

## Section 1: 10-Q (10-Q)

### UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

(Address of principal executive offices)

10105

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 S 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 Regulations 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).

S Yes No £

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

Large accelerated filer £ Accelerated filer S Non-accelerated filer £ (Do not check if a smaller reporting company)

Smaller reporting company £

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

Yes £ No S

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

**Common stock, \$0.01 par value per share: 66,734,136 shares outstanding as of October 31, 2016.**

## 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, and potential changes in our ability to make distributions to our stockholders;
- 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;
- geographical concentrations with respect to our investments, including the mortgage loans underlying and collateral securing certain of our debt investments;
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans;
- competition within the industries in which we have and/or may pursue additional investments;
- the impact of any current or further legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (the “Manager”) or one of its affiliates, including the impact of any actual, potential or predicted conflicts of interest;
- 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 Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

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-Q

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**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Real estate securities, available-for-sale	\$ 3,430	\$ 59,034
Real estate securities, available-for-sale - pledged as collateral	663,559	105,963
Real estate related and other loans, held-for-sale, net	52,874	149,198
Subprime mortgage loans subject to call option	353,347	380,806
Investments in real estate, net of accumulated depreciation	227,327	227,907
Intangibles, net of accumulated amortization	67,738	74,472
Other investments	21,724	20,595
Cash and cash equivalents	134,289	45,651
Restricted cash	7,295	4,469
Receivables from brokers, dealers and clearing organizations	858,233	361,341
Receivables and other assets	47,123	38,546
<b>Total Assets</b>	<b>\$ 2,436,939</b>	<b>\$ 1,467,982</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
CDO bonds payable	\$ —	\$ 92,933
Other bonds and notes payable	—	16,162
Repurchase agreements	831,741	418,458
Credit facilities and obligations under capital leases	114,697	11,258
Financing of subprime mortgage loans subject to call option	353,347	380,806
Junior subordinated notes payable	51,219	51,225
Dividends payable	—	8,929
Membership deposit liabilities	87,539	83,210
Payables to brokers, dealers and clearing organizations	663,456	105,940
Accounts payable, accrued expenses and other liabilities	77,292	88,939
<b>Total Liabilities</b>	<b>\$ 2,179,291</b>	<b>\$ 1,257,860</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
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 September 30, 2016 and December 31, 2015	\$ 61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 66,734,136 and 66,654,598 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	667	667
Additional paid-in capital	3,172,721	3,172,370
Accumulated deficit	(2,980,016)	(3,057,538)
Accumulated other comprehensive income	2,785	33,297
<b>Total Newcastle Stockholders' Equity</b>	<b>257,740</b>	<b>210,379</b>
Noncontrolling interests	(92)	(257)
<b>Total Equity</b>	<b>\$ 257,648</b>	<b>\$ 210,122</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,436,939</b>	<b>\$ 1,467,982</b>

See notes to Consolidated Financial Statements.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income	\$ 32,310	\$ 23,010	\$ 73,770	\$ 74,353
Interest expense	(13,138)	(14,715)	(39,089)	(48,392)
Net interest income	19,172	8,295	34,681	25,961
Impairment (Reversal)				
Valuation allowance on loans	611	3,010	3,454	7,684
Other-than-temporary impairment on securities and other investments	—	427	56	9,899
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)	—	23	54	(39)
Total impairment	611	3,460	3,564	17,544
Net interest income after impairment	18,561	4,835	31,117	8,417
Operating Revenues				
Golf course operations	48,515	49,418	135,291	137,150
Sales of food and beverages - golf	19,913	20,035	55,086	53,991
Other golf revenue	14,734	13,411	39,427	35,352
Total operating revenues	83,162	82,864	229,804	226,493
Other Income (Loss)				
Gain (loss) on settlement of investments, net	6,350	(3,168)	4,838	24,623
Gain (loss) on extinguishment of debt, net	(227)	14,878	(607)	15,367
Gain on deconsolidation	—	—	82,130	—
Other income, net	987	277	244	1,871
Total other income	7,110	11,987	86,605	41,861
Expenses				
Loan and security servicing expense	32	41	70	255
Operating expenses - golf	67,027	67,984	189,131	188,359
Cost of sales - golf	8,250	8,842	23,678	24,003
General and administrative expense	3,656	3,876	10,278	9,076
Management fee to affiliate	2,676	2,675	8,027	8,017
Depreciation and amortization	6,735	7,111	19,250	20,983
Total expenses	88,376	90,529	250,434	250,693
Income from continuing operations before income tax	20,457	9,157	97,092	26,078
Income tax expense (benefit)	(38)	1,257	144	1,330
Income from continuing operations	20,495	7,900	96,948	24,748
Income from discontinued operations, net of tax	—	7	—	646
Net Income	20,495	7,907	96,948	25,394
Preferred dividends	(1,395)	(1,395)	(4,185)	(4,185)
Net (income) loss attributable to noncontrolling interests	(177)	(13)	(165)	217
Income Applicable to Common Stockholders	\$ 18,923	\$ 6,499	\$ 92,598	\$ 21,426

Continued on next page.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income Applicable to Common Stock, per share				
Basic	\$ 0.28	\$ 0.10	\$ 1.39	\$ 0.32
Diluted	\$ 0.27	\$ 0.09	\$ 1.35	\$ 0.31
Income from continuing operations per share of common stock, after preferred dividends and noncontrolling interests				
Basic	\$ 0.28	\$ 0.10	\$ 1.39	\$ 0.31
Diluted	\$ 0.27	\$ 0.09	\$ 1.35	\$ 0.30
Income from discontinued operations per share of common stock				
Basic	\$ —	\$ —	\$ —	\$ 0.01
Diluted	\$ —	\$ —	\$ —	\$ 0.01
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	66,730,583	66,484,962	66,688,962	66,445,705
Diluted	69,072,676	69,069,659	68,753,532	69,053,302
Dividends Declared per Share of Common Stock	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.36

See notes to Consolidated Financial Statements.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(dollars in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 20,495	\$ 7,907	\$ 96,948	\$ 25,394
Other comprehensive income (loss):				
Net unrealized gain on available-for-sale securities	894	5,149	8,696	2,577
Reclassification of net realized gain on securities into earnings	(10,080)	(7,594)	(18,506)	(36,470)
Reclassification of net realized gain on deconsolidation of CDO VI	—	—	(20,682)	—
Net unrealized loss on derivatives designated as cash flow hedges	—	—	—	(60)
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	—	(20)	(20)	1,917
Other comprehensive loss	(9,186)	(2,465)	(30,512)	(32,036)
Total comprehensive income (loss)	\$ 11,309	\$ 5,442	\$ 66,436	\$ (6,642)
Comprehensive income (loss) attributable to Newcastle stockholders' equity	\$ 11,132	\$ 5,429	\$ 66,271	\$ (6,425)
Comprehensive income (loss) attributable to noncontrolling interests	\$ 177	\$ 13	\$ 165	\$ (217)

See notes to Consolidated Financial Statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(dollars in thousands, except share data)

	Newcastle Stockholders										
	Preferred Stock		Common Stock			Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comp. Income (Loss)	Total Newcastle Stockholders' Equity	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Amount	Shares	Amount	Amount						
Equity (deficit) - December 31, 2015	2,463,321	\$61,583	66,654,598	\$ 667	\$3,172,370	\$ (3,057,538)	\$ 33,297	\$ 210,379	\$ (257)	\$ 210,122	
Dividends declared	—	—	—	—	—	(19,261)	—	(19,261)	—	(19,261)	
Issuance of common stock (directors)	—	—	79,538	—	351	—	—	351	—	351	
Comprehensive income											
Net income	—	—	—	—	—	96,783	—	96,783	165	96,948	
Deconsolidation of net unrealized gain on securities	—	—	—	—	—	—	(20,682)	(20,682)	—	(20,682)	
Other comprehensive loss	—	—	—	—	—	—	(9,830)	(9,830)	—	(9,830)	
Total comprehensive income								66,271	165	66,436	
Equity (deficit) - September 30, 2016	<u>2,463,321</u>	<u>\$61,583</u>	<u>66,734,136</u>	<u>\$ 667</u>	<u>\$3,172,721</u>	<u>\$ (2,980,016)</u>	<u>\$ 2,785</u>	<u>\$ 257,740</u>	<u>\$ (92)</u>	<u>\$ 257,648</u>	

See notes to Consolidated Financial Statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands, except share data)

	Nine Months Ended September 30,	
	2016	2015
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 96,948	\$ 25,394
Adjustments to reconcile net income to net cash used in operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	19,250	20,994
Amortization of discount and premium	(8,156)	(3,166)
Other amortization	7,998	8,108
Net interest income on investments accrued to principal balance	(25,570)	(19,147)
Amortization of revenue on golf membership deposit liabilities	(646)	(312)
Amortization of prepaid golf membership dues	(20,951)	(20,923)
Non-cash directors' compensation	351	238
Valuation allowance on loans	3,454	7,684
Other-than-temporary impairment on securities and other investments	110	9,860
Equity in earnings from equity method investments, net of distributions	(1,129)	(975)
Gain on deconsolidation	(82,130)	—
Gain on settlement of investments, net	(5,146)	(24,451)
Unrealized loss on non-hedge derivatives	1,702	89
Loss (gain) on extinguishment of debt, net	607	(15,367)
Change in:		
Restricted cash	(2,487)	(1,725)
Receivables and other assets	(4,307)	(1,555)
Accounts payable, accrued expenses and other liabilities	5,405	(4,303)
Net cash used in operating activities	(14,697)	(19,557)
<b>Cash Flows From Investing Activities</b>		
Principal repayments from investments	133,756	124,015
Purchase of real estate securities	(1,618,090)	(1,039,220)
Proceeds from sale of investments	1,128,906	1,061,499
Payments for settlement of TBAs	(13,675)	—
Acquisition and additions of investments in real estate	(9,147)	(2,894)
Change in restricted cash from investing activities	—	56,774
Net cash (used in) provided by investing activities	(378,250)	200,174
<b>Cash Flows From Financing Activities</b>		
Repurchases of debt obligations	—	(152,281)
Borrowings under debt obligations	1,670,481	1,454,435
Repayments of debt obligations	(1,158,754)	(1,485,065)
Margin deposits under repurchase agreements and derivatives	(41,131)	(113,899)
Return of margin deposits under repurchase agreements and derivatives	40,442	112,631
Golf membership deposits received	3,117	3,623
Common stock dividends paid	(24,006)	(23,919)
Preferred stock dividends paid	(4,185)	(4,185)
Payment of deferred financing costs	(3,670)	(500)
Payments for settlement of derivative instruments	—	(13,326)
Other financing activities	(709)	(500)
Net cash provided by (used in) financing activities	481,585	(222,986)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>88,638</b>	<b>(42,369)</b>
Cash and Cash Equivalents of Continuing Operations, Beginning of Period	45,651	73,727
Cash and Cash Equivalents of Discontinued Operations, Beginning of Period	—	135
Cash and Cash Equivalents, End of Period	\$ 134,289	\$ 31,493
Cash and Cash Equivalents of Continuing Operations, End of Period	\$ 134,289	\$ 31,493
Supplemental Schedule of Non-Cash Investing and Financing Activities		

Preferred stock dividends declared but not paid	\$	—	\$	930
Common stock dividends declared but not paid	\$	—	\$	7,978
Financing costs accrued but not paid	\$	600	\$	—
Additions to capital lease assets and liabilities	\$	7,018	\$	7,231
Option exercise	\$	—	\$	48

See notes to Consolidated Financial Statements.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share data)

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#### 1. ORGANIZATION

Newcastle Investment Corp. (and its subsidiaries, “Newcastle” or the “Company”) is a Maryland corporation that was formed in 2002. Newcastle focuses on investing in, and actively managing, real estate related assets, including traditional and innovative golf assets. Newcastle is organized and currently 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. However, certain of our activities are conducted through taxable REIT subsidiaries (“TRS”) and therefore are subject to federal and state income taxes at regular corporate tax rates. Newcastle’s common stock is traded on the New York Stock Exchange under the symbol “NCT.”

Newcastle conducts its business through the following segments: (i) debt investments financed with collateralized debt obligations (“CDOs”), (ii) other debt investments (“Other Debt”), (iii) investments in golf properties and facilities (“Golf”) and (iv) corporate.

Newcastle is party to a management agreement (the “Management Agreement”) with FIG LLC (the “Manager”), a subsidiary of Fortress Investment Group LLC (“Fortress”), pursuant to which the Manager provides for a management team and other professionals who are responsible for implementing Newcastle’s business strategy, 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 further discussion of the Management Agreement, see Note 15.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The accompanying Consolidated Financial Statements and related notes of Newcastle have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Newcastle’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Newcastle’s Consolidated Financial Statements for the year ended December 31, 2015 and notes thereto included in Newcastle’s Annual Report on Form 10-K filed with the SEC on March 10, 2016. Capitalized terms used herein, and not otherwise defined, are defined in Newcastle’s Consolidated Financial Statements for the year ended December 31, 2015.

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

As of September 30, 2016, Newcastle’s significant accounting policies for these financial statements are summarized below and should be read in conjunction with the Summary of Significant Accounting Policies detailed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

#### REVENUE RECOGNITION

**Golf Revenues** - Revenue from green fees, cart rentals, food and beverage sales, merchandise sales and other activities (consisting primarily of range income, banquets, instruction, and club and other rental income) is generally recognized at the time of sale, when services are rendered and collection is reasonably assured.

Revenue from membership dues is recognized in the month earned. Membership dues received in advance are included in deferred revenues and recognized into revenue ratably over the appropriate period, which is generally 12 months or less. The membership dues are generally structured to cover country club operating costs and membership services.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(dollars in tables in thousands, except share data)

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#### EXPENSE RECOGNITION

**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 a cash flow hedge or a fair value hedge.

Derivative transactions are entered into by Newcastle solely for risk management purposes in the ordinary course of business. 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. As of September 30, 2016, Newcastle has no derivative instruments that qualify and are designated as hedging instruments, but has one interest rate cap in the amount of \$0.2 million which is not designated as a hedge.

Newcastle transacts in the To Be Announced mortgage backed securities ("TBA") market. TBA contracts are forward contracts to purchase mortgage-backed securities that will be issued by a U.S. government sponsored enterprise in the future. Newcastle primarily engages in TBA transactions for purposes of managing interest rate risk and market risk associated with our investment strategies. For example, Newcastle takes short positions in TBAs to offset - to varying degrees - changes in the values of our Agency residential mortgage backed securities ("RMBS") investments for which we have exposure to interest rate volatility; therefore, these derivatives may, to some extent, be economically effective as hedges.

Newcastle typically does not take delivery of TBAs, but rather settles the associated receivable and payable with its trading counterparties on a net basis. As part of its TBA activities, Newcastle may "roll" its TBA positions, whereby it may sell (buy) securities for delivery (receipt) in an earlier month and simultaneously contract to repurchase (sell) similar securities at an agreed-upon price on a fixed date in a later month. Newcastle accounts for its TBA transactions as non-hedge instruments, with changes in market value recorded in the Statement of Operations. As of September 30, 2016, Newcastle held six short TBA contracts totaling \$1,457.2 million in notional amount and four long contracts totaling \$823.0 million in notional amount of Agency RMBS. As of September 30, 2016 and December 31, 2015, Newcastle funded approximately \$2.9 million and \$1.0 million, respectively, for margin calls related to TBA contracts.

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 seeks to reduce 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.

**Operating Leases and Operating Expenses** - Operating expenses for the Golf business consist primarily of payroll, equipment leases, utilities, repairs and maintenance, supplies, seed, soil and fertilizer, and marketing. Many of the golf properties and related facilities are leased under long-term operating leases. In addition to minimum payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The majority of lease terms range from 10 to 20 years, and typically, the leases contain renewal options. Certain leases include scheduled increases or decreases in minimum rental payments at various times during the term of the lease. These scheduled rent increases or decreases are recognized on a straight-line basis over the term of the lease. Increases result in an accrual, which is included in accounts payable, accrued expenses and other liabilities, and decreases result in a receivable, which is included in receivables and other assets, for the amount by which the cumulative straight-line rent differs from the contractual cash rent.

#### BALANCE SHEET MEASUREMENT

**Investments in Real Estate, Net** - Real estate and related improvements are recorded at cost less accumulated depreciation. Costs that both materially add value to an asset and extend the useful life of an asset by more than a year are capitalized. With respect to golf course improvements (included in buildings and improvements), costs associated with original construction, significant

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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replacements, permanent landscaping, sand traps, fairways, tee boxes or greens are capitalized. All other asset-related costs that do not meet these criteria, such as minor repairs and routine 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. A disposal of a component of an entity or a group of components of an entity are reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on Newcastle's operations and financial results. Discontinued operations are retroactively reclassified to income (loss) from discontinued operations for all periods presented.

The Golf business leases certain golf carts and other equipment that are classified as capital leases. The value of capital leases is recorded as an asset on the balance sheet, along with a liability related to the associated payments. Depreciation of capital lease assets is calculated using the straight-line method over the shorter of the estimated useful lives and the expected lease terms. The cost of equipment under capital leases is included in investments in real estate in the Consolidated Balance Sheets. Payments under the leases are treated as reductions of the liability, with a portion being recorded as interest expense under the effective interest method.

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

Buildings and improvements	10-30 years
Capital leases - equipment	4-7 years
Furniture, fixtures and equipment	3-7 years

**Intangibles** - Intangible assets and liabilities 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 property and is amortized over the term of the underlying lease agreement. The management contract intangible represents Newcastle's golf course management contracts for both leased and managed properties. The management contract intangible for leased and managed properties is valued utilizing a discounted cash flow methodology under the income approach and is amortized over the term of the underlying lease or management agreements, respectively. The membership base intangible represents Newcastle's relationship with its private country club members. The membership base intangible is valued using the multi-period excess earnings method under the income approach, and is amortized over the expected life of an active membership.

Amortization of leasehold intangible assets and liabilities is included within operating expenses - golf, and amortization of all other intangible assets is included within depreciation and amortization in the Consolidated Statements of Operations.

**Membership Deposit Liabilities** - In our Golf business, private country club members generally pay an advance initiation fee deposit upon their acceptance as a member to the respective country club. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee deposit paid by the member and the present value of the refund obligation is deferred and recognized into revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense in the Consolidated Statements of Operations.

**Other Investment** - Newcastle owns a 23% economic interest within a commercial real estate project which is recorded as an equity method investment. As of September 30, 2016 and December 31, 2015, the carrying value of this investment was \$21.7 million and \$20.6 million, respectively. Newcastle evaluates its investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. The evaluation of recoverability is based on management's assessment of the financial condition and near term prospects of the investee, the length of time and the extent to which the market value of the investment has been less than cost and the intent and ability of Newcastle to retain its investment.

**Impairment of Real Estate and Finite-lived Intangible Assets** - Newcastle periodically reviews the carrying amounts of its long-lived assets, including real estate and finite-lived intangible assets, to determine whether current events or circumstances indicate

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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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.

**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 three and nine months ended September 30, 2016, Newcastle recorded \$0.1 million and \$0.3 million, respectively, of servicing rights amortization and no servicing rights impairment. During the three and nine months ended September 30, 2015, Newcastle recorded \$0.1 million and \$0.3 million, respectively, of servicing rights amortization and no servicing rights impairment. As of September 30, 2016 and December 31, 2015, Newcastle's servicing assets had a carrying value of \$0.4 million and \$0.7 million, respectively, recorded in receivables and other assets.

**Variable Interest Entities ("VIEs")** - Newcastle's subprime securitizations (see Note 6), CDO V, and CDO VI are considered VIEs, but Newcastle does not control the decisions that most significantly impact their economic performance and no longer receives a significant portion of their returns. Newcastle deconsolidated CDO V as of June 17, 2011 as a result of an event of default which allowed Newcastle to be removed as collateral manager and prevents purchasing and selling of certain collateral within CDO V. In August 2016, Newcastle settled on a trade to sell \$14.8 million face amount of two CDO V securities for total proceeds of \$9.9 million (see Note 5). As a result of this trade, Newcastle no longer has a variable or economic interest in CDO V.

