transferred from operating real estate held-for-sale | - | 8,520 |
| Disposals: | | |
| Disposal of long-lived assets | - | - |
| Balance at end of year | <u>\$ 268,237</u> | <u>\$ 8,520</u> |
| <u>Accumulated Depreciation</u> | | |
| Balance at beginning of year | \$ (1,848) | \$ - |
| Additions: | | |
| Depreciation expense | (219) | (1,191) |
| Transferred from assets held-for-sale | - | (657) |
| Disposals: | | |
| Disposal of long-lived assets | - | - |
| Balance at end of year | <u>\$ (2,067)</u> | <u>\$ (1,848)</u> |

(C) Depreciation is calculated on a straight line basis using the estimated useful lives detailed in Note 2.

(D) Unaudited.

(E) The other operating real estate assets were pledged as collateral in one of Newcastle's non-recourse financing structures at December 31, 2013.

(F) The aggregate United States federal income tax basis for Newcastle's other operating real estate at December 31, 2013 was approximately \$266.6 million.

The real estate assets in the Golf businesses are encumbered by various debt obligations, as described in Note 14, at December 31, 2013.

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11. PROPERTY, PLANT AND EQUIPMENT

In the year ended December 31, 2013, Newcastle acquired property, plant, and equipment as part of the acquisition of the media business which consisted of land, buildings, machinery and equipment. These assets were recognized at fair value on the acquisition date. The following table summarizes the balances of property, plant and equipment at December 31, 2013:

| | <u>December 31, 2013</u> |
|---|--------------------------|
| Land | 23,087 |
| Buildings and improvements | 110,522 |
| Machinery and equipment | 125,836 |
| Furniture, fixtures, and computer software | <u>13,970</u> |
| | 273,415 |
| Less: accumulated depreciation and amortization | <u>(3,227)</u> |
| Total | <u><u>\$ 270,188</u></u> |

| | <u>Year ended December 31, 2013</u> |
|---|---|
| <u>Gross Carrying Amount</u> | |
| Balance at beginning of acquisition | \$ 272,153 |
| Additions: | |
| Acquisitions of property, plant and equipment | 1,262 |
| Improvements | - |
| Disposals: | |
| Disposal of long-lived assets | - |
| Balance at end of year | <u><u>\$ 273,415</u></u> |

| | |
|---------------------------------------|--------------------------|
| <u>Accumulated Depreciation</u> | |
| Balance at beginning of acquisition | \$ - |
| Additions: | |
| Depreciation expense | (3,227) |
| Transferred from assets held-for-sale | - |
| Disposals: | |
| Disposal of long-lived assets | - |
| Balance at end of year | <u><u>\$ (3,227)</u></u> |

Depreciation is calculated on a straight line basis using the estimated useful lives as described in Note 2.

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12. GOODWILL AND INTANGIBLES

The following table summarizes Newcastle's goodwill and intangibles related to its senior housing real estate, media and golf businesses:

| | December 31, 2013 | | | December 31, 2012 | | |
|-------------------------------------|-----------------------|--------------------------|--------------------|-----------------------|--------------------------|--------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Amortizable intangible assets: | | | | | | |
| In-place resident lease intangibles | \$ 112,267 | \$ (21,902) | \$ 90,365 | \$ 22,711 | \$ (4,205) | \$ 18,506 |
| Non-compete intangibles | 1,600 | (223) | 1,377 | 600 | (20) | 580 |
| Land lease intangibles | 3,498 | (1) | 3,497 | - | - | - |
| PILOT intangible | 3,700 | (124) | 3,576 | - | - | - |
| Other intangibles | 2,046 | (2) | 2,044 | - | - | - |
| Total Senior Housing | 123,111 | (22,252) | 100,859 | 23,311 | (4,225) | 19,086 |
| Advertiser relationships | 58,269 | (359) | 57,910 | - | - | - |
| Customer relationships | 5,666 | (35) | 5,631 | - | - | - |
| Subscriber relationships | 35,966 | (221) | 35,745 | - | - | - |
| Trade name | 268 | (3) | 265 | - | - | - |
| Total Media | 100,169 | (618) | 99,551 | - | - | - |
| Trade name | 700 | - | 700 | - | - | - |
| Leasehold intangibles | 52,066 | - | 52,066 | - | - | - |
| Management contracts | 39,000 | - | 39,000 | - | - | - |
| Internally-developed software | 800 | - | 800 | - | - | - |
| Membership base | 5,400 | - | 5,400 | - | - | - |
| Total Golf | 97,966 | - | 97,966 | - | - | - |
| Total | \$ 321,246 | \$ (22,870) | \$ 298,376 | \$ 23,311 | \$ (4,225) | \$ 19,086 |
| Nonamortizable intangible assets: | | | | | | |
| Mastheads-Media | 45,849 | - | 45,849 | | | |
| Liquor license-Golf | 900 | - | 900 | | | |
| Goodwill | 126,686 | - | 126,686 | | | |
| Total | \$ 494,681 | \$ (22,870) | \$ 471,811 | | | |

The unamortized balance of intangible assets at December 31, 2013 are expected to be charged to amortization expense as follows:

| | | |
|------------|----|---------|
| 2014 | \$ | 61,435 |
| 2015 | | 49,122 |
| 2016 | | 33,262 |
| 2017 | | 16,304 |
| 2018 | | 15,543 |
| Thereafter | | 122,710 |
| | \$ | 298,376 |

The changes in the carrying amount of goodwill for the year ended December 31, 2013 are as follows:

| | | |
|----------------------------------|----|---------|
| Gross balance at January 1, 2013 | \$ | - |
| Business combination | | 126,686 |
| Net balance at December 31, 2013 | \$ | 126,686 |

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13. 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, 2013 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.

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Fair Value Summary Table

The carrying values and estimated fair values of Newcastle's assets and liabilities at December 31, 2013 and 2012 were as follows:

| | December 31, 2013 | | | | December 31, 2012 | | | |
|---|--------------------------------------|---------------------|----------------------|--|-------------------------------------|-----------------------------------|---------------------|----------------------|
| | 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* | \$ 1,170,905 | \$ 984,263 | \$ 984,263 | Broker quotations, counterparty quotations, pricing services, pricing models | 5.44% | 2.9 | \$ 1,691,575 | \$ 1,691,575 |
| Real estate related and other loans, held-for-sale, net | 567,829 | 437,530 | 456,535 | Broker quotations, counterparty quotations, pricing services, pricing models | 13.92% | 1.1 | 843,132 | 853,102 |
| Residential mortgage loans, held-for-investment, net | 277,624 | 255,450 | 252,039 | Pricing models | 8.50% | 5.4 | 292,461 | 297,030 |
| Residential mortgage loans, held-for-sale, net | 3,129 | 2,185 | 2,185 | Pricing models | 19.34% | 4.4 | 2,471 | 2,471 |
| Subprime mortgage loans subject to call option (B) | 406,217 | 406,217 | 406,217 | (B) | 9.09% | (B) | 405,814 | 405,814 |
| Restricted cash* | | 12,366 | 12,366 | | | | 2,064 | 2,064 |
| Cash and cash equivalents* | | 105,944 | 105,944 | | | | 231,898 | 231,898 |
| Non-hedge derivative assets (D)(E)* | 116,806 | 43,662 | 43,662 | Counterparty quotations | N/A | (D) | 165 | 165 |
| Investments in senior housing real estate, net | 1,362,900 | | | | | | 162,801 | |
| Investments in other real estate, net | | 266,170 | | | | | 6,672 | |
| Property, plant and equipment, net | | 270,188 | | | | | | |
| Goodwill and intangibles | | 471,811 | | | | | 19,086 | |
| Other investments | | 25,468 | | | | | 24,907 | |
| Receivables and other assets | | 208,409 | | | | | 17,197 | |
| Assets of discontinued operations | | - | | | | | 245,069 | |
| | | <u>\$ 4,852,563</u> | | | | | <u>\$ 3,945,312</u> | |
| Liabilities | | | | | | | | |
| Financial instruments: | | | | | | | | |
| CDO bonds payable (F) | \$ 543,516 | \$ 544,525 | \$ 395,689 | Pricing models | 2.26% | 1.9 | \$ 1,091,354 | \$ 781,856 |
| Other bonds and notes payable (F) | 243,745 | 230,279 | 235,464 | Broker quotations, pricing models | 3.50% | 3.1 | 183,390 | 190,302 |
| Repurchase agreements | 556,347 | 556,347 | 556,347 | Market comparables | 0.52% | 0.1 | 929,435 | 929,435 |
| Mortgage notes payable | 1,077,163 | 1,076,828 | 1,075,390 | Pricing models | 4.75% | 6.8 | 120,525 | 120,525 |
| Credit facilities, media and golf | 335,498 | 334,514 | 334,514 | (G) | 6.68% | 4.4 | | |
| Financing of subprime mortgage loans subject to call option (B) | 406,217 | 406,217 | 406,217 | (B) | 9.09% | (B) | 405,814 | 405,814 |
| Junior subordinated notes payable | 51,004 | 51,237 | 35,479 | Pricing models | 7.39% | 21.3 | 51,243 | 31,545 |
| Interest rate swaps, treated as hedges (C)(E)* | 105,031 | 6,203 | 6,203 | Counterparty quotations | N/A | (C) | 12,175 | 12,175 |
| Non-hedge derivatives (D)(E)* | 185,871 | 7,592 | 7,592 | Counterparty quotations | N/A | (D) | 19,401 | 19,401 |
| Dividends payable, accounts payable, accrued expenses and other liabilities | | 412,697 | | | | | 58,435 | |
| Liabilities of discontinued operations | | - | | | | | 480 | |
| | | <u>\$ 3,626,439</u> | | | | | <u>\$ 2,872,252</u> | |

*Measured at fair value on a recurring basis.

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- (A) Methods are listed in order of priority. In the case of real estate securities and real estate related and other 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 7), 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 | \$ 105,031 | 5.04% | \$ (6,203) |

- (D) This represents a linked transaction entered into in June 2013 with \$116.8 million face amount of underlying financial securities. This derivative agreement was not designated as a hedge for accounting purposes as of December 31, 2013.
- (E) Newcastle's derivatives fall into two categories. As of December 31, 2013, all derivatives liabilities, which represent three interest rate swaps, were held within Newcastle's nonrecourse structures. An aggregate notional balance of \$290.9 million, 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 derivative asset with an aggregate notional balance of \$116.8 million, represents linked transactions with \$116.8 million face amount of underlying financed securities. Newcastle's interest rate swap counterparties include Bank of America and Bank of New York Mellon. Newcastle's derivatives are included in other assets or other liabilities in the consolidated balance sheets, as applicable.
- (F) Newcastle notes that the unrealized gain on the liabilities within such structures cannot be fully realized. Assets held within CDOs and other non-recourse structures are generally 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) These credit facilities were entered into late in the fourth quarter of 2013 and Newcastle believes their terms are market terms as of December 31, 2013.

Refer to Note 15 for a discussion of the fair value of the New Media pension plan assets.

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.

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.

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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 quotations from different sources, 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, where available, and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants. The board of directors has reviewed Newcastle's process for determining the valuations of its investments based on information provided by the Manager and has concluded such process is reasonable and appropriate.

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 and other 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.

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis at December 31, 2013:

| | Principal Balance or Notional Amount | | Fair Value | | |
|---|---|------------|----------------|------------|------------|
| | | | Carrying Value | Level 2 | Level 3 |
| Assets: | | | | | |
| Real estate securities, available for sale: | | | | | |
| CMBS | \$ 333,121 | \$ 284,469 | \$ - | \$ 284,469 | \$ 284,469 |
| REIT debt | 29,200 | 31,186 | 31,186 | - | 31,186 |
| Non-Agency RMBS | 96,762 | 57,581 | - | 57,581 | 57,581 |
| ABS - other real estate | 8,464 | - | - | - | - |
| FNMA / FHLMC | 514,994 | 551,270 | 551,270 | - | 551,270 |
| CDO | 188,364 | 59,757 | - | 59,757 | 59,757 |
| Real estate securities total | \$ 1,170,905 | \$ 984,263 | \$ 582,456 | \$ 401,807 | \$ 984,263 |
| Derivative assets: | | | | | |
| Linked transactions at fair value | \$ 116,806 | \$ 43,662 | \$ - | \$ 43,662 | \$ 43,662 |
| Derivative assets total | \$ 116,806 | \$ 43,662 | \$ - | \$ 43,662 | \$ 43,662 |
| Liabilities: | | | | | |
| Derivative Liabilities: | | | | | |
| Interest rate swaps, treated as hedges | \$ 105,031 | \$ 6,203 | \$ 6,203 | \$ - | \$ 6,203 |
| Interest rate swaps, not treated as hedges | 185,871 | 7,592 | 7,592 | - | 7,592 |
| Derivative liabilities total | \$ 290,902 | \$ 13,795 | \$ 13,795 | \$ - | \$ 13,795 |

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Newcastle's investments in instruments measured at fair value on a recurring basis using Level 3 inputs changed as follows:

| | Level 3 Assets | | | | | | | Total |
|---|----------------|------------|------------|-----------|----------------------------|------------------------|--------------|-------|
| | CMBS | | ABS | | Equity/Other Securities | Linked Transactions | | |
| | Conduit | Other | Subprime | Other | | | | |
| Balance at December 31, 2011 | \$ 956,905 | \$ 171,913 | \$ 128,622 | \$ 38,107 | \$ 55,986 | \$ - | \$ 1,351,533 | |
| CDO X Deconsolidation (A) | (767,660) | (40,172) | (86,704) | (26,174) | - | - | (920,710) | |
| Total gains (losses) (B) | | | | | | | | |
| Included in net income (loss) (C) | (4,947) | (396) | 828 | (4,092) | - | - | (8,607) | |
| Included in other comprehensive income (loss) | 22,537 | 12,515 | 28,573 | 1,739 | 15,125 | - | 80,489 | |
| Amortization included in interest income | 33,538 | 1,777 | 17,691 | 288 | 5,657 | - | 58,951 | |
| Purchases, sales and settlements | | | | | | | | |
| Purchases | 116,087 | - | 315,475 | - | - | - | 431,562 | |
| Proceeds from sales | (43,259) | - | (3,295) | (3,743) | - | - | (50,297) | |
| Proceeds from repayments | (58,432) | (24,015) | (45,215) | (4,650) | (5,743) | - | (138,055) | |
| Balance at December 31, 2012 | \$ 254,769 | \$ 121,622 | \$ 355,975 | \$ 1,475 | \$ 71,025 | \$ - | \$ 804,866 | |
| Spin-off of New Residential (A) | - | - | (560,783) | - | - | - | (560,783) | |
| Total gains (losses) (B) | | | | | | | | |
| Included in net income (loss) (C) | 348 | (331) | 2,372 | (82) | 1,638 | 1,168 | 5,113 | |
| Included in other comprehensive income (loss) | 14,999 | 2,168 | 24,755 | 73 | (726) | - | 41,269 | |
| Amortization included in interest income | 11,880 | 969 | 17,981 | 331 | 5,265 | - | 36,426 | |
| Purchases, sales and settlements | | | | | | | | |
| Purchases | - | - | 267,160 | - | - | 43,172 | 310,332 | |
| Proceeds from sales | (73,576) | (31,989) | (11,181) | (1,359) | (8,156) | - | (126,261) | |
| Proceeds from repayments | (9,485) | (6,905) | (38,698) | (438) | (9,289) | (678) | (65,493) | |
| Balance at December 31, 2013 | \$ 198,935 | \$ 85,534 | \$ 57,581 | \$ - | \$ 59,757 | \$ 43,662 | \$ 445,469 | |

(A) CDO X was deconsolidated on September 12, 2012 and the spin-off of New Residential occurred on May 15, 2013.

(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, | |
|--|-------------------------|------------|
| | 2013 | 2012 |
| Gain (loss) on settlement of investments, net | \$ 5,367 | \$ 10,196 |
| Other income (loss), net | 1,168 | - |
| OTTI | (1,422) | (18,803) |
| Total | \$ 5,113 | \$ (8,607) |
| Gain (loss) on sale of investments, net, from investments transferred into Level 3 during the period | \$ - | \$ - |

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Securities Valuation

As of December 31, 2013, Newcastle’s securities valuation methodology and results are further detailed as follows:

| Asset Type | Outstanding Face Amount (A) | Amortized Cost Basis (B) | Fair Value | | | | Total |
|-------------------------|-----------------------------------|--------------------------------|------------------------|---------------------|-----------------------------------|-------------------|-------|
| | | | Multiple Quotes (C) | Single Quote (D) | Internal Pricing Models (E) | | |
| CMBS | \$ 333,121 | \$ 227,878 | \$ 240,358 | \$ 42,341 | \$ 1,770 | \$ 284,469 | |
| REIT debt | 29,200 | 28,667 | 31,186 | - | - | 31,186 | |
| Non-Agency RMBS | 96,762 | 40,675 | 57,581 | - | - | 57,581 | |
| ABS - other real estate | 8,464 | - | - | - | - | - | |
| FNMA / FHLMC | 514,994 | 547,639 | 551,270 | - | - | 551,270 | |
| CDO | 188,364 | 56,996 | - | 57,755 | 2,002 | 59,757 | |
| Total | \$ 1,170,905 | \$ 901,855 | \$ 880,395 | \$ 100,096 | \$ 3,772 | \$ 984,263 | |

(A) Net of incurred losses.

(B) Net of discounts (or gross premiums) and after OTTI, including impairment taken during the period ended December 31, 2013.

(C) Management generally obtained pricing service quotations or broker quotations from at least two sources, one of which was generally the seller (the party that sold 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 the security) or a pricing service.

(E) Securities whose fair value was estimated based on internal pricing models are further detailed as follows:

| Asset Type | Amortized Cost Basis (B) | Fair Value | Impairment Recorded in Current Year | Unrealized Gains (Losses) in Accumulated OCI | Weighted Average Significant Input | | | |
|----------------|--------------------------------|-----------------|---|---|------------------------------------|-------------------------|----------------------------|------------------|
| | | | | | Discount Rate | Prepayment Speed (F) | Cumulative Default Rate | Loss Severity |
| CMBS - conduit | \$ 738 | \$ 1,770 | \$ 76 | \$ 1,032 | 8.0% | N/A | 99.5% | 27.6% |
| CDO | - | 2,002 | - | 2,002 | 35.0% | 3.5% | 17.5% | 73.5% |
| Total | \$ 738 | \$ 3,772 | \$ 76 | \$ 3,034 | | | | |

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. 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 rates are determined from the current “pipeline” of loans that are more than 90 days delinquent, in foreclosure, or are 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.

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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 and other 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 and other loans and residential mortgage loans held-for-sale as of December 31, 2013:

| Loan Type | Outstanding | | Fair Value | Valuation Allowance/ (Reversal) In Current Year | Significant Input | | | |
|--|-------------------|-------------------|-------------------|---|-------------------|---------------|------------------|---------------|
| | Face Amount | Carrying Value | | | Range | | Weighted Average | |
| | | | | | Discount Rate | Loss Severity | Discount Rate | Loss Severity |
| Mezzanine | \$ 172,197 | \$ 139,720 | \$ 143,217 | \$ (14,246) | 3.4% - 9.0% | 0.0% - 100.0% | 6.6% | 17.3% |
| Bank Loan | 256,594 | 166,710 | 180,945 | (3,610) | 13.1% - 33.8% | 0.0% - 100.0% | 24.2% | 23.1% |
| B-Note | 109,323 | 101,385 | 102,645 | (1,623) | 5.0% - 12.0% | 0.0% | 10.1% | 0.0% |
| Whole Loan | 29,715 | 29,715 | 29,728 | - | 3.7% - 4.0% | 0.0% - 15.5% | 3.7% | 15.1% |
| Total Real Estate Related and Other Loans Held for Sale, Net | <u>\$ 567,829</u> | <u>\$ 437,530</u> | <u>\$ 456,535</u> | <u>\$ (19,479)</u> | | | | |

| Loan Type | Outstanding | | Fair Value | Valuation Allowance/ (Reversal) In Current Year | Significant Input (Weighted Average) | | | |
|---|-----------------|-----------------|-----------------|---|--------------------------------------|------------------|-----------------------|---------------|
| | Face Amount | Carrying Value | | | Discount Rate | Prepayment Speed | Constant Default Rate | Loss Severity |
| | | | | | | | | |
| Non-securitized Manufactured Housing Loans Portfolio I | \$ 501 | \$ 130 | \$ 130 | \$ (58) | 81.8% | 5.0% | 11.6% | 65.0% |
| Non-securitized Manufactured Housing Loans Portfolio II | 2,628 | 2,055 | 2,055 | (47) | 15.4% | 5.0% | 3.5% | 60.0% |
| Total Residential Mortgage Loans Held for Sale, Net | <u>\$ 3,129</u> | <u>\$ 2,185</u> | <u>\$ 2,185</u> | <u>\$ (105)</u> | | | | |

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.