In March 2016, Newcastle sold to third parties \$11.0 million face amount of NCT 2013-VI Class I-MM-2 at a price of 93.0% of par. This tranche was previously held by Newcastle since issuance and was eliminated in consolidation. By selling this tranche, Newcastle was no longer deemed the primary beneficiary of CDO VI. As a result of this sale, Newcastle deconsolidated CDO VI from its Consolidated Balance Sheet, which included \$43.9 million carrying value of real estate securities available-for-sale, \$93.1 million of CDO bonds payable, and \$12.4 million of other bonds payable. In addition, Newcastle reclassified \$20.7 million of related other comprehensive income into earnings, and recognized a total gain of approximately \$82.1 million as a result of deconsolidating CDO VI. As a result of this transaction, Newcastle no longer has a variable interest in CDO VI. Newcastle continues to receive servicing fees as collateral manager, which are not considered variable interests in CDO VI.

The following table presents certain assets of consolidated VIEs which are included in the Consolidated Balance Sheets. The assets in the table below include only those assets that can be used to settle obligations of consolidated VIEs, and are equal to or in excess of those obligations. Additionally, the assets in the table below exclude intercompany balances that eliminate in consolidation.

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs</b>		
Real estate securities, available-for-sale	\$ —	\$ 46,392
Subprime mortgage loans subject to call option	353,347	380,806
Restricted cash	—	128
Receivables and other assets	—	77
<b>Total assets of consolidated VIEs that can only be used to settle obligations of consolidated VIEs</b>	<b>\$ 353,347</b>	<b>\$ 427,403</b>

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The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheets. 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.

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle</b>		
CDO bonds payable	\$ —	\$ 92,933
Other bonds and notes payable	—	4,672
Financing of subprime mortgage loans subject to call option	353,347	380,806
Accounts payable, accrued expenses and other liabilities	—	29
<b>Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Newcastle</b>	<b>\$ 353,347</b>	<b>\$ 478,440</b>

In addition, Newcastle's investments in RMBS, commercial mortgage backed securities ("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, which 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 September 30, 2016, 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 (e.g., if Newcastle were to own 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.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers (Topic 606)*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date by one year. The standard will be effective for annual and interim periods beginning after December 15, 2017; however, all entities are allowed to adopt the standard as early as the original effective date (annual periods beginning after December 15, 2016). Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. In March 2016, the FASB issued ASU 2016-08 *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* which clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how to apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies when a promised good or service is separately identifiable. In May 2016, the FASB issued ASU 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* which amends the new revenue recognition guidance on transition, collectibility, noncash consideration and the presentation of sales and other similar taxes. Newcastle is currently reviewing the guidance to determine its impact on the Consolidated Financial Statements and has not yet determined the method by which it will adopt the standard.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The standard amends the consolidation considerations when evaluating certain limited partnerships, variable interest entities and investment funds. Newcastle adopted this guidance in the first quarter of 2016.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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In January 2016, the FASB issued ASU 2016-01 *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Newcastle is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842)*. The standard requires lessees to recognize most leases on the balance sheet and addresses certain aspects of lessor accounting. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with an option to use certain relief. Newcastle is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The standard changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount under the other-than-temporary impairment model. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted for annual periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Newcastle is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. The standard provides specific guidance over eight identified cash flow issues in order to reduce diversity in practice over the presentation and classification of certain types of cash receipts and cash payments. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted. Entities should apply the standard using a retrospective transition method to each period presented. Newcastle is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

The FASB has recently issued or discussed a number of proposed standards on such topics as financial statement presentation, financial instruments and hedging. 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. DISCONTINUED OPERATIONS**

In April 2015, Newcastle closed the sale of its commercial real estate properties in Beaver creek, OH for \$7.0 million, net of closing costs, and recognized a net gain on the sale of these assets of approximately \$0.3 million. In addition, Newcastle repaid the related debt on this property of \$6.0 million held within CDO IX, which was eliminated in consolidation.

As a result of the sale of the commercial real estate properties in Beaver creek, OH (which was initially reported as held-for-sale as of September 30, 2014), the assets, liabilities and results of operations of those components of Newcastle's operations that represent operations in which Newcastle has no significant continuing involvement, are presented separately in discontinued operations in Newcastle's Consolidated Financial Statements for all periods presented.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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Results from discontinued operations were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Rental income	\$ —	\$ 7	\$ —	\$ 556
Gain on settlement of investments	—	—	—	318
<b>Total income</b>	<b>—</b>	<b>7</b>	<b>—</b>	<b>874</b>
Property operating expenses	—	—	—	187
General and administrative expenses	—	—	—	30
Depreciation and amortization	—	—	—	11
<b>Total expenses</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>228</b>
<b>Income from discontinued operations</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 646</b>

**4. SEGMENT REPORTING**

Newcastle conducts its business through the following segments: (i) debt investments financed with collateralized debt obligations (“CDOs”), (ii) other debt investments (“Other Debt”), (iii) investment in golf properties and facilities (“Golf”) and (iv) corporate, which consists primarily of interest income on short-term investments, general and administrative expenses, interest expense on the junior subordinated notes payable and management fees pursuant to the Management Agreement.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(dollars in tables in thousands, except share data)

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

	Debt Investments (A)		Golf	Corporate	Total
	CDOs	Other Debt (B)			
<b>Nine Months Ended September 30, 2016</b>					
Interest income	\$ 1,097	\$ 72,564	\$ 94	\$ 15	\$ 73,770
Interest expense	(491)	(27,991)	(8,703)	(1,904)	(39,089)
Net interest income (expense)	606	44,573	(8,609)	(1,889)	34,681
Total impairment	110	3,454	—	—	3,564
Total operating revenues	—	—	229,804	—	229,804
Total other income (loss), net	82,130	4,782	(307)	—	86,605
Loan and security servicing expense	30	40	—	—	70
Operating expenses - golf (C)	—	—	182,919	—	182,919
Operating expenses - golf, repairs and maintenance expenses	—	—	6,212	—	6,212
Cost of sales - golf	—	—	23,678	—	23,678
General and administrative expense	—	—	2,212	5,602	7,814
General and administrative expense - acquisition and transaction expenses (D)	—	—	2,093	371	2,464
Management fee to affiliate	—	—	—	8,027	8,027
Depreciation and amortization	—	—	19,250	—	19,250
Income tax expense	—	—	144	—	144
Income (loss) from continuing operations	82,596	45,861	(15,620)	(15,889)	96,948
Net income (loss)	82,596	45,861	(15,620)	(15,889)	96,948
Preferred dividends	—	—	—	(4,185)	(4,185)
Net income attributable to noncontrolling interests	—	—	(165)	—	(165)
Income (loss) applicable to common stockholders	\$ 82,596	\$ 45,861	\$ (15,785)	\$ (20,074)	\$ 92,598

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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Summary segment financial data (continued).

	Debt Investments (A)		Golf	Corporate	Total
	CDOs	Other Debt (B)			
<b>Three Months Ended September 30, 2016</b>					
Interest income	\$ —	\$ 32,286	\$ 17	\$ 7	\$ 32,310
Interest expense	—	(9,405)	(3,340)	(393)	(13,138)
Net interest income (expense)	—	22,881	(3,323)	(386)	19,172
Total impairment	—	611	—	—	611
Total operating revenues	—	—	83,162	—	83,162
Total other income (loss), net	—	7,125	(15)	—	7,110
Loan and security servicing expense	—	32	—	—	32
Operating expenses - golf (C)	—	—	65,101	—	65,101
Operating expenses - golf, repairs and maintenance expenses	—	—	1,926	—	1,926
Cost of sales - golf	—	—	8,250	—	8,250
General and administrative expense	—	—	665	1,936	2,601
General and administrative expense - acquisition and transaction expenses (D)	—	—	855	200	1,055
Management fee to affiliate	—	—	—	2,676	2,676
Depreciation and amortization	—	—	6,735	—	6,735
Income tax benefit	—	—	(38)	—	(38)
Income (loss) from continuing operations	—	29,363	(3,670)	(5,198)	20,495
Net income (loss)	—	29,363	(3,670)	(5,198)	20,495
Preferred dividends	—	—	—	(1,395)	(1,395)
Net income attributable to noncontrolling interests	—	—	(177)	—	(177)
Income (loss) applicable to common stockholders	\$ —	\$ 29,363	\$ (3,847)	\$ (6,593)	\$ 18,923

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share data)

Summary segment financial data (continued).

	Debt Investments (A)		Golf	Corporate	Total
	CDOs	Other Debt (B)			
<b>September 30, 2016</b>					
Investments	\$ —	\$ 1,094,934	\$ 295,065	\$ —	\$ 1,389,999
Cash and restricted cash	—	2,017	9,640	129,927	141,584
Other assets	—	867,921	37,359	76	905,356
Total assets	—	1,964,872	342,064	130,003	2,436,939
Debt, net	—	1,185,088	114,697	51,219	1,351,004
Other liabilities	—	666,490	157,705	4,092	828,287
Total liabilities	—	1,851,578	272,402	55,311	2,179,291
Preferred stock	—	—	—	61,583	61,583
Noncontrolling interests	—	—	(92)	—	(92)
Equity attributable to common stockholders	\$ —	\$ 113,294	\$ 69,754	\$ 13,109	\$ 196,157
Additions to investments in real estate during the nine months ended September 30, 2016	\$ —	\$ —	\$ 15,883	\$ —	\$ 15,883

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share data)

Summary segment financial data (continued).

	Debt Investments (A)		Golf	Corporate	Discontinued Operations	Eliminations	Total
	CDOs	Other Debt					
<b>Nine Months Ended September 30, 2015</b>							
Interest income	\$ 30,983	\$ 46,246	\$ 110	\$ 19	\$ —	\$ (3,005)	\$ 74,353
Interest expense	(5,993)	(28,789)	(13,779)	(2,836)	—	3,005	(48,392)
Inter-segment elimination	(3,005)	—	3,005	—	—	—	—
Net interest income (expense)	21,985	17,457	(10,664)	(2,817)	—	—	25,961
Total impairment	12,569	4,975	—	—	—	—	17,544
Total operating revenues	—	—	226,493	—	—	—	226,493
Total other income (loss), net	30,271	(3,070)	14,606	54	—	—	41,861
Loan and security servicing expense	249	6	—	—	—	—	255
Operating expenses - golf (C)	—	—	181,506	—	—	—	181,506
Operating expenses - golf, repairs and maintenance expenses	—	—	6,853	—	—	—	6,853
Cost of sales - golf	—	—	24,003	—	—	—	24,003
General and administrative expense	—	—	1,960	5,767	—	—	7,727
General and administrative expense - acquisition and transaction expenses (D)	—	60	1,239	50	—	—	1,349
Management fee to affiliate	—	—	—	8,017	—	—	8,017
Depreciation and amortization	—	—	20,983	—	—	—	20,983
Income tax expense	—	—	1,330	—	—	—	1,330
Income (loss) from continuing operations	39,438	9,346	(7,439)	(16,597)	—	—	24,748
Income from discontinued operations	—	—	—	—	646	—	646
Net income (loss)	39,438	9,346	(7,439)	(16,597)	646	—	25,394
Preferred dividends	—	—	—	(4,185)	—	—	(4,185)
Net loss attributable to non-controlling interests	—	—	217	—	—	—	217
Income (loss) applicable to common stockholders	\$ 39,438	\$ 9,346	\$ (7,222)	\$ (20,782)	\$ 646	\$ —	\$ 21,426

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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SEPTEMBER 30, 2016

(dollars in tables in thousands, except share data)

Summary segment financial data (continued).

	Debt Investments (A)		Golf	Corporate	Discontinued Operations	Total
	CDOs	Other Debt				
<b>Three Months Ended September 30, 2015</b>						
Interest income	\$ 1,375	\$ 21,587	\$ 38	\$ 10	\$ —	\$ 23,010
Interest expense	(680)	(9,617)	(3,473)	(945)	—	(14,715)
Net interest income (expense)	695	11,970	(3,435)	(935)	—	8,295
Total impairment	363	3,097	—	—	—	3,460
Total operating revenues	—	—	82,864	—	—	82,864
Total other income (loss), net	—	(2,893)	14,834	46	—	11,987
Loan and security servicing expense	35	6	—	—	—	41
Operating expenses - golf (C)	—	—	65,518	—	—	65,518
Operating expenses - golf, repairs and maintenance expenses	—	—	2,466	—	—	2,466
Cost of sales - golf	—	—	8,842	—	—	8,842
General and administrative expense	—	—	919	1,946	—	2,865
General and administrative expense - acquisition and transaction expenses (D)	—	60	918	33	—	1,011
Management fee to affiliate	—	—	—	2,675	—	2,675
Depreciation and amortization	—	—	7,111	—	—	7,111
Income tax expense	—	—	1,257	—	—	1,257
Income (loss) from continuing operations	297	5,914	7,232	(5,543)	—	7,900
Income from discontinued operations	—	—	—	—	7	7
Net income (loss)	297	5,914	7,232	(5,543)	7	7,907
Preferred dividends	—	—	—	(1,395)	—	(1,395)
Net income attributable to non-controlling interests	—	—	(13)	—	—	(13)
Income (loss) applicable to common stockholders	\$ 297	\$ 5,914	\$ 7,219	\$ (6,938)	\$ 7	\$ 6,499

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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(dollars in tables in thousands, except share data)

- (A) Assets held within non-recourse structures, including all of the assets in the CDO segment, 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:

	September 30, 2016			
	Investments		Debt	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount	Carrying Value
<u>Non-Recourse</u>				
Subprime mortgage loans subject to call options	\$ 353,347	\$ 353,347	\$ 353,347	\$ 353,347
<u>Other</u>				
Unlevered real estate securities (E)	12,464	3,430	—	—
Levered real estate securities (F)	632,206	663,559	831,741	831,741
Real estate related and other loans (G)	71,378	52,874	—	—
Other investments	N/A	21,724	—	—
	<u>\$ 1,069,395</u>	<u>\$ 1,094,934</u>	<u>\$ 1,185,088</u>	<u>\$ 1,185,088</u>

- (C) Operating expenses - golf includes rental expenses recorded under operating leases for carts and equipment in the amount of \$0.9 million and \$2.9 million for the three and nine months ended September 30, 2016, respectively, and \$1.1 million and \$3.4 million for the three and nine months ended September 30, 2015, respectively.
- (D) Includes all transaction related expenses.
- (E) Excludes 11 CDO securities with zero value, which had an aggregate face amount of \$154.0 million.
- (F) These investments represent purchases that were traded on September 30, 2016 but settled on October 13, 2016. These debts represent repurchase agreements collateralized by sold investments that were traded on September 30, 2016 and settled on October 13, 2016.
- (G) Excludes two mezzanine loans with zero value, which had an aggregate face amount of \$17.8 million and two corporate loans with zero value, which had an aggregate face amount of \$45.7 million.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share data)

5. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at September 30, 2016, 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	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized			Number of Securities	Weighted Average				
		Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value (A)		Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
CMBS	\$ 10,308	\$ 10,308	\$ (10,308)	\$ —	\$ —	\$ —	\$ —	2	C	2.53%	—%	0.0	—%
ABS - Non-Agency RMBS	4,000	2,269	(1,521)	748	2,682	—	3,430	1	C	0.92%	24.61%	5.3	26.5%
ABS - Small Business Loans	8,464	7,647	(7,647)	—	—	—	—	1	C	6.69%	—%	0.0	—%
Debt Security Total / Average (E)	\$ 22,772	\$ 20,224	\$ (19,476)	\$ 748	\$ 2,682	\$ —	\$ 3,430	4	C	3.79%	24.61%	0.9	
Equity Securities		—	—	—	—	—	—	1					
Total Securities, Available-for-Sale		\$ 20,224	\$ (19,476)	\$ 748	\$ 2,682	\$ —	\$ 3,430	5					
FNMA/FHLMC	632,206	663,456	—	663,456	103	—	663,559	10	AAA	3.26%	2.87%	6.3	N/A
Total Securities, Pledged as Collateral (E)	\$ 632,206	\$ 663,456	\$ —	\$ 663,456	\$ 103	\$ —	\$ 663,559	10					

(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 uses an implied AAA rating for the Fannie Mae/Freddie Mac ("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 life is based on the timing of expected cash flows on the assets.

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

(E) The total outstanding face amount was \$640.7 million for fixed rate securities and \$14.3 million for floating rate securities. Excludes 11 CDO securities with zero value, which had an aggregate face amount of \$154.0 million.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the nine months ended September 30, 2016, Newcastle recorded other-than-temporary impairment charges (“OTTI”) of \$0.1 million with respect to real estate securities (gross of less than \$0.1 million of other-than-temporary impairment recognized in other comprehensive income). Based on management’s analysis of the 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 on Newcastle’s securities were primarily the result of changes in market factors, rather than issue-specific credit impairment. Newcastle performed analyses in relation to such securities, using management’s best estimate of their cash flows, which support that the carrying values of such securities were fully recoverable over their expected holding period. Newcastle had no securities in an unrealized loss position as of September 30, 2016.

The following table summarizes the activity related to credit losses on debt securities for the nine months ended September 30, 2016:

Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in other comprehensive income	\$	(3,010)
Additions for credit losses on securities for which an OTTI was not previously recognized		—
Additions to credit losses on securities for which OTTI was previously recognized and a portion of an OTTI was recognized in other comprehensive income		(110)
Reduction for securities deconsolidated during the period		3,120
Reduction for securities sold/written off during the period		—
Reduction for increases in cash flows expected to be collected that are recognized over the remaining life of the security		—
Ending balance of credit losses on debt securities for which a portion of OTTI was recognized in other comprehensive income	\$	—

The table below summarizes the geographic distribution of the collateral securing Newcastle’s CMBS and asset-backed securities (“ABS”) at September 30, 2016:

Geographic Location	CMBS		ABS (A)	
	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	\$ —	—%	\$ 1,309	10.5%
Northeastern U.S.	—	—%	9,086	72.9%
Southeastern U.S.	10,308	100.0%	1,058	8.5%
Midwestern U.S.	—	—%	424	3.4%
Southwestern U.S.	—	—%	587	4.7%
	<u>\$ 10,308</u>	<u>100.0%</u>	<u>\$ 12,464</u>	<u>100.0%</u>

(A) Includes ABS - Non Agency RMBS and ABS - Small Business Loans.

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.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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In January 2016, Newcastle settled on a trade to sell \$350.3 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% of par for total proceeds of \$361.3 million and repaid \$348.6 million of repurchase agreements associated with these securities.

In January 2016, Newcastle settled on a trade to purchase \$102.7 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% of par for total proceeds of \$105.9 million. This transaction was financed with \$102.2 million of repurchase agreements.

In January 2016, Newcastle settled on a trade to purchase \$250.1 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% of par for total proceeds of approximately \$258.1 million. This transaction was financed with \$249.1 million of repurchase agreements.

In April 2016, Newcastle settled on a trade to sell \$347.5 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 104.9% of par for total proceeds of \$364.3 million and recognized a gain on sale of securities of approximately \$5.9 million at trade date. Newcastle repaid \$352.0 million of repurchase agreements associated with these securities.

In April 2016, Newcastle settled on a trade to purchase \$363.1 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.0% of par for total proceeds of \$381.1 million. This transaction was financed with \$366.4 million of repurchase agreements.

In June 2016, Newcastle sold a CDO bond with a face amount of \$10.0 million at a price of 7.25% of par for total proceeds of \$0.7 million and reported a gain on sale of \$0.7 million, as this bond was previously written down to zero.

In July 2016, Newcastle settled on a trade to sell \$353.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.5% of par for total proceeds of \$373.1 million and recognized a gain on sale of securities of approximately \$1.8 million at trade date. Newcastle repaid \$361.1 million of repurchase agreements associated with these securities.

In July 2016, Newcastle settled on a trade to purchase \$428.9 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.7% of par for total proceeds of \$453.1 million. This transaction was financed with \$434.9 million of repurchase agreements.

In August 2016, Newcastle settled on a trade to purchase \$249.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.9% of par for total proceeds of \$259.3 million. This transaction was financed with \$248.7 million of repurchase agreements.

In August 2016, Newcastle settled on a trade to purchase \$116.8 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.7% of par for total proceeds of \$123.5 million. This transaction was financed with \$118.6 million of repurchase agreements.

In August 2016, Newcastle settled on a trade to sell \$14.8 million face amount of two CDO securities at an average price of 67.3% of par for total proceeds of \$9.9 million and recognized a gain on the sale of approximately \$9.9 million.

In September 2016, Newcastle settled on a trade to purchase \$35.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.8% of par for total proceeds of \$37.0 million. This transaction was financed with \$35.4 million of repurchase agreements.

In September 2016, Newcastle entered into a trade to purchase \$632.2 million face amount of agency FNMA fixed-rate securities at an average price of 104.9% of par for total proceeds of \$663.5 million. The trade is recorded in payables to brokers, dealers and clearing organizations on the Consolidated Balance Sheets. This transaction was financed with \$628.2 million of repurchase agreements. This trade settled in October 2016 (see Note 22).

In September 2016, Newcastle entered into a trade to sell \$817.2 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.0% of par for total proceeds of \$858.2 million and recognized a gain on sale of securities of approximately \$0.1 million. The trade is recorded in receivables from brokers, dealers and clearing organizations on the

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Consolidated Balance Sheets. Newcastle repaid \$831.7 million of repurchase agreements associated with these securities. This trade settled in October 2016 (see Note 22).

***Securities Pledged as Collateral***

Securities pledged as collateral relate to government agency securities that were sold under agreements to repurchase which will be treated as collateralized financing transactions. Although being pledged as collateral, securities financed through a repurchase agreement remains as an asset and cash received from the purchaser is recorded as a liability on Newcastle's Consolidated Balance Sheets.

**6. REAL ESTATE RELATED AND OTHER LOANS, RESIDENTIAL MORTGAGE LOANS AND SUBPRIME MORTGAGE LOANS**

Loans are accounted for based on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. Purchased loans that Newcastle has the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as held-for-investment. Alternatively, loans acquired with the intent to sell are classified as held-for-sale.

The following is a summary of real estate related and other loans, residential mortgage loans and subprime mortgage loans at September 30, 2016. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

<u>Loan Type</u>	<u>Outstanding Face Amount</u>	<u>Carrying Value (A)</u>	<u>Valuation Allowance</u>	<u>Loan Count</u>	<u>Weighted Average Yield</u>	<u>Weighted Average Coupon</u>	<u>Weighted Average Life (Years) (B)</u>	<u>Floating Rate Loans as % of Face Amount</u>	<u>Delinquent Face Amount (C)</u>
Mezzanine Loans	\$ 17,767	\$ —	\$ —	2	—%	8.39%	0.0	100.0%	\$ 17,767
Corporate Loans	117,065	52,874	3,247	4	22.47%	14.99%	0.5	—%	59,384
Total Real Estate Related and other Loans Held-for-Sale, Net	<u>\$ 134,832</u>	<u>\$ 52,874</u>	<u>\$ 3,247</u>	<u>6</u>	<u>22.47%</u>	<u>14.12%</u>	<u>0.4</u>	<u>13.2%</u>	<u>\$ 77,151</u>
Residential Mortgage Loans Held-for-Sale, Net (D)	<u>\$ 774</u>	<u>\$ 240</u>	<u>\$ 207</u>	<u>3</u>	<u>3.34%</u>	<u>2.98%</u>	<u>1.8</u>	<u>100.0%</u>	<u>\$ 628</u>
Subprime Mortgage Loans Subject to Call Option	<u>\$ 353,347</u>	<u>\$ 353,347</u>							

(A) Carrying value includes negligible interest receivable for the residential housing loans.

(B) The weighted average life is based on the timing of expected cash flows on the assets.

(C) Includes loans that are 60 or more days past due (including loans that are in foreclosure, or borrower's in bankruptcy) or considered real estate owned ("REO"). As of September 30, 2016, \$77.2 million face amount of real estate related and other loans was on non-accrual status.

(D) Loans acquired at a discount for credit quality. Residential mortgage loans held-for-sale, net is recorded in receivables and other assets on the Consolidated Balance Sheets.

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The following is a summary of real estate related and other loans by maturities at September 30, 2016:

Year of Maturity	Outstanding Face Amount	Carrying Value	Number of Loans
Delinquent (A)	\$ 77,151	\$ 725	5
Period from October 1, 2016 to December 31, 2016	—	—	—
2017	—	—	—
2018	—	—	—
2019	57,681	52,149	1
2020	—	—	—
2021	—	—	—
Thereafter	—	—	—
Total	<u>\$ 134,832</u>	<u>\$ 52,874</u>	<u>6</u>

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

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

	Held-for-Sale	
	Real Estate Related and Other Loans	Residential Mortgage Loans (A)
Balance at December 31, 2015	\$ 149,198	\$ 532
Purchases / additional fundings	—	—
Interest accrued to principal balance	25,708	—
Principal paydowns	(109,892)	(38)
Sales	(19,433)	—
Valuation allowance on loans	(3,247)	(207)
Accretion of loan discount, other amortization and other income	10,540	—
Loss on settlement of loans	—	(47)
Balance at September 30, 2016	<u>\$ 52,874</u>	<u>\$ 240</u>

(A) Recorded in receivables and other assets on the Consolidated Balance Sheets.

The following is a rollforward of the related loss allowance.

	Held-For-Sale	
	Real Estate Related and Other Loans	Residential Mortgage Loans
Balance at December 31, 2015	\$ (70,865)	\$ (251)
Charge-offs	—	—
Valuation allowance on loans	(3,247)	(207)
Balance at September 30, 2016	<u>\$ (74,112)</u>	<u>\$ (458)</u>

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The table below summarizes the geographic distribution of real estate related and other loans and residential mortgage loans at September 30, 2016:

Geographic Location	Real Estate Related and Other Loans		Residential Mortgage Loans	
	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Northeastern U.S.	\$ —	—%	\$ 523	67.6%
Southeastern U.S.	—	—%	251	32.4%
Foreign	63,454	100.0%	—	—%
	<u>\$ 63,454</u>	<u>100.0%</u>	<u>\$ 774</u>	<u>100.0%</u>
Other (A)	71,378			
	<u>\$ 134,832</u>			

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

In April 2016, Newcastle sold a mezzanine loan with a face amount of \$19.4 million at par. Newcastle subsequently repaid \$11.7 million of notes payable that were collateralized by the loan.

In September 2016, Newcastle received a paydown on a corporate loan in the resorts industry (“the resort-related loan”) in the amount of \$109.9 million. As of September 30, 2016, the face amount of the resort-related loan was \$57.7 million.

***Securitization of Subprime Mortgage Loans***

The following table presents information on the retained interests in Newcastle’s securitizations of subprime mortgage loans at September 30, 2016:

	Subprime Portfolio		Total
	I	II	
Total securitized loans (unpaid principal balance) (A)	\$ 247,163	\$ 360,388	\$ 607,551
Loans subject to call option (carrying value)	\$ 246,306	\$ 107,041	\$ 353,347
Retained bonds (fair value) (B)	\$ 3,430	\$ —	\$ 3,430

(A) Average loan seasoning of 134 months and 116 months for Subprime Portfolios I and II, respectively, at September 30, 2016.

(B) The retained interests include retained bonds of the securitizations. Their fair value is estimated based on pricing models. The weighted average yield of the retained bonds was 24.6% as of September 30, 2016. Newcastle’s residual interests were written off in 2010.

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.

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The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of September 30, 2016:

	Subprime Portfolio	
	I	II
Loan unpaid principal balance ("UPB")	\$ 247,163	\$ 360,388
Weighted average coupon rate of loans	5.45%	4.37%
Delinquencies of 60 or more days (UPB) (A)	\$ 38,390	\$ 84,480
Net credit losses for the nine months ended September 30, 2016	\$ 6,452	\$ 13,036
Cumulative net credit losses	\$ 291,776	\$ 376,653
Cumulative net credit losses as a % of original UPB	19.4%	34.6%
Percentage of ARM loans (B)	51.7%	64.1%
Percentage of loans with original loan-to-value ratio >90%	10.6%	15.5%
Percentage of interest-only loans	0.8%	1.9%
Face amount of debt (C)	\$ 242,306	\$ 360,388
Weighted average funding cost of debt (D)	0.91%	0.79%

(A) Delinquencies include loans 60 or more days past due, in foreclosure, under bankruptcy filing or REO.

(B) 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.

(C) Excludes face amount of \$4.0 million of retained notes for Subprime Portfolio I and over-collateralization of \$0.9 million on Subprime Portfolio I at September 30, 2016.

(D) Includes the effect of applicable hedges, if any.

Newcastle received negligible cash inflows from the retained interests of Subprime Portfolios I and II during the nine months ended September 30, 2016 and 2015.

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 Portfolio's I and II, respectively.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**7. INVESTMENTS IN REAL ESTATE, NET OF ACCUMULATED DEPRECIATION**

The following table summarizes Newcastle's investments in real estate related to its Golf business:

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Land	\$ 90,324	\$ —	\$ 90,324	\$ 90,324	\$ —	\$ 90,324
Buildings and improvements	149,310	(39,957)	109,353	142,558	(29,053)	113,505
Furniture, fixtures and equipment	29,613	(20,736)	8,877	25,984	(17,189)	8,795
Capital leases - equipment	19,741	(3,982)	15,759	12,752	(1,970)	10,782
Construction in progress	3,014	—	3,014	4,501	—	4,501
Total Investments in Real Estate	<u>\$ 292,002</u>	<u>\$ (64,675)</u>	<u>\$ 227,327</u>	<u>\$ 276,119</u>	<u>\$ (48,212)</u>	<u>\$ 227,907</u>

In January 2016, the lease on a golf property in Oregon expired and the Golf business did not renew the lease for such property.

In July 2016, the lease on a golf property in California was terminated and the Golf business exited the property.

**8. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION**

The following table summarizes Newcastle's intangible assets related to its Golf business:

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (64)	\$ 636	\$ 700	\$ (47)	\$ 653
Leasehold intangibles (A)	49,861	(13,160)	36,701	49,962	(9,817)	40,145
Management contracts	36,222	(10,225)	25,997	36,500	(7,911)	28,589
Internally-developed software	800	(440)	360	800	(320)	480
Membership base	5,236	(2,057)	3,179	5,236	(1,496)	3,740
Nonamortizable liquor license	865	—	865	865	—	865
Total Intangibles	<u>\$ 93,684</u>	<u>\$ (25,946)</u>	<u>\$ 67,738</u>	<u>\$ 94,063</u>	<u>\$ (19,591)</u>	<u>\$ 74,472</u>

(A) The amortization expense for leasehold intangibles is reported in operating expenses - golf in the Consolidated Statements of Operations.

Intangible assets are amortized on a straight-line basis over the following estimated useful lives: 30 years for trade name; 1-26 years for leasehold intangibles and management contracts; 5 years for internally-developed software and 7 years for the membership base.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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9. RECEIVABLES AND OTHER ASSETS

The following table summarizes Newcastle's receivables and other assets:

	September 30, 2016	December 31, 2015
Accounts receivable, net	\$ 13,908	\$ 9,889
Prepaid expenses	3,470	3,205
Interest receivable	2,284	1,142
Deposits	6,645	7,437
Inventory	4,958	5,057
Derivative assets	395	127
Residential mortgage loans, held-for-sale, net	240	532
Miscellaneous assets, net	15,223	11,157
Total Receivables and Other Assets	\$ 47,123	\$ 38,546

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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**10. DEBT OBLIGATIONS**

The following table presents certain information regarding Newcastle's debt obligations at September 30, 2016:

Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Coupon (A)	Weighted Average Funding Cost (B)	Weighted Average Life (Years)	Face Amount of Floating Rate Debt	Collateral				
									Outstanding Face Amount	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)	Floating Rate Face Amount
<b>Repurchase Agreements (C)</b>													
FNMA/FHLMC Securities	Sep 2016	831,741	831,741	Oct 2016	0.79%	0.79%	0.1	—	817,235	858,097	858,233	6.0	—
		831,741	831,741			0.79%	0.1	—	817,235	858,097	858,233	6.0	—
<b>Golf Credit Facilities</b>													
Golf Term Loan (D)	June 2016	102,000	98,380	Jul 2019	LIBOR+4.70% (E)	7.92%	2.7	102,000	N/A	N/A	N/A	N/A	N/A
Vineyard II	Dec 1993	200	200	Dec 2043	2.20%	2.20%	27.2	200	N/A	N/A	N/A	N/A	N/A
Capital Leases (Equipment)	May 2014 - Sep 2016	16,117	16,117	Mar 2022	3.00% to 16.16%	6.56%	4.3	—	N/A	N/A	N/A	N/A	N/A
		118,317	114,697			7.72%	3.0	102,200	N/A	N/A	N/A	N/A	N/A
<b>Corporate</b>													
Junior subordinated notes payable	Mar 2006	51,004	51,219	Apr 2035	LIBOR+2.25%	2.98%	18.6	51,004	N/A	N/A	N/A	N/A	N/A
		51,004	51,219			2.98%	18.6	51,004	N/A	N/A	N/A	N/A	N/A
Subtotal debt obligations		1,001,062	997,657			1.70%	1.4	\$ 153,204	\$ 817,235	\$ 858,097	\$ 858,233	6.0	\$ —
Financing on subprime mortgage loans subject to call option (F)		353,347	353,347										
Total debt obligations		\$ 1,354,409	\$ 1,351,004										

See notes on next page.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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- (A) Weighted average, including floating and fixed rate classes.
- (B) Including the effect of deferred financing costs.
- (C) These repurchase agreements had \$0.1 million of accrued interest payable at September 30, 2016. The counterparties on these repurchase agreements are Citi (\$399.1 million), Jefferies (\$284.5 million), and Morgan Stanley (\$148.1 million). Newcastle has margin exposures on a total of \$831.7 million repurchase agreements related to the financing of FNMA/FHLMC securities. To the extent that the value of the collateral underlying these repurchase agreements declines, Newcastle may be required to post margin, which could significantly impact its liquidity. \$831.7 million of repurchase agreements were repaid in October 2016 as part of the sale of the FNMA/FHLMC securities.
- (D) The golf term loan is collateralized by 22 golf properties. The carrying amount of the golf term loan is reported net of deferred financing costs of \$3.6 million as of September 30, 2016.
- (E) Interest rate based on 30 day LIBOR plus 4.70% with a LIBOR floor of 1.80%. At the time of closing, Newcastle purchased a co-terminus LIBOR interest rate cap of 1.80%.
- (F) See Note 6 regarding the securitizations of Subprime Portfolios I and II.

In January 2016, Newcastle settled on a trade to sell \$350.3 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% for total proceeds of \$361.3 million and repaid \$348.6 million of repurchase agreements associated with these securities.

In January 2016, Newcastle settled on a trade to purchase \$102.7 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% for total proceeds of \$105.9 million. This transaction was financed with \$102.2 million of repurchase agreements.

In January 2016, Newcastle settled on a trade to purchase \$250.1 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.2% of par for total proceeds of approximately \$258.1 million. This transaction was financed with \$249.1 million of repurchase agreements.

On February 26, 2016, Newcastle extended the repurchase agreement on the golf loans to mature on May 31, 2016, with an option to extend to June 30, 2016. The repurchase agreement bears interest at LIBOR + 4.00%.

In April 2016, Newcastle settled on a trade to sell \$347.5 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 104.9% for total proceeds of \$364.3 million and recognized a gain of approximately \$5.9 million at trade date. Newcastle repaid \$352.0 million of repurchase agreements associated with these securities.

In April 2016, Newcastle settled on a trade to purchase \$363.1 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.0% for total proceeds of \$381.1 million. This transaction was financed with \$366.4 million of repurchase agreements.

In April 2016, Newcastle sold a mezzanine loan with a face amount of \$19.4 million at par. Newcastle subsequently repaid \$11.7 million of notes payable that were collateralized by the loan.

In May 2016, the option on the repurchase agreement on the golf loans was exercised to extend the maturity to June 30, 2016.

In June 2016, Newcastle obtained third-party financing on 22 golf properties for a total of \$102.0 million at a floating rate of the greater of: (i) 30-day LIBOR + 4.70% or (ii) 6.50%. At the time of closing, Newcastle purchased a co-terminus LIBOR interest rate cap of 1.80%. The financing is for a term of three years with the option for two one-year extensions. Newcastle used \$64.9 million of the proceeds to repay the repurchase agreement on the golf loans.

In July 2016, Newcastle sold \$353.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.5% of par for total proceeds of \$373.1 million and recognized a gain on sale of securities of approximately \$1.8 million at trade date. Newcastle repaid \$361.1 million of repurchase agreements associated with these securities.

In July 2016, Newcastle purchased \$428.9 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.7% of par for total proceeds of \$453.1 million. This transaction was financed with \$434.9 million of repurchase agreements.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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In August 2016, Newcastle purchased \$249.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.9% of par for total proceeds of \$259.3 million. This transaction was financed with \$248.7 million of repurchase agreements.

In August 2016, Newcastle purchased \$116.8 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.7% of par for total proceeds of \$123.5 million. This transaction was financed with \$118.6 million of repurchase agreements.

In September 2016, Newcastle purchased \$35.6 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.8% of par for total proceeds of \$37.0 million. This transaction was financed with \$35.4 million of repurchase agreements.

In September 2016, Newcastle entered into a trade to purchase \$632.2 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 104.9% of par for total proceeds of \$663.5 million. This transaction was financed with \$628.2 million of repurchase agreements. This trade settled in October 2016 (see Note 22).

In September 2016, Newcastle entered into a trade to sell \$817.2 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.0% of par for total proceeds of \$858.2 million and recognized a gain of \$0.1 million. Newcastle repaid \$831.7 million of repurchase agreements associated with these securities. This trade settled in October 2016 (see Note 22).

The Golf business leases certain golf carts and other equipment under capital leases. The agreements typically provide for minimum rentals plus executory costs. Lease terms range from 36 to 66 months. Certain leases include bargain purchase options at lease expiration.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2016 are as follows:

October 1, 2016 - December 31, 2016	\$	1,104
2017		4,418
2018		4,412
2019		4,260
2020		2,938
2021		1,360
Thereafter		89
Total minimum lease payments		18,581
Less: imputed interest		(2,464)
Present value of net minimum lease payments	\$	16,117

Newcastle's golf credit facilities contain various customary loan covenants, including certain coverage ratios. Newcastle was in compliance with all of these covenants as of September 30, 2016.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES**

The following table summarizes Newcastle's accounts payable, accrued expenses and other liabilities:

	September 30, 2016		December 31, 2015	
Accounts payable and accrued expenses	\$	32,384	\$	26,966
Deferred revenue		14,911		33,926
Security deposit payable		7,800		5,975
Unfavorable leasehold interests		4,509		5,485
Derivative liabilities		2,463		684
Accrued rent		3,204		3,135
Due to affiliates		892		892
Miscellaneous liabilities		11,129		11,876
<b>Total Accounts Payable, Accrued Expenses and Other Liabilities</b>	<b>\$</b>	<b>77,292</b>	<b>\$</b>	<b>88,939</b>

**12. DERIVATIVES**

Newcastle's derivative instruments are comprised of interest rate swaps, interest rate caps and TBAs. Derivative assets with a fair value of \$0.4 million and \$0.1 million as of September 30, 2016 and December 31, 2015, respectively, were recorded within receivables and other assets on the Consolidated Balance Sheets. Derivative liabilities with a fair value of \$2.5 million and \$0.7 million as of September 30, 2016 and December 31, 2015, respectively, were recorded within accounts payable, accrued expenses and other liabilities on the Consolidated Balance Sheets.