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The following table summarizes certain information for residential mortgage loans held-for-investment as of December 31, 2013:

| <u>Loan Type</u> | Outstanding Face Amount | Carrying Value | Fair Value | Valuation Allowance/ (Reversal) In Current Year | Significant Input (Weighted Average) | | | |
|---|----------------------------|-------------------|-------------------|--|--------------------------------------|---------------------|--------------------------|---------------|
| | | | | | Discount Rate | Prepayment Speed | Constant Default Rate | Loss Severity |
| Securitized Manufactured Housing Loans Portfolio I | \$ 102,681 | \$ 91,924 | \$ 89,674 | \$ (5,465) | 9.4% | 6.0% | 3.0% | 65.0% |
| Securitized Manufactured Housing Loans Portfolio II | 128,975 | 128,117 | 123,471 | 840 | 8.1% | 7.0% | 3.5% | 60.0% |
| Residential Loans | 45,968 | 35,409 | 38,894 | (826) | 7.5% | 4.6% | 2.8% | 45.9% |
| Total Residential Mortgage Loans, Held-for-Investment, Net | <u>\$ 277,624</u> | <u>\$ 255,450</u> | <u>\$ 252,039</u> | <u>\$ (5,451)</u> | | | | |

Derivatives

Newcastle's derivative instruments are comprised of interest rate swaps and linked transactions. Newcastle's interest rate swaps 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 Newcastle's Level 2 interest rate swap derivative contracts are contractual cash flows and market based interest rate curves. The linked transactions, which are categorized into Level 3, are evaluated on a net basis considering their underlying components, the security acquired and the related repurchase financing agreement. The securities are valued using a similar methodology to the one described in "Securities Valuation" above and this value is netted against the carrying value of the repurchase agreement (which approximates fair value as described in "Liabilities for Which Fair Value is Only Disclosed" below), adjusted for net accrued interest receivable/payable on the securities and repurchase agreement of the linked transactions (see Note 14 for a discussion of Newcastle's outstanding linked transactions).

Newcastle's derivatives are recorded on its balance sheet as follows:

| | Balance sheet location | Fair Value | |
|---|--|----------------------|------------------|
| | | December 31, 2013 | 2012 |
| Derivative Assets | | | |
| Linked transaction at fair value | Receivables and other assets | \$ 43,662 | \$ - |
| Interest rate caps, not designated as hedges | Receivables and other assets | - | 165 |
| | | <u>\$ 43,662</u> | <u>\$ 165</u> |
| Derivative Liabilities | | | |
| Interest rate swaps, designated as hedges | Accounts payable, accrued expenses and other liabilities | \$ 6,203 | \$ 12,175 |
| Interest rate swaps, not designated as hedges | Accounts payable, accrued expenses and other liabilities | 7,592 | 19,401 |
| | | <u>\$ 13,795</u> | <u>\$ 31,576</u> |

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The following table summarizes information related to derivatives:

| | December 31, | |
|---|--------------|------------|
| | 2013 | 2012 |
| Cash flow hedges | | |
| Notional amount of interest rate swap agreements | \$ 105,031 | \$ 154,450 |
| Amount of (loss) recognized in other comprehensive income on effective portion | (6,117) | (12,050) |
| Deferred hedge gain (loss) related to anticipated financings, which have subsequently occurred, net of amortization | 170 | 237 |
| Deferred hedge gain (loss) related to designation, net of amortization | (45) | (210) |
| Expected reclassification of deferred hedges from accumulated other comprehensive income ("AOCI") into earnings over the next 12 months | 53 | 4 |
| Expected reclassification of current hedges from AOCI into earnings over the next 12 months | (3,915) | (6,259) |
| Non-hedge Derivatives | | |
| Notional amount of interest rate swap agreements | 185,871 | 294,203 |
| Notional amount of interest rate cap agreements | - | 23,400 |
| Notional amount of linked transactions ^(A) | 116,806 | - |

(A) This represents the current face amount of the underlying financial securities comprising linked transactions.

The following table summarizes gains (losses) recorded in relation to derivatives:

| | Income Statement Location | Year Ended December 31, | | |
|--|---|-------------------------|----------|----------|
| | | 2013 | 2012 | 2011 |
| Cash flow hedges | | | | |
| Gain (loss) on the ineffective portion | Other income (loss) | \$ - | \$ 483 | \$ (917) |
| Loss immediately recognized at dedesignation | Gain (loss) on sale of investments, Other income (loss) | (110) | (7,036) | (13,939) |
| Amount of loss reclassified from AOCI into income, related to effective portion | Interest expense | (6,128) | (30,631) | (63,350) |
| Deferred hedge gain reclassified from AOCI into income, related to anticipated financings | Interest expense | 67 | 61 | 58 |
| Deferred hedge (loss) gain reclassified from AOCI into income, related to effective portion of dedesignated hedges | Interest expense | (56) | 1,189 | 2,259 |
| Non-hedge derivatives gain (loss) | | | | |
| Interest rate swaps | Other income (loss) | 10,577 | 9,101 | 3,284 |
| Linked transactions | Interest expense | (236) | - | - |

The following table presents both gross and net information about linked transactions:

| | As of December 31, | |
|---|--------------------|------|
| | 2013 | 2012 |
| Real estate securities-available for sale (A) | \$ 104,308 | \$ - |
| Repurchase agreements (B) | (60,646) | - |
| Net assets recognized as linked transactions | \$ 43,662 | \$ - |

(A) Represents the fair value of the securities accounted for as part of linked transactions.

(B) Represents the carrying value, which approximates fair value, of the repurchase agreements accounted for as part of linked transactions.

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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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads |
| Media Credit Facilities | Level 3 | Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Credit spread of New Media |
| Golf Credit Facilities | Level 3 | Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Credit spread of Golf |
| Junior subordinated notes payable | Level 3 | Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Market yields and the credit spread of Newcastle |

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14. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges:

| Debt Obligation/Collateral | December 31, 2013 | | | | | | | | | | | December 31, 2012 | | | | |
|--|-------------------|-------------------------|----------------|-----------------------|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------|--------------------------|--------------------|-----------------------------------|-------------------------------|--|-------------------------|----------------|
| | 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 Hedged(D) | Outstanding Face Amount | Carrying Value |
| | | | | | | | | | | | | | | | | |
| CDO Bonds Payable | | | | | | | | | | | | | | | | |
| CDO VI (E) | Apr 2005 | \$ 92,018 | \$ 92,018 | Apr 2040 | 0.85% | 5.35% | \$ 88,727 | \$ 166,452 | \$ 88,965 | \$ 123,478 | 2.3 | \$ 40,482 | \$ 88,727 | \$ 91,578 | \$ 91,578 | |
| CDO VIII | Nov 2006 | 264,733 | 264,277 | Nov 2052 | 0.88% | 2.45% | 257,133 | 421,487 | 317,202 | 346,101 | 1.7 | 184,585 | 105,031 | 518,501 | 517,541 | |
| CDO IX | May 2007 | 186,765 | 188,230 | May 2052 | 0.56% | 0.50% | 186,765 | 433,012 | 357,224 | 366,581 | 1.9 | 162,115 | - | 400,938 | 402,424 | |
| Repaid debt | | 543,516 | 544,525 | | | 2.26% | 532,625 | 1,020,951 | 763,391 | 836,160 | 1.9 | 387,182 | 193,758 | 1,090,915 | 1,091,354 | |
| Other Bonds & Notes Payable | | | | | | | | | | | | | | | | |
| MH loans Portfolio I (F) | Apr 2010 | 53,753 | 50,424 | Jul 2035 | 6.56% | 6.56% | - | 102,681 | 91,924 | 91,924 | 6.1 | 612 | - | 70,056 | 66,199 | |
| MH loans Portfolio II | May 2011 | 93,863 | 93,536 | Dec 2033 | 4.70% | 4.70% | - | 128,975 | 128,117 | 128,117 | 4.9 | 21,321 | - | 117,907 | 117,191 | |
| NCT 2013-VI IMM-1 (I) | Nov 2013 | 96,129 | 86,319 | Apr 2040 | LIBOR+0.25% | 0.42% | 96,129 | - | - | - | 0.0 | - | - | - | - | |
| Repaid debt | | 243,745 | 230,279 | | | 3.50% | 96,129 | 231,656 | 220,041 | 220,041 | 5.4 | 21,933 | - | 187,963 | 183,390 | |
| Repurchase Agreements (G) | | | | | | | | | | | | | | | | |
| FNMA/FHLMC securities (H) | Dec 2013 | 516,134 | 516,134 | Jan 2014 | 0.40% | 0.40% | 516,134 | 514,994 | 547,639 | 551,270 | 3.6 | 514,994 | - | 772,855 | 772,855 | |
| CDO securities (I) | Dec 2013 | 15,094 | 15,094 | Jan 2014 | LIBOR+1.65% | 1.82% | 15,094 | - | - | - | 0.0 | - | - | 5,658 | 5,658 | |
| Residential Mortgage Loans | Nov 2013 | 25,119 | 25,119 | Nov 2014 | LIBOR+2.00% | 2.17% | 25,119 | 36,029 | 27,173 | 27,173 | 5.5 | 36,029 | - | - | - | |
| Repaid debt | | 556,347 | 556,347 | | | 0.52% | 556,347 | 551,023 | 574,812 | 578,443 | 3.7 | 551,023 | - | 929,435 | 929,435 | |
| Mortgage Notes Payable | | | | | | | | | | | | | | | | |
| Fixed Rate | | 878,579 | 878,244 | Aug 2018 to Jan 2024 | 1.43% to 4.30% (J)(K) | 4.72% | - | N/A | 1,193,583 | 1,193,583 | N/A | N/A | - | 88,400 | 88,400 | |
| Floating Rate | | 198,584 | 198,584 | Aug 2016 to Dec 2018 | LIBOR+3.50% to LIBOR+3.75% | 4.88% | 198,584 | N/A | 270,175 | 270,175 | N/A | N/A | - | 32,125 | 32,125 | |
| Repaid debt | | 1,077,163 | 1,076,828 | | | 4.75% | 198,584 | N/A | 1,463,758 | 1,463,758 | N/A | N/A | - | 120,525 | 120,525 | |

Continued on next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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| | December 31, 2013 | | December 31, 2012 | | 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 |
| Media Credit Facilities | | | | | | | | | | | | | | | | |
| GaieHouse Credit Facilities (Q) | | | | | | | | | | | | | | | | |
| Revolving Credit Facilities | Nov 2013 | 25,000 | 25,000 | Nov 2018 | LIBOR+3.25% | 3.42% | 4.9 | 25,000 | N/A | - | - | N/A | N/A | - | - | - |
| Term Loan A | Nov 2013 | 25,000 | 25,000 | Nov 2018 | LIBOR+4.25% (L) | 5.00% | 4.0 | 25,000 | N/A | - | - | N/A | N/A | - | - | - |
| Term Loan B | Nov 2013 | 50,000 | 50,000 | Nov 2018 | LIBOR+8.00% (L) | 8.75% | 4.0 | 50,000 | N/A | - | - | N/A | N/A | - | - | - |
| Second Lien Credit Facility | Nov 2013 | 50,000 | 49,016 | Nov 2019 | LIBOR+11.00% | 11.17% | 5.9 | 50,000 | N/A | - | - | N/A | N/A | - | - | - |
| Local Media Group Credit Facility | Sep 2013 | 33,000 | 33,000 | Sep 2018 | LIBOR+6.50% (M) | 7.50% | 4.3 | 33,000 | N/A | - | - | N/A | N/A | - | - | - |
| | | 183,000 | 182,016 | | | 7.93% | 4.7 | 183,000 | N/A | - | - | N/A | N/A | - | - | - |
| Golf Credit Facilities (Q) | | | | | | | | | | | | | | | | |
| First Lien Loan | Dec 2013 | 46,922 | 46,922 | Dec 2018 | LIBOR+4.00% (N) | 4.50% | 4.0 | 46,922 | N/A | - | - | N/A | N/A | - | - | - |
| Second Lien Loan | Dec 2013 | 105,576 | 105,576 | Dec 2018 | 5.50% | 5.50% | 4.0 | - | N/A | - | - | N/A | N/A | - | - | - |
| | | 152,498 | 152,498 | | | 5.19% | 4.0 | 46,922 | N/A | - | - | N/A | N/A | - | - | - |
| Corporate | | | | | | | | | | | | | | | | |
| Junior subordinated notes payable | Mar 2006 | 51,004 | 51,237 | Apr 2035 | 7.57% | 7.39% | 21.3 | - | - | - | - | - | - | - | 51,004 | 51,243 |
| | | 51,004 | 51,237 | | | 7.39% | 21.3 | - | - | - | - | - | - | - | 51,004 | 51,243 |
| Subtotal debt obligation | | 2,807,273 | 2,793,730 | | | 3.60% | 4.2 | \$ 1,613,607 | \$ 1,803,630 | \$ 3,022,002 | \$ 3,098,402 | 2.9 | \$ 960,138 | \$ 193,758 | 2,379,842 | 2,375,947 |
| Financing on subprime mortgage loans subject to call option | (P) | 406,217 | 406,217 | | | | | | | | | | | | 406,217 | 405,814 |
| Total debt obligation | | \$ 3,213,490 | \$ 3,199,947 | | | | | | | | | | | | \$ 2,786,059 | \$ 2,781,761 |

See notes on next page.

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- (A) Weighted average, including floating and fixed rate classes.
- (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 from the senior housing business.
- (D) Including \$88.7 million notional amount of interest rate swap in CDO VI, which was an economic hedge not designed as a hedge for accounting purposes.
- (E) This CDO was not in compliance with its applicable over collateralization tests as of December 31, 2013. Newcastle is not receiving cash flows from this CDO (other than senior management fees and cash flows on senior classes of bonds that were repurchased), since net interest is being used to repay debt, and expects this CDO to remain out of compliance for the foreseeable future.
- (F) Excluding \$20.5 million of other bonds payable relating to MH loans Portfolio I sold to certain Newcastle CDOs, which were eliminated in consolidation.
- (G) These repurchase agreements had \$0.1 million accrued interest payable at December 31, 2013. \$556.3 million face amount of these repurchase agreements were renewed subsequent to December 31, 2013. The counterparties on these repurchase agreements are Bank of America (\$299.1 million), Barclays (\$138.0 million), Citi (\$35.6 million), Goldman Sachs (\$7.4 million), Nomura (\$51.1 million) and Credit Suisse (\$25.1 million).
- (H) Interest rates on these repurchase agreements are fixed, but will be reset on a short-term basis.
- (I) Represents refinancing of repurchased Newcastle CDO bonds where collateral is, therefore, eliminated in consolidation.
- (J) For loans totaling \$41.2 million issued in August 2013, Newcastle bought down the interest rate to 4% for the first two years. Thereafter, the interest rate will range from 5.99% to 6.76%.
- (K) For a loan with a total balance of \$11.4 million, the interest rate for the first two years is based on the applicable US Treasury Security rates. The interest rate for years 3 through 5 is 4.5%, 4.75% and 5.0%, respectively.
- (L) This financing has a LIBOR floor of 0.75%.
- (M) This financing has a LIBOR floor of 1.0%.
- (N) Interest rate on this is based on 3 month LIBOR with a LIBOR floor of 0.5%.
- (O) Issued in April 2006 and July 2007 and secured by the general credit of Newcastle. See Note 7 regarding the securitizations of Subprime Portfolio I and II.
- (P) LIBOR +2.25% after April 2016.
- (Q) These facilities are collateralized by all of the assets of the respective businesses.

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, cash flow and liquidity are negatively impacted upon such a failure. As of December 31, 2013, CDO VI was not in compliance with its over collateralization tests.

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. During 2013, Newcastle repurchased \$35.9 million face amount of CDO bonds for \$31.3 million and recorded a gain of \$4.6 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"). 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, 2014, 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

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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.

In June 2013, Newcastle completed the sale of 100% of the assets in CDO IV. Newcastle sold \$153.4 million face amount of collateral at an average price of 95% of par, or \$145.2 million. Subsequently, Newcastle paid off \$71.9 million of outstanding third party debt and terminated the CDO. This transaction resulted in approximately \$73.1 million of proceeds to Newcastle of which approximately \$5.3 million was received in Newcastle CDO VIII. Newcastle recovered par on \$59.5 million of CDO debt which had been repurchased in the past at an average price of 52% of par and \$8.0 million of proceeds on its subordinated interests. This transaction has also decreased Newcastle's comprehensive income by \$0.6 million and resulted in a net gain on sale of assets of \$4.2 million and a \$0.8 million gain on hedge termination.

In June 2013, Newcastle completed the purchase of \$116.8 million aggregate face amount of securities that are collateralized by certain Newcastle CDO VIII Class I notes for an aggregate purchase of approximately \$103.1 million, or an average price of 88.3% of par. Simultaneously, Newcastle financed the purchase with \$60.0 million received pursuant to a master repurchase agreement with the seller of the securities ("CDO VIII Repack"). The terms of the repurchase agreement included a rate of one-month LIBOR plus 150 bps and a 30-day maturity. The repurchase agreement includes various customary default events, including a default if Newcastle's market capitalization declines by 50% from the market capitalization observed at the last trading day of the previous quarter. An event of default under the master repurchase agreement, if one occurs, would require Newcastle to immediately pay off the outstanding debt or the lender would have the right to liquidate the collateral. The purchase of the securities and the repurchase agreement are treated as a linked transaction and accordingly recorded on a net basis as a non-hedge derivative instrument, with changes in market value recorded on the consolidated statements of income. During the year ended December 31, 2013, there was a \$0.5 million increase in carrying value in CDO VIII Repack.

As of December 31, 2013, CDO VI was not in compliance with its applicable over collateralization tests and, consequently, Newcastle was not receiving cash flows from this CDO currently (other than senior management fees and interest distributions from senior classes of bonds Newcastle owns). Based upon Newcastle's current calculations, Newcastle expects this CDO 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. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. 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

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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 with respect to Senior Housing Portfolio

Repayments of principal balances on \$147.8 million of fixed rate mortgage notes commenced in September 2013 and are based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from December 2018 to March 2020. Repayments of principal balances for the remaining fixed rate mortgage notes commence in February 2014 based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from August 2018 to January 2024. For floating rate mortgage notes, repayments of principal balances commence in January 2015 based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from August 2016 to December 2018.

Credit Facilities

Local Media Group Credit Facility

In connection with the acquisition of Local Media Group (see Note 3) on September 3, 2013, certain of Local Media Group's subsidiaries (together, the "Borrowers") and Local Media Group entered into a Credit Agreement, dated as of September 3, 2013, with a syndicate of financial institutions with Credit Suisse AG, Cayman Islands Branch, as administrative agent (the "Local Media Group Credit Facility").