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

	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
<b>Cash flow hedges</b>					
Loss recognized on termination of derivative instruments	Gain (loss) on settlement of investments, net	\$ —	\$ —	\$ —	\$ —
Deferred hedge gain reclassified from Accumulated Other Comprehensive Income ("AOCI") into earnings	Interest expense	—	20	20	—
Amount of loss reclassified from AOCI into income (effective portion)	Interest expense	—	—	—	(1,000)
Amount of unrealized loss recognized in Other Comprehensive Income on derivatives (effective portion)	N/A	—	—	—	—
<b>Non-hedge derivatives</b>					
Unrealized gain (loss) on interest rate derivatives	Other income (loss), net	\$ (15)	\$ —	\$ (34)	\$ —
Unrealized gain (loss) recognized related to TBAs	Other income (loss), net	270	(382)	(1,668)	(1,000)
Realized loss on settlement of TBAs	Gain (loss) on settlement of investments, net	(3,730)	(10,771)	(13,675)	(12,000)

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As of September 30, 2016 and December 31, 2015, Newcastle had zero and less than \$0.1 million, respectively, of expected reclassification of deferred hedges from AOCI into earnings over the next 12 months.

**13. FAIR VALUE**

***Fair Value Summary Table***

The following table summarizes the carrying values and estimated fair values of Newcastle's financial instruments at September 30, 2016:

	Carrying Value	Estimated Fair Value	Fair Value Method (A)
<b>Assets</b>			
Real estate securities, available-for-sale	\$ 3,430	\$ 3,430	Broker/counterparty quotations, pricing services, pricing models
Real estate securities, available-for-sale - pledged as collateral	663,559	663,559	Broker/counterparty quotations, pricing services
Real estate related and other loans, held-for-sale, net	52,874	58,406	Pricing models, broker/counterparty quotations, pricing services
Residential mortgage loans, held-for-sale, net (B)	240	274	Broker/counterparty quotations, pricing models
Subprime mortgage loans subject to call option (C)	353,347	353,347	(C)
Cash and cash equivalents	134,289	134,289	
Restricted cash	7,295	7,295	
Non-hedge derivative assets (D)	395	395	Counterparty quotations, pricing services
<b>Liabilities</b>			
Repurchase agreements	831,741	831,741	Counterparty quotations, market comparables
Credit facilities and obligations under capital leases	114,697	114,697	Pricing models
Financing of subprime mortgage loans subject to call option (C)	353,347	353,347	(C)
Junior subordinated notes payable	51,219	22,978	Pricing models
Non-hedge derivative liabilities (D)	2,463	2,463	Counterparty quotations, pricing services

(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) Residential mortgage loans held-for-sale, net is recorded in receivables and other assets on the Consolidated Balance Sheets.

(C) Represents an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 6).

(D) Represents derivative assets and liabilities, including interest rate caps and TBA forward contracts (Note 12).

## Fair Value Measurements

### *Valuation Hierarchy*

The fair value of financial instruments is categorized based on the priority of the inputs to the valuation technique and categorized into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Newcastle follows this hierarchy for its financial instruments measured at fair value.

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

Level 2 - Valuations based principally on observable market parameters, including

- quoted prices for similar assets or liabilities in active markets,
- inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads), and
- market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations determined using unobservable inputs that are supported by little or no market activity, and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using non-binding market quotations, pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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 management's good faith estimate, 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 or quotations subject to Newcastle's controls described below.

Newcastle has various processes and controls in place to ensure that fair value measurements are reasonably estimated. With respect to broker and pricing service quotations, and in order to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison of such quotations to quotations from different sources, outputs generated from its internal pricing models and transactions completed, 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, where available, for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

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 accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed.

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*Recurring Fair Value Measurements - Real Estate Securities and Derivatives*

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis at September 30, 2016:

	Carrying Value	Fair Value			Total
		Level 2 Market Quotations (Observable)	Level 3		
		Market Quotations (Unobservable)	Internal Pricing Models		
<b>Assets</b>					
Real estate securities, available-for-sale:					
ABS - Non-Agency RMBS	\$ 3,430	\$ —	\$ 3,430	\$ —	\$ 3,430
Real estate securities, available-for-sale total	\$ 3,430	\$ —	\$ 3,430	\$ —	\$ 3,430
Real estate securities, available-for-sale - pledged as collateral:					
FNMA/FHLMC	\$ 663,559	\$ 663,559	\$ —	\$ —	\$ 663,559
Real estate securities, available-for-sale - pledged as collateral total	\$ 663,559	\$ 663,559	\$ —	\$ —	\$ 663,559
Derivative assets:					
Interest rate cap, not treated as hedge	\$ 156	\$ 156	\$ —	\$ —	\$ 156
TBAs, not treated as hedges	239	239	—	—	239
Derivative assets total	\$ 395	\$ 395	\$ —	\$ —	\$ 395
<b>Liabilities</b>					
Derivative liabilities:					
TBAs, not treated as hedges	\$ 2,463	\$ 2,463	\$ —	\$ —	\$ 2,463
Derivative liabilities total	\$ 2,463	\$ 2,463	\$ —	\$ —	\$ 2,463

*Significant Unobservable Inputs*

The following describes significant unobservable inputs generally used by Newcastle for assets and liabilities measured at fair value on a recurring basis. As of September 30, 2016, Newcastle did not have any Level 3 assets valued using internal models.

All of the inputs used 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 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.

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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 prepayment speed vector specifies the percentage of the collateral balance that is expected to voluntarily pay off at each point in the future. The prepayment speed 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 affect 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.

Newcastle’s investments in instruments measured at fair value on a recurring basis using Level 3 inputs changed during the nine months ended September 30, 2016 as follows:

	CMBS	ABS - Non-Agency RMBS	Equity/Other Securities	Total
Balance at December 31, 2015	\$ 39,684	\$ 9,619	\$ 9,731	\$ 59,034
Transfers				
Transfers into Level 3	—	—	—	—
CDO VI deconsolidation	(37,179)	(6,710)		(43,889)
Total gains (losses) (A)				
Included in net income (B)	(110)	—	10,669	10,559
Included in other comprehensive income (loss)	(658)	499	(9,731)	(9,890)
Amortization included in interest income	879	234	—	1,113
Purchases, sales and repayments				
Purchases	—	—	—	—
Proceeds from sales	—	—	(10,669)	(10,669)
Proceeds from repayments	(2,616)	(212)	—	(2,828)
Balance at September 30, 2016	\$ —	\$ 3,430	\$ —	\$ 3,430

(A) None of the gains (losses) recorded in earnings during the period is attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates.

(B) These gains (losses) are recorded in the following line items in the Consolidated Statements of Operations:

	Nine Months Ended September 30, 2016	
Gain (loss) on settlement of investments, net	\$	10,669
OTTI		(110)
Total	\$	10,559

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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***Non-Recurring Fair Value Measurements - Loans***

Loans which Newcastle does not have the ability or intent to hold into the foreseeable future are classified as held-for-sale. 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 table summarizes certain information for real estate related and other loans as of September 30, 2016:

Loan Type	Carrying Value	Fair Value	Significant Input			
			Range		Weighted Average	
			Discount Rate	Loss Severity	Discount Rate	Loss Severity
Corporate Loans	52,874	58,406	0.0%-22.5%	0%-100%	22.5%	39.0%
Total Real Estate Related and Other Loans Held-for-Sale, Net (A)	\$ 52,874	\$ 58,406				

(A) Excludes \$17.8 million face amount of mezzanine loans which have a zero carrying value.

***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
Repurchase agreements	Level 2	Valuation technique is based on market comparables. Significant variables include: <ul style="list-style-type: none"> <li>• Amount and timing of expected future cash flows</li> <li>• Interest rates</li> <li>• Collateral funding spreads</li> </ul>
Golf credit facilities	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: <ul style="list-style-type: none"> <li>• Amount and timing of expected future cash flows</li> <li>• Interest rates</li> <li>• Market yields</li> </ul>
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: <ul style="list-style-type: none"> <li>• Amount and timing of expected future cash flows</li> <li>• Interest rates</li> <li>• Market yields and the credit spread of Newcastle</li> </ul>

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**14. EQUITY AND EARNINGS PER SHARE**

A. Equity

The following is a summary of the changes in Newcastle's outstanding options for the nine months ended September 30, 2016:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2015	5,421,561	\$ 2.85	
Granted (A)	333	3.78	
Balance at September 30, 2016	<u>5,421,894</u>	<u>\$ 2.86</u>	6.04
Exercisable at September 30, 2016	5,294,325	\$ 2.83	5.98

(A) Options granted to a non-employee director upon joining the board of directors.

As of September 30, 2016, Newcastle's outstanding options were summarized as follows:

	Issued Prior to 2011	Issued in 2011 and thereafter	Total
Held by the Manager	115,239	5,010,243	5,125,482
Issued to the Manager and subsequently transferred to certain of the Manager's employees	29,422	266,657	296,079
Issued to the independent directors	—	333	333
Total	<u>144,661</u>	<u>5,277,233</u>	<u>5,421,894</u>
Weighted average strike price	<u>\$ 13.18</u>	<u>\$ 2.57</u>	<u>\$ 2.86</u>

On March 29, 2016, Newcastle declared a quarterly dividend of \$0.12 per common share, for the quarter ended March 31, 2016 and declared dividends of \$0.609375, \$0.503125 and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning February 1, 2016 and ending April 30, 2016. Dividends totaling \$9.4 million were paid in April 2016.

On July 12, 2016, Newcastle declared a quarterly dividend of \$0.12 per common share, for the quarter ended June 30, 2016 and declared dividends of \$0.609375, \$0.503125, and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning May 1, 2016 and ending July 31, 2016. Dividends totaling \$9.4 million were paid in July 2016.

As of September 30, 2016, Newcastle had \$0.9 million (\$0.38 per share) of preferred dividends in arrears.

On October 13, 2016, Newcastle declared a quarterly dividend of \$0.12 per common share, for the quarter ended September 30, 2016 and declared dividends of \$0.609375, \$0.503125, and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning August 1, 2016 and ending October 31, 2016. Dividends totaling \$9.4 million were paid in October 2016.

In May 2016 and July 2016, Newcastle issued a total of 57,740 and 21,798 shares, respectively, of its common stock to its independent directors as a component of their annual compensation.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**B. Earnings Per Share**

Newcastle is required to present both basic and diluted earnings per share (“EPS”). The following table shows the amounts used in computing basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Numerator for basic and diluted earnings per share:</b>				
Income from continuing operations after preferred dividends and noncontrolling interests	\$ 18,923	\$ 6,492	\$ 92,598	\$ 20,780
Income from discontinued operations, net of tax	—	7	—	646
<b>Income Applicable to Common Stockholders</b>	<b>\$ 18,923</b>	<b>\$ 6,499</b>	<b>\$ 92,598</b>	<b>\$ 21,426</b>
<b>Denominator:</b>				
Denominator for basic earnings per share - weighted average shares	66,730,583	66,484,962	66,688,962	66,445,705
<b>Effect of dilutive securities</b>				
Options	2,342,093	2,584,697	2,064,570	2,607,597
<b>Denominator for diluted earnings per share - adjusted weighted average shares</b>	<b>69,072,676</b>	<b>69,069,659</b>	<b>68,753,532</b>	<b>69,053,302</b>
<b>Basic earnings per share:</b>				
Income from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	\$ 0.28	\$ 0.10	\$ 1.39	\$ 0.31
Income from discontinued operations per share of common stock	—	—	—	0.01
<b>Income Applicable to Common Stock, per share (A)</b>	<b>\$ 0.28</b>	<b>\$ 0.10</b>	<b>\$ 1.39</b>	<b>\$ 0.32</b>
<b>Diluted earnings per share:</b>				
Income from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	\$ 0.27	\$ 0.09	\$ 1.35	\$ 0.30
Income from discontinued operations per share of common stock	—	—	—	0.01
<b>Income Applicable to Common Stock, per share (A)</b>	<b>\$ 0.27</b>	<b>\$ 0.09</b>	<b>\$ 1.35</b>	<b>\$ 0.31</b>

(A) Due to rounding, income per share from continuing operations and income per share from discontinued operations may not sum to the income per share of common stock.

Basic EPS is calculated by dividing income applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing income 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 outstanding stock options. During the nine months ended September 30, 2016 and 2015, Newcastle had 335,725 and 251,459 antidilutive options, respectively. During the three months ended September 30, 2016 and 2015, based on the treasury stock method, Newcastle had 2,342,093 and 2,584,697 dilutive common stock equivalents, respectively, resulting from its outstanding options. During the nine months ended September 30, 2016 and 2015, based on the treasury stock method, Newcastle had 2,064,570 and 2,607,597 dilutive common stock equivalents, respectively, resulting from its outstanding options. Income applicable to common stockholders is equal to net income less preferred dividends and net income attributable to noncontrolling interests.

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**15. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES****Management Agreement**

Newcastle is party to a Management Agreement with FIG LLC, its Manager and an affiliate of Fortress, 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 12 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 provides for a management team and other professionals who are responsible for implementing our business strategy, subject to the supervision of our board of directors. Our Manager is responsible for, among other things, (i) setting investment criteria in accordance with broad investment guidelines adopted by our board of directors, (ii) sourcing, analyzing and executing acquisitions, (iii) providing financial and accounting management services and (iv) performing other duties as specified in the Management Agreement. 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. In addition to expense reimbursements for expenses incurred by the Manager, Newcastle is responsible for reimbursing the Manager for certain expenses incurred by Newcastle that are initially paid by the Manager on behalf of Newcastle.

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 applicable to 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 initial public offering ("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.

	Amounts incurred under the Management Agreement			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Management fees	\$ 2,551	\$ 2,550	\$ 7,652	\$ 7,642
Expense reimbursement to the Manager	125	125	375	375
Incentive compensation	—	—	—	—
Total Management fee to affiliate	\$ 2,676	\$ 2,675	\$ 8,027	\$ 8,017

At September 30, 2016, Fortress, through its affiliates, and principals of Fortress, owned 1.0 million shares of Newcastle's common stock and Fortress, through its affiliates, had options relating to an additional 5.1 million shares of Newcastle's common stock (Note 14).

At September 30, 2016 and December 31, 2015, due to affiliates was comprised of \$0.9 million and \$0.9 million, respectively, of management fees and expense reimbursements payable to the Manager.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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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 receives, 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. At September 30, 2016, the outstanding unpaid principal balances of Subprime Portfolios I and II were approximately \$247.2 million and \$360.4 million, respectively.

In April 2010, Newcastle, through two of its CDOs, made a cash investment of \$75.0 million in the resorts-related loan to a portfolio company of a private equity fund managed by an affiliate of Newcastle's Manager. Newcastle's chairman is a director of and has an indirect ownership interest in the borrower. This investment improved the applicable CDOs' results under some of their respective tests, and is expected to yield approximately 22.5%. The maturity of the resorts-related loan has been extended to June 2019. Interest on the loan will be accrued and deferred until maturity.

In September 2016, Newcastle received a \$109.9 million paydown on the loan. As of September 30, 2016, Newcastle held on its balance sheet total investments of \$57.7 million face amount of loans issued by affiliates of the Manager. Newcastle earned approximately \$9.1 million and \$25.7 million of interest on investments issued by affiliates of the Manager for the three and nine months ended September 30, 2016, respectively, and \$7.3 million and \$18.1 million of interest on investments issued by affiliates of the Manager for the three and nine months ended September 30, 2015, 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.

A principal of the Manager owned or leased aircraft that Newcastle chartered from a third-party aircraft operator for business purposes in the course of operations. Newcastle paid the aircraft operator market rates for the charters.

**16. COMMITMENTS AND CONTINGENCIES**

Newcastle is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental and other claims. Although management is unable to predict with certainty the eventual outcome of any legal action, management believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at September 30, 2016, if any, will not materially affect Newcastle's consolidated results of operations, financial position or cash flow. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**17. INCOME TAXES**

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Current:</b>				
Federal	\$ (37)	\$ 996	\$ 27	\$ 1,076
State and Local	(1)	269	20	289
Total Current Provision (Benefit)	\$ (38)	\$ 1,265	\$ 47	\$ 1,365
<b>Deferred:</b>				
Federal	\$ —	\$ (7)	\$ 83	\$ (30)
State and Local	—	(1)	14	(5)
Total Deferred Provision (Benefit)	\$ —	\$ (8)	\$ 97	\$ (35)
<b>Total Provision (Benefit) for Income Taxes</b>	<u>\$ (38)</u>	<u>\$ 1,257</u>	<u>\$ 144</u>	<u>\$ 1,330</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of September 30, 2016 are presented below:

	September 30, 2016	December 31, 2015
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 380	\$ 399
Depreciation and amortization	35,587	33,495
Accrued expenses	2,184	2,008
Net operating losses	29,690	22,524
Total deferred tax assets	67,841	58,426
Less valuation allowance	(52,928)	(42,158)
Net deferred tax assets	\$ 14,913	\$ 16,268
<b>Deferred tax liabilities:</b>		
Leaseholds	14,125	15,366
Other	788	805
Total deferred tax liabilities	\$ 14,913	\$ 16,171
<b>Net deferred income tax assets (A)</b>	<u>\$ —</u>	<u>\$ 97</u>

(A) Recorded in receivables and other assets on the Consolidated Balance Sheets.

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 recorded a valuation allowance against its deferred tax assets as of September 30, 2016 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

**NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES**

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**18. GAINS (LOSSES) ON SETTLEMENT OF INVESTMENTS, NET AND OTHER INCOME (LOSS), NET**

These items are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gain on settlement of real estate securities	\$ 10,080	\$ 7,617	\$ 18,560	\$ 42,357
Loss on settlement of real estate securities	—	—	—	(5,926)
Gain (loss) on repayment/disposition of loans held-for-sale	—	(14)	(47)	1,518
Loss recognized on termination of derivative instruments	—	—	—	(612)
Realized loss on settlement of TBAs	(3,730)	(10,771)	(13,675)	(12,714)
Gain (Loss) on Settlement of Investments, net	\$ 6,350	\$ (3,168)	\$ 4,838	\$ 24,623
Unrealized gain (loss) on non-hedge derivative instruments	\$ 255	\$ (382)	\$ (1,702)	\$ (89)
Gain (loss) on lease modifications and terminations	2	514	(75)	734
Collateral management fee income, net	119	174	481	553
Equity in earnings of equity method investees	384	333	1,129	975
Gain (loss) on disposal of long-lived assets	—	(549)	24	(729)
Other income	227	187	387	427
Other Income (Loss), net	\$ 987	\$ 277	\$ 244	\$ 1,871

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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**19. RECLASSIFICATION FROM ACCUMULATED OTHER COMPREHENSIVE INCOME INTO NET INCOME**

The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

Accumulated Other Comprehensive Income Components	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
<b>Net realized gain (loss) on securities</b>					
(Impairment) reversal	Portion of other-than-temporary impairment on securities recognized in other comprehensive income	\$ —	\$ (23)	\$ (54)	\$ 39
Gain on settlement of real estate securities	Gain (loss) on settlement of investments, net	10,080	7,617	18,560	42,357
Gain on deconsolidation of CDO VI	Gain on deconsolidation	—	—	20,682	—
Loss on settlement of real estate securities	Gain (loss) on settlement of investments, net	—	—	—	(5,926)
		<u>\$ 10,080</u>	<u>\$ 7,594</u>	<u>\$ 39,188</u>	<u>\$ 36,470</u>
<b>Net realized gain (loss) on derivatives designated as cash flow hedges</b>					
Loss recognized on termination of derivative instruments	Gain (loss) on settlement of investments, net	—	—	—	(612)
Amortization of deferred gain	Interest expense	—	20	20	58
Loss reclassified from AOCI into income, related to effective portion	Interest expense	—	—	—	(1,363)
		<u>\$ —</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ (1,917)</u>
<b>Total reclassifications</b>		<u>\$ 10,080</u>	<u>\$ 7,614</u>	<u>\$ 39,208</u>	<u>\$ 34,553</u>

**20. OTHER-THAN-TEMPORARY IMPAIRMENT**

The following table summarizes the amounts Newcastle recorded in the Consolidated Statement of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Debt securities	\$ —	\$ 363	\$ 110	\$ 1,988
Equity securities	—	87	—	367
Other investments	—	—	—	7,505
<b>Total impairment expense</b>	<u>\$ —</u>	<u>\$ 450</u>	<u>\$ 110</u>	<u>\$ 9,860</u>

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**21. SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES RELATED TO CDOs**

Newcastle considers all activity in its CDOs' restricted cash accounts to be non-cash activity for purposes of its Consolidated Statement of Cash Flows since transactions conducted with restricted cash have no effect on its cash and cash equivalents. Supplemental non-cash investing and financing activities relating to CDOs are disclosed below:

	Nine Months Ended September 30,	
	2016	2015
Restricted cash generated from sale of securities	\$ —	\$ 139,257
Restricted cash generated from sale of loans	\$ —	\$ 55,574
Restricted cash generated from paydowns on securities and loans	\$ 2,310	\$ 76,126
Restricted cash used for repayments of CDO and other bonds payable	\$ 2,748	\$ 145,773
CDO VI deconsolidation:		
Real estate securities	\$ 43,889	\$ —
Restricted cash	\$ 67	\$ —
CDO and other bonds payable	\$ 105,423	\$ —

**22. SUBSEQUENT EVENTS**

These Consolidated Financial Statements include a discussion of material events, if any, that have occurred subsequent to September 30, 2016 through the issuance of these Consolidated Financial Statements.