The Local Media Group Credit Facility provided for: (a) a \$33.0 million term loan facility that matures on September 4, 2018; and (b) a \$10.0 million revolving credit facility, with a \$3.0 million sub-facility for letters of credit and a \$4.0 million sub-facility for swing loans, that matures on September 4, 2018 and was undrawn and available as of December 31, 2013. The Local Media Group Credit Facility is secured by a first priority security interest in all assets of the Borrowers and Local Media Group.

Borrowings under the Local Media Group Credit Facility bear interest, at the Borrower's option, equal to the LIBOR Rate (as defined in the Local Media Group Credit Facility) *plus* 6.5% per annum for a LIBOR Rate Loan (as defined in the Local Media Group Credit Facility), or the Base Rate (as defined in the Local Media Group Credit Facility) *plus* 5.5% per annum for a Base Rate Loan (as defined in the Local Media Group Credit Facility). Under the revolving credit facility, the Borrowers will also pay a monthly commitment fee of 0.75% per annum on the unused portion of the revolving credit facility and a fee of 6.0% on the aggregate amount of outstanding letters of credit.

No principal payments are due on the revolving credit facility until the maturity date. Principal payments are due on the term loan facility as follows: (a) \$0.2 million at the end of each fiscal quarter beginning with the fiscal quarter ending December 31, 2013 until the fiscal quarter ending September 30, 2015; and (b) \$0.4 million beginning with the fiscal quarter ending December 31, 2015 and at the end of each fiscal quarter thereafter. The Borrowers are required to prepay borrowings under the Local Media Group Credit Facility in an amount equal to: (i) 100% of Excess Cash Flow (as defined in the Local Media Group Credit Facility) earned during any fiscal quarter if the Leverage Ratio (as defined in the Local Media Group Credit Facility) of Local Media Group and the Borrowers as of the end of such fiscal quarter was greater than or equal to 2.0 to 1.0; (ii) 50% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of Local Media Group and the Borrowers as of the end of such fiscal quarter was less than 2.0 to 1.0 and greater than or equal to 1.75 to 1.0; and (iii) 0% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of Local Media Group and the Borrowers as of the end of such fiscal quarter was less than 1.75 to 1.0, in each case subject to an annual audit adjustment. In addition, the Borrowers are required to prepay borrowings under the Local Media Group Credit Facility with (A) net cash proceeds of asset dispositions, (B) 100% of Extraordinary Receipts (as defined in the Local Media Group Credit Facility), (C) net cash proceeds of funded indebtedness (other than indebtedness permitted by the Local Media Group Credit Facility); and (D) 100% of all Specified Equity Contributions (as defined in the Local Media Group Credit Facility) to Local Media Group.

The Local Media Group Credit Facility contains financial covenants that require Local Media Group and the Borrowers to maintain a Leverage Ratio of not more than 2.5 to 1.0 and a Fixed Charge Coverage Ratio (as defined in the Local Media Group Credit Facility) of at least 2.0 to 1.0, each measured at the end of each fiscal quarter for the four-quarter period then ended. The Local Media Group Credit Facility contains affirmative and negative covenants applicable to Local Media Group and the Borrowers customarily found in loan agreements for similar transactions, including, but not limited to, restrictions on their ability to incur indebtedness, create liens on assets, engage in certain lines of business, engage in mergers or consolidations, dispose of assets, make investments or acquisitions, engage in transactions with affiliates, pay dividends or make other restricted payments. The Local Media Group Credit Facility contains customary events of default, including, but not limited to, defaults based on a failure to pay principal, reimbursement obligations, interest, fees or other

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obligations, subject to specified grace periods; any material inaccuracy of a representation or warranty; breach of covenant; failure to pay other indebtedness; a Change of Control (as defined in the Local Media Group Credit Facility); events of bankruptcy and insolvency; material judgments; failure to meet certain requirements with respect to ERISA; and impairment of collateral. As of December 31, 2013 Local Media Group was in compliance with the applicable covenants.

GateHouse Credit Facilities

The reorganized GateHouse's (see Note 3) debt structure consists of multiple credit facilities. The Revolving Credit, Term Loan and Security Agreement (collectively, the "First Lien Credit Facility") dated November 26, 2013 by and among GateHouse, GateHouse Media Intermediate Holdco, LLC formerly known as GateHouse Media Intermediate Holdco, Inc. ("GMIH"), certain wholly-owned subsidiaries of GMIH (collectively with GMIH and GateHouse, the "Loan Parties"), PNC Bank, National Association, as the administrative agent, Crystal Financial LLC, as term loan B agent, and each of the lenders party thereto provides for (i) a term loan A in the aggregate principal amount of \$25.0 million, a term loan B in the aggregate principal amount of \$50.0 million, and a revolving credit facility in an aggregate principal amount of up to \$40.0 million (of which \$25.0 million was funded on the Effective Date). Borrowings under the First Lien Credit Facility bear interest at a rate per annum equal to (i) with respect to the revolving credit facility, the applicable Revolving Interest Rate (as defined the First Lien Credit Agreement), (ii) with respect to the term loan A, the Term Loan A Rate (as defined in the First Lien Credit Agreement), and (iii) with respect to the term loan B, the Term Loan B Rate (as defined in the First Lien Credit Agreement). Amounts outstanding under the term loans and revolving credit facility will be fully due and payable on November 26, 2018.

The Term Loan and Security Agreement (collectively, the "Second Lien Credit Facility" and together with the First Lien Credit Facility, the "GateHouse Credit Facilities") dated November 26, 2013 by and among the Loan Parties, Mutual Quest Fund and each of the lenders party thereto provides for a term loan in an aggregate principal amount of \$50.0 million. Borrowings under the Second Lien Credit Facility bear interest, at the Loan Parties' option, equal to (1) the LIBOR Rate (as defined in the Second Lien Credit Facility) plus 11.00% or (2) the Alternate Base Rate (as defined in the Second Lien Credit Facility) plus 10.00%. The outstanding principal will be fully due and payable on the maturity date of November 26, 2019.

No principal payments are due on the revolving credit facility until the maturity date. Principal amounts outstanding under Term Loan A and Term Loan B of the First Lien Credit Facility will be payable in quarterly installments as follows: (I) four consecutive quarterly installments each in the amount of \$0.9 million, commencing on January 1, 2014, (II) four consecutive quarterly installments each in the amount of \$1.3 million, commencing on January 1, 2015, and (III) twelve consecutive quarterly installments each in the amount \$2.0 million, commencing on January 1, 2016, followed by a final payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses which will be fully due and payable on November 26, 2018. The principal payments will be applied against Term Loan A until fully paid, and then to Term Loan B. The outstanding principal of the Second Lien Credit Facility will be fully due and payable on the maturity date of November 26, 2019. Only interest payments are due under the Second Lien Credit Facility until maturity. The Loan Parties are required to prepay borrowings under the GateHouse Credit Facility in an amount equal to: (i) 100% of Excess Cash Flow (as defined in GateHouse Credit Facility) earned during any fiscal year quarter if the Leverage Ratio (as defined in the GateHouse Credit Facility) as of the end of such fiscal quarter was greater than or equal to 2.75 to 1.0; (ii) 50% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was less than 2.75 to 1.0 and greater than or equal to 2.5 to 1.0; and (iii) 0% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was than 2.5 to 1.0.

The GateHouse Credit Facilities impose upon GateHouse certain financial and operating covenants, including, among others, requirements that GateHouse satisfy certain financial tests, including a minimum fixed charge coverage ratio of not less than 1.0 to 1.0, a maximum leverage ratio of not greater than 3.25 to 1.0, a minimum EBITDA and a limitation on capital expenditures, and restrictions on GateHouse's ability to incur additional debt, incur liens and encumbrances, consolidate, amalgamate or merge with any other person, dispose of assets, make certain restricted payments, engage in transactions with its affiliates, materially alter the business it conducts and taking certain other corporate actions. As of December 31, 2013, GateHouse was in compliance with all applicable covenants and the revolving credit facility under the First Lien Credit Facility was undrawn and available.

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Golf Credit Facilities

In December 2013, the Golf business entered into two loan agreements (“First Lien Loan” and “Second Lien Loan”) with General Electric Capital Corporation (“GECC”). The loans mature on December 30, 2017. The terms of the loans may be extended for an additional 12-month period.

The First Lien Loan has an available principal balance of \$54.5 million (of which \$46.9 million was funded to date). The interest rate on the First Lien Loan is 3-month LIBOR, with a floor of 0.50%, plus a margin of 4.00% (less the impact of the interest rate cap agreement that limits Newcastle’s exposure on LIBOR to 4.79% on a notional amount of \$94.0 million). As of December 31, 2013, LIBOR was below the floor. Repayments of principal shall commence on January 1, 2017 based on a 30-year amortization schedule, with the entire outstanding amount due on the maturity date.

The Second Lien Loan has a principal balance of \$105.6 million and bears interest as at 5.5% per annum. Interest is paid on a monthly basis, and the monthly repayments of principal commence on January 1, 2017 based on a 30-year amortization schedule, with the entire outstanding amount due on the maturity date.

Approximately \$7.5 million of the facilities is subject to a working capital hold-back provision and can be used only to ensure that there are adequate funds for the settlement of third party lease terminations and to cover modifications events, and operating expenses, including up to \$2.5 million of interest on these loans.

Maturity Table

Newcastle’s debt obligations (gross of \$13.5 million of discounts at December 31, 2013) have contractual maturities as follows:

| | Nonrecourse | Recourse | Total |
|------------|---------------------|-------------------|---------------------|
| 2014 | \$ 13,593 | \$ 560,659 | \$ 574,252 |
| 2015 | 16,537 | 5,813 | 22,350 |
| 2016 | 41,083 | 9,625 | 50,708 |
| 2017 | 73,297 | 162,529 | 235,826 |
| 2018 | 142,789 | 103,219 | 246,008 |
| Thereafter | 2,034,346 | 50,000 | 2,084,346 |
| Total | <u>\$ 2,321,645</u> | <u>\$ 891,845</u> | <u>\$ 3,213,490</u> |

Debt Covenants

Newcastle’s non-CDO financings, mortgage notes payable, media credit facilities and golf credit facilities contain various customary loan covenants. Newcastle was in compliance with all of these covenants as of February 28, 2014.

15. PENSION AND POSTRETIREMENT BENEFITS

New Media maintains a legacy pension plan and legacy postretirement medical and life insurance plans which cover qualifying employees of its New Media subsidiaries. The pension plan and postretirement medical and life insurance plans are closed to new participants and the pension plan was amended to freeze all future benefit accruals as of December 31, 2008, except for a select group of union employees whose benefits were frozen during 2009. Also, during 2008 the medical and life insurance benefits for a select group of active employees were frozen and the plan was amended to limit future benefits.

New Media uses the accrued benefit actuarial method and best estimate assumptions to determine pension costs, liabilities and other pension information for defined benefit plans.

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The following provides information on the pension plan and postretirement medical and life insurance plan as of December 31, 2013 and for the period from November 26, 2013 to December 31, 2013:

| | <u>Pension</u> | | <u>Postretirement</u> | |
|--|---------------------------------------|----------------|---------------------------------------|----------------|
| | <u>Period Ended December 31, 2013</u> | | <u>Period Ended December 31, 2013</u> | |
| Change in projected benefit obligation: | | | | |
| Benefit obligation at beginning of period | \$ | 24,651 | \$ | 6,015 |
| Service cost | | 48 | | 6 |
| Interest cost | | 187 | | 41 |
| Actuarial loss | | (408) | | 176 |
| Benefits and expenses paid | | (163) | | (29) |
| Participant contributions | | - | | 2 |
| Employer implicit subsidy fulfilled | | - | | (5) |
| Projected benefit obligation at end of period | \$ | <u>24,315</u> | \$ | <u>6,206</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of period | \$ | 19,981 | \$ | - |
| Actual return on plan assets | | 472 | | - |
| Employer contributions | | - | | 27 |
| Employer implicit subsidy contribution | | - | | 5 |
| Participant contributions | | - | | 2 |
| Employer implicit subsidy fulfilled | | - | | (5) |
| Benefits paid | | (123) | | (29) |
| Expenses paid | | (40) | | - |
| Fair value of plan assets at end of period | \$ | <u>20,290</u> | \$ | <u>-</u> |
| Reconciliation of funded status | | | | |
| Benefit obligation at end of period | \$ | (24,315) | \$ | (6,206) |
| Fair value of assets at end of period | | 20,290 | | - |
| Funded status | | (4,025) | | (6,206) |
| Unrecognized actuarial (gain) loss | | (634) | | 176 |
| Net accrued benefit cost | \$ | <u>(4,659)</u> | \$ | <u>(6,030)</u> |
| Balance sheet presentation | | | | |
| Accounts payable, accrued expenses and other liabilities (A) | | 4,025 | | 6,206 |
| Accumulated other comprehensive income | | 634 | | (176) |
| Net accrued benefit cost | \$ | <u>4,659</u> | \$ | <u>6,030</u> |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ | 48 | \$ | 6 |
| Interest cost | | 187 | | 41 |
| Expected return on plan assets | | (246) | | - |
| Net periodic benefit cost | \$ | <u>(11)</u> | \$ | <u>47</u> |
| Other changes in plan assets and benefit obligations recognized in other comprehensive income | | | | |
| Net actuarial cost | \$ | (634) | \$ | 176 |
| Total recognized in other comprehensive income | \$ | <u>(634)</u> | \$ | <u>176</u> |
| Comparison of obligations to plan assets | | | | |
| Projected and accumulated benefit obligation | \$ | 24,315 | \$ | 6,206 |
| Fair value of plan assets | \$ | 20,290 | \$ | - |

(A) Reconciliation of total funded status to pension and other postretirement benefit obligations balance (Note 2):

| | | |
|----------------|----|---------------|
| Pension | \$ | 4,025 |
| Postretirement | | 6,206 |
| Other | | 240 |
| | \$ | <u>10,471</u> |

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The following assumptions were used to calculate the net periodic benefit cost for New Media's defined benefit pension and post retirement plans:

| | <u>Pension</u> | <u>Postretirement</u> |
|--|----------------------------------|----------------------------------|
| | <u>Period Ended December 31,</u> | <u>Period Ended December 31,</u> |
| | <u>2013</u> | <u>2013</u> |
| Weighted average discount rate | 5.0% | 4.5% |
| Rate of increase in future compensation levels | 0.0% | 0.0% |
| Expected return on assets | 8.0% | 0.0% |
| Current year trend | 0.0% | 7.8% |
| Ultimate year trend | 0.0% | 4.8% |
| Year of ultimate trend | - | 2025 |

To determine the expected long-term rate of return on pension plan assets, New Media considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets, input from the actuaries and investment consultants, and long-term inflation assumptions. The expected allocation of pension plan assets is based on a diversified portfolio consisting of domestic and international equity securities and fixed income securities. This expected return is then applied to the fair value of plan assets. New Media amortizes experience gains and losses, including the effects of changes in actuarial assumptions and plan provisions over a period equal to the average future service of plan participants.

Amortization of prior service costs was calculated using the straight-line method over the average remaining service periods of the employees expected to receive benefits under the plan. The effect of a 1% increase and decrease in health care rates are presented as follows:

| | <u>Postretirement</u> | |
|---|---------------------------------------|--------|
| | <u>Period Ended December 31, 2013</u> | |
| Effect of 1% increase in health care cost trend rates | | |
| Accumulated pension benefit obligation ("APBO") | \$ | 6,611 |
| Dollar change | \$ | 405 |
| Percent change | | 6.5% |
| Effect of 1% decrease in health care cost trend rates | | |
| APBO | \$ | 5,863 |
| Dollar change | \$ | (343) |
| Percent change | | (5.5%) |

The fair value of plan assets is measured on a recurring basis using quoted market prices in active markets for identical assets, a Level 1 input. The pension plan's assets by asset category are as follows:

| | <u>December 31, 2013</u> | |
|---------------------------|--------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> |
| Equity mutual funds | \$ 14,738 | 72.6% |
| Fixed income mutual funds | 4,021 | 19.8% |
| Cash and cash equivalents | 803 | 4.0% |
| Other | 728 | 3.6% |
| Total | <u>\$ 20,290</u> | <u>100.0%</u> |

Plan fiduciaries of the George W. Prescott Publishing Company LLC Pension Plan set investment policies and strategies for the pension trust. Objectives include preserving the funded status of the plan and balancing risk against return. The general target allocation is 70% in equity funds and 30% in fixed income funds for the plan's investments. To accomplish this goal, each plan's assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. New Media monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations.

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The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

| | Pension | | Postretirement | |
|--|----------------|-------|-----------------------|-------|
| 2014 | \$ | 1,461 | \$ | 412 |
| 2015 | | 1,508 | | 410 |
| 2016 | | 1,536 | | 410 |
| 2017 | | 1,545 | | 379 |
| 2018 | | 1,565 | | 390 |
| 2019-2023 | | 8,126 | | 1,584 |
| Employer contribution expected to be paid during the year ending December 31, 2014 | \$ | 1,501 | \$ | 412 |

The postretirement plans are not funded.

The aggregate amount of net actuarial loss and prior service cost related to New Media’s pension and post retirement plans recognized in other comprehensive income as of December 31, 2013 was \$0.5 million.

16. 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 2013, 2012 and 2011, based on the treasury stock method, Newcastle had 6,428,351, 1,620,043 and 6,324, dilutive common stock equivalents, respectively, resulting from its outstanding options. As of December 31, 2013, 2012 and 2011, Newcastle had 2,322,268, 3,495,984, and 4,439, 734 antidilutive options, respectively. Net income (loss) applicable to common stockholders is equal to net income (loss) less preferred dividends.

In June 2012, Newcastle filed a shelf registration statement with the SEC covering common stock, preferred stock, depositary shares, debt securities and warrants.

On June 6, 2013, Newcastle’s stockholders approved an amendment to Newcastle’s charter, to increase the total number of authorized shares of common stock, par value \$0.01 per share, from 500 million shares to 1.0 billion shares and correspondingly, to increase the total number of authorized shares of Newcastle capital stock from 600 million shares to 1.1 billion shares, which includes 100 million shares of preferred stock, par value \$0.01 per share.

Common Stock Offerings

The following table presents shares of common stock issued by Newcastle in connection with public offerings since 2011:

| Date | Number of Shares Issued | Price per Share | | Net Proceeds (millions) | Aggregate Shares Purchased by Principals of Fortress | | Options Granted to Manager (A) | | |
|----------------|-------------------------|-----------------|-----------------|-------------------------|--|-------------|--------------------------------|--------------|-----------------------------|
| | | To Public | To Underwriters | | Number of Shares | Price | Number of Shares | Strike Price | Grant Date Value (millions) |
| March 2011 | 17,250,000 | \$ 6.00 | N/A | \$ 98.4 | - | - | 1,725,000 | \$ 6.00 | \$ 7.0 |
| September 2011 | 25,875,000 | \$ 4.55 | N/A | \$ 112.3 | 1,314,780 | (B) \$ 4.55 | 2,587,500 | \$ 4.55 | \$ 5.6 |
| April 2012 | 18,975,000 | \$ 6.22 | N/A | \$ 115.2 | - | - | 1,897,500 | \$ 6.22 | \$ 5.6 |
| May 2012 | 23,000,000 | \$ 6.71 | N/A | \$ 152.0 | - | - | 2,300,000 | \$ 6.71 | \$ 7.6 |
| July 2012 | 25,300,000 | N/A | \$ 6.63 | \$ 167.4 | 450,000 | \$ 6.70 | 2,530,000 | \$ 6.70 | \$ 8.3 |
| January 2013 | 57,500,000 | \$ 9.35 | N/A | \$ 526.2 | 213,900 | \$ 9.35 | 5,750,000 | \$ 9.35 | \$ 18.0 |
| February 2013 | 23,000,000 | N/A | \$ 10.34 | \$ 237.4 | 191,000 | \$ 10.48 | 2,300,000 | \$ 10.48 | \$ 8.4 |
| June 2013 | 40,250,000 | N/A | \$ 4.92 | \$ 197.6 | 750,000 | \$ 4.97 | 4,025,000 | \$ 4.97 | \$ 3.8 |
| November 2013 | 57,950,952 | N/A | \$ 5.21 | \$ 301.4 | 450,952 | \$ 5.25 | 5,795,095 | \$ 5.25 | \$ 6.0 |

(A) In connection with these offerings, Newcastle granted options to the Manager for the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle.