On October 7, 2016, Newcastle purchased \$776.9 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 103.6% of par for total proceeds of \$805.1 million. This transaction was financed with \$769.6 million of repurchase agreements.

On October 13, 2016, Newcastle declared a quarterly dividend of \$0.12 per common share, for the quarter ended September 30, 2016 and declared dividends of \$0.609375, \$0.503125, and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning August 1, 2016 and ending October 31, 2016. Dividends totaling \$9.4 million were paid in October 2016.

On October 13, 2016, Newcastle settled on a trade to purchase \$632.2 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 104.9% of par for total proceeds of \$663.5 million. This transaction was financed with \$628.2 million of repurchase agreements (see Note 5).

On October 13, 2016, Newcastle settled on a trade to sell \$817.2 million face amount of agency FNMA/FHLMC fixed-rate securities at an average price of 105.0% of par for total proceeds of \$858.2 million. Newcastle repaid \$831.7 million of repurchase agreements associated with these securities (see Note 5).

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of Newcastle Investment Corp. (and its subsidiaries, "Newcastle" or the "Company"). The following should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto included herein, and with Part II, Item 1A. "Risk Factors."

### GENERAL

Newcastle is a real estate investment trust ("REIT") that focuses on investing in, and actively managing, real estate related assets, including traditional and innovative golf assets. 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 real estate related debt and golf related real estate and operations. 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 appropriate 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 grow investments organically and through acquisitions into standalone businesses to enhance returns.

As of September 30, 2016, our debt business consists of \$1,094.9 million of other real estate securities and assets, inclusive of the deconsolidation of CDO VI in March 2016.

Our Golf business includes 84 properties in the United States that we lease, own or manage, as of September 30, 2016. Since the acquisition of our Golf business in December 2013, we have sought to enhance its value by hiring a new senior management team to optimize the portfolio and focus on revenues and earnings growth. We may also be able to grow the revenues and earnings of our portfolio through new investments to upgrade, reposition and repurpose some of our properties. In addition, we believe our golf portfolio and operations are highly scalable and we could potentially grow the portfolio through acquisitions of other golf properties and related businesses.

We report our business through the following segments: (i) debt investments financed with collateralized debt obligations ("CDOs"), (ii) other debt investments ("Other Debt"), (iii) investment in golf properties and facilities ("Golf"), and (iv) corporate.

Revenues attributable to each segment are disclosed below (in thousands):

	Debt Investments		Golf	Corporate	Total
	CDOs	Other Debt			
<b>Nine Months Ended September 30, 2016</b>					
Revenues	\$ 1,097	\$ 72,564	\$ 229,898	\$ 15	\$ 303,574
Revenues, net	\$ 1,097	\$ 72,564	\$ 229,898	\$ 15	\$ 303,574
<b>Nine Months Ended September 30, 2015</b>					
Revenues	\$ 30,983	\$ 46,246	\$ 226,603	\$ 19	\$ 303,851 (A)
Inter-segment elimination	(3,005)	—	—	—	(3,005)
Revenues, net	\$ 27,978	\$ 46,246	\$ 226,603	\$ 19	\$ 300,846

(A) Excludes \$0.6 million of revenue included in discontinued operations related to the sale of commercial real estate.

Unless otherwise noted, the information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations reflects only the business segments that remain part of our business following the sale of the commercial real estate properties in Beaver Creek, OH in 2015.

## 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. We have not accessed the capital markets since 2014, and rising interest rates or stock market volatility could impair our ability to raise equity capital on attractive terms.

### Debt Investments

During 2015 and the first nine months of 2016, both short-term and long-term interest rates remained at or near historical lows. We project short- and long-term rates to increase in the future, 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 increased or “widened” marginally during 2015 and have since tightened during the first nine months of 2016, which had a minimal 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 and to decrease when spreads widen. Credit spreads also affect the cost of financing, with widening spreads tending to increase the cost, and tightening spreads tending to reduce it.

The net interest spread of our portfolio of debt investments can be impacted by (i) the timing and extent of changes in the composition of our portfolio as a result of purchases and sales of assets or the repayment of debt, including our CDO debt, repurchase agreements and other bonds, repurchases of debt, and the incurrence of new debt, (ii) the yields on new investments, which varies depending on the credit quality of the issuer, and (iii) changes in our estimates of the yields on securities acquired at a discount for credit quality. For instance, the net interest spread of our debt investments increases if we sell assets with lower yields relative to other assets in our portfolio or repay debt (such as in connection with an asset sale or refinancing) that has a higher interest rate relative to other financing on our portfolio (assuming no other changes to the composition of our portfolio). Conversely, the net interest spread of our portfolio decreases if we sell assets with higher yields relative to other assets in our portfolio or repay debt (such as in connection with an asset sale) that has a lower interest rate relative to other financing on our portfolio (again, assuming no other changes to the composition of our portfolio). Management continually monitors market conditions to opportunistically effect purchases and sales of debt investments.

### 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. Our Golf business is subject to seasonal fluctuations caused by significant reductions in golf activities as well as revenue in the first and fourth quarters of each year, due to shorter days and colder temperatures. Consequently, a significantly larger portion of our revenue from our golf operations is earned in the second and third quarters of our fiscal year. In addition, severe weather patterns can also negatively impact our results of operations.

While consumer spending in the traditional golf industry has generally been declining in recent years, we believe improving economic conditions and improvements in local housing markets has helped and will continue to help drive membership growth and increase the number of golf rounds played. In addition, we believe growth in related industries, including leisure entertainment, can positively impact our Golf business.

## 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. Our estimates are based on information available to management at the time of preparation of the Consolidated Financial Statements, including the result of historical analysis, our understanding and experience of the Company's operations, our knowledge of the industry and market-participant data available to us.

Actual results have historically been in line with management's estimates and judgments used in applying each of the accounting policies described below and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. However, the Company does not expect our assessments and assumptions below to materially change in the future.

The following is a summary of our accounting policies that are most affected by judgments, estimates and assumptions.

### *Variable Interest Entities*

Variable interest entities ("VIEs") are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The VIEs in which we have a significant interest include our CDOs. We do not have the power to direct the relevant activities of CDO V, as a result of an event of default which allows for us to be removed as collateral manager of this CDO and prevents us from purchasing or selling certain collateral within this CDO, and therefore this CDO is not consolidated as of September 30, 2016. In August 2016, Newcastle settled on a trade to sell \$14.8 million face amount of two CDO V securities for total proceeds of \$9.9 million (See Note 5 to Part I, Item 1. "Financial Statements" for additional information). As a result of this trade, Newcastle no longer has an economic interest in CDO V.

On March 31, 2016, Newcastle sold \$11.0 million face amount of NCT 2013-VI Class I-MM-2. As a result of this sale, Newcastle was no longer deemed to be the primary beneficiary and deconsolidated CDO VI.

Our subprime securitizations are also considered VIEs, but we do 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, 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 deconsolidation of an entity that otherwise would have been consolidated.

### *Valuation of Securities*

We have classified all of 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. 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 I, Item 1. “Financial Statements” for information regarding the fair value of our investments, and respective estimation methodologies as of September 30, 2016.

Our securities must be categorized by the “level” of inputs used in estimating their fair values. Level 1 would be assets or liabilities valued based on quoted prices for identical instruments in active markets. We have no Level 1 assets or liabilities. Level 2 would be assets or liabilities 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 or liabilities 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 non-binding broker and pricing service quotations we receive as Level 3 inputs. Such quotations 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 \$667.0 million carrying value of securities valued using quotations as of September 30, 2016, a 100 basis point change in credit spreads would impact estimated fair value by approximately \$36.7 million.

Our estimation of the fair value of Level 3 assets valued using internal models involves significant judgment. The inputs to our models include discount rates, prepayment speeds, default rates and severity assumptions. We validate the inputs and outputs of our models by comparing them to available independent third-party market parameters and models for reasonableness, as well as historical performance. We believe the assumptions we use are within the range that a market participant would use and factor in the liquidity conditions currently in the markets. As of September 30, 2016, we did not have any Level 3 assets valued using internal models.

#### *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. For certain securities which represent beneficial interests in securitized financial assets and 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, an other-than-temporary impairment also will be deemed to have occurred whenever there is a probable adverse change in the timing or amounts of previously projected estimated cash flows.

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.

We generally do not depend on credit ratings in underwriting our securities, either at acquisition or on an ongoing basis. As of September 30, 2016, we had no securities that had been downgraded during the nine months ended September 30, 2016. 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. For securities that are not acquired at a discount for credit quality, these assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). For securities acquired at a discount for credit quality and with respect to which management has determined at acquisition that it is probable that we will not collect all contractually required principal and interest payments, these assumptions also include expected losses. For these securities, we recognize the excess of all expected cash flows over our investment in the securities, referred to as accretable yield, 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. The excess of total contractual cash flows over the cash flows expected to be collected is referred to as the nonaccretable difference and is not recognized as income. The assumptions that impact income recognition 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.

#### *Valuation of Derivatives*

Our derivative instruments are carried at fair value which is based on counterparty quotations and pricing services. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements. 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 other 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 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. We also evaluate our loans at acquisition for evidence of credit quality deterioration. Loans for which we determine that it is probable that we will not collect all contractually required principal and interest payments at acquisition are categorized as loans acquired at a discount for credit quality.

#### *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 collectible. Purchase discounts are not amortized as interest income during the period the loan is held for sale, except when a paydown or sale has happened in the period. Similarly, for loans acquired at a discount for credit quality, accretable yield is not recorded 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 6 to our Consolidated Financial Statements in Part I, Item 1. "Financial Statements."

#### *Acquisition Accounting*

In connection with an acquisition of a business, assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. The accounting for acquisitions requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities at their respective fair values as of the acquisition date. In measuring the fair value of net tangible and identified intangible assets acquired, management uses information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The determination of fair value involves the use of significant judgment and estimation.

#### *Impairment of Investments in Real Estate*

Real estate and long-lived assets are tested for potential impairment 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.

#### *Intangible Assets*

We assess the potential impairment of intangible assets with indefinite lives on an annual basis, or if an event occurs or circumstances change between annual tests that indicate that it is more likely than not that the asset is impaired. We perform our impairment test by comparing the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess.

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.

#### *Membership Deposit Liabilities*

In our Golf business, private country club members generally pay an advance initiation fee deposit upon their acceptance as a member to the respective country club. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee deposit paid by the member and the present value of the refund obligation is deferred and recognized into revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense in the Consolidated Statements of Operations. The determination of the estimated average expected life of an active membership is based on company-specific historical data and involves significant judgment and estimation.

#### *Recent Accounting Pronouncements*

See Note 2 to Part I, Item 1. "Financial Statements" for information about recent accounting pronouncements.

## RESULTS OF OPERATIONS

### Consolidated Results

The following tables summarize the changes in our results of operations for the three and nine months ended September 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	%
Interest income	\$ 32,310	\$ 23,010	\$ 9,300	40.4 %
Interest expense	(13,138)	(14,715)	(1,577)	(10.7)%
Net interest income	19,172	8,295	10,877	131.1 %
<b>Impairment (Reversal)</b>				
Valuation allowance on loans	611	3,010	(2,399)	(79.7)%
Other-than-temporary impairment on securities and other investments, net	—	450	(450)	(100.0)%
Total impairment	611	3,460	(2,849)	(82.3)%
Net interest income after impairment	18,561	4,835	13,726	283.9 %
<b>Operating Revenues</b>	83,162	82,864	298	0.4 %
<b>Other Income (Loss)</b>				
Gain (loss) on settlement of investments, net	6,350	(3,168)	9,518	300.4 %
Gain (loss) on extinguishment of debt, net	(227)	14,878	(15,105)	(101.5)%
Other income, net	987	277	710	256.3 %
Total other income	7,110	11,987	(4,877)	(40.7)%
<b>Expenses</b>				
Loan and security servicing expense	32	41	(9)	(22.0)%
Operating expenses - golf (including repairs and maintenance expense)	67,027	67,984	(957)	(1.4)%
Cost of sales - golf	8,250	8,842	(592)	(6.7)%
General and administrative expense (including acquisition and transaction expense)	3,656	3,876	(220)	(5.7)%
Management fee to affiliate	2,676	2,675	1	— %
Depreciation and amortization	6,735	7,111	(376)	(5.3)%
Total expenses	88,376	90,529	(2,153)	(2.4)%
Income from continuing operations before income tax	\$ 20,457	\$ 9,157	\$ 11,300	123.4 %

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	%
Interest income	\$ 73,770	\$ 74,353	\$ (583)	(0.8)%
Interest expense	(39,089)	(48,392)	(9,303)	(19.2)%
Net interest income	34,681	25,961	8,720	33.6%
<b>Impairment (Reversal)</b>				
Valuation allowance on loans	3,454	7,684	(4,230)	(55.0)%
Other-than-temporary impairment on securities and other investments, net	110	9,860	(9,750)	(98.9)%
Total impairment	3,564	17,544	(13,980)	(79.7)%
Net interest income after impairment	31,117	8,417	22,700	269.7%
<b>Operating Revenues</b>	229,804	226,493	3,311	1.5%
<b>Other Income (Loss)</b>				
Gain on settlement of investments, net	4,838	24,623	(19,785)	(80.4)%
Gain (loss) on extinguishment of debt, net	(607)	15,367	(15,974)	(104.0)%
Gain on deconsolidation	82,130	—	82,130	N.M.
Other income, net	244	1,871	(1,627)	(87.0)%
Total other income	86,605	41,861	44,744	106.9%
<b>Expenses</b>				
Loan and security servicing expense	70	255	(185)	(72.5)%
Operating expense - golf (including repairs and maintenance expense)	189,131	188,359	772	0.4%
Cost of sales - golf	23,678	24,003	(325)	(1.4)%
General and administrative expense (including acquisition and transaction expense)	10,278	9,076	1,202	13.2%
Management fee to affiliate	8,027	8,017	10	0.1%
Depreciation and amortization	19,250	20,983	(1,733)	(8.3)%
Total expenses	250,434	250,693	(259)	(0.1)%
Income from continuing operations before income tax	\$ 97,092	\$ 26,078	\$ 71,014	272.3%

N.M. – Not meaningful.

### Interest Income

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Interest income increased by \$9.3 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to: (i) a \$10.5 million increase primarily due to accretion income recognized from a paydown of the resorts-related loan and (ii) a \$1.4 million increase related to additional paid in kind (“PIK”) interest earned on corporate loans. These were offset by: (i) a \$1.4 million decrease in real estate securities resulting from the deconsolidation of CDO VI in March 2016, (ii) a \$0.8 million decrease as a result of lower notional on our subprime mortgage loan call option and (iii) a decrease of \$0.4 million in interest income earned on real estate related loans.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Interest income decreased by \$0.6 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to: (i) a \$5.2 million net decrease as a result of the sales and paydowns of real estate related loans in CDOs VIII and IX, (ii) a \$10.0 million decrease as a result of the sales and paydowns of real estate securities in CDOs VI, VIII and IX and (iii) a decrease of \$2.2 million as a result of lower notional on our subprime mortgage loan call option. These were offset by: (i) a \$6.3 million increase related to additional PIK interest earned on corporate loans and (ii) a \$10.5 million increase primarily related to accretion income recognized from a paydown of the resorts-related loan.

#### **Interest Expense**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Interest expense decreased by \$1.6 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to: (i) a \$1.5 million decrease as a result of golf debt that was repurchased in August 2015, (ii) a \$0.7 million decrease due to the payoff of repurchase agreements during the second quarter of 2016 associated with golf debt that was repurchased in August 2015, (iii) a \$0.7 million decrease in CDO bonds interest expense as there were no CDO bonds payable outstanding in the third quarter of 2016, (iv) a decrease of \$0.8 million as a result of a lower notional on our subprime mortgage loan call option and (v) a decrease of \$0.6 million as a result of a lower weighted average coupon on the junior subordinated notes payable. These were offset by: (i) a \$2.1 million increase due to the refinancing of the golf debt in June 2016 and (ii) a \$0.6 million increase due to higher financing costs and borrowing amounts on repurchase agreements on the Agency RMBS.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Interest expense decreased by \$9.3 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to: (i) a \$1.6 million decrease in swap interest expense as there were no interest rate swaps in 2016, (ii) a \$5.6 million decrease as a result of the golf debt that was repurchased in August 2015, (iii) a \$3.8 million decrease due to lower balances of CDO bonds payable, (iv) a \$2.2 million decrease as a result of lower notional on the financing of our subprime mortgage loan call option and (v) a \$1.0 million decrease as a result of a lower weighted average coupon on the junior subordinated notes payable. These were offset by: (i) a \$1.4 million increase due to the financing of the golf debt that was repurchased in August 2015, (ii) a \$1.1 million increase due to higher financing costs and borrowing amounts incurred on repurchase agreements on the Agency RMBS, (iii) a \$2.1 increase due to the refinancing of the golf debt in June 2016 and (iv) a \$0.3 million increase associated with the financing of a mezzanine loan that was entered into in October 2015.

#### **Valuation Allowance on Loans**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

The valuation allowance on loans decreased by \$2.4 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. During the three months ended September 30, 2016, a \$0.4 million valuation allowance was recorded on a corporate loan and a \$0.2 million valuation allowance was recorded on two residential mortgage loans. During the three months ended September 30, 2015, a \$3.0 million valuation allowance on a corporate loan was recorded.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

The valuation allowance on loans decreased by \$4.2 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. During the nine months ended September 30, 2016, a \$3.2 million valuation allowance was recorded on a corporate loan and a \$0.2 million valuation allowance was recorded on two residential mortgage loans. During the nine months ended September 30, 2015, a \$4.4 million valuation allowance on a mezzanine loan, a \$3.4 million valuation allowance on two corporate loans and a \$0.2 million valuation allowance on two residential mortgage loans were recorded, which were offset by a \$0.4 million reversal of valuation allowance on a B-note loan.