(B) This figure also includes shares purchased by officers of Newcastle.

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Option Plan

In June 2002, Newcastle (with the approval of Newcastle's board of directors) adopted the Newcastle Nonqualified Stock Option and Incentive Award Plan, or the Newcastle Option Plan, for officers, directors, consultants and advisors, including the Manager and its employees.

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 of directors may also determine to issue options to the Manager that are not subject to the 2012 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. Upon exercise, all options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless advance approval is made to settle the option in shares of common stock.

Upon joining the board, the non-employee directors were, in accordance with the Newcastle Option Plan, automatically granted options relating to an aggregate of 20,000 shares of common stock. The fair value of such options was not material at the date of grant.

For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, the Manager has been granted options relating to shares of Newcastle's 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 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. These options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless a majority of the independent members of Newcastle's board of directors determine to settle the option in shares of common stock. The options expire ten years from the date of issuance.

In connection with the spin-off of New Residential (Note 4), 21.5 million options that were held by the Manager, or by the directors, officers or employees of the Manager, were converted into an adjusted Newcastle option and a new New Residential option. The strike price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the spin-off and to maintain the ratio of the strike price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date.

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Newcastle's outstanding options were summarized as follows:

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---------------------|-------------------------------|-------------------|---------------------|-------------------------------|-------------------|
| | Issue Prior to 2011 | Issued in 2011 and thereafter | Total | Issue Prior to 2011 | Issued in 2011 and thereafter | Total |
| Held by the Manager | 1,496,555 | 25,996,428 | 27,492,983 | 1,751,172 | 7,934,166 | 9,685,338 |
| Issued to the Manager and subsequently transferred to certain Manager's employees | 535,570 | 2,510,000 | 3,045,570 | 701,937 | 3,010,000 | 3,711,937 |
| Issued to the independent directors | 2,000 | 2,000 | 4,000 | 10,000 | 2,000 | 12,000 |
| Total | 2,034,125 | 28,508,428 | 30,542,553 | 2,463,109 | 10,946,166 | 13,409,275 |

The following table summarizes Newcastle's outstanding options at December 31, 2013. Note that the last sales price on the New York Stock Exchange for Newcastle's common stock in the year ended December 31, 2013 was \$5.74 per share.

| Recipient | Date of Grant/Exercise | Number of Options | Options Exercisable at December 31, 2013 | Weighted Average Strike Price (A) | Fair Value At Grant Date (Millions) (B) | Intrinsic Value at December 31, 2013 (millions) |
|---------------------|------------------------|-------------------|--|-----------------------------------|---|---|
| Directors | Various | 20,000 | 4,000 | \$8.06 | Not Material | - |
| Manager (C) | 2002 - 2007 | 3,523,727 | 2,032,125 | \$12.66 | \$6.4 | - |
| Manager (C) | Mar-11 | 1,725,000 | 1,580,166 | \$2.72 | \$7.0 (G) | \$4.8 |
| Manager (C) | Sep-11 | 2,587,500 | 2,165,361 | \$2.07 | \$5.6 (H) | \$8.9 |
| Manager (C) | Apr-12 | 1,897,500 | 1,244,778 | \$2.82 | \$5.6 (I) | \$5.5 |
| Manager (C) | May-12 | 2,300,000 | 1,421,667 | \$3.05 | \$7.6 (J) | \$6.1 |
| Manager (C) | Jul-12 | 2,530,000 | 1,416,195 | \$3.04 | \$8.3 (K) | \$6.7 |
| Manager (C) | Jan-13 | 5,750,000 | 2,108,333 | \$4.24 | \$18.0 (L) | \$8.6 |
| Manager (C) | Feb-13 | 2,300,000 | 766,667 | \$4.75 | \$8.4 (M) | \$2.3 |
| Manager (C) | Jun-13 | 4,025,000 | 805,000 | \$4.97 | \$3.8 (N) | \$3.1 |
| Manager (C) | Nov-13 | 5,795,095 | 193,170 | \$5.25 | \$6.0 (O) | \$2.8 |
| 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 |
| Exercised (F) | Sep-13 | (307,833) | N/A | \$2.56 | N/A | N/A |
| Expired unexercised | 2002-2003 | (464,484) | N/A | N/A | N/A | N/A |
| Outstanding | | 30,542,553 | 13,737,462 | | | |

- (A) The strike prices are subject to adjustment in connection with return of capital dividends and spin-offs. A portion of Newcastle's 2008 dividends was deemed return of capital dividends. The effect on the strike prices was not significant. The strike prices were adjusted for the New Residential spin-off as described above. As of December 31, 2013, the weighted average strike price of the outstanding options issued prior to 2011 was \$12.66.
- (B) The fair value of the options was estimated using an option valuation model. Since the Newcastle Option Plan and 2012 Plan have 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 thereafter 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 |
|---------------|------------------------|-------------------------------------|
| 2004 | \$11.49-\$14.05 | 226,125 |
| 2005 | \$13.24 | 89,925 |
| 2006 | \$13.16 | 48,450 |
| 2007 | \$12.40-\$14.01 | 171,070 |
| 2011 | \$2.07-\$2.72 | 1,210,000 |
| 2012 | \$2.82-\$3.05 | 1,300,000 |
| | Total | 3,045,570 |

- (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) Exercised by employees of Fortress subsequent to their assignment. The options exercised had an intrinsic value of \$0.9 million.
- (G) The assumptions used in valuing the options were: a 1.7% risk-free rate, 107.8% volatility and a 3.3 year expected term.
- (H) 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.
- (I) 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.
- (J) 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.
- (K) 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.

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- (L) The assumptions used in valuing the options were: a 2.0% risk-free rate, 8.8% dividend yield, 56.2% volatility and a 10 year term.
 - (M) The assumptions used in valuing the options were: a 2.1% risk-free rate, 7.8% dividend yield, 55.5% volatility and a 10 year term.
 - (N) The assumptions used in valuing the options were: a 2.5% risk-free rate, 8.8% dividend yield, 36.9% volatility and a 10 year term.
 - (O) The assumptions used in valuing the options were: a 2.8% risk-free rate, 6.7% dividend yield, 32.0% volatility and a 10 year 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. 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.

As of January 31, 2014, Newcastle had paid all current and accrued dividends on its preferred stock.

Noncontrolling Interest

Noncontrolling interest is comprised of the 15.4% interest in New Media and its subsidiaries, Local Media Group and GateHouse, that Newcastle does not own.

17. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Management Agreements

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

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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.

Newcastle is party to the Senior Housing Management Agreements with Holiday and Blue Harbor. Pursuant to the property management agreements with Holiday, Newcastle pays management fees equal to either (i) 5% of the property's effective gross income (as defined in the agreements) or (ii) 6% of the property's effective gross income (as defined in the agreements) for the first two years and 7% thereafter. Pursuant to the property management agreements with Blue Harbor, Newcastle pays management fees equal to 6% of the property's effective gross income (as defined in the agreement) for the first two years and 7% thereafter. As the owner of managed properties, Newcastle is responsible for the properties' operating costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance and the payroll expense of property-level employees. The payroll expense is structured as a reimbursement to the property manager, who is the employer of record in order for Newcastle to comply with REIT requirements (Newcastle reimbursed the Senior Housing Managers for \$23.9 million and \$7.9 million of property-level payroll expenses during the years ended December 31, 2013 and 2012, respectively, which is included in property operating expenses in the consolidated statements of income).

| | Amounts incurred under the management agreements (in millions) | | |
|--------------------------------------|--|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Management Fees (A) | \$32.6 | \$24.2 | \$17.8 |
| Expense Reimbursement to the Manager | 0.5 | 0.5 | 0.5 |
| Incentive Compensation | - | - | - |
| Total management fees to affiliate | <u>\$33.1</u> | <u>\$24.7</u> | <u>\$18.3</u> |

(A) During 2013, Newcastle paid management fees of \$27.6 million, \$3.5 million and \$1.5 million to its Manager, Blue Harbor and Holiday, respectively. In 2012, Newcastle paid management fees of \$23.1 million and \$1.1 million to its Manager and Blue Harbor, respectively.

At December 31, 2013, Fortress, through its affiliates, and principals of Fortress, owned 6.4 million shares of Newcastle's common stock and Fortress, through its affiliates, had options relating to an additional 27.5 million shares of Newcastle's common stock (Note 16).

At December 31, 2013 and 2012, due to affiliates (Note 2) was comprised of \$5.9 million and \$3.6 million, respectively, of management fees and expense reimbursements payable to the Manager and to the Senior Housing Managers.

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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 \$372.7 million and \$506.6 million at December 31, 2013, 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.

As of December 31, 2013, Newcastle held on its balance sheet total investments of \$185.6 million face amount of real estate securities and related loans issued by affiliates of the Manager. Newcastle earned approximately \$36.5 million, \$25.8 million and \$22.5 million of interest on investments issued by affiliates of the Manager for the years ended December 31, 2013, 2012 and 2011, 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.

18. COMMITMENTS AND CONTINGENCIES

Litigation — Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business including governmental and administrative proceedings concerning employment, labor, environmental and other claims. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at December 31, 2013, if any, will not materially affect Newcastle's consolidated results of operations, financial position or cash flow.

Environmental Costs — As a commercial real estate owner, Newcastle is subject to potential environmental costs. At December 31, 2013, 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 14.

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 7). 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.

Operating lease obligations — Media operating lease commitments are primarily for office space and equipment. Certain office space leases provide for rent adjustments relating to changes in real estate taxes and other operating costs. The lease terms range up to 99 years and typically contain renewal options. Rental expense amounted to \$0.6 million for the period from November 26, 2013 through December 31, 2013.

The Golf business leases substantially all of its golf courses and related facilities under long-term operating leases, including triple net leases. In addition to minimum payments, certain leases require the payment of the excess of various

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percentages of gross revenue or net operating income over the minimum rental payments. The triple net leases require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The majority of the lease terms range from 10 to 20 years and, typically, the leases contain renewal options. Certain leases include minimum scheduled increases in rental payments at various times during the term of the lease. These scheduled rent increases are recognized on a straight-line basis over the term of the lease, resulting in an accrual, which is included in other long-term liabilities, for the amount by which the cumulative straight-line rent exceeds the contractual cash rent.

The Golf business is required to maintain bonds under certain third-party agreements, as requested by certain utility providers, and under the rules and regulations of licensing authorities and other governmental agencies. Golf had bonds outstanding of approximately \$0.9 million as of December 31, 2013.

The future minimum rental commitments under non-cancellable leases, net of subleases, as of December 31, 2013 were as follows:

| For the years ending December 31: | Media | Golf | Total |
|-----------------------------------|-----------|------------|------------|
| 2014 | \$ 4,320 | \$ 41,648 | \$ 45,968 |
| 2015 | 3,594 | 39,489 | 43,083 |
| 2016 | 3,277 | 34,600 | 37,877 |
| 2017 | 3,205 | 32,059 | 35,264 |
| 2018 | 2,299 | 26,810 | 29,109 |
| Thereafter | 1,895 | 242,077 | 243,972 |
| Total Minimum lease payments | \$ 18,590 | \$ 416,683 | \$ 435,273 |

Membership Deposit Liability - In the Golf business, members are required to pay an initiation deposit upon their acceptance as a member to a private club. In most cases, membership deposits are fully refundable after a fixed number of years, typically 30 years. As of December 31, 2013, the total face amount of membership deposits was approximately \$235.0 million.

Restricted Cash - Restricted cash at December 31, 2013 in the aggregate amount of \$10.0 million is used to collateralize standby letters of credit in the name of New Media's insurers in accordance with certain insurance policies and as cash collateral for certain business operations, as well as credit enhancement for Golf's obligations related to the performance of lease agreements and certain insurance claims.

19. INCOME TAXES

The provision for income taxes consists of the following:

| | Year Ended December 31, | |
|----------------------------------|-------------------------|------|
| | 2013 | 2012 |
| | (in thousands) | |
| Current: | | |
| Federal | \$ 2,170 | \$ - |
| State and Local | 381 | - |
| Total Current Provision | \$ 2,551 | \$ - |
| Deferred | | |
| Federal | \$ (404) | \$ - |
| State and Local | (47) | - |
| Total Deferred Provision | \$ (451) | \$ - |
| Total Provision for Income Taxes | \$ 2,100 | \$ - |

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. Newcastle distributed 100% of its 2013, 2012 and 2011 REIT taxable income.

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Common stock distributions relating to 2013, 2012, and 2011 were taxable as follows:

| | <u>Dividends Per Share</u> | <u>Ordinary Income</u> | <u>Long-term Capital Gain</u> | <u>Return of Capital</u> |
|------|----------------------------|----------------------------|-----------------------------------|--------------------------|
| 2013 | \$7.38 (A) | 33.91% | 0.00% | 66.09% |
| 2012 | \$0.84 | 100.00% | 0.00% | 0.00% |
| 2011 | \$0.40 | 100.00% | 0.00% | 0.00% |

(A) Includes the distribution of New Residential (Note 4) common stock valued at \$6.89 per share.

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. During 2013, Newcastle repurchased \$35.9 million face amount of Newcastle CDO debt and notes payable at a discount and recorded a \$4.6 million gain on extinguishment of debt for GAAP and 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, 2013, \$101.9 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, 2012, Newcastle had a loss carryforward, inclusive of net operating loss and capital loss, of approximately \$750.2 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, 2013 are subject to the finalization of the 2013 tax returns. The net operating loss carryforward and capital loss carryforward will begin to expire in 2029 and 2015, respectively.

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.

The Media and Golf businesses are held through TRSs and, as such, are subject to regular corporate income taxes. At December 31, 2013, Newcastle's TRSs had approximately \$540.2 million of net operating loss carryforwards for federal and state income tax purposes which may be available to offset future taxable income, if any. These federal and state net operating loss carryforwards will begin to expire in 2018. A significant portion of these net operating losses are subject to the limitations of the Code Section 382. This section provides substantial limitations on the availability of net operating losses to offset current taxable income if significant ownership changes have occurred for federal tax purposes.

Newcastle and its TRSs file income tax returns with the U.S. federal government and various state and local jurisdictions. Newcastle is no longer subject to tax examinations by tax authorities for years prior to 2010. Generally, Newcastle has assessed its tax positions for all open years, which includes 2010 to 2013, and concluded that there are no material uncertainties to be recognized.

During the years ended December 31, 2013, 2012 and 2011, Newcastle's TRSs recorded approximately \$2.1 million, \$0 and \$0, respectively, of income tax expense. Generally, the Newcastle's effective tax rate differs from the federal statutory rate as a result of state and local taxes and non-taxable REIT income.

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The difference between Newcastle's reported provision for income taxes and the U.S. federal statutory rate of 35% is as follows:

| | December 31, | | |
|---------------------------------|--------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Provision at the statutory rate | 35.00% | 35.00% | 35.00% |
| Non-taxable REIT income | (33.88%) | (35.00%) | (35.00%) |
| State and local taxes | 0.21% | - | - |
| Other | 0.40% | - | - |
| Total provision | <u>1.73%</u> | <u>0.00%</u> | <u>0.00%</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2013 are presented below:

| | December 31, 2013 | |
|-------------------------------|-------------------|------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ | 2,076 |
| Depreciation and amortization | | 94,880 |
| Leaseholds | | 6,489 |
| Accrued expenses | | 23,816 |
| Deposits | | 7,787 |
| Net operating losses | | 211,560 |
| Other | | 17,036 |
| Total deferred tax assets | | <u>363,644</u> |
| Less valuation allowance | | <u>(363,192)</u> |
| Net deferred tax assets | <u>\$</u> | <u>452</u> |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.

Newcastle had recorded a valuation allowance against a significant portion of its deferred tax assets as of December 31, 2013 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

During the period from November 26, 2013 to December 31, 2013, the valuation allowance decreased by \$4.4 million primarily related to activity in the net operating loss carryforwards of the Media and Golf businesses.

The following table summarizes the change in the deferred tax asset valuation allowance:

| | | |
|--|-----------|----------------|
| Valuation allowance at December 31, 2012 | \$ | - |
| Increase due to business acquisitions | | 367,541 |
| Other decrease | | (4,349) |
| Valuation allowance at December 31, 2013 | <u>\$</u> | <u>363,192</u> |

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20. RECENT ACTIVITIES

These financial statements include a discussion of material events which have occurred subsequent to December 31, 2013 (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 February 13, 2014, Newcastle completed the spin-off of its media business, as detailed in Note 3, and establishment of New Media as a separate, publicly traded company (NYSE:NEWM). The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock it held of New Media to Newcastle’s common stockholders of record at the close of business on February 6, 2014. The distribution ratio was 0.0722 shares of New Media common stock for each share of Newcastle common stock.

In January 2014, Newcastle completed the acquisitions of two senior housing properties for an aggregate purchase price of approximately \$23.0 million plus acquisition costs. Each of these acquisitions was accounted for as a business combination, under which all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred.

In January 2014, Newcastle sold \$503.0 million face amount of the remaining FNMA/FHLMC securities at an average price of 105.82% for total proceeds of \$532.2 million and repaid \$516.1 million of associated repurchase agreements. Newcastle recognized a net gain of approximately \$1.9 million on the sale of these securities.

In January 2014, Intrawest, a portfolio company of a private equity fund managed by an affiliate of Newcastle’s Manager completed a \$37.5 million primary offering and a \$150.0 million secondary offering. At December 31, 2013, Newcastle had an outstanding investment balance of \$185.6 million in Intrawest’s debt. Following Intrawest’s public offerings, Newcastle received total cash of \$83.3 million, which reduced the face of the debt balance down to \$99.4 million.

In January 2014, Newcastle financed an additional \$50.0 million face amount of previously repurchased CDO bonds payable with repurchase agreements for \$30.8 million. These repurchase agreements bear interest at one month LIBOR + 1.65%, mature in March 2014 and are subject to customary margin provisions.

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21. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is unaudited summary information on Newcastle's quarterly operations.

| | Quarter Ended | | | | Year Ended |
|--|---------------|-------------|------------------|-------------|-------------|
| | March 31 (A) | June 30 (A) | September 30 (A) | December 31 | December 31 |
| Interest income | \$ 61,332 | \$ 62,824 | \$ 47,486 | \$ 42,073 | \$ 213,715 |
| Interest expense | 22,710 | 21,998 | 20,555 | 25,710 | 90,973 |
| Net interest income (expense) | 38,622 | 40,826 | 26,931 | 16,363 | 122,742 |
| Impairment | 2,773 | 3,201 | (12,998) | (12,745) | (19,769) |
| Other revenues | 13,500 | 14,013 | 24,912 | 96,535 | 148,960 |
| Other income (loss) (B) | 5,770 | 8,090 | 7,755 | 15,529 | 37,144 |
| Property operating expenses | 8,363 | 8,409 | 15,804 | 21,142 | 53,718 |
| Depreciation and amortization | 4,079 | 4,070 | 7,732 | 15,092 | 30,973 |
| Other operating expenses | 14,812 | 19,107 | 16,217 | 72,679 | 122,815 |
| Income tax expense | - | - | 1,213 | 887 | 2,100 |
| Income (loss) from continuing operations | 27,865 | 28,142 | 31,630 | 31,372 | 119,009 |
| Income (loss) from discontinued operations | 10,148 | 25,581 | (2,386) | (11) | 33,332 |
| Preferred dividends | (1,395) | (1,395) | (1,395) | (1,395) | (5,580) |
| Net income attributable to noncontrolling interests | - | - | - | (928) | (928) |
| Income (loss) applicable to common stockholders | \$ 36,618 | \$ 52,328 | \$ 27,849 | \$ 29,038 | \$ 145,833 |
| Net income (loss) per share of common stock | | | | | |
| Basic | \$ 0.16 | \$ 0.20 | \$ 0.09 | \$ 0.09 | \$ 0.53 |
| Diluted | \$ 0.15 | \$ 0.20 | \$ 0.09 | \$ 0.09 | \$ 0.51 |
| Income (loss) from discontinued operations per share of common stock | | | | | |
| Basic | \$ 0.04 | \$ 0.10 | \$ (0.01) | \$ - | \$ 0.12 |
| Diluted | \$ 0.04 | \$ 0.10 | \$ (0.01) | \$ - | \$ 0.11 |
| Weighted average number of shares of common stock outstanding | | | | | |
| Basic | 235,137 | 259,228 | 293,374 | 318,687 | 276,881 |
| Diluted | 240,079 | 265,396 | 301,028 | 325,601 | 283,310 |

| | Quarter Ended | | | | Year Ended |
|--|---------------|-------------|------------------|-------------|-------------|
| | March 31 (A) | June 30 (A) | September 30 (A) | December 31 | December 31 |
| Interest income | \$ 72,862 | \$ 77,956 | \$ 72,947 | \$ 59,186 | \$ 282,951 |
| Interest expense | 30,165 | 29,462 | 28,411 | 21,886 | 109,924 |
| Net interest income (expense) | 42,697 | 48,494 | 44,536 | 37,300 | 173,027 |
| Impairment | (7,080) | 8,499 | 5,014 | (12,097) | (5,664) |
| Other revenues | 509 | 515 | 8,071 | 10,980 | 20,075 |
| Other income (loss) (B) | 28,536 | (4,882) | 234,008 | 4,632 | 262,294 |
| 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 | 8,237 | 11,575 | 11,926 | 14,462 | 46,200 |
| Income (loss) from continuing operations | 70,358 | 23,819 | 262,247 | 38,518 | 394,942 |
| Income (loss) from discontinued operations | 3,113 | 6,620 | 10,974 | 18,461 | 39,168 |
| 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 | \$ 0.03 | \$ 0.05 | \$ 0.07 | \$ 0.11 | \$ 0.27 |
| Diluted | \$ 0.03 | \$ 0.05 | \$ 0.07 | \$ 0.11 | \$ 0.27 |
| 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 |

(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.

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22. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information was derived from the application of pro forma adjustments to the consolidated financial statements of Newcastle. The unaudited pro forma condensed consolidated statement of income and unaudited pro forma condensed consolidated balance sheet should be read in conjunction with the other information contained in these financial statements and related notes and with Newcastle's historical consolidated financial statements.

The unaudited pro forma information set forth below reflects the historical information of Newcastle, as adjusted to give effect to the following transactions:

- The spin-off of New Residential from Newcastle in May 2013,
- The acquisition of the Holiday Portfolio in December 2013,
- The 17-year triple net master leases related to the Holiday Portfolio, and
- The spin-off of New Media from Newcastle in February 2014.

The unaudited pro forma condensed consolidated statement of income gives effect to the above transactions as if they had occurred on January 1, 2013. The unaudited pro forma condensed consolidated balance sheet assumes that the Media spin-off occurred on December 31, 2013.

In the opinion of management, all adjustments necessary to reflect the effects of the transactions described above have been included and are based upon available information and assumptions that Newcastle believes are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that Newcastle believes are factually supportable and which are expected to have a continuing impact on Newcastle's results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated.

These unaudited pro forma condensed consolidated financial statements are provided for information purposes only. The unaudited pro forma condensed consolidated statement of income does not purport to represent what Newcastle's results of operations would have been had such transactions been consummated on the date indicated, nor does it represent the results of operations of either Newcastle, New Residential or New Media for any future date or period.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

At December 31, 2013

| | Newcastle Consolidated Historical (A) | Pro Forma Adjustments Media Spin-off (B) | Newcastle Consolidated Pro Forma |
|--|---|--|--|
| Assets | | | |
| Real estate securities, available-for-sale | \$ 984,263 | - | \$ 984,263 |
| Real estate related and other loans, held-for-sale, net | 437,530 | - | 437,530 |
| Residential mortgage loans, held-for-investment, net | 255,450 | - | 255,450 |
| Residential mortgage loans, held-for-sale, net | 2,185 | - | 2,185 |
| Subprime mortgage loans subject to call option | 406,217 | - | 406,217 |
| Investments in senior housing real estate, net of accumulated depreciation | 1,362,900 | - | 1,362,900 |
| Investments in other real estate, net of accumulated depreciation | 266,170 | - | 266,170 |
| Property, plant and equipment, net of accumulated depreciation | 270,188 | (270,188) | - |
| Intangibles, net of accumulated amortization | 345,125 | (145,401) | 199,724 |
| Goodwill | 126,686 | (126,686) | - |
| Other investments | 25,468 | - | 25,468 |
| Cash and cash equivalents | 105,944 | (31,811) | 74,133 |
| Restricted cash | 12,366 | (6,477) | 5,889 |
| Receivables and other assets | 252,071 | (110,183) | 141,888 |
| | - | - | - |
| Total Assets | \$ 4,852,563 | \$ (690,746) | \$ 4,161,817 |
| Liabilities and Equity | | | |
| Liabilities | | | |
| CDO bonds payable | \$ 544,525 | \$ - | \$ 544,525 |
| Other bonds and notes payable | 230,279 | - | 230,279 |
| Repurchase agreements | 556,347 | - | 556,347 |
| Mortgage notes payable | 1,076,828 | - | 1,076,828 |
| Credit facilities, media and golf | 334,514 | (182,016) | 152,498 |
| Financing of subprime mortgage loans subject to call option | 406,217 | - | 406,217 |
| Junior subordinated notes payable | 51,237 | - | 51,237 |
| Dividends payable | 36,075 | - | 36,075 |
| Accounts payable, accrued expenses and other liabilities | 390,417 | (113,164) | 277,253 |
| Total Liabilities | \$ 3,626,439 | \$ (295,180) | \$ 3,331,259 |
| Equity | | | |
| Preferred stock | \$ 61,583 | \$ - | \$ 61,583 |
| Common stock | 3,515 | - | 3,515 |
| Additional paid-in capital | 2,970,786 | (334,653) | 2,636,133 |
| Accumulated deficit | (1,947,913) | - | (1,947,913) |
| Accumulated other comprehensive income | 76,874 | - | 76,874 |
| Noncontrolling interests | 61,279 | (60,913) | 366 |
| Total Equity | \$ 1,226,124 | \$ (395,566) | \$ 830,558 |
| Total Liabilities and Equity | \$ 4,852,563 | \$ (690,746) | \$ 4,161,817 |

(A) Represents Newcastle's historical consolidated balance sheet at December 31, 2013.

(B) Represents New Media's historical consolidated balance sheet at December 31, 2013.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2013

| | Pro Forma Adjustments | | | | Newcastle Consolidated Pro Forma |
|--|---|------------------------------------|-------------------------------------|-----------------------|--|
| | Newcastle Consolidated Historical (A) | New Residential Spin-off (B) | Holiday Portfolio Acquisition | Media Spin-off (C) | |
| Interest income | \$ 213,715 | \$ (12,019) | \$ - | \$ (8,399) | 193,297 |
| Interest expense | 90,973 | (2,152) | 33,844 (D) | (1,591) | 121,074 |
| Net interest income | 122,742 | (9,867) | (33,844) | (6,808) | 72,223 |
| Impairment (Reversal) | | | | | |
| Valuation allowance (reversal) on loans | (25,035) | - | - | 12,027 | (13,008) |
| Other-than-temporary impairment on securities | 5,222 | (3,756) | - | - | 1,466 |
| Impairment of long-lived assets | - | - | - | - | - |
| 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) | 44 | - | - | - | 44 |
| | (19,769) | (3,756) | - | 12,027 | (11,498) |
| Net interest income (loss) after impairment/reversal | 142,511 | (6,111) | (33,844) | (18,835) | 83,721 |
| Other Revenues | | | | | |
| Rental income | 74,936 | - | 87,625 (E) | - | 162,561 |
| Care and ancillary income - senior housing | 12,387 | - | - | - | 12,387 |
| Advertising income - media | 38,757 | - | - | (38,757) | - |
| Circulation income - media | 16,649 | - | - | (16,649) | - |
| Commercial printing and other income - media | 6,231 | - | - | (6,231) | - |
| Total other revenues | 148,960 | - | 87,625 | (61,637) | 174,948 |
| Other Income (Loss) | | | | | |
| Gain (loss) on settlement of investments, net | 17,369 | (58) | - | (7,216) | 10,095 |
| Gain on extinguishment of debt | 4,565 | - | - | - | 4,565 |
| Equity in earnings of Local Media Group | 1,870 | - | - | (1,870) | - |
| Other income (loss), net | 13,340 | - | - | (1,514) | 11,826 |
| | 37,144 | (58) | - | (10,600) | 26,486 |
| Expenses | | | | | |
| Loan and security servicing expense | 3,857 | (108) | - | - | 3,749 |
| Property operating expenses | 53,718 | - | - | - | 53,718 |
| Media operating expenses | 49,092 | - | - | (49,092) | - |
| General and administrative expense | 36,775 | (38) | - | (1,579) | 35,158 |
| Management fee to affiliate | 33,091 | (4,134) | 4,038 (F) | - | 32,995 |
| Depreciation and amortization | 30,973 | - | 48,264 (G) | (3,845) | 75,392 |
| | 207,506 | (4,280) | 52,302 | (54,516) | 201,012 |
| Income (loss) from continuing operations before income tax | 121,109 | (1,889) | 1,479 | (36,556) | 84,143 |
| Income tax expense | 2,100 | - | - | (1,062) | 1,038 |
| Income from continuing operations | 119,009 | (1,889) | 1,479 | (35,494) | 83,105 |
| Income from discontinued operations | 33,332 | - | - | - | 33,332 |
| Net income | 152,341 | (1,889) | 1,479 | (35,494) | 116,437 |
| Preferred dividends | (5,580) | - | - | - | (5,580) |
| Net income attributable to noncontrolling interests | (928) | - | - | 928 | - |
| Income (loss) applicable to common stockholders | \$ 145,833 | \$ (1,889) | \$ 1,479 | \$ (34,566) | \$ 110,857 |
| Income (loss) from continuing operations per share of common stock, after preferred dividends and noncontrolling interest | | | | | |
| Basic | 0.41 | | | | 0.24 (H) |
| Diluted | 0.40 | | | | 0.23 (H) |
| Weighted Average Number of Shares of Common Stock Outstanding | | | | | |
| Basic | 276,881,294 | | | | 328,481,457 (H) |
| Diluted | 283,309,645 | | | | 334,909,808 (H) |

See notes on next page.

- (A) Represents Newcastle's historical consolidated statement of income for the year ended December 31, 2013, excluding discontinued operations.
- (B) Represents the portion of New Residential's historical consolidated statement of income for the period from January 1, 2013 to May 15, 2013 that is not included in Newcastle's income (loss) from discontinued operations. After the May 15, 2013 spin-off of New Residential from Newcastle, no results of New Residential have been reported in Newcastle's consolidated statement of income.
- (C) Represents the portion of New Media's historical consolidated statement of income for the year ended December 31, 2013, the impact of the GateHouse debt held by Newcastle through the November 26, 2013 restructuring and the equity method investment income recorded for the investment in Local Media Group for the period from September 3, 2013 until November 26, 2013.
- (D) Represents the estimated interest expense on the loan related to the acquisition of the Holiday Portfolio including the estimated amortization of deferred financing costs.
- (E) Represents the estimated rental income from the independent senior housing properties acquired under a triple net lease agreement for the year ended December 31, 2013.
- (F) Represents the estimated management fees for the year ended December 31, 2013 that Newcastle would have paid Fortress Investment Group LLC as a result of the public offering of common stock in November 2013.
- (G) Represents the estimated depreciation expense for the year ended December 31, 2013 based on the carrying value of the assets acquired and their estimated useful life.
- (H) Weighted average number of shares of common stock outstanding and income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest, were adjusted retrospectively to reflect the issuance of 57,950,952 shares on November 22, 2013, the proceeds of which were used to fund a portion of the purchase price for the Holiday Portfolio. Weighted average number of shares of common stock outstanding and income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest were not adjusted to include potential additional diluted shares as a result of the changes to outstanding Newcastle options from the spin-offs. The number of additional diluted shares will depend on various factors, including the share prices of Newcastle, New Residential and New Media subsequent to the spin-offs.
- (I) The effect of the Holiday Portfolio acquisition on 2012 revenue if Newcastle had consummated the acquisition as of January 1, 2012 would have been \$89.3 million. The effect of this acquisition on income from continuing operations would have been \$0.1 million.

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 Interim 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 Interim Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- b) **Changes in Internal Control Over Financial Reporting.** Except for the changes noted 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 acquisitions with the Company's internal controls and processes: (i) 21 senior housing properties acquired in seven different portfolios from July 2013 to December 2013; (ii) New Media beginning November 26, 2013 and (iii) the December 30, 2013 acquisition of the golf business. The results of these acquisitions since their respective acquisition dates are included in the December 31, 2013 consolidated financial statements of the Company and constituted approximately 30 percent and 42 percent of total assets and net assets, respectively as of December 31, 2013, and approximately 25 percent of revenue for the year then ended. Internal control over financial reporting of the acquired businesses 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 SEC 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, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *1992 Internal Control-Integrated Framework*. As noted above, the Company has excluded from its assessment the internal control over financial reporting of recently acquired businesses 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 3 to the Company's consolidated financial statements included in this Form 10-K.

Based on our assessment, management concluded that, as of December 31, 2013, 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.

On February 28, 2014, Justine Cheng was appointed Chief Financial Officer, Treasurer and Chief Operating Officer of Newcastle, effective as of March 4, 2014. Ms. Cheng, 38, joins Newcastle with over 15 years of finance and banking experience. Ms. Cheng serves as a Managing Director in Fortress's Private Equity group, where she has been responsible for various financial services, infrastructure and lodging, and leisure & gaming investments. Prior to joining Fortress 10 years ago, Ms. Cheng held various investment banking and private equity roles at UBS, Credit Suisse and Donaldson Lufkin & Jenrette. Ms. Cheng received a BA in Economics and a Masters in International and Public Affairs from Columbia University.

Effective as of March 4, 2014, Jonathan Brown will resign as Interim Chief Financial Officer and Treasurer. Mr. Brown will continue to serve as Principal Accounting Officer of Newcastle. Also effective as of March 4, 2014, Jonathan Ashley will resign as Chief Operating Officer.

Newcastle's officers are appointed annually by the Board of Directors. There is no arrangement or understanding between Ms. Cheng and any other person pursuant to which she was appointed as an officer of Newcastle. There are also no family relationships between Ms. Cheng and any director or executive officer of Newcastle.

Newcastle's officers are not employees of Newcastle and do not receive direct cash compensation for services rendered to Newcastle. Rather, they are employees of Newcastle's Manager and are compensated by the Manager for their services to Newcastle as well as other entities affiliated with the Manager. The Manager has informed Newcastle that, because the services performed by the individuals who serve as officers of Newcastle are not performed exclusively for Newcastle, the Manager cannot segregate and identify that portion of compensation awarded to, earned by or paid to Newcastle's officers, including Ms. Cheng, that relates solely to her service to Newcastle. Outside of the fees and compensation paid to the Manager by Newcastle, Ms. Cheng does not have any direct or indirect material interests in any transaction with Newcastle or in any currently proposed transaction to which Newcastle is a party.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to our definitive proxy statement for the 2014 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, 2013.

Item 11. Executive Compensation.

Incorporated by reference to our definitive proxy statement for the 2014 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, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to our definitive proxy statement for the 2014 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, 2013.

Item 13. Certain Relationships and Related Transactions, Director Independence.

Incorporated by reference to our definitive proxy statement for the 2014 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, 2013.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to our definitive proxy statement for the 2014 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, 2013.

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:

- 2.1 Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
- 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 Articles of Amendment (incorporated by reference to the Registrant’s Report on Form 8-K, Exhibit 3.1, filed on June 10, 2013).
- 3.6 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, dated April 25, 2013 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q, Exhibit 10.1, filed on May 3, 2013).
- 10.2 2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012 (incorporated by reference to the Registrant’s Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.3).
- 10.3 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).
- 10.4 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).

- 10.5 Master Designation Agreement, dated as of July 17, 2012, among B Healthcare Properties LLC and the designees listed on the signature pages attached thereto (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on July 23, 2012).
- 10.6 Amended and Restated Purchase Agreement, dated as of February 27, 2012, by and among the Purchasers named therein, the Sellers named therein, the Former Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 23, 2012).
- 10.7 Amendment No. 1 to the Amended and Restated Purchase Agreement, dated as of March 30, 2012, among the Purchasers named therein, the Sellers named therein, BDC/West Covina II, LLC and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 23, 2012).
- 10.8 Amendment No. 2 to the Amended and Restated Purchase Agreement, dated as of April 11, 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 10.4, filed on July 23, 2012).
- 10.9 Amendment No. 3 to the Amended and Restated Purchase Agreement, dated as of April 27, 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 10.5, filed on July 23, 2012).
- 10.10 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).
- 10.11 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).
- 10.12 Master Credit Facility Agreement, dated as of July 18, 2012, by and among the Borrowers named therein, Propco LLC, TRS LLC and Oak Grove Commercial Mortgage, LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on July 23, 2012).
- 10.13 Assignment of Master Credit Facility Agreement and Other Loan Documents, dated as of July 18, 2012, from Oak Grove Commercial Mortgage, LLC to Fannie Mae (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.9, filed on July 23, 2012).
- 10.14 Management Agreement, dated as of July 5, 2012, between Willow Park Management LLC and Willow Park Leasing LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.10, filed on July 23, 2012).
- 10.15 Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
- 10.16 Purchase and Sale Agreement, dated November 18, 2013, by and between the Sellers named therein and the Purchasers named therein.
- 10.17 Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant I LLC.
- 10.18 Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.
- 12.1 Statements re: Computation of Ratios.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, independent registered public accounting firm.
- 23.2 Consent of Ernst & Young LLP, independent registered public accounting firm.

- 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Audited Financial Statements of Holiday AL Holding LP as of December 31, 2013 and 2012 and for each of the years in the three year period ended December 31, 2013.
- 99.2 Combined Audited Financial Statements of NCT Portfolio as of December 31, 2012 and 2011 and for each of the years in the three year period ended December 31, 2012.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

*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.

The following management agreements are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K, as discussed in Item 1.01 on Form 8-K filed on July 23, 2012:

Management Agreement, dated as of July 5, 2012, between Sun Oak Management LLC and Sun Oak Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Orchard Park Management LLC and Orchard Park Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Desert Flower Management LLC and Desert Flower Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Canyon Creek Property Management LLC and Canyon Creek Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Regent Court Management LLC and Regent Court Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sunshine Villa Management LLC and Sunshine Villa Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sheldon Park Management LLC and Sheldon Park Leasing LLC.

In addition, the following Master Lease and Guaranty of Lease are substantially identical in all material respects, except as to the parties thereto, to the Master Lease and Guaranty of Lease that are filed as Exhibits 10.17 and 10.18, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

- Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant II LLC.
- Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.