#### **Other-than-temporary Impairment on Securities and Other Investments, Net**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

No other-than-temporary impairment was recorded during the three months ended September 30, 2016. We recorded other-than-temporary impairments of \$0.4 million on two debt securities and \$0.1 million on one equity security in the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

We recorded other-than-temporary impairment of \$0.1 million on a debt security during the nine months ended September 30, 2016. We recorded other-than-temporary impairments of \$2.0 million on two debt securities, \$0.4 million on one equity security and \$7.5 million on an equity method investment in the nine months ended September 30, 2015.

### **Operating Revenues**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Operating revenue increased by \$0.3 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to: (i) a \$1.5 million increase in net driving range revenues at public golf properties as a result of the continued growth of The Players Club program, (ii) a \$0.6 million increase due to higher initiation fees from new member sales and higher membership dues rates, partially offset by (iii) a \$1.5 million decrease in green fee and cart rental revenue as a result of unfavorable conditions, and (iv) a \$0.3 million decrease in merchandise and food and beverage sales.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Operating revenues increased by \$3.3 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to: (i) a \$3.9 million increase in net driving range revenues at public golf properties as a result of the continued growth of The Players Club program, (ii) a \$1.7 million increase due to higher initiation fees from new member sales and higher membership dues rates, (iii) a \$1.1 million increase in private event revenues and packaged round and beverage offers to The Players Club members that resulted in higher beverage revenues and (iv) a \$0.9 million increase in facility rental revenues due to increases in private events, partially offset by (v) a \$3.6 million decrease in green fee and cart rental revenue as a result of unfavorable conditions, especially in California, and (vi) a \$0.7 million decrease in merchandise sales primarily due to unfavorable conditions, especially in California, and a lease termination in 2015.

### **Gain (Loss) on Settlement of Investments, Net**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

The net gain on settlement of investments increased by \$9.5 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. During the three months ended September 30, 2016, we recorded a gain of \$10.1 million on the sale of Agency RMBS and two CDO securities, offset by \$3.7 million of losses associated with the settlement of derivatives. During the three months ended September 30, 2015, we recorded a gain of \$7.6 million on the sale of Agency RMBS and a loss of \$10.7 million on the settlement of derivatives.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

The net gain on settlement of investments decreased by \$19.8 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. During the nine months ended September 30, 2016, we recorded a gain of \$7.9 million on the sale of Agency RMBS and a gain of \$10.7 million on the sale of three CDO bonds. This was offset by \$13.8 million of losses associated with the settlement of derivatives. During the nine months ended September 30, 2015, we recorded a gain of \$28.9 million on the sale of CMBS and non-Agency RMBS, a gain of \$7.5 million on the sale of Agency RMBS, and a gain of \$1.5 million on the sale of real estate related loans. This was offset by \$13.3 million of losses associated with the settlement of derivatives in the nine months ended September 30, 2015.

### **Gain (Loss) on Extinguishment of Debt, Net**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

The net gain on extinguishment of debt decreased by \$15.1 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to the repurchase of the first and second lien golf debt from a third party in August 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

The net gain on extinguishment of debt decreased by \$16.0 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. During the nine months ended September 30, 2015, we recorded a gain of \$15.5 million primarily as a result of the repurchase of the first and second lien golf debt from a third party in August 2015 and a \$0.5 million gain due to the repurchase of CDO bonds payable in June 2015.

**Gain on Deconsolidation**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There were no deconsolidations during the three months ended September 30, 2016 and 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

The gain on deconsolidation of \$82.1 million during the nine months ended September 30, 2016 is related to the deconsolidation of CDO VI. There were no deconsolidations during the nine months ended September 30, 2015.

**Other Income (Loss), Net**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Other income, net increased by \$0.7 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to an increase on the mark-to-market value of the derivatives.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Other income, net decreased by \$1.6 million during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to: (i) a \$1.6 million decrease on the mark-to-market value of derivatives, (ii) a \$0.6 million decrease received on our real estate related loans in 2015, offset by an increase of \$0.6 million related to the golf business.

**Loan and Security Servicing Expense**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in loan and security servicing expense during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

There was no significant change in loan and security servicing expense during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

**Operating Expenses - Golf (including Repairs and Maintenance Expense)**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Operating expenses - golf decreased by \$1.0 million during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to: (i) \$0.6 million in cost savings for repairs and maintenance, (ii) \$0.2 million in cost savings for legal services, and (iii) a \$0.2 million decrease in lease costs due to fewer operating leases.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Operating expenses - golf increased by \$0.8 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to increased payroll expense as a result of increases to California's minimum wage.

## **Cost of Sales - Golf**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Cost of sales - golf decreased by \$0.6 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to decreased purchasing associated with changes to the product mix at certain golf properties.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Cost of sales - golf decreased by \$0.3 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to decreased purchasing associated with changes to the product mix at certain golf properties.

## **General and Administrative Expense (including Acquisition and Transaction Expense)**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in general and administrative expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

General and administrative expense increased by \$1.2 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to: (i) \$0.8 million in transaction-related costs in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, (ii) a \$0.2 million increase in professional fees incurred related to the golf financing obtained in June 2016 as compared to the financing obtained in August 2015, and (iii) a \$0.2 million increase in other professional fees incurred in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

## **Management Fee to Affiliate**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in management fee to affiliate during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

There was no significant change in management fee to affiliate during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

## **Depreciation and Amortization**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Depreciation and amortization decreased by \$0.4 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to certain assets being fully depreciated in 2015 from scheduled lease expirations, partially offset by an increase in depreciation from additional capital leases.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Depreciation and amortization decreased by \$1.7 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to certain assets being fully depreciated in 2015 from scheduled lease expirations, partially offset by an increase in depreciation from additional capital leases.

*Golf Segment Results*

Comparison of Golf Results of Operations for the three and nine months ended September 30, 2016 and 2015

	Three Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	%
<b>Revenues</b>				
Golf course operations	\$ 48,515	\$ 49,418	\$ (903)	(1.8)%
Sales of food and beverages - golf	19,913	20,035	(122)	(0.6)%
Other golf revenue	14,734	13,411	1,323	9.9 %
Interest income	17	38	(21)	(55.3)%
<b>Total revenues</b>	<b>83,179</b>	<b>82,902</b>	<b>277</b>	<b>0.3 %</b>
<b>Expenses</b>				
Operating expenses - golf (including repairs and maintenance expense)	67,027	67,984	(957)	(1.4)%
Cost of sales - golf	8,250	8,842	(592)	(6.7)%
General and administrative expense (including acquisition and transaction expense)	1,520	1,837	(317)	(17.3)%
Depreciation and amortization	6,735	7,111	(376)	(5.3)%
Interest expense	3,340	3,473	(133)	(3.8)%
<b>Total expenses</b>	<b>86,872</b>	<b>89,247</b>	<b>(2,375)</b>	<b>(2.7)%</b>
Other income (loss), net	(15)	14,834	(14,849)	(100.1)%
<b>Income (loss) from continuing operations before income tax</b>	<b>\$ (3,708)</b>	<b>\$ 8,489</b>	<b>\$ (12,197)</b>	<b>(143.7)%</b>

	Nine Months Ended September 30,		Increase (Decrease)	
	2016	2015	Amount	%
<b>Revenues</b>				
Golf course operations	\$ 135,291	\$ 137,150	\$ (1,859)	(1.4)%
Sales of food and beverages - golf	55,086	53,991	1,095	2.0 %
Other golf revenue	39,427	35,352	4,075	11.5 %
Interest income	94	110	(16)	(14.5)%
<b>Total revenues</b>	<b>229,898</b>	<b>226,603</b>	<b>3,295</b>	<b>1.5 %</b>
<b>Expenses</b>				
Operating expenses - golf (including repairs and maintenance expense)	189,131	188,359	772	0.4 %
Cost of sales - golf	23,678	24,003	(325)	(1.4)%
General and administrative expense (including acquisition and transaction expense)	4,305	3,199	1,106	34.6 %
Depreciation and amortization	19,250	20,983	(1,733)	(8.3)%
Interest expense	8,703	10,774	(2,071)	(19.2)%
<b>Total expenses</b>	<b>245,067</b>	<b>247,318</b>	<b>(2,251)</b>	<b>(0.9)%</b>
Other income (loss), net	(307)	14,606	(14,913)	(102.1)%
<b>Loss from continuing operations before income tax</b>	<b>\$ (15,476)</b>	<b>\$ (6,109)</b>	<b>\$ (9,367)</b>	<b>(153.3)%</b>

## **Golf Course Operations**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Golf course operations decreased by \$0.9 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to a \$1.5 million decrease in green fee and cart rental revenue as a result of unfavorable conditions, partially offset by a \$0.6 million increase due to higher initiation fees from new member sales and higher membership dues rates.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Golf course operations decreased by \$1.9 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to a \$3.6 million decrease in green fee and cart rental revenue as a result of unfavorable conditions, especially in California, partially offset by a \$1.7 million increase due to higher initiation fees from new member sales and higher membership dues rates.

## **Sales of Food and Beverages - Golf**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in sales of food and beverages - golf during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Sales of food and beverages - golf increased by \$1.1 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to increases in private event revenues and packaged round and beverage offers to The Players Club members.

## **Other Golf Revenue**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Other golf revenue increased by \$1.3 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to a \$1.5 million increase in net driving range revenues at public golf properties as a result of the continued growth of The Players Club program, partially offset by a decrease of \$0.2 million primarily due to a decrease in merchandise sales.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Other golf revenue increased by \$4.1 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to: (i) a \$3.9 million increase in net driving range revenues at public golf properties as a result of the continued growth of The Players Club program and (ii) a \$0.9 million increase in facility rental revenues due to increases in private events, partially offset by a \$0.7 million decrease in merchandise sales primarily due to unfavorable conditions, especially in California, and a lease termination in 2015.

## **Interest Income**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in interest income during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

There was no significant change in interest income during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

### **Operating Expenses - Golf (including Repairs and Maintenance Expense)**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Operating expenses - golf decreased by \$1.0 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to: (i) \$0.6 million in cost savings for repairs and maintenance, (ii) \$0.2 million in cost savings for legal services and (iii) a \$0.2 million decrease in lease costs due to fewer operating leases.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Operating expenses - golf increased by \$0.8 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to increased payroll expense as a result of increases to California's minimum wage.

### **Cost of Sales - Golf**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Cost of sales - golf decreased by \$0.6 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to decreases in merchandise and food and beverage sales.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Cost of sales - golf decreased by \$0.3 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to decreases in merchandise sales.

### **General and Administrative Expense (including Acquisition and Transaction Expense)**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

General and administrative expense decreased by \$0.3 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to a \$0.7 million decrease in non-recurring professional fees incurred related to the acquisition of the first and second lien golf debt in August 2015, partially offset by a \$0.4 million increase in transaction-related costs in the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

General and administrative expense increased by \$1.1 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to: (i) a \$0.7 million increase in transaction-related costs in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, (ii) a \$0.2 million increase in professional fees incurred related to the golf financing obtained in June 2016 as compared to the financing obtained in August 2015, and (iii) a \$0.2 million increase in other professional fees incurred in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

### **Depreciation and Amortization**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Depreciation and amortization decreased by \$0.4 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to certain assets being fully depreciated in 2015 from scheduled lease expirations, partially offset by an increase in depreciation from additional capital leases.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Depreciation and amortization decreased by \$1.7 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to certain assets being fully depreciated in 2015 from scheduled lease expirations, partially offset by an increase in depreciation from additional capital leases.

## **Interest Expense**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

There was no significant change in interest expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Interest expense decreased by \$2.1 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to: (i) a \$5.6 million decrease from the golf debt that was repurchased in August 2015, partially offset by (ii) a \$2.1 million increase related to the golf refinancing obtained in June 2016 and (iii) a \$1.4 million increase due to the August 2015 golf repurchase agreement.

## **Other Income (Loss), Net**

*Three months ended September 30, 2016 compared to the three months ended September 30, 2015*

Other income (loss), net decreased by \$14.8 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the gain on extinguishment of debt recorded related to the acquisition of the first and second lien golf debt at a discount in August 2015.

*Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015*

Other income (loss), net decreased by \$14.9 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to the gain on extinguishment of debt recorded related to the acquisition of the first and second lien golf debt at a discount in August 2015.

## **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, potential issuance of new debt or equity securities, when feasible. We have the ability to publicly or privately 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 believe 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 12 months, we expect that our cash on hand combined with our other primary sources of funds for liquidity 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 may have additional cash requirements with respect to incremental investments. 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 12 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. We continually monitor market conditions for financing opportunities, and at any given time, we may enter into or pursue one or more of the transactions described above.

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 II, 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 flows provided by operations constitutes a critical component of our liquidity. Essentially, our cash flows provided by operations is equal to (i) net cash flows received from our Golf business, plus (ii) the net cash flows from our CDO and non-CDO investments that are not subject to mandatory debt repayment, including principal and sales proceeds, less (iii) operating expenses (primarily management fees, professional fees, insurance and taxes), less (iv) interest on the junior subordinated notes payable, and less (v) preferred dividends.

Our cash flows 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) amortization of favorable and unfavorable leasehold intangibles from the acquisition of the Golf business in December 2013, (iii) accretion of golf membership deposit liabilities in interest expense, (iv) amortization of prepaid golf membership dues, (v) gains and losses from sales of assets, (vi) the valuation allowance recorded in connection with our loan assets, as well as other-than-temporary impairment on our securities, (vii) unrealized gains or losses on our non-hedge derivatives, (viii) non-cash gains or losses associated with our early extinguishment of debt, (ix) non-cash gains on deconsolidation, (x) depreciation and amortization on our investments, and (xi) 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.

The sources of our distributions are net cash provided by operating activities, net cash provided by investing activities and cash equivalents as they represent the return on our portfolio of investments in real estate debt and golf related real estate and operations. The Company has paid common dividends of \$24.0 million and preferred dividends of \$4.2 million thus far in fiscal year 2016. For the nine months ended September 30, 2016, the Company reported net cash used in operating activities of \$14.7 million and net cash used in investing activities of \$378.3 million, and cash and cash equivalents of \$134.3 million as of September 30, 2016. The timing and amount of distributions are in the sole discretion of our board of directors, which considers our earnings, financial performance and condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations, as well as capital expenditure requirements, business prospects and other factors that our board of directors may deem relevant from time to time. See Part II, Item IA. "Risk Factors-Risks Related to Our REIT Status and the 1940 Act" for more information.

#### *REIT Distribution Requirements*

To maintain our status as a REIT under the Internal Revenue Code as amended ("Code"), we must distribute annually at least 90% of our REIT taxable income. As of December 31, 2015, we estimate a loss carryforward, inclusive of net operating loss and capital loss, of approximately \$526.2 million. These net operating loss carryforwards and capital loss carryforwards can generally be used to offset future ordinary taxable income and capital gain, for up to 20 years and 5 years, respectively. As a result, we do not believe that there will be any additional REIT distribution requirements for the year ended December 31, 2015. 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 October 31, 2016 are set forth below:

- *Cash* – As of September 30, 2016, we had \$134 million of available cash, including \$4 million of working capital for the Golf business. On October 13, 2016, we declared a quarterly dividend of \$9.4 million which was paid on October 31, 2016.
- *Margin Exposure and Recourse Financings* – We have margin exposure on \$1,397.6 million repurchase agreements related to the financing of FNMA/FHLMC securities. We have a \$102.0 million term loan related to the financing of golf properties (See Note 10 to Part I, Item 1. "Financial Statements" for additional information). The mezzanine note payable was repaid in April 2016 and golf loans repurchase agreement was repaid in June 2016. See Note 10 to Part I, Item 1. "Financial Statements" for additional information.

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

	October 31, 2016	September 30, 2016	December 31, 2015
FNMA/FHLMC securities repurchase agreements	\$ 1,397,633	\$ 831,741	\$ 348,625
Golf term loan	102,000	102,000	—
Golf loans repurchase agreement	—	—	70,000
Mezzanine note payable	—	—	11,660
<b>Total recourse financings outstanding face amount</b>	<b>\$ 1,499,633</b>	<b>\$ 933,741</b>	<b>\$ 430,285</b>

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 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 II, Item 1A., “Risk Factors” below.

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 investments at rates that provide a positive net spread.
- *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

The following summarizes our consolidated investment portfolio at September 30, 2016 (dollars in thousands).

	Outstanding Face Amount	Amortized Cost Basis (A)	Percentage of Total Amortized Cost Basis	Fair Value	Carrying Value	Number of Investments	Credit (B)	Weighted Average Life (years) (C)
<b>Debt Investment</b>								
<b>Commercial Assets (D)</b>								
Other Investments (E)	21,724	21,724	2.1%	22,847	21,724	1	NR	—
Total Commercial Assets	21,724	21,724	2.1%	22,847	21,724			—
<b>Residential Assets</b>								
Residential Loans (F)	774	240	—%	274	240	3	NR	1.8
ABS - Non-Agency RMBS	4,000	748	0.1%	3,430	3,430	1	C	5.3
Real Estate ABS Small Business Loans	8,464	—	—%	—	—	1	C	0.0
	13,238	988	0.1%	3,704	3,670			1.7
FNMA/FHLMC (G)	632,206	663,456	64.2%	663,559	663,559	10	AAA	6.3
Total Residential Assets	645,444	664,444	64.3%	667,263	667,229			6.2
<b>Corporate Assets</b>								
Corporate Loans (H)	71,378	52,874	5.1%	58,406	52,874	2	NR	0.8
Total Corporate Assets	71,378	52,874	5.1%	58,406	52,874			0.8
<b>Total Debt Investments</b>	<b>738,546</b>	<b>739,042</b>	<b>71.5%</b>	<b>\$ 748,516</b>	<b>741,827</b>			<b>5.7</b>
<b>Golf Investments</b>								
Golf Investment (I)	385,686	295,065	28.5%		295,065			
<b>Total Portfolio/Weighted Average</b>	<b>\$ 1,124,232</b>	<b>\$ 1,034,107</b>	<b>100.0%</b>		<b>\$ 1,036,892</b>			

Reconciliation to GAAP total assets:

Other Assets	
Subprime mortgage loans subject to call option (J)	\$ 353,347
Cash and restricted cash	141,584
Receivables from brokers, dealers and clearing organizations	858,233
Other	46,883
<b>GAAP total assets</b>	<b>\$ 2,436,939</b>

WA – Weighted average, in all tables.

NR – Not rated, in all tables.

(A) Net of impairment.

(B) Credit represents the weighted average of minimum rating for rated assets. 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.

(C) Weighted average life is based on the timing of expected cash flows on the asset.

(D) Excludes 2 CMBS investments with zero carrying value, which had an aggregate face amount of \$10.3 million and 2 mezzanine loans with zero carrying value, which had an aggregate face amount of \$17.8 million. Excludes 11 CDO securities with zero value, which had an aggregate face amount of \$154.0 million.

(E) Represents an equity investment in a real estate owned property.

(F) Recorded in receivables and other assets on the Consolidated Balance Sheets.

(G) These investments represent purchases that were traded on September 30, 2016 but settled on October 13, 2016. These debts represent repurchase agreements collateralized by sold investments that were traded on September 30, 2016 and settled on October 13, 2016.

(H) Excludes 2 corporate loans with zero carrying value, which had an aggregate face amount of \$45.7 million.

(I) Face amount of the golf investment represents the gross carrying amount, including intangibles, and excludes accumulated depreciation and amortization. Basis amount of the golf investments represents carrying value including intangibles.

(J) Our subprime mortgage loans subject to call option are excluded 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 Sheets.

## Debt Investments

The following table reflects the spread between the yield and the cost of financing our portfolio of financial instruments at September 30, 2016:

Weighted average asset yield	3.64%
Weighted average funding cost	0.79%
Net interest spread	2.85%

The net interest spread decreased from 7.36% at December 31, 2015 to 2.85% at September 30, 2016 primarily due to: (i) the deconsolidation of CDO VI in March 2016, (ii) increased purchases of lower yielding FNMA/FHLMC securities during the three months ended September 30, 2016 and (iii) a paydown on a higher yielding resort-related loan.

The net interest spread of our portfolio of debt investments can be impacted by (i) the timing and extent of changes in the composition of our portfolio as a result of purchases and sales of assets or the repayment of debt, including our CDO debt, repurchase agreements and other bonds, repurchases of debt, and the incurrence of new debt, (ii) the yields on new investments, which varies depending on the credit quality of the issuer, and (iii) changes in our estimates of the yields on securities acquired at a discount for credit quality, which management assesses on a quarterly basis. For instance, the net interest spread of our debt investments increases if we sell assets with lower yields relative to other assets in our portfolio or repay debt (such as in connection with an asset sale or refinancing) that has a higher interest rate relative to other financing on our portfolio assuming no other changes to the composition of our portfolio. Conversely, the net interest spread of our portfolio decreases if we sell assets with higher yields relative to other assets in our portfolio or repay debt (such as in connection with an asset sale) that has a lower interest rate relative to other financing on our portfolio, assuming no other changes to the composition of our portfolio. Management continually monitors market conditions to opportunistically effect purchases and sales of debt investments.

## CDO Securities

See Note 5 to Part I, Item 1. "Financial Statements" for information about our CDO securities.

## Residential Loans

Deal	Loan Count	Outstanding Face Amount	Amortized Cost Basis(A)	Percentage of Total		Carrying Value(A)	Average Loan Age (years)	Original Balance	Delinquency 90+/FC/REO (B)	Cumulative Loss to Date
				Amortized Cost Basis	Fair Value					
Residential Loans	3	\$ 774	\$ 240	100.0%	\$ 274	\$ 240	1.8	\$ 945	81.1%	—%

(A) Amortized cost basis and carrying value excludes negligible interest receivable for the residential housing loans. Residential loans are recorded in receivables and other assets on the Consolidated Balance Sheets.

(B) The percentage of loans that are 90+ days delinquent or in foreclosure or considered REO.

## ABS - Non-Agency RMBS (A)

See Note 5 to Part I, Item 1. "Financial Statements" for additional information about our Non-Agency RMBS.

Vintage (B)	Collateral Characteristics				Cumulative Losses to Date
	Average Loan Age (years)	Collateral Factor (C)	3 Month CPR (D)	Delinquency (E)	
2006	11.2	0.17	12.7%	14.7%	19.4%
Total / WA	11.2	0.17	12.7%	14.7%	19.4%

(A) This includes subprime retained securities in the securitization of Subprime Portfolio I. For further information on this securitization, see Note 6 to our Consolidated Financial Statements included herein.

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

(C) The ratio of original unpaid principal balance of loans still outstanding.

(D) Three month average constant prepayment rate.

(E) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered REO.

## Agency ARM RMBS (FNMA/FHLMC Securities)

See Note 5 to Part I, Item 1. "Financial Statements" for information about Agency RMBS activity during 2016.

### Corporate Loans

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Fair Value	Carrying Value
Resorts (B)	NR	1	\$ 57,681	\$ 52,149	98.6%	\$ 57,681	\$ 52,149
Restaurant	NR	1	13,697	725	1.4%	725	725
Total / WA	NR	2	\$ 71,378	\$ 52,874	100.0%	\$ 58,406	\$ 52,874

(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 September 30, 2016.

(B) Excludes two corporate loans with zero carrying value, which had an aggregate face amount of \$45.7 million.

### *Intrawest Loan (included in the Resorts section of the table above)*

In April 2010, we made a cash investment of \$75.0 million through two of our CDOs in a new loan to Intrawest Cayman L.P. and its subsidiaries ("Intrawest"), which is a portfolio company of private equity funds managed by an affiliate of our Manager. In addition, Mr. Edens is a director of Intrawest and has an indirect ownership interest in Intrawest. Interest on the loan is accrued and deferred until maturity in 2019. As of December 31, 2013, the face amount of this investment was \$185.6 million. In December 2013, we consented to a modification of the collateral for our investment in order to facilitate an initial public offering of Intrawest. In January 2014, Intrawest completed a \$37.5 million primary offering and a \$150.0 million secondary offering. Following Intrawest's public offerings, we received total cash of \$83.3 million, which reduced the face amount of our loan to \$99.4 million. In accordance with the loan agreement, as of April 24, 2015, the accrued and deferred interest rate stepped-up from 15.55% to 22.50%. On September 23, 2016, Newcastle received a \$109.9 million paydown on this loan. The face amount of the loan is \$57.7 million as of September 30, 2016. Interest accrued on the loan accounts for a significant portion of our interest income and Core Earnings (as defined in Part I, Item 2. Contractual Obligations "Core Earnings"). We could be adversely affected if we are unable to recover our investment in the loan.

### Golf Investments

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") and American Golf Corporation ("American Golf"), an affiliated operating company. As part of the transaction, we acquired the equity of NGP and American Golf's indirect parent, AGC Mezzanine Pledge LLC ("AGC"), or collectively the "Golf Business," and therefore consolidated these entities as of December 31, 2013. As of September 30, 2016, American Golf owned 27 golf properties, leased 47 golf properties and managed 10 golf properties owned by third parties. We categorize our owned and leased golf properties as public or private. Set forth below is additional information about our golf properties.

*Public Properties* - Public properties generate revenues principally through daily green fees, golf cart rentals and food, beverage and merchandise sales. Amenities at these properties generally include practice facilities, and pro shops with food and beverage facilities. In some cases, our public properties have small clubhouses with banquet facilities. In addition, The Players Club is a monthly membership program offered at most of our public properties, with membership benefits ranging from daily range access to ability to participate in golf clinics, in return for a monthly membership fee.

*Private Properties* - Private properties 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 properties 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 Properties* - Our 10 managed properties are properties that American Golf manages pursuant to a management agreement with the owner. We will recognize revenue from these properties in an amount equal to the respective management fee.

In January 2016, the lease on a golf property in Oregon expired, and the Golf business did not renew the lease for such property.

In July 2016, the lease on a golf property in California was terminated, and the Golf business exited the property.

The following table summarizes certain information about our golf properties as of September 30, 2016:

	Number of Properties	Number of Golf Holes
<i>Leased</i>		
Public	42	774
Private	5	144
Total Leased	47	918
<i>Owned</i>		
Public	12	234
Private	15	306
Total Owned	27	540
<i>Managed</i>	10	162
<b>Total</b>	<b>84</b>	<b>1,620</b>
<u>Location</u>		
California	52	990
Florida	1	54
Georgia	10	171
Idaho	1	18
Michigan	1	18
New Jersey	2	36
New Mexico	1	27
New York	5	108
Oklahoma	3	54
Oregon	2	36
Tennessee	2	36
Texas	3	54
Washington	1	18
	84	1,620

#### *Debt Obligations*

Our debt obligations including capital lease obligations, as summarized in Note 10 to our Consolidated Financial Statements included herein, existing at September 30, 2016 (gross of \$3.4 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from October 1, 2016 through December 31, 2016	\$ 844	\$ 831,741	\$ 832,585
2017	3,521	—	3,521
2018	3,752	—	3,752
2019	3,851	102,000	105,851
2020	2,749	—	2,749
2021	1,312	—	1,312
Thereafter	353,635	51,004	404,639
Total	\$ 369,664	\$ 984,745	\$ 1,354,409

Certain of the debt obligations are obligations of our consolidated subsidiaries which own the related collateral. In some cases, such collateral is not available to other creditors of ours.

The financing of our Golf business contains various customary loan covenants, including certain coverage ratios. We were in compliance with all of the covenants as of September 30, 2016. In addition, as of September 30, 2016, 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 to finance the acquisition of golf debt. All of the repurchase agreements have full recourse to Newcastle.

	Outstanding Face Amount at September 30, 2016	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
		Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate	Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate
FNMA/FHLMC	\$ 831,741	\$ 649,944	\$ 835,364	0.69%	\$ 455,610	\$ 835,364	0.68%
Golf Loans	\$ —	\$ —	\$ —	—%	\$ 45,002	\$ 70,000	4.27%

The weighted average differences between the fair value of the assets and the face amount of financing for the FNMA/FHLMC repurchase agreements was 4% as of September 30, 2016.

#### Equity

##### Common Stock

At September 30, 2016, we had 66,734,136 shares of common stock outstanding.

On May 7, 2015, and pursuant to the anti-dilution provisions of the 2014 Newcastle Nonqualified Stock Option and Incentive Plan (the "2014 Plan"), 2012 Newcastle Nonqualified Stock Option and Incentive Plan (the "2012 Plan"), and Newcastle Nonqualified Stock Option and Incentive Award Plan (the "Newcastle Option Plan"), Newcastle's board of directors approved an equitable adjustment of all outstanding options in order to account for the impact of the 2014 return of capital distributions. The equitable adjustment entails a strike price adjustment and the issuance of additional options which were determined so as to compensate for the loss in value that would have otherwise occurred as a result of the 2014 return of capital distributions. As a result of this adjustment, options relating to a total of 178,740 shares were issued on May 7, 2015 at a strike price of \$1.00.

See Note 14 to Part I, Item 1. "Financial Statements" for information on our outstanding options as of September 30, 2016.

##### Common Stock Dividends Paid

<u>Declared for the Quarter Ended</u>	<u>Paid</u>	<u>Amount Per Share</u>
March 31, 2016	April 2016	\$ 0.12
June 30, 2016	July 2016	\$ 0.12
September 30, 2016	October 2016	\$ 0.12

##### Preferred Stock Dividends Paid

<u>Declared for the Quarter Ended</u>	<u>Paid</u>	<u>Amount Per Share</u>		
		<u>Series B</u>	<u>Series C</u>	<u>Series D</u>
January 31, 2016	January 2016	\$ 0.609	\$ 0.503	\$ 0.523
April 30, 2016	April 2016	\$ 0.609	\$ 0.503	\$ 0.523
July 31, 2016	July 2016	\$ 0.609	\$ 0.503	\$ 0.523
October 31, 2016	October 2016	\$ 0.609	\$ 0.503	\$ 0.523

## Accumulated Other Comprehensive Income (Loss)

During the nine months ended September 30, 2016, our accumulated other comprehensive income changed due to the following factors (in thousands):

	Gains (Losses) on Cash Flow Hedges	Gains (Losses) on Securities	Total Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income, December 31, 2015	\$ 20	\$ 33,277	\$ 33,297
Net unrealized gain on securities	—	8,696	8,696
Reclassification of net realized gain on securities into earnings	—	(18,506)	(18,506)
Reclassification of net realized gain on deconsolidation of CDO VI	—	(20,682)	(20,682)
Reclassification of net realized gain on derivatives designated as cash flow hedges into earnings	(20)	—	(20)
Accumulated other comprehensive income, September 30, 2016	\$ —	\$ 2,785	\$ 2,785

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 during the nine months ended September 30, 2016 in accumulated other comprehensive income primarily as a result of gains recognized in earnings from the deconsolidation of CDO VI and gains realized in earnings from the sales of CDO V notes and FNMA/FHLMC Agency RMBS, partially offset by unrealized gains on securities caused by a net tightening of credit spreads.

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 used in operating activities was \$14.7 million for the nine months ended September 30, 2016 compared to \$19.6 million used in operating activities for the nine months ended September 30, 2015. This change resulted primarily from the factors described below:

- Net cash receipts from our CDOs decreased approximately \$5.1 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to lower interest proceeds as a result of the liquidation of CDO VIII and IX in June 2015.
- Net cash receipts from our other debt portfolios decreased by \$3.3 million primarily due to lower net receipts on our FNMA/FHLMC securities as a result of a lower face amount held and increased financing costs related to our FNMA/FHLMC securities during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.
- Operating cash flows from our Golf business increased by \$8.6 million primarily due to: (i) the introduction of a new driving range program at public golf properties, (ii) decreased interest expense payments as a result of the golf debt repurchased in August 2015, (iii) increased food and beverage sales due to increased private events and (iv) decreased operating expenses as a result of the termination of certain leased golf properties in 2015.
- A decrease of approximately \$4.1 million in other operating expenses paid during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to expenses incurred at the end of 2014 that were paid in the first quarter of 2015 associated with the spin-off of New Senior Investment Group Inc.
- A decrease of approximately \$0.6 million as a result of lowering interest rates associated with the junior subordinated notes payable for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

### Investing Activities

Investing activities used \$378.3 million and provided \$200.2 million during the nine months ended September 30, 2016 and 2015, respectively. Uses of cash flow from investing activities consisted primarily of investments made in real estate securities, settlement of derivatives, and additions to the golf business. Proceeds from cash flows from investing activities consisted primarily of sale of investments, repayments from loans and securities and return of restricted cash from investing activities.

### Financing Activities

Financing activities provided \$481.6 million and used \$223.0 million during the nine months ended September 30, 2016 and 2015, respectively. Proceeds of cash flow from financing activities consisted primarily of borrowings under debt obligations, return of margin deposits to our repurchase agreements and derivatives, and deposits received on golf memberships. Uses of cash flow from financing activities included the repurchase of debt, repayment of debt obligations, settlement of derivatives, deposits made on margin calls related to our repurchase agreements and derivatives, the payment of financing costs, and the payment of common and preferred dividends.

### **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 “Quantitative and Qualitative Disclosures About Market Risk.”

### **Off-Balance Sheet Arrangements**

As of September 30, 2016, 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 our 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.
- On March 31, 2016, we deconsolidated CDO VI, 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.

### **CONTRACTUAL OBLIGATIONS**

During the nine months ended September 30, 2016, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2015, excluding the debt which was repaid, spun-off or repurchased, as described in “– Liquidity and Capital Resources.”

In addition, we had the following material contractual obligations that we executed during the nine months ended September 30, 2016:

- In February 2016, we signed an amendment to the golf repurchase agreement to extend the maturity to May 31, 2016 with an option to extend to June 30, 2016. In May 2016, we exercised the option to extend the maturity to June 30, 2016.
- In June 2016, Newcastle obtained third-party financing on 22 golf properties for a total of \$102.0 million at a floating rate of the greater of: (i) 30 day LIBOR + 4.70% or (ii) 6.50%. At the time of closing, we purchased a co-terminus LIBOR interest rate cap of 1.80%. See Note 10 to Part I, Item 1. "Financial Statements" for additional information about this financing.

## 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 “Quantitative and Qualitative Disclosure About Market Risk - Interest Rate Exposure” below.

## Core Earnings

The following primary variables impact our operating performance: (i) the current yield earned on our 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 we earn from our non-recourse financing structures, (iii) the interest expense and dividends incurred under our recourse debt and preferred stock, (iv) the net operating income on our real estate and golf investments, (v) our operating expenses and (vi) our realized and unrealized gains or losses, net of related provision for income taxes, including any impairment, on our investments, derivatives and debt obligations. Core earnings is a non-GAAP measure of our operating performance excluding the sixth variable listed above. Core earnings also excludes depreciation and amortization charges, including the accretion of membership deposit liabilities and the impact of the application of acquisition accounting, acquisition and spin-off related expenses and restructuring expenses. Core earnings is used by management to evaluate our performance without taking into account gains and losses, net of related provision for income taxes, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future performance. These adjustments to our income applicable to common stockholders are not indicative of the performance of the assets that form the core of our activity.

Management utilizes core earnings as a measure in its decision-making process relating to the underlying fundamental operations of our investments, as well as the allocation of resources between those investments, and management also relies on core earnings as an indicator of the results of such decisions. As such, core earnings is not intended to reflect all of our activity and should be considered as only one of the factors in assessing our performance, along with GAAP net income, which is inclusive of all of our activities. Management also believes that the exclusion from core earnings of the items specified above allows investors and analysts to readily identify and track 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 our current core performance using the same measure that management uses to operate the business.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income applicable to common stockholders	\$ 18,923	6,499	\$ 92,598	\$ 21,426
Add (Deduct):				
Impairment	611	3,460	3,564	17,544
Other loss (income)(A)	(6,725)	(10,458)	(85,475)	(39,689)
Impairment (reversal), other (income) loss and other adjustments from discontinued operations(B)	—	—	—	(306)
Depreciation and amortization(C)	9,259	9,791	26,953	29,100
Acquisition, restructuring and spin-off related expenses(D)	1,093	1,131	2,830	1,502
Core earnings	\$ 23,161	\$ 10,423	\$ 40,470	\$ 29,577

- (A) Net of \$0.4 million and \$1.1 million related to other income from an equity method investment during the three and nine months ended September 30, 2016, respectively, and includes \$82.1 million gain related to the deconsolidation of CDO VI during the nine months ended September 30, 2016. Net of \$0.3 million and \$1.0 million related to other income from an equity method investment, and net of \$1.2 million and \$1.2 million of provision for income taxes relating to the gain on extinguishment of debt during the three and nine months ended September 30, 2015, respectively.
- (B) Includes gain on settlement of investments of \$0.3 million and depreciation and amortization of less than \$0.1 million for the nine months ended September 30, 2015.
- (C) Including accretion of membership deposit liabilities of \$1.4 million and \$4.3 million and amortization of favorable and unfavorable leasehold intangibles of \$1.1 million and \$3.4 million in the three and nine months ended September 30, 2016, respectively. Including accretion of membership deposit liabilities of \$1.5 million and \$4.4 million and amortization of favorable and unfavorable leasehold intangibles of \$1.2 million and \$3.7 million in the three and nine months ended September 30, 2015, respectively. The accretion of membership deposit liabilities was recorded to interest expense and the amortization of favorable and unfavorable leasehold intangibles was recorded to operating expenses - golf.
- (D) Including acquisition and transaction expenses of \$1.1 million and \$2.5 million and restructuring expenses of zero and \$0.3 million during the three and nine months ended September 30, 2016, respectively. Including acquisition and transaction expenses of \$1.0 million and \$1.3 million and restructuring expenses of \$0.1 million and \$0.2 million during the three and nine months ended September 30, 2015, respectively. The acquisition and transaction costs were recorded to general and administrative expense and restructuring expenses were recorded to operating expenses - golf.

### ITEM 3. 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 affect our financial position or operating results, please refer to Part I, Item 2. "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 certain of 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 Part I, Item 2. "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 September 30, 2016, a 100 basis point increase in short-term interest rates would decrease our earnings by approximately \$0.5 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. 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 September 30, 2016, a 100 basis point change in short-term interest rates would impact our net book value by approximately \$0.2 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. As of September 30, 2016, we had no interest rate swaps.

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 September 30, 2016, a 25 basis point movement in credit spreads would impact our net book value by approximately \$0.1 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 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 Results of Operations – Market Considerations” and elsewhere in this quarterly report, adverse market and credit conditions have resulted in our recording of other-than-temporary impairment and valuation allowance in certain securities and loans.

### **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 I, Item 1. “Financial Statements.” 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 herein and in our Annual Report on Form 10-K for the year ended December 31, 2015. For information regarding the impact of changes in these factors on the value of securities valued with internal models, see Part I, Item 2. “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 Part I, Item 2. “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 4. CONTROLS AND PROCEDURES**

- (a) **Disclosure Controls and Procedures.** The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. The Company’s disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and completely. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective.
- (b) **Changes in Internal Control Over Financial Reporting.** 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are and may become involved in legal proceedings, including but not limited to regulatory investigations and inquiries, in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, regulatory investigation or inquiry, in the opinion of management, we do not expect our current and any threatened legal proceedings, if any, to have a material adverse effect on our business, financial position or results of operations. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

### 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, despite recent market volatility, 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 results of 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 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 generally, see the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Market Considerations” in this report.

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 properties), a decrease in the rate of new memberships, a decrease in rounds played at our daily fee properties 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 U.S. enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank 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 Dodd-Frank Act may impose new regulations on us and how we conduct our business. As we describe in more detail below, it potentially affects our business in many ways but it is difficult at this time to know exactly how or what the cumulative impact will be.

First, generally the Dodd-Frank Act strengthens the regulatory oversight of securities and capital markets activities by the SEC and empowers the newly-created Consumer Financial Protection Bureau to enforce laws and regulations for consumer financial products and services. It requires market participants to undertake additional record-keeping activities and imposes many additional disclosure requirements for public companies.