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

March 3, 2014

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/ Wesley R. Edens

Wesley R. Edens

Chairman of the Board

March 3, 2014

By: /s/ Kenneth M. Riis

Kenneth M. Riis

Director and Chief Executive Officer

March 3, 2014

By: /s/ Jonathan R. Brown

Jonathan R. Brown

Interim Chief Financial Officer and Principal Accounting Officer

March 3, 2014

By: /s/ Kevin J. Finnerty

Kevin J. Finnerty

Director

March 3, 2014

By: /s/ Stuart A. McFarland

Stuart A. McFarland

Director

March 3, 2014

By: /s/ David K. McKown

David K. McKown

Director

March 3, 2014

By: /s/ Alan L. Tyson

Alan L. Tyson

Director

March 3, 2014

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 the parties if those statements prove 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

- 2.1 Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
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- 3.5 Articles of Amendment (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.1, filed on June 10, 2013).
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- 10.5 Master Designation Agreement, dated as of July 17, 2012, among B Healthcare Properties LLC and the designees listed on the signature pages attached thereto (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on July 23, 2012).
- 10.6 Amended and Restated Purchase Agreement, dated as of February 27, 2012, by and among the Purchasers

- named therein, the Sellers named therein, the Former Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 23, 2012).
- 10.7 Amendment No. 1 to the Amended and Restated Purchase Agreement, dated as of March 30, 2012, among the Purchasers named therein, the Sellers named therein, BDC/West Covina II, LLC and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 23, 2012).
- 10.8 Amendment No. 2 to the Amended and Restated Purchase Agreement, dated as of April 11, 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 10.4, filed on July 23, 2012).
- 10.9 Amendment No. 3 to the Amended and Restated Purchase Agreement, dated as of April 27, 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 10.5, filed on July 23, 2012).
- 10.10 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).
- 10.11 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).
- 10.12 Master Credit Facility Agreement, dated as of July 18, 2012, by and among the Borrowers named therein, Propco LLC, TRS LLC and Oak Grove Commercial Mortgage, LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on July 23, 2012).
- 10.13 Assignment of Master Credit Facility Agreement and Other Loan Documents, dated as of July 18, 2012, from Oak Grove Commercial Mortgage, LLC to Fannie Mae (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.9, filed on July 23, 2012).
- 10.14 Management Agreement, dated as of July 5, 2012, between Willow Park Management LLC and Willow Park Leasing LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.10, filed on July 23, 2012).
- 10.15 Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
- 10.16 Purchase and Sale Agreement, dated November 18, 2013, by and between the Sellers named therein and the Purchasers named therein.
- 10.17 Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant I LLC.
- 10.18 Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.
- 12.1 Statements re: Computation of Ratios.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, independent registered public accounting firm.
- 23.2 Consent of Ernst & Young LLP, independent registered public accounting firm.
- 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Audited Financial Statements of Holiday AL Holding LP as of December 31, 2013 and 2012 and for each of the years in the three year period ended December 31, 2013.
- 99.2 Combined Audited Financial Statements of NCT Portfolio as of December 31, 2012 and 2011 and for each of the years in the three year period ended December 31, 2012.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

*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.

The following management agreements are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K, as discussed in Item 1.01 on Form 8-K filed on July 23, 2012:

Management Agreement, dated as of July 5, 2012, between Sun Oak Management LLC and Sun Oak Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Orchard Park Management LLC and Orchard Park Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Desert Flower Management LLC and Desert Flower Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Canyon Creek Property Management LLC and Canyon Creek Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Regent Court Management LLC and Regent Court Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sunshine Villa Management LLC and Sunshine Villa Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sheldon Park Management LLC and Sheldon Park Leasing LLC.

In addition, the following Master Lease and Guaranty of Lease are substantially identical in all material respects, except as to the parties thereto, to the Master Lease and Guaranty of Lease that are filed as Exhibits 10.17 and 10.18, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

- Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant II LLC.
- Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.

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, | | | | |
|---|-------------------------|-------------|-------------|-------------|-----------------|
| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009 (A)</u> |
| Ratio of Earnings to Combined Fixed Charges and Preferred Dividends | 2.17 | 4.71 | 3.08 | 4.42 | 0.04 |
| Ratio of Earnings to Fixed Charges | 2.30 | 4.95 | 3.21 | 4.61 | 0.04 |

(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.

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

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|--|---|
| 1. Fortress Asset Trust | Delaware |
| 2. IMPAC CMB Trust 1998-C1 | Delaware |
| 3. IMPAC Commercial Assets Corporation | California |
| 4. IMPAC Commercial Capital Corporation | California |
| 5. IMPAC Commercial Holdings, Inc. | Maryland |
| 6. Karl S.A. | Belgium |
| 7. LIV Holdings LLC | Delaware |
| 8. NCT Holdings LLC | Delaware |
| 9. Newcastle 2005-1 Asset Backed Note LLC | Delaware |
| 10. Newcastle 2006-1 Asset Backed Note LLC | Delaware |
| 11. Newcastle 2006-1 Depositor LLC | Delaware |
| 12. Newcastle CDO IV Corp. (process of dissolution) | Delaware |
| 13. Newcastle CDO IV Holdings LLC (process of dissolution) | Delaware |
| 14. Newcastle CDO IV Ltd. | Cayman Islands |
| 15. Newcastle CDO V Corp. | Delaware |
| 16. Newcastle CDO V Holdings LLC | Delaware |
| 17. Newcastle CDO V, Ltd. | Cayman Islands |
| 18. Newcastle CDO VI Corp. | Delaware |
| 19. Newcastle CDO VI Holdings LLC | Delaware |
| 20. Newcastle CDO VI, Ltd. | Cayman Islands |
| 21. Newcastle CDO VIII 1, Limited | Cayman Islands |
| 22. Newcastle CDO VIII 2, Limited | Cayman Islands |
| 23. Newcastle CDO VIII Holdings LLC | Delaware |
| 24. Newcastle CDO X Holdings LLC (process of dissolution) | Delaware |
| 25. Newcastle VIII LLC | Delaware |
| 26. Newcastle CDO IX 1, Limited | Cayman Islands |
| 27. Newcastle CDO IX 2, Limited | Cayman Islands |
| 28. Newcastle CDO IX Holdings LLC | Delaware |
| 29. Newcastle CDO IX LLC | Delaware |
| 30. Newcastle MH I LLC | Delaware |
| 31. Newcastle Mortgage Securities LLC | Delaware |
| 32. Newcastle Mortgage Securities Trust 2004-1 | Delaware |
| 33. Newcastle Mortgage Securities 2006-1 | Delaware |
| 34. Newcastle Mortgage Securities 2007-1 | Delaware |
| 35. Newcastle Trust 1 | Delaware |
| 36. NIC Airport Corporate Center LLC | Delaware |
| 37. NIC Apple Valley I LLC | Delaware |
| 38. NIC Apple Valley II LLC | Delaware |
| 39. NIC Apple Valley III LLC | Delaware |
| 40. NIC CRA LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|--|---|
| 41. NIC Dayton Town Center LLC | Delaware |
| 42. NIC DB LLC | Delaware |
| 43. NIC DP LLC | Delaware |
| 44. NIC OTC LLC | Delaware |
| 45. NIC TP LLC | Delaware |
| 46. NIC TRS Holdings, Inc. | Delaware |
| 47. NIC TRS LLC | Delaware |
| 48. NIC WL II LLC | Delaware |
| 49. NIC WL LLC | Delaware |
| 50. Steinhage B.V. | Netherlands |
| 51. NIC SF LLC | Delaware |
| 52. NIC Management LLC | Delaware |
| 53. NIC SN LLC | Delaware |
| 54. Xanadu Asset Holdings LLC | Delaware |
| 55. SP I Term Facility LLC | Delaware |
| 56. Dayton Asset Holding LLC | Delaware |
| 57. NCT Holdings II LLC | Delaware |
| 58. Newcastle Investment Trust 2010-MH1 | Delaware |
| 59. Newcastle Investment Trust 2011-MH1 | Delaware |
| 60. SSL Term Loan LLC | Delaware |
| 61. Newcastle Senior Living Holdings LLC | Delaware |
| 62. TRS LLC | Delaware |
| 63. Propco LLC | Delaware |
| 64. BF Leasing LLC | Delaware |
| 65. BF Owner LLC | Delaware |
| 66. B Leasing LLC | Delaware |
| 67. B Owner LLC | Delaware |
| 68. B California Leasing LLC | Delaware |
| 69. B Oregon Leasing LLC | Delaware |
| 70. B Arizona Leasing LLC | Delaware |
| 71. B Utah Leasing LLC | Delaware |
| 72. B Idaho Leasing LLC | Delaware |
| 73. Orchard Park Leasing LLC | Delaware |
| 74. Sun Oaks Leasing LLC | Delaware |
| 75. Sunshine Villa Leasing LLC | Delaware |
| 76. Regent Court Leasing LLC | Delaware |
| 77. Sheldon Park Leasing LLC | Delaware |
| 78. Desert Flower Leasing LLC | Delaware |
| 79. Canyon Creek Leasing LLC | Delaware |
| 80. Willow Park Leasing LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|--|---|
| 81. B California Owner LLC | Delaware |
| 82. B Oregon Owner LLC | Delaware |
| 83. B Arizona Owner LLC | Delaware |
| 84. B Utah Owner LLC | Delaware |
| 85. B Idaho Owner LLC | Delaware |
| 86. Orchard Park Owner LLC | Delaware |
| 87. Sun Oak Owner LLC | Delaware |
| 88. Sunshine Villa Owner LLC | Delaware |
| 89. Regent Court Owner LLC | Delaware |
| 90. Sheldon Park Owner LLC | Delaware |
| 91. Desert Flower Owner LLC | Delaware |
| 92. Canyon Creek Owner LLC | Delaware |
| 93. Willow Park Owner LLC | Delaware |
| 94. RLG Leasing LLC | Delaware |
| 95. RLG Owner LLC | Delaware |
| 96. RLG Utah Leasing LLC | Delaware |
| 97. RLG Utah Owner LLC | Delaware |
| 98. Heritage Place Leasing LLC | Delaware |
| 99. Golden Living Taylorsville Leasing LLC | Delaware |
| 100. Chateau Brickyard Operations LLC | Delaware |
| 101. Heritage Place Owner LLC | Delaware |
| 102. Golden Living Taylorsville Owner LLC | Delaware |
| 103. Chateau Brickyard Owner LLC | Delaware |
| 104. Propco 2 LLC | Delaware |
| 105. NIC Courtyards Owner LLC | Delaware |
| 106. NIC GH I LLC | Delaware |
| 107. NIC GH II LLC | Delaware |
| 108. NIC GH III LLC | Delaware |
| 109. NIC GH IV LLC | Delaware |
| 110. NIC GH V LLC | Delaware |
| 111. NIC GH VI LLC | Delaware |
| 112. NIC GH VII LLC | Delaware |
| 113. NIC GH VIII LLC | Delaware |
| 114. NIC GH IX LLC | Delaware |
| 115. NIC GH X LLC | Delaware |
| 116. NIC GH XI LLC | Delaware |
| 117. Propco 3 LLC | Delaware |
| 118. NIC Courtyards Leasing LLC | Delaware |
| 119. NIC Courtyards LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|--|---|
| 120. NIC GH Equity LLC | Delaware |
| 121. NIC GH XII LLC | Delaware |
| 122. NIC Acquisitions LLC | Delaware |
| 123. NIC GH XIII LLC | Delaware |
| 124. NIC 4/5 Leasing LLC | Delaware |
| 125. NIC 5 Florida Leasing LLC | Delaware |
| 126. NIC 5 Springs Heaven Leasing LLC | Delaware |
| 127. NIC 5 Renaissance Retirement Leasing LLC | Delaware |
| 128. NIC 5 Forrest Oaks Leasing LLC | Delaware |
| 129. NIC 4 Florida Leasing LLC | Delaware |
| 130. NIC 4 The Grande Leasing LLC | Delaware |
| 131. NIC 4 Village Place leasing LLC | Delaware |
| 132. NIC 4 Bradenton Oaks Leasing LLC | Delaware |
| 133. NIC 4 Spring Oaks Leasing LLC | Delaware |
| 134. NIC 4 Summerfield Leasing LLC | Delaware |
| 135. NIC 4 Emerald Park Retirement Leasing LLC | Delaware |
| 136. NIC 4 Bayside Terrace Leasing LLC | Delaware |
| 137. NIC 4 Balmoral Leasing LLC | Delaware |
| 138. NIC 4 Sunset Lake Leasing LLC | Delaware |
| 139. NIC 4 North Carolina Leasing LLC | Delaware |
| 140. NIC 4 Courtyards of New Bern Owner LLC | Delaware |
| 141. NIC 5 Owner LLC | Delaware |
| 142. NIC 5 Florida Owner LLC | Delaware |
| 143. NIC 5 Spring Heaven Owner LLC | Delaware |
| 144. NIC 5 Renaissance Retirement Owner LLC | Delaware |
| 145. NIC 5 Forest Oaks Owner LLC | Delaware |
| 146. NIC 5 Lake Morton Plaza Owner LLC | Delaware |
| 147. NIC 7 Glen Riddle Owner LLC | Delaware |
| 148. NIC 7 Pennsylvania Owner LLC | Delaware |
| 149. NIC 7 Owner LLC | Delaware |
| 150. Propco 7 LLC | Delaware |
| 151. NIC 8 Schenley Gardens Owner LLC | Delaware |
| 152. NIC 8 Pennsylvania Owner LLC | Delaware |
| 153. NIC 8 Owner LLC | Delaware |
| 154. Propco 8 LLC | Delaware |
| 155. NIC GH XIV LLC | Delaware |
| 156. NIC GH XV LLC | Delaware |
| 157. NIC GH XVI LLC | Delaware |
| 158. NIC GH XVII LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|--|---|
| 159. NIC GH XVIII LLC | Delaware |
| 160. NIC GH XIX LLC | Delaware |
| 161. NIC GH XXI LLC | Delaware |
| 162. NIC GH XXII LLC | Delaware |
| 163. NIC 6 Manor at Woodside Owner LLC | Delaware |
| 164. NIC 6 Owner LLC | Delaware |
| 165. Propco 6 LLC | Delaware |
| 166. NIC 6 Manor at Woodside Management LLC | Delaware |
| 167. NIC 6 New York Management LLC | Delaware |
| 168. NIC 6 Management LLC | Delaware |
| 169. NIC 6 New York Owner LLC | Delaware |
| 170. NIC 7 Glen Riddle Leasing LLC | Delaware |
| 171. NIC 7 Pennsylvania Leasing LLC | Delaware |
| 172. NIC 7 Leasing LLC | Delaware |
| 173. NIC GH XXIII LLC | Delaware |
| 174. NIC GH XXIV LLC | Delaware |
| 175. CDO VIII Repack Limited | Delaware |
| 176. NIC 5 Lake Morton Plaza Leasing LLC | Delaware |
| 177. NIC 4 Emerald Park Retirement Owner LLC | Delaware |
| 178. Propco 5 LLC | Delaware |
| 179. NIC 8 Leasing LLC | Delaware |
| 180. NIC 8 Pennsylvania Leasing LLC | Delaware |
| 181. NIC 8 Schenley Gardens Leasing LLC | Delaware |
| 182. NIC Texas Courtyards Leasing LLC | Delaware |
| 183. NIC 4 Royal Palm Leasing LLC | Delaware |
| 184. NIC 4 Royal Palm Owner LLC | Delaware |
| 185. NIC GH XX LLC | Delaware |
| 186. NCT 2013 – VI Funding Ltd. | Cayman Islands |
| 187. American Golf Leasing LLC | Delaware |
| 188. Propco 9 LLC | Delaware |
| 189. NIC 9 Virginia Owner LLC | Delaware |
| 190. NIC 9 Heritage Oaks Owner LLC | Delaware |
| 191. NIC 9 Virginia Management LLC | Delaware |
| 192. NIC 9 Heritage Oaks Management LLC | Delaware |
| 193. NCT 2013-VI Funding Investors LLC | Delaware |
| 194. Castle Sports & Entertainment Group, Inc. | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|---|---|
| 195. American Golf Group Holdings LLC | Delaware |
| 196. Propco 10 LLC | Delaware |
| 197. NIC 10 Florida Leasing LLC | Delaware |
| 198. NIC 10 Florida Owner LLC | Delaware |
| 199. NIC 10 Barkley Place Leasing LLC | Delaware |
| 200. NIC 10 Barkley Place Owner LLC | Delaware |
| 201. Propco 12 LLC | Delaware |
| 202. NIC 12 Owner LLC | Delaware |
| 203. NIC 12 Arlington Plaza Owner LLC | Delaware |
| 204. NIC 12 Blair House Owner LLC | Delaware |
| 205. NIC 12 Blue Water House Owner LLC | Delaware |
| 206. NIC 12 Chateau Ridgeland Owner LLC | Delaware |
| 207. NIC 12 Cherry Laurel Owner LLC | Delaware |
| 208. NIC 12 Colonial Harbor Owner LLC | Delaware |
| 209. NIC 12 Country Squire Owner LLC | Delaware |
| 210. NIC 12 Courtyard At Lakewood Owner LLC | Delaware |
| 211. NIC 12 Desoto Beach Club Owner LLC | Delaware |
| 212. NIC 12 El Dorado Owner LLC | Delaware |
| 213. NIC 12 Essex House Owner LLC | Delaware |
| 214. NIC 12 Fleming Point Owner LLC | Delaware |
| 215. NIC 12 Grasslands Estates Owner LLC | Delaware |
| 216. NIC 12 Grizzly Peak Owner LLC | Delaware |
| 217. NIC 12 Hidden Lakes Owner LLC | Delaware |
| 218. NIC 12 Jackson Oaks Owner LLC | Delaware |
| 219. NIC 12 Maples Downs Owner LLC | Delaware |
| 220. NIC 12 Parkwood Estates Owner LLC | Delaware |
| 221. NIC 12 Pioneer Valley Lodge Owner LLC | Delaware |
| 222. NIC 12 Regency Residence Owner LLC | Delaware |
| 223. NIC 12 Simi Hills Owner LLC | Delaware |
| 224. NIC 12 Stonybrook Lodge Owner LLC | Delaware |
| 225. NIC 12 Summerfield Owner LLC | Delaware |
| 226. NIC 12 Venture Place Owner LLC | Delaware |
| 227. Propco 13 LLC | Delaware |
| 228. NIC 13 Owner LLC | Delaware |
| 229. NIC 13 The Bentley Owner LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|---|---|
| 230. NIC 13 Briarcrest Estates Owner LLC | Delaware |
| 231. NIC 13 Dogwood Estates Owner LLC | Delaware |
| 232. NIC 13 Durhman Regent Owner LLC | Delaware |
| 233. NIC 13 Fountains At Hidden Lakes Owner LLC | Delaware |
| 234. NIC 13 Illahee Hills Owner LLC | Delaware |
| 235. NIC 13 Jordan Oaks Owner LLC | Delaware |
| 236. NIC 13 Lodge at Cold Spring Owner LLC | Delaware |
| 237. NIC 13 Madison Estates Owner LLC | Delaware |
| 238. NIC 13 Manor at Oakridge Owner LLC | Delaware |
| 239. NIC 13 Oakwood Hills Owner LLC | Delaware |
| 240. NIC 13 Orchid Terrace Owner LLC | Delaware |
| 241. NIC 13 Palmer Hills Owner LLC | Delaware |
| 242. NIC 13 Pinewood Hills Owner LLC | Delaware |
| 243. NIC 13 Pueblo Regent Owner LLC | Delaware |
| 244. NIC 13 The Regent Owner LLC | Delaware |
| 245. NIC 13 Rock Creek Owner LLC | Delaware |
| 246. NIC 13 Sheldon Oaks Owner LLC | Delaware |
| 247. NIC 13 Sky Peaks Owner LLC | Delaware |
| 248. NIC 13 Thornton Place Owner LLC | Delaware |
| 249. NIC 13 Ufflman Estates Owner LLC | Delaware |
| 250. NIC 13 Village Gate Owner LLC | Delaware |
| 251. NIC 13 Vista De La Montana Owner LLC | Delaware |
| 252. NIC 13 Walnut Woods Owner LLC | Delaware |
| 253. NIC 13 The Westmont Owner LLC | Delaware |
| 254. NIC 13 Whiterock Court Owner LLC | Delaware |
| 255. Castle Sports & Entertainment Partners LLC | Delaware |
| 256. Tower A LLC | Delaware |
| 257. Tower A1 Holdings LLC | Delaware |
| 258. Tower A2 Holdings LLC | Delaware |
| 259. Tower B Holdings LLC | Delaware |
| 260. Tower C Holdings LLC | Delaware |
| 261. Tower B LLC | Delaware |
| 262. Tower C LLC | Delaware |
| 263. Vineyards Holdings LLC | Delaware |
| 264. American Golf Partners LLC | Delaware |
| 265. NGP Mezzanine, LLC | Delaware |
| 266. NGP Realty Sub GP, LLC | Delaware |
| 267. NGP Realty Sub, L.P. | Delaware |
| 268. AGC Mezzanine Pledge LLC | Delaware |
| 269. New AGC LLC | Delaware |

Continued on next page.