Moreover, the Dodd-Frank Act contains a risk retention requirement for all asset-backed securities. We have issued, and may issue in the future, asset-backed securities. In October 2014, final rules were promulgated by a consortium of regulators implementing the final credit risk retention requirements of Section 941(b) of the Dodd-Frank Act. Under these “Risk Retention Rules,” sponsors of both public and private securitization transactions or one of their majority owned affiliates are required to retain at least 5% of the credit risk of the assets collateralizing such securitization transactions. These regulations generally prohibit the sponsor or its affiliate from directly or indirectly hedging or otherwise selling or transferring the retained interest for a specified period of time, depending on the type of asset that is securitized. Sponsors securitizing residential mortgages must comply with the Risk Retention Rules beginning in December 2015, while sponsors securitizing other types of assets will be required to comply with such rules beginning in December 2016. The Risk Retention Rules provide for limited exemptions for certain types of assets, however, these exemptions may be of limited use under our current market practices. In any event, compliance with these new Risk Retention Rules will likely increase the administrative and operational costs of asset securitization.

Further, the Dodd-Frank Act imposes mandatory clearing and exchange-trading requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. In addition, the Dodd-Frank Act is expected to increase the margin requirements for derivatives transactions that are not subject to mandatory clearing requirements, which may impact our activities. The Dodd-Frank 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,” and subjects or may subject these regulated entities to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs.

Also, under the Dodd-Frank Act, financial regulators belonging to the Financial Stability Oversight Council are required to name financial institutions that are deemed to be systemically important to the economy and which may require closer regulatory supervision. Such systemically important financial institutions, or “SIFIs”, may be required to operate with greater safety margins, such as higher levels of capital, and may face further limitations on their activities. The determination of what constitutes a SIFI is evolving, and in time SIFIs may include large investment funds and even asset managers. There can be no assurance that we will not be deemed to be a SIFI and thus subject to further regulation.

Even if certain of the new requirements of the Dodd-Frank Act 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. For instance, the 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 Dodd-Frank Act will continue to be established by various regulatory bodies and other groups over the next several years. As a result, we do not know how significantly the Dodd-Frank Act will affect us. It is possible that the Dodd-Frank 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 and may continue to do so.**

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 flows (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. 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. Actual, potential or perceived conflicts have given, and may in the future give, rise to investor dissatisfaction, litigation or regulatory inquiries or 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 between unaffiliated parties, and its terms, including fees payable, although approved by our independent directors as fair, may not be as favorable to us as if they 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, 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 and co-investments, 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 of private equity funds managed by our Manager (or an affiliate thereof). All investments, including investments in or involving affiliates or portfolio companies of affiliates are subject to an array of risks, including the risk that the investment is ultimately less profitable than the prior estimates or not profitable at all.

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-offs of New Residential, New Media and New Senior. See “-Risks Related to Our Business-Our agreements with New Residential and New Senior 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 and New Senior for certain liabilities.” 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 from us 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. On April 7, 2016, our board of directors adopted the 2016 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan (the “2016 Plan”), which our stockholders approved at our 2016 Annual Meeting of Stockholders and provides for 300,000 shares of our common stock to be available for grants of equity awards thereunder, as increased on the date of any equity issuance by us during the one-year term of the 2016 Plan by ten percent of the equity securities issued by us in such equity issuance. In addition to the shares available for issuance under the 2012 Newcastle Nonqualified Stock Option and Incentive Plan, the 2014 Newcastle Nonqualified Stock Option and Incentive Plan, the 2015 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan, the 2016 Plan or any successor plan thereto (collectively, the “Option Plans”), our board of directors may also determine to grant options to our Manager that are not issued pursuant to the Option Plans, 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.

**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 12-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, perceived investment opportunities and available capital. 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 through spin-offs and other strategic transactions and will continue to evolve in light of existing market conditions and investment opportunities. 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" and "Our Golf business is subject to various risks that could have a negative impact on our financial results."

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

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

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

Our Manager intends to conduct due diligence with respect to each investment opportunity or other transaction it pursues. It is possible, however, that our Manager’s due diligence processes will not uncover all relevant facts, particularly with respect to any assets we acquire from third parties. In these cases, our Manager may be given limited access to information about the investment and will rely on information provided by the target of the investment. In addition, if investment opportunities are scarce, the process for selecting bidders is competitive, or the time-frame 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 a meaningful change in our investment focus and operations and pose significant risks to 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 a Golf business (which we acquired in December 2013), excess mortgage servicing rights (“Excess MSRs”) (which we spun-off in May 2013), media assets (which we spun-off in February 2014) and senior housing properties (which we spun-off in November 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”), or federal tax law. See “-Risks Related to Our REIT Status and the 1940 Act.”

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 and other 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 industry, 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. In addition, our ability to invest in or finance new investments, including our Golf business, may be dependent upon our ability to monetize our real estate debt portfolio. 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.”

**Our decision to explore new business opportunities and asset categories may make it undesirable for us to continue to qualify as a REIT for federal income tax purposes after the year ended December 31, 2016.**

In our ongoing effort to maximize shareholder value, we continue to explore new business opportunities and asset categories, including an increased focus on our Golf business. As such assets often differ from the assets in our real estate debt business and may not be qualifying assets or generate qualifying income for REIT purposes, it may become increasingly undesirable for us to attempt to continue to qualify as a REIT for federal income tax purposes after the year ending December 31, 2016. If our board of directors were to decide to revoke or otherwise cause or permit the termination of our REIT election, it would have a number of consequences. In particular, following the termination of our REIT election, we would generally 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, including due to certain deferred cancellation of indebtedness income. Although we have net operating losses that may be available to reduce our taxable income for U.S. federal income tax purposes and thereby reduce this tax liability, no assurances can be given that those losses will remain usable or will not become subject to limitations (including under Section 382, as described below), and those losses may in any event not be usable in reducing our income for alternative minimum tax, state, local or other tax purposes.

In addition, a termination of our REIT election may create issues under certain of our financings and other agreements, which would require us to terminate or renegotiate such agreements in order to avoid any potential issues related to those agreements. Furthermore, any change in REIT status could result in amendments to our investment guidelines and objectives as

well as our management agreement. Further, in order to maintain our 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. If we decide not to continue to qualify as a REIT, the REIT distribution requirements would not need to be taken into account in determining our distribution policy.

A decision to revoke our REIT election or our inability to qualify as a REIT and, consequently, a change in our distribution policy may lead to fluctuations in our stock price. The board of directors could decide to terminate our REIT election at any time (which would be effective as of the start of the relevant calendar year) and without any minimum advance notice period to stockholders.

Pursuant to our charter, upon a determination by our board of directors that we should no longer qualify as a REIT, the restrictions on transfer and ownership of shares set forth in Article VII of our charter will automatically cease to be in effect and, accordingly, shares of our stock will no longer be subject to such restrictions. In addition to the impact this could have on the trading of our common stock, this could increase the likelihood that we experience limitations on our ability to utilize certain tax benefits described elsewhere herein to reduce our future taxable income. If we make a determination to terminate our REIT election, we will consider whether it would be advisable or appropriate to adopt measures designed to preserve our ability to utilize such tax benefits. There can be no assurance if or when we would adopt any such tax benefit preservation measures, the terms thereof or the duration of any such measures.

**Our Golf business 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 Mezzanine, LLC (“NGP”), the indirect parent of NGP Realty Sub, L.P. (“National Golf”) and American Golf Corporation (“American Golf”), an affiliated operating company. As part of the restructuring, we acquired the equity of NGP and American Golf’s indirect parent, AGC Mezzanine Pledge LLC (“AGC”), and therefore began consolidating these entities as of December 31, 2013. As of September 30, 2016, American Golf owned 27 golf properties, leased 47 golf properties and managed 10 properties owned by third parties.

We have not owned or operated a golf business prior to this restructuring, 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, given that a substantial portion of golf revenue is derived from annual dues from members, 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 industry generally has 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 investments. 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 the income generated by our facilities. The maintenance of satisfactory turf grass conditions on our golf properties requires significant amounts of water. Our ability to irrigate a golf course could be adversely affected by a drought or other cause of water shortage, such as government imposed restrictions on water usage. Additionally, we may be subject to significant increases in the cost of water. We have a concentration of golf facilities in states (such as California, Georgia, New York and Texas) 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. See “-A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could harm our results of operations.”

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 fee deposits. Members of our private properties are generally required to pay an initiation fee 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 fee deposit is eligible to be refunded, we may be subject to various states’ escheatment laws with respect to initiation fee 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 fee deposits that are eligible to be refunded to members based upon our interpretation of the applicability of such laws to initiation fee deposits. The analysis of the potential application of escheatment laws to our initiation fee deposits is complex, involving an analysis of constitutional and statutory provisions and contractual and factual issues. While we do not believe that initiation fee 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.

**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 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 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 “-Our Golf business is subject to various risks that could have a negative impact on our financial results.”

**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.

**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 or golf property, it is probable that the value of the security or golf property 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.

Market turmoil beginning in 2007 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 in securities and loans 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 or loan to a counterparty for a specified price and concurrently agree to repurchase the same security or loan 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 or loan 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 or loan 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 or loan 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 may not be available in a timely manner or at all. If we were unable to pay the repurchase price for any security or loan financed with a repurchase agreement, the counterparty has the right to sell the underlying security or loan 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 September 30, 2016, we had \$831.7 million outstanding face amount under repurchase agreement financings. These repurchase agreement obligations are with three counterparties.

**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 2007-2008 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 are party to agreements that require cash payments upon the occurrence of certain events, and the failure to make such 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 are currently and may become party to other types of financing agreements that require us to make cash payments at periodic intervals or upon the occurrence of certain events, including upon the conveyance of substantially all of our assets. 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. While we try to comply with all of our financing agreements, 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. In addition, differing interpretations of the terms of our financing agreements could give rise to disputes over compliance and would result in unanticipated prepayments of such debt or otherwise negatively affect our liquidity, financial position or results of operations.

**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, 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, loan investments and other assets on attractive terms or at all.**

When we acquire securities, loans and other assets 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 flows 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 and 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.

**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. 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.

**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 flows 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, including a golf 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 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.

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 for certain of our investments 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. In December 2015, the U.S. Federal Reserve announced that it would gradually raise short-term interest rates over the next three years.

**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 described above 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 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 Golf business, 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 flows 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 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, 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. Because 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 FASB 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. 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 are and may become involved in lawsuits, inquiries or investigations or receive claims for indemnification. Our efforts to resolve any such lawsuits, inquiries, 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, but is not limited to, lawsuits that could be brought by users of our golf properties and property-level employees in our Golf business. 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 golf properties could subject us to liability and reputational harm.

**Our agreements with New Residential and New Senior may not reflect terms that would have resulted from**

**negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential and New Senior for certain liabilities in connection with their respective spin-offs.**

We completed the 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 “NRZ 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 negotiations among unaffiliated third parties.

In the NRZ 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 NRZ Separation and Distribution Agreement; (d) any breach by any member of the Newcastle Group of any provision of the NRZ 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.

We completed the spin-off of New Senior in November 2014. The terms of the separation and distribution agreement dated October 16, 2014 between us and New Senior are substantially similar to the terms of the NRZ Separation and Distribution Agreement and therefore subjects us to similar risks.

#### Risks Related to Our REIT Status and the 1940 Act

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

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 could create issues under a number of our financings and other agreements and could cause our common and preferred stock to be delisted from the NYSE.**

Our failure to qualify as a REIT could 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 could promptly be delisted from the NYSE, which would decrease the trading activity of such shares. This could make it difficult to sell shares and would likely 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 such 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 or New Senior.**

In connection with the spin-off of New Residential, which was completed in May 2013, and the spin-off of New Senior which was completed in November 2014, we represented in the Separation Agreements that we had no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. We also covenanted in the Separation Agreements to generally use our reasonable best efforts to maintain our REIT status for each of our taxable years ending on or before December 31, 2014 (in the case of New Residential) and December 31, 2015 (in the case of New Senior). If, notwithstanding our belief that we qualified as a REIT for such taxable years, we breached this representation or covenant, New Residential or New Senior, or both, could be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations.

**If New Residential failed to qualify as a REIT for 2013, or if New Senior failed to qualify as a REIT for 2014, 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 and \$450 million of gain as a result of the spin-off of New Senior in November 2014. If New Residential qualified for taxation as a REIT for 2013, and if New Senior so qualified for 2014, that gain is qualifying income for purposes of our REIT income tests in such years. If, however, New Residential failed to qualify as a REIT for 2013, or if New Senior failed to so qualify in 2014, that gain would be non-qualifying income for purposes of the 75% gross income test. Although New Residential and New Senior covenanted in their respective separation and distribution agreements to use reasonable best efforts to qualify as a REIT in 2013 and 2014, respectively, no assurance can be given that they so qualified. If New Residential or New Senior failed to qualify in such years, it could cause us to fail our REIT income tests for such years, 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.

**Uncertainty exists with respect to the treatment of TBAs for purposes of the REIT asset and income tests.**

We have invested in and may continue to invest in TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise. In a dollar roll transaction, we exchange an existing TBA for another TBA with a different settlement date. There is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test.

For a particular taxable year, we intend to treat such TBAs as qualifying assets for purposes of the REIT asset tests, and income and gains from such TBAs as qualifying income for purposes of the 75% gross income test, to the extent set forth in an opinion from Skadden, Arps, Slate, Meagher & Flom LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying mortgage-backed securities, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of such TBAs should be treated as gain from the sale or disposition of the underlying mortgage-backed securities. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS would not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that any opinion of Skadden, Arps, Slate, Meagher & Flom LLP would be based on various assumptions relating to any TBAs that we enter into and would be conditioned upon fact-based representations and covenants made by our

management regarding such TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge any conclusions of Skadden, Arps, Slate, Meagher & Flom LLP, we could be subject to a penalty tax or we could fail to qualify as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

**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 in securities and loans 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 exclusion from the 1940 Act.**

If the market value or income potential of qualifying assets for purposes of our qualification as a REIT or our exclusion 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, or the market value or income potential from non-qualifying assets increases, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our REIT qualification or our exclusion from registration under the 1940 Act. If the change 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 exclusion 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.

**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.

**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. 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.

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 flows 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 flows.**

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. Moreover, if a REIT distributes less than 85% of its ordinary income, 95% of its capital gain net income plus any undistributed shortfall from prior year ("Required Distribution") 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 on 4% of any shortfall between the Required Distribution 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 generally be subject to corporate-level income tax at regular rates and the payment of such taxes would reduce our return on the applicable investment. Currently, we hold some of our investments in TRSs, including the Golf business.

**Complying with REIT requirements may cause us to forgo, 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 minimize 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 exclusion imposes limits on our operations.**

We conduct our operations in reliance on an exclusion from the 1940 Act, which we refer to as the Section 3(c)(5)(C) exclusion, 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 exclusion limits our ability to make certain investments. The Section 3(c)(5)(C) exclusion 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 under the Section 3(c)(5)(C) exclusion, based on guidance from the SEC and its staff, we treat whole pool 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 the Section 3(c)(5)(C) exclusion. Accordingly, based on our own judgment and analysis of the guidance from the SEC and its staff identifying Agency whole pool certificates as qualifying real estate assets under the Section 3(c)(5)(C) exclusion, we treat whole pool 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 for purposes of satisfying the 80% test under the Section 3(c)(5)(C) exclusion. The Section 3(c)(5)(C) exclusion generally limits the amount of our investments in non-real estate assets 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 exclusion 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 issued a concept release soliciting public comments on a wide range of issues relating to companies, which are typically REITs, engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on

Section 3(c)(5)(C) of the 1940 Act, including the nature of the assets that qualify for purposes of the Section 3(c)(5)(C) exclusion and whether mortgage REITs like us should be regulated in a manner similar to investment companies. Therefore, there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or guidance from the SEC or its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations. If we fail to maintain an exclusion or exception from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register 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 adversely affect us and the market price of our stock.

#### 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, real estate or golf industries 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 and golf industries;
- 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 the 1940 Act-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 REIT distribution 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, our spin-off of New Media in February 2014 and our spin-off of New Senior in November 2014. 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 66,734,136 shares of our common stock outstanding as of October 31, 2016. 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 flows 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 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.

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

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

## Item 6. Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1 †	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
2.2 †	Separation and Distribution Agreement dated October 16, 2014, between New Senior Investment Group Inc. and the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q, Exhibit 3.2, filed on November 5, 2014).
3.1	Articles of Amendment and Restatement (incorporated by reference to Amendment No. 5 to the Company'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 Company's Quarterly Report on Form 10-Q, Exhibit 3.3, filed on May 13, 2003).
3.3	Articles Supplementary relating to the Series C Preferred Stock (incorporated by reference to the Company'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 Company's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Articles of Amendment (incorporated by reference to the Company'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 Company's Report on Form 8-K, Exhibit 3.1, filed on May 5, 2006).
3.7	Articles of Amendment (incorporated by reference to the Company's Report on Form 8-K, Exhibit 3.1, filed on August 19, 2014).
3.8	Articles of Amendment (incorporated by reference to the Company's Report on Form 8-K, Exhibit 3.1, filed on October 22, 2014).
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 Company'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 Company'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 Company'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 Company and FIG LLC, dated April 25, 2013 (incorporated by reference to the Company'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 Company's Report on Form 10-K, Exhibit 10.3, filed on February 28, 2013).
10.3	2014 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to Annex A of the Company's definitive proxy statement for the 2014 annual meeting of stockholders filed on April 17, 2014).
10.4	Amended and Restated 2014 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of September 17, 2014 (incorporated by reference to the Company's Report on Form 10-K, Exhibit 10.4, filed on March 2, 2015).

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.5	Amended and Restated 2014 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of November 3, 2014 (incorporated by reference to the Company's Report on Form 10-K, Exhibit 10.5, filed on March 2, 2015).
10.6	2015 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan, adopted as of April 16, 2015 (incorporated by reference to Annex A of the Company's definitive proxy statement for the 2015 annual meeting of stockholders filed on April 17, 2015).
10.7	2016 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan (incorporated by reference to the Company's Report on Form 8-K, Exhibit 10.1, filed on May 19, 2016).
10.8	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 Company's Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.9	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 Company's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).
10.10	Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Company's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
10.11	Form of Indemnification Agreement (incorporated by reference to the Company's Report on Form 10-Q, Exhibit 10.19, filed on August 8, 2014).
10.12	Settlement Agreement by and among Newcastle Investment Corp. and BLR Partners LP, and the persons listed on Schedule A thereto, dated as of February 2, 2016 (incorporated by reference to the Company's Report on Schedule 13D, Amendment No. 2, filed on February 4, 2016).
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.
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.

† Schedules and exhibits may have been omitted pursuant to Item 601(b)(2) of Regulation S-K.

\*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.



- 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.

November 9, 2016

/s/ Sarah L. Watterson

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Sarah L. Watterson  
Chief Executive Officer

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## Section 3: EX-31.2 (EXHIBIT 31.2)

### EXHIBIT 31.2

#### CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Lawrence A. Goodfield, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officer 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.

November 9, 2016

/s/ Lawrence A. Goodfield, Jr.

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Lawrence A. Goodfield, Jr.  
Chief Financial Officer, Chief Accounting Officer and Treasurer

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## Section 4: EX-32.1 (EXHIBIT 32.1)

**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 Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sarah L. Watterson, 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 her 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/ Sarah L. Watterson

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Sarah L. Watterson  
Chief Executive Officer

November 9, 2016

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.

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## **Section 5: EX-32.2 (EXHIBIT 32.2)**

**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 Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Lawrence A. Goodfield, Jr., 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/ Lawrence A. Goodfield, Jr.

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Lawrence A. Goodfield, Jr.  
Chief Financial Officer, Chief Accounting Officer and Treasurer

November 9, 2016

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.

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