EXHIBIT 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation/Organization</u> |
|---|---|
| 270. American Golf Corporation | Delaware |
| 271. Propco 4 LLC | Delaware |
| 272. NIC 4 Owner LLC | Delaware |
| 273. NIC 4 Florida Owner LLC | Delaware |
| 274. NIC 4 North Carolina Owner LLC | Delaware |
| 275. NIC 4 The Plaza Leasing LLC | Delaware |
| 276. NIC 4 Courtyards of New Bern Leasing LLC | Delaware |
| 277. NIC 4 The Grande Owner LLC | Delaware |
| 278. NIC 4 Village Place Owner LLC | Delaware |
| 279. NIC 4 Bradenton Oaks Owner LLC | Delaware |
| 280. NIC 4 Spring Oaks Owner LLC | Delaware |
| 281. NIC 4 Summerfield Owner LLC | Delaware |
| 282. NIC 4 Emerald Park Retirement Owner LLC | Delaware |
| 283. NIC 4 Bayside Terrace Owner LLC | Delaware |
| 284. NIC 4 Balmoral Owner LLC | Delaware |
| 285. NIC 4 The Plaza Owner LLC | Delaware |
| 286. NIC 4 Sunset Lake Owner LLC | Delaware |
| 287. NIC 4 Royal Palm Owner LLC | Delaware |
| 288. NIC 12 Greeley Place Owner LLC | Delaware |
| 289. American Golf of Atlanta | Georgia |
| 290. CW Golf Partners LP | California |
| 291. Golf Enterprises Inc. | Kansas |
| 292. Persimmon Golf Club LLC | Delaware |

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-182103) of Newcastle Investment Corp. and Subsidiaries and in the related Prospectus of our reports dated March 3, 2014, 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, 2013.

/s/ Ernst & Young LLP
New York, New York
March 3, 2014

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-182103) of Newcastle Investment Corp. and in the related Prospectuses of our reports dated February 19, 2014, with respect to the consolidated financial statements of Holiday AL Holding LP as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, and February 6, 2014, with respect to the combined financial statements of the NCT Portfolio as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, both included in this Annual Report on Form 10-K.

/s/Ernst & Young LLP
Chicago, Illinois
March 3, 2014

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.

March 3, 2014
(Date)

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jonathan R. Brown, 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.

March 3, 2014
(Date)

/s/ Jonathan R. Brown
Jonathan R. Brown
Interim 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, 2013 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
March 3, 2014

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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jonathan R. Brown, 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/ Jonathan R. Brown

Jonathan R. Brown

Interim Chief Financial Officer

March 3, 2014

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 99.1

Audited Financial Statements of Holiday AL Holding LP

As of December 31, 2013 and 2012 and for each of the years in the three year period ended December 31, 2013, the guarantor in a significant asset concentration subject to a triple net lease.

Report of Independent Auditors

The Partners
Holiday AL Holdings LP

We have audited the accompanying consolidated financial statements of Holiday AL Holdings LP (the Partnership), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP
Chicago, Illinois
February 19, 2013

Holiday AL Holdings LP
Consolidated Balance Sheets
(In Thousands)

| | December 31, | |
|--|---------------------|-------------|
| | 2013 | 2012 |
| Assets | | |
| Investment in real estate: | | |
| Land and land improvements | \$ 40,301 | \$ 40,246 |
| Building and building improvements | 265,617 | 265,451 |
| Equipment | 17,257 | 14,047 |
| | 323,175 | 319,744 |
| Less accumulated depreciation | (60,430) | (52,187) |
| | 262,745 | 267,557 |
| Cash and cash equivalents | 4,621 | 2,209 |
| Cash and escrow deposits – restricted | 106,420 | 3,233 |
| Accounts receivable, net | 789 | 247 |
| Prepaid expenses and other assets, net | 22,552 | 10,987 |
| Resident lease intangibles, net | 1,990 | 2,050 |
| Deferred loan costs, net | – | 366 |
| Total assets | \$ 399,117 | \$ 286,649 |
| Liabilities and equity | | |
| Mortgage notes payable | \$ – | \$ 234,319 |
| Accounts payable and accrued expenses | 24,946 | 4,939 |
| Accrued interest payable | – | 1,040 |
| Prepaid rent and deferred revenue | 5,990 | 1,477 |
| Tenant security deposits | 3,957 | 924 |
| Straight-line rent payable | 4,830 | – |
| Total liabilities | 39,723 | 242,699 |
| Equity: | | |
| Partnership | 359,394 | 43,950 |
| Total liabilities and equity | \$ 399,117 | \$ 286,649 |

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP

Consolidated Statements of Operations
(In Thousands)

| | Year Ended December 31 | | |
|--|------------------------|-----------|------------|
| | 2013 | 2012 | 2011 |
| Revenue | | | |
| Resident fees | \$ 89,429 | \$ 55,626 | \$ 52,038 |
| Expenses | | | |
| Facility operating expenses | 44,899 | 30,742 | 28,750 |
| General and administrative expenses | 3,602 | 2,025 | 1,950 |
| Lease expense | 20,903 | – | – |
| Depreciation and amortization | 8,298 | 8,429 | 9,573 |
| Total expenses | 77,702 | 41,196 | 40,273 |
| Operating income | 11,727 | 14,430 | 11,765 |
| Interest expense: | | | |
| Interest incurred | (13,000) | (14,670) | (14,646) |
| Amortization of deferred loan costs | (366) | (227) | (227) |
| Loss on extinguishment of mortgage notes payable | (5,983) | – | – |
| Net loss attributable to the Partnership | \$ (7,622) | \$ (467) | \$ (3,108) |

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP

Consolidated Statements of Changes in Equity

For the Year Ended December 31, 2013, 2012 and 2011

(In Thousands)

| | <u>General Partner</u> | <u>Limited Partners</u> | <u>Total Equity</u> |
|------------------------------|----------------------------|-----------------------------|-------------------------|
| Balance at January 1, 2011 | \$ 531 | \$ 52,601 | \$ 53,132 |
| Net loss | (31) | (3,077) | (3,108) |
| Distributions | (46) | (4,539) | (4,585) |
| Balance at December 31, 2011 | 454 | 44,985 | 45,439 |
| Net loss | (5) | (462) | (467) |
| Distributions | (10) | (1,012) | (1,022) |
| Balance at December 31, 2012 | 439 | 43,511 | 43,950 |
| Net loss | (76) | (7,546) | (7,622) |
| Contributions, net | 3,231 | 319,835 | 323,066 |
| Balance at December 31, 2013 | <u>\$ 3,594</u> | <u>\$ 355,800</u> | <u>\$ 359,394</u> |

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP

Consolidated Statements of Cash Flows
(In Thousands)

| | Years Ended December 31, | | |
|---|--------------------------|-----------|------------|
| | 2013 | 2012 | 2011 |
| Operating activities | | | |
| Net loss | \$ (7,622) | \$ (467) | \$ (3,108) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 8,298 | 8,429 | 9,573 |
| Amortization of deferred loan costs | 366 | 227 | 227 |
| Amortization of resident incentives, net | 780 | 350 | (414) |
| Straight-line rent expense | 4,830 | — | — |
| Non-refundable community fees, deferred | 1,456 | 326 | (77) |
| Changes in operating assets and liabilities: | | | |
| Cash and escrow deposits – restricted | (103,187) | (621) | 121 |
| Accounts receivable | (542) | 148 | (99) |
| Prepaid expenses and other assets | (15,033) | (27) | (25) |
| Accounts payable and accrued expenses | 6,695 | 1,108 | 380 |
| Prepaid rent | 1,887 | 229 | 183 |
| Tenant security deposits | 1,132 | (3) | (59) |
| Net cash (used in) provided by operating activities | (100,940) | 9,699 | 6,702 |
| Investing activities | | | |
| Additions to investment in real estate | (3,425) | (1,514) | (2,117) |
| Cash used in investing activities | (3,425) | (1,514) | (2,117) |
| Financing activities | | | |
| Repayment of principal on mortgage notes payable | (234,319) | (476) | — |
| Distributions | — | (1,022) | (4,585) |
| Contributions | 338,221 | — | — |
| Due from affiliate | 2,875 | (4,482) | — |
| Net cash provided by (used in) financing activities | 106,777 | (5,980) | (4,585) |
| Net increase in cash and cash equivalents | 2,412 | 2,205 | — |
| Cash and cash equivalents at beginning of year | 2,209 | 4 | 4 |
| Cash and cash equivalents at end of year | \$ 4,621 | \$ 2,209 | \$ 4 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid for interest | \$ 14,040 | \$ 14,674 | \$ 14,645 |
| Supplemental disclosure of non-cash information | | | |
| Net liabilities assumed: | | | |
| Accounts payable and accrued expenses | \$ (12,272) | | |
| Tenant security deposits | (1,901) | | |
| Prepaid rent | (1,170) | | |
| Prepaid expenses and other assets | 188 | | |
| Net liabilities assumed | \$ (15,155) | | |

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

1. Formation and Description of Operations

Holiday AL Holdings LP (HAHLP or the Partnership), a Delaware limited partnership, is the owner and operator of assisted living and independent living facilities in the United States. As of December 31, 2013, the Partnership, directly or indirectly through its ownership entities, owned or leased 110 assisted living communities and independent communities consisting of 10,549 apartment and townhouse units (unaudited), located in 34 states (unaudited).

| <u>Properties</u> | <u>Communities</u> | <u>Units</u> |
|--------------------|--------------------|--------------|
| Owned communities | 8 | 1,648 |
| Leased communities | 102 | 8,901 |

The “Owned Communities” are accounted for under the consolidation method of accounting and are reflected as investment in real estate.

The “Leased Communities” are accounted for as operating leases, pursuant to Accounting Standards Codification (ASC) 840, *Leases*.

The Partnership is owned by Holiday AL Acquisition, LLC (Holiday Acquisition, a limited liability company and a wholly owned subsidiary of investment funds managed by affiliates of Fortress Investment Group LLC), Holiday AL Holdings GP LLC (Holiday AL GP – the general partner and a wholly owned subsidiary of Holiday Acquisition), and Retained Interest LLC (Retained Interest – which is wholly owned by previous investors of Holiday Retirement).

On March 1, 2012 and May 1, 2012, in connection with the commencement of operations of Holiday AL Holdings LP, assets and liabilities of 8 assisted living communities were transferred from Harvest Facility Holdings LP (Harvest) to the Partnership. The Partnership and Harvest are under common control and therefore the net assets transferred were recorded at carryover basis on the financial statements of the Partnership. As a result of the common control transaction, the accompanying financial statements are presented as if the net assets were transferred at the beginning of the period; therefore the financial statements have been presented as if the transfer occurred on January 1, 2011.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The significant accounting policies are summarized below.

Principles of Consolidation

The Partnership consolidates its majority-owned subsidiaries in which it has the ability to control the operations of the subsidiaries. All intercompany transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications considered necessary for a fair presentation have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications have not changed the results of operations or equity.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the allocation of purchase price to tangible and intangible assets and liabilities, the evaluation of asset impairments, insurance reserves, depreciation and amortization, allowance for doubtful accounts, and other contingencies. Actual results could differ from those estimates and assumptions.

Investment in Real Estate and Related Intangibles

In business combinations, the Partnership recognizes all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value. In addition, the Partnership is required to expense acquisition-related costs as incurred, value noncontrolling interests at fair value at the acquisition date and expense restructuring costs associated with an acquired business.

The Partnership allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Partnership utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, own internal analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Partnership also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Identified net tangible and finite lived intangible assets are amortized over their estimated useful lives or contractual lives, which are as follows:

| Asset Categories | Estimated Useful Life (In Years) |
|------------------------------------|---|
| Building and building improvements | 15–40 |
| Land improvements | 15 |
| Equipment | 3–10 |
| Resident lease intangibles | 3–40 |

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and upgrades that improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use is assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any excess of carrying value over fair value recognized as an expense in the current period.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

During the years ended December 31, 2013, 2012 and 2011, the Partnership evaluated all long-lived depreciable assets for indicators of impairment, noting none. As a result, no impairment charges were recorded on the Partnership's long-lived assets during the years ended December 31, 2013, 2012 and 2011.

Property sales or dispositions are recorded when title transfers to unrelated third parties, contingencies have been removed and sufficient cash consideration has been received by the Partnership. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on sale is recognized.

Leases

Leases are accounted for as operating, capital, or financing leases based on the underlying terms. The classification criteria are based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community, and certain other terms in the respective lease agreements. The Partnership does not include communities under operating leases on the consolidated balance sheets and it records the rents paid as lease expense.

The Partnership accounts for leases with rent holiday provisions or that contain fixed payment escalators on a straight-line basis as if the lease payments were fixed evenly over the life of each lease. Straight-line rent payable on the consolidated balance sheets represents the effects of straight-lining lease payments. The Partnership capitalizes out-of-pocket costs incurred to enter into lease contracts as lease acquisition costs and amortizes them over the lives of the respective leases as additional community lease expense.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less from the date of purchase.

Prior to the formation of Partnership (Note 1), Harvest used a centralized approach to cash management. All cash generated by the communities was transferred to Harvest and Harvest funded operating and investing activities for the communities as needed. Cash transfers from the 8 communities to Harvest are treated as distributions in the accompanying financial statements. Subsequent to the formation of the Partnership, all cash generated by the communities is held and retained by the Partnership in its own cash accounts.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

Cash and Escrow Deposits – Restricted

Cash and escrow deposits – restricted consist primarily of funds required by various landlords to be placed on deposit as security for the Partnership’s performance under lease agreements and will generally be held until lease termination. A summary is as follows:

| | December 31 | |
|---|--------------------|-----------------|
| | 2013 | 2012 |
| Landlord required deposit | \$ 97,279 | \$ – |
| Property tax and reserves | 7,838 | 3,118 |
| Tenant/resident security deposits | 1,303 | 115 |
| Total cash and escrow deposits-restricted | <u>\$ 106,420</u> | <u>\$ 3,233</u> |

Allowance for Doubtful Accounts

Allowance for doubtful accounts are recorded by management based upon the Partnership’s historical write-off experience, analysis of accounts receivable aging, and historic resident payment trends.

Management reviews material past due balances on a monthly basis. Account balances are charged off against the allowance when management determines it is probable that the receivable will not be recovered. Allowance for doubtful accounts was \$1,119 and \$282 at December 31, 2013 and 2012, respectively.

Deferred Loan Costs

Deferred loan costs include direct costs to obtain financing. Such costs are deferred and amortized using the straight-line method, which approximates the level-yield method, over the terms of the underlying debt agreements.

Revenue Recognition

Resident fee revenue is recorded as it becomes due as provided for in the residents’ lease agreements. Residents’ agreements are generally for a term of 30 days with resident fees due monthly in advance.

Certain communities have residency agreements that require the resident to pay an upfront fee prior to occupying the community. Community fees are non-refundable after a stated period (typically 90 days) and are initially recorded as deferred revenue and recognized on a straight-line basis as part of resident fee revenue over an estimated three-year average stay of the residents in the communities. Deferred revenue totaled \$2,173 and \$717 at December 31, 2013 and 2012, respectively.

Certain residency agreements provide for free rent or incentives for a stated period of time. Incentives are initially recorded in other assets and recognized on a straight-line basis as a reduction of resident fee revenue over an estimated three-year average stay of the residents in the communities.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

Income Taxes

The Partnership is a limited partnership, and all federal and, substantially, all state income taxes are recorded by the partners. Accordingly, the Partnership does not provide or record a provision for federal income taxes. Certain state and local jurisdictions may impose an income tax on the Partnership.

Advertising Costs

The Partnership expenses advertising costs as incurred. Advertising costs were \$691, \$511 and \$357 for the periods ended December 31, 2013, 2012 and 2011, respectively, and are included in facility operating expenses in the consolidated statements of operations.

Fair Value of Financial Instruments

Cash and cash equivalents and cash and escrow deposits – restricted are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Partnership's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Partnership had outstanding debt with a carrying value of \$234.3 million as of December 31, 2012 (see Note 5). As of December 31, 2012, the carrying value of debt approximated the fair value, based upon a Level 3 valuation.

The Partnership follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, when valuing its financial instruments. The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market-priced assumptions in fair value measurements, the statement establishes a fair value hierarchy that distinguishes between market-participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and Level 2 of the hierarchy) and the reporting entity's own assumptions about market-participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

3. Resident Lease Intangibles, Net

At December 31, 2013 and December 2012, resident lease intangibles, net were as follows:

| | <u>Resident Lease Intangibles, Net</u> |
|------------------------------|---|
| Balance at January 1, 2012 | \$ 2,110 |
| Amortization | (60) |
| Balance at December 31, 2012 | <u>2,050</u> |
| Amortization | (60) |
| Balance at December 31, 2013 | <u><u>\$ 1,990</u></u> |

Future amortization expense related to the resident lease intangibles over the next five years and thereafter, is as follows:

| | <u>Estimated Amortization of Resident Lease Intangibles, Net</u> |
|------------|---|
| Years: | |
| 2014 | \$ 60 |
| 2015 | 60 |
| 2016 | 60 |
| 2017 | 60 |
| 2018 | 60 |
| Thereafter | 1,690 |
| Total | <u><u>\$ 1,990</u></u> |

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

4. Other Balance Sheet Data

Prepaid expenses and other assets, net consisted of the following as of December 31, 2013 and 2012:

| | 2013 | 2012 |
|--------------------------------------|-------------|-------------|
| Deferred rent incentives, net | \$ 1,534 | \$ 2,314 |
| Other assets | 7,248 | 4,191 |
| Pre-paid lease expense | 12,163 | – |
| Due from affiliate (<i>Note 9</i>) | 1,607 | 4,482 |
| Total | \$ 22,552 | \$ 10,987 |

Accounts payable and accrued expenses consisted of the following as of December 31, 2013 and 2012:

| | 2013 | 2012 |
|----------------------------|-------------|-------------|
| Trade and accrued payables | \$ 5,706 | \$ 1,718 |
| Salaries and benefits | 5,512 | 1,338 |
| Property taxes | 5,765 | 846 |
| Insurance reserves | 7,693 | 905 |
| Other | 270 | 132 |
| Total | \$ 24,946 | \$ 4,939 |

5. Mortgage Notes Payable

Mortgage notes payable consisted of the following as of December 31, 2013 and 2012:

| | December 31 | |
|---|--------------------|-------------|
| Mortgage Notes Payable | 2013 | 2012 |
| <i>Loan Pool 1 due March 6, 2016: interest rate of 7.21%; payable interest-only until April 6, 2012; payable principal and interest from April 6, 2012 until maturity; secured by four facilities</i> | \$ – | \$ 76,086 |
| <i>Loan 2 Pool due March 6, 2014: interest rate of 5.64%; payable interest only until maturity; secured by four facilities</i> | – | 158,233 |
| Total mortgage notes payable | \$ – | \$ 234,319 |

The primary obligors on the notes are the underlying LLCs and LLPs and the Partnership became the secondary guarantor on the debt. The Partnership remains in compliance with all of its debt (including the financial covenants contained therein).

During 2013, the Partnership repaid \$234,319 in mortgage notes payable which was funded through contributions from the partners. In connection with the mortgage notes payable repayment, the Partnership incurred \$5,983 of prepayment penalties and exit fees, which are included in loss on extinguishment of mortgage notes payable in the accompanying 2013 statement of operations.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

6. Leases

On September 19, 2013, Harvest sold 26 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 15 year lease (with two 5 year renewal options at which point rent will reset to a fair value rate). The minimum lease payment is initially \$49,016, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

On December 23, 2013, Harvest sold 25 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 17 year lease. The minimum lease payment is initially \$31,915, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

On December 23, 2013, Harvest sold 51 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 17 year lease. The minimum lease payment is initially \$65,031, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

Lease expense under noncancelable operating leases was as follows (in thousands):

| | Year Ended December 31 2013 |
|-------------------------------------|--|
| Contractual operating lease expense | \$ 16,073 |
| Noncash straight-line lease expense | 4,830 |
| Lease expense | <u>\$ 20,903</u> |

Minimum future lease payments under noncancelable operating leases which include 102 communities at December 31, 2013, are as follows (in thousands):

| | |
|------------|----------------------------|
| 2014 | \$ 146,513 |
| 2015 | 153,106 |
| 2016 | 159,996 |
| 2017 | 166,951 |
| 2018 | 172,372 |
| Thereafter | 2,384,972 |
| Total | <u>\$ 3,183,910</u> |

As of December 31, 2013, the Partnership was in compliance with all lease covenant requirements.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

7. Insurance

Harvest obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policies. Losses related to deductible amounts are accrued based on management's estimate of expected losses plus incurred but not reported claims. As of December 31, 2013 and 2012, the Partnership accrued \$7,693 and \$905 for the expected future payment of deductible amounts specific to the Partnership, which is included in accounts payable and accrued expense in the accompanying consolidated balance sheets.

8. Commitments and Contingencies

In the normal course of business, the Partnership is involved in legal actions arising from the ownership and operation of the business. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, operations or liquidity of the Partnership.

9. Due from Affiliate

As of December 31, 2012, an affiliate of the Partnership held approximately \$4.5 million of the Partnership's cash.

On December 31, 2012, the Partnership and affiliate entered into a note related to this cash. The note was due on December 31, 2014, and bore interest equal to the rate in a U.S. Treasury security, having the closest maturity to the maturity date on the note. This note was repaid in full in September 2013.

As of December 31, 2013, an affiliate of the Partnership held approximately \$1.6 million of the Partnership's cash.

10. Subsequent Events

The Partnership has evaluated its subsequent events through February 19, 2014, the date the Partnership's consolidated financial statements for the year ended December 31, 2013, were available for issuance.

EXHIBIT 99.2

Combined Audited Financial Statements of NCT Portfolio

As of December 31, 2012 and 2011 and for each of the years in the three year period ended December 31, 2012, the 51 independent living senior housing communities acquired by Newcastle on December 23, 2013.

Report of Independent Auditors
Owners
NCT Portfolio

We have audited the accompanying combined financial statements of NCT Portfolio (the Company), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Ernst & Young
Chicago, Illinois
February 6, 2014

NCT Portfolio

Combined Balance Sheets (In Thousands)

| | December 31, | |
|---|--------------|------------|
| | 2012 | 2011 |
| Assets | | |
| Investment in real estate: | | |
| Land and land improvements | \$ 121,563 | \$ 120,344 |
| Building and building improvements | 804,124 | 799,513 |
| Equipment | 44,703 | 41,103 |
| | 970,390 | 960,960 |
| Less accumulated depreciation | (158,590) | (132,958) |
| | 811,800 | 828,002 |
| Cash and cash equivalents | 21 | 20 |
| Cash and escrow deposits – restricted | 5,562 | 5,861 |
| Accounts receivable, net | 1,054 | 3,294 |
| Prepaid expenses and other assets, net | 9,118 | 10,356 |
| Resident lease and other intangibles, net | 14,526 | 13,989 |
| Deferred loan costs, net | 1,029 | 1,798 |
| Total assets | \$ 843,110 | \$ 863,320 |
| Liabilities and equity | | |
| Mortgage notes payable | \$ 727,805 | \$ 723,662 |
| Accounts payable and accrued expenses | 10,531 | 10,367 |
| Accrued interest payable | 2,974 | 2,950 |
| Prepaid rent and deferred revenue | 4,777 | 2,643 |
| Tenant security deposits | 1,566 | 1,747 |
| Total liabilities | 747,653 | 741,369 |
| Equity | 95,457 | 121,951 |
| Total liabilities and equity | \$ 843,110 | \$ 863,320 |

See accompanying notes to combined financial statements.

NCT Portfolio

Combined Statements of Operations (In Thousands)

| | Years Ended December 31, | | |
|-------------------------------------|--------------------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| Revenue | | | |
| Resident fees | \$ 139,718 | \$ 131,408 | \$ 121,473 |
| Expenses | | | |
| Facility operating expenses | 74,285 | 70,628 | 65,663 |
| Property management fee | 4,890 | 4,599 | 4,252 |
| Depreciation and amortization | 26,274 | 29,413 | 30,972 |
| Total expenses | 105,449 | 104,640 | 100,887 |
| Operating income | 34,269 | 26,768 | 20,586 |
| Interest expense: | | | |
| Interest incurred | (41,692) | (41,447) | (41,547) |
| Amortization of deferred loan costs | (845) | (830) | (830) |
| Net loss | \$ (8,268) | \$ (15,509) | \$ (21,791) |

See accompanying notes to combined financial statements.

NCT Portfolio

Combined Statements of Changes in Equity

For the Years Ended December 31, 2012, 2011 and 2010
(In Thousands)

| | Total Equity |
|------------------------------|-------------------------|
| Balance at January 1, 2010 | \$ 168,211 |
| Net loss | (21,791) |
| Distributions | (2,527) |
| Balance at December 31, 2010 | 143,893 |
| Net loss | (15,509) |
| Distributions | (6,433) |
| Balance at December 31, 2011 | 121,951 |
| Net loss | (8,268) |
| Distributions | (20,725) |
| Contributions | 2,499 |
| Balance at December 31, 2012 | \$ 95,457 |

See accompanying notes to combined financial statements.

NCT Portfolio

Combined Statements of Cash Flows (In Thousands)

| | Years Ended December 31, | | |
|---|--------------------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| Operating activities | | | |
| Net loss | \$ (8,268) | \$ (15,509) | \$ (21,791) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 26,274 | 29,413 | 30,972 |
| Bad debt expense | 1,051 | 578 | 331 |
| Amortization of deferred loan costs | 845 | 830 | 830 |
| Gain on sale of assets | | | |
| Amortization of resident incentives, net | 1,303 | (1,812) | (2,535) |
| Non-refundable community fees, deferred | 1,171 | (208) | (1,173) |
| Changes in operating assets and liabilities: | | | |
| Cash and escrow deposits – restricted | 299 | 592 | (530) |
| Accounts receivable, net | 1,189 | (2,639) | (1,338) |
| Prepaid expenses and other assets | (65) | 12 | (20) |
| Accounts payable and accrued expenses | 188 | 281 | 1,591 |
| Tenant security deposits | (181) | (572) | (906) |
| Prepaid rent | 963 | 284 | 292 |
| Net cash provided by operating activities | 24,769 | 11,250 | 5,723 |
| Investing activities | | | |
| Cash paid for acquisition | (6,662) | – | – |
| Additions to investment in real estate | (3,947) | (4,992) | (3,417) |
| Cash used in investing activities | (10,609) | (4,992) | (3,417) |
| Financing activities | | | |
| Proceeds from mortgage note payable (acquisition) | 4,178 | – | – |
| Repayment of principal on mortgage notes payable | (35) | – | – |
| Deferred financing costs paid | | | |
| Deferred financing costs paid | (76) | – | – |
| Distributions | (20,725) | (6,433) | (2,527) |
| Contributions | 2,499 | – | – |
| Net cash used in financing activities | (14,159) | (6,433) | (2,527) |
| Net increase (decrease) in cash and cash equivalents | 1 | (175) | (221) |
| Cash and cash equivalents at beginning of year | 20 | 195 | 416 |
| Cash and cash equivalents at end of year | \$ 21 | \$ 20 | \$ 195 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid for interest | \$ 41,668 | \$ 41,447 | \$ 44,433 |

See accompanying notes to combined financial statements.

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

December 31, 2012

1. Basis of Presentation

The NCT Portfolio (the Company) represents the 51 independent living senior housing communities (the Communities) acquired by Newcastle Investment Corp. (NCT) on December 23, 2013 (see Note 9) from certain wholly owned subsidiaries of Harvest Facility Holdings LP (Harvest). Harvest is owned by Holiday Acquisition Holdings LLC (Holiday Acquisition, a limited liability company and a wholly owned subsidiary of investment funds managed by affiliates of Fortress Investment Group LLC). As of December 31, 2012, the Communities consist of 5,744 apartment and townhouse units (unaudited), located in 24 states.

2. Summary of Significant Accounting Policies

The combined financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The significant accounting policies are summarized below.

Use of Estimates

The preparation of the combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the combined financial statements and accompanying notes. Estimates are used for, but not limited to, the allocation of purchase price to tangible and intangible assets and liabilities, the evaluation of asset impairments, insurance reserves, depreciation and amortization, allowance for doubtful accounts, and other contingencies. Actual results could differ from those estimates and assumptions.

Investment in Real Estate and Related Intangibles

In business combinations, the Company recognizes all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value. In addition, the Company is required to expense acquisition-related costs as incurred, value noncontrolling interests at fair value at the acquisition date and expense restructuring costs associated with an acquired business.

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, own internal analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Identified net tangible and finite lived intangible assets are amortized over their estimated useful lives or contractual lives, which are as follows:

| Asset Categories | Estimated Useful Life (In Years) |
|--------------------------------------|---|
| Building and building improvements | 15 – 40 |
| Land improvements | 15 |
| Equipment | 3 – 10 |
| Resident lease and other intangibles | 3 – 40 |

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and upgrades that improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use is assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the carrying value of the asset to its estimated fair value, with any excess carrying value recognized as an expense in the current period.

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

During the years ended December 31, 2012, 2011, and 2010, the Company evaluated all long-lived assets using an undiscounted cash flow approach and determined that the undiscounted cash flows exceeded the carrying value of the assets for all Communities. As a result, no impairment charges were recorded on the Company's long-lived assets during the years ended December 31, 2012, 2011, and 2010. The cash flow projections are based on a number of estimates and assumptions, such as revenue and expense growth rates, capitalization rates and hold periods. Such assumptions are classified as Level 3 inputs in the valuation hierarchy.

Property sales or dispositions are recorded when title transfers to unrelated third parties, contingencies have been removed and sufficient cash consideration has been received by the Company. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on sale is recognized.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less from the date of purchase.

Harvest uses a centralized approach to cash management. All cash generated by the Communities is transferred to Harvest and Harvest funds operating and investing activities for the Communities as needed. Cash transfers from the 51 Communities to Harvest are treated as distributions in the accompanying combined financial statements.

Cash and Escrow Deposits – Restricted

Cash and escrow deposits – restricted consist principally of deposits required by certain lenders pursuant to the applicable debt agreement to fund future property expenditures, and certain resident security deposits held in trusts. A summary is as follows:

| | December 31 | |
|---|-----------------|-----------------|
| | 2012 | 2011 |
| Property tax and other lender-required reserves | \$ 5,031 | \$ 5,161 |
| Tenant/resident security deposits | 531 | 700 |
| Total cash and escrow deposits-restricted | <u>\$ 5,562</u> | <u>\$ 5,861</u> |

NCT Portfolio

Notes to Combined Financial Statements *(In Thousands)*

Allowance for Doubtful Accounts

Allowance for doubtful accounts are recorded by management based upon the Company's historical write-off experience, analysis of accounts receivable aging, and historic resident payment trends.

Management reviews material past due balances on a monthly basis. Account balances are charged off against the allowance when management determines it is probable that the receivable will not be recovered. Allowance for doubtful accounts was \$2,235 and \$403 at December 31, 2012 and 2011, respectively.

Deferred Loan Costs

Deferred loan costs include direct costs to obtain financing. Such costs are deferred and amortized using the straight-line method, which approximates the level-yield method, over the terms of the underlying debt agreements.

Revenue Recognition

Resident fee revenue is recorded as it becomes due as provided for in the residents' lease agreements. Residents' agreements are generally for a term of 30 days with resident fees due monthly in advance.

Certain communities have residency agreements that require the resident to pay an upfront fee prior to occupying the community. Community fees are non-refundable after a stated period (typically 90 days) and are initially recorded as deferred revenue and recognized on a straight-line basis as part of resident fee revenue over an estimated three-year average stay of the residents in the communities. Deferred revenue totaled \$2,772 and \$1,600 at December 31, 2012 and 2011, respectively.

Certain residency agreements provide for free rent or incentives for a stated period of time. Incentives are initially recorded in other assets and recognized on a straight-line basis as a reduction of resident fee revenue over an estimated three-year average stay of the residents in the communities.

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

Income Taxes

All Communities within the combined portfolio are operated as limited partnerships or limited liability companies; thus, all federal and, substantially, all state income taxes are recorded by the owners. Accordingly, the Company does not provide for or record a provision for federal income taxes. Certain state and local jurisdictions may impose an income tax on the Company.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$1,831, \$1,404, and \$655 for the years ended December 31, 2012, 2011, and 2010, respectively, and are included in facility operating expenses in the combined statements of operations.

Fair Value of Financial Instruments

Cash and cash equivalents and cash and escrow deposits – restricted are reflected in the accompanying combined balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value of \$727.8 million and \$723.7 million as of December 31, 2012 and 2011, respectively (see Note 5). As of December 31, 2012 and 2011, the carrying value of debt approximated the fair value, based upon a Level 3 valuation.

The Company follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, when valuing its financial instruments. The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market-priced assumptions in fair value measurements, the statement establishes a fair value hierarchy that distinguishes between market-participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and Level 2 of the hierarchy) and the reporting entity's own assumptions about market-participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

3. Resident Lease and Other Intangibles, Net

At December 31, 2012 and 2011, resident lease and other intangibles, net were as follows:

| | <u>Resident Lease and Other Intangibles, Net</u> |
|------------------------------|---|
| Balance at January 1, 2011 | \$ 14,471 |
| Amortization | (482) |
| Balance at December 31, 2011 | <u>13,989</u> |
| Additions | 1,179 |
| Amortization | (642) |
| Balance at December 31, 2012 | <u><u>\$ 14,526</u></u> |

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

Future amortization expense related to the resident lease and other intangibles over the next five years and thereafter, is as follows:

| | Estimated Amortization of Resident Lease and Other Intangibles, Net |
|------------|--|
| Years: | |
| 2013 | \$ 802 |
| 2014 | 802 |
| 2015 | 645 |
| 2016 | 487 |
| 2017 | 487 |
| Thereafter | 11,303 |
| Total | \$ 14,526 |

4. Other Balance Sheet Data

Prepaid expenses and other assets, net consisted of the following as of December 31, 2012 and 2011:

| | 2012 | 2011 |
|-------------------------------|-------------|-------------|
| Deferred rent incentives, net | \$ 7,678 | \$ 8,981 |
| Other assets | 1,440 | 1,375 |
| Total | \$ 9,118 | \$ 10,356 |

Accounts payable and accrued expenses consisted of the following as of December 31, 2012 and 2011:

| | 2012 | 2011 |
|----------------------------|-------------|-------------|
| Trade and accrued payables | \$ 2,523 | \$ 2,695 |
| Salaries and benefits | 2,279 | 2,247 |
| Property taxes | 3,237 | 3,025 |
| Insurance reserves | 2,405 | 2,288 |
| Other | 87 | 112 |
| Total | \$ 10,531 | \$ 10,367 |

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

5. Debt

Debt consisted of the following as of December 31, 2012 and 2011:

| Long-Term Debt | 2012 | 2011 |
|---|-------------|-------------|
| <i>Assumed Loan due February 2015</i> ; interest rate of 5.88%; payable interest and principal until maturity; secured by one facility | \$ 4,143 | \$ — |
| <i>Loan due March 2014</i> ; interest rate of 6.05%; payable interest only until maturity; secured by one facility | 15,000 | 15,000 |
| <i>Loan Pool due March 2014</i> ; interest rate of 5.64%; payable interest only until maturity; secured by forty-nine facilities ⁽¹⁾ | 708,662 | 708,662 |
| Total debt | \$ 727,805 | \$ 723,662 |

⁽¹⁾ As of December 31, 2012 and 2011, Harvest was the debtor on two pooled mortgage note agreements totaling \$3,528,268 and \$3,711,173, respectively, collateralized by all Harvest owned facilities including the Communities. The debt allocated to the Communities and included in the combined financial statements was the portion of the two pooled mortgage notes where the underlying property owning entities for the Communities were the primary obligors.

In September 2013, Harvest paid off a portion of the above pooled debt and as a result, the remaining obligation was reallocated to the remaining Harvest facilities which decreased the debt on the Communities by \$69,448.

In connection with the sale of the Communities (see Note 9) Harvest repaid a portion of the pooled loans discussed above which resulted in full satisfaction of all debt outstanding specific to the Communities and the Communities were released as collateral for the remaining Harvest outstanding pooled debt.

The Company remains in compliance with all of its debt and lease agreements (including the financial covenants contained therein).

The following is a schedule of principal due on debt obligations as of December 31, 2012:

| | |
|-------------------------|------------|
| Year ended December 31: | |
| 2013 | \$ 55 |
| 2014 | 723,717 |
| 2015 | 4,033 |
| Total | \$ 727,805 |

NCT Portfolio

Notes to Combined Financial Statements *(In Thousands)*

6. Insurance

Harvest obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policies. Losses related to deductible amounts are accrued based on management's estimate of expected losses plus incurred but not reported claims. As of December 31, 2012 and 2011, the Company accrued \$2,405 and \$2,228 for the expected future payment of deductible amounts specific to the NCT Portfolio, which is included in accounts payable and accrued expense in the accompanying combined balance sheets.

7. Management fees

Harvest charges the Communities a management fee equal to 3.5% of resident fees revenue covering employee and other overhead costs attributable to managing the Communities. Such fee is presented as property management fee expense in the accompanying combined statements of operations.

8. Commitments and Contingencies

In the normal course of business, the Company is involved in legal actions arising from the ownership and operation of the business. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the combined financial position, operations or liquidity of the Company.

9. Subsequent Events

The Company has evaluated its subsequent events through February 6, 2014, the date the Company's combined financial statements were available for issuance.

On December 23, 2013, NCT acquired the Communities from Harvest for a purchase price totaling \$1,000,475. The Communities were subsequently leased to subsidiaries of Holiday AL Holdings LP (the Partnership), a wholly owned subsidiary of Holiday Acquisition. The Partnership will operate the Communities pursuant to 17-year leases. The minimum lease payments are initially \$65,031, and such amount is subject to certain defined increases throughout the lease terms.

End of Filing

CORPORATE INFORMATION



BOARD OF DIRECTORS

Wesley R. Edens
Chairman of the Board

Kevin J. Finnerty ⁽¹⁾
Board Member

Stuart A. McFarland ⁽¹⁾
Board Member

David K. McKown ⁽¹⁾
Board Member

Alan L. Tyson ⁽¹⁾
Board Member

Kenneth M. Riis
Board Member

⁽¹⁾ Member of Audit Committee, Nominating and
Corporate Governance Committee and
Compensation Committee

CORPORATE OFFICERS

Kenneth M. Riis
Chief Executive Officer and President

Justine Cheng
Chief Financial Officer and
Chief Operating Officer

Jonathan Brown
Principal Accounting Officer

Randal A. Nardone
Secretary

CORPORATE HEADQUARTERS

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SHAREHOLDER SERVICES, TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
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Brooklyn, NY 11219
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STOCK EXCHANGE LISTING

Newcastle Investment Corp.'s
common stock is listed on the
New York Stock Exchange (symbol: NCT)

INVESTOR INFORMATION SERVICES

